



RECOMMENDED PROPOSALS

DEMERGER AND ACQUISITION OF FAL BY WOOLWORTHS AND METCASH



The Directors of FAL unanimously recommend that you

VOTE “FOR” THE PROPOSALS

IN THE ABSENCE OF A SUPERIOR PROPOSAL.

THIS IS AN IMPORTANT DOCUMENT AND YOU NEED TO LOOK AT IT IMMEDIATELY.

IF YOU DO NOT KNOW WHAT TO DO, YOU SHOULD CONTACT YOUR FINANCIAL ADVISER.

IF YOU HAVE ALREADY SOLD ALL OF YOUR FAL SHARES, PLEASE IGNORE THIS DOCUMENT.

This Booklet is neither an offer to sell nor a solicitation of an offer to buy securities as such terms are defined under the US Securities Act of 1933 as amended.

Financial Adviser



Legal Adviser

MALLESONS STEPHEN JAQUES

WHY ARE YOU RECEIVING THIS BOOKLET?

This Booklet outlines two key proposals being put to all FAL Shareholders. If both proposals are approved, FAL will be acquired by Woolworths and Metcash.

1. One proposal is to split FAL into two parts:

- FAL's New Zealand Operation; and
- FAL's Australian Operation.

The legal term for this is a "demerger".

2. The other proposal is for:

- Woolworths to acquire FAL's New Zealand Operation and control of 20 Action branded Australian supermarkets and two supermarket development sites from FAL's Australian Operation; and
- Metcash to acquire the remainder of FAL's Australian Operation.

Together, Woolworths and Metcash will acquire all of FAL.

The acquisitions by Woolworths and Metcash are conditional on the Demerger proposal being approved but the Demerger is not conditional on the acquisitions.

Each of these proposals is intended to be done by a "scheme of arrangement". A scheme of arrangement is a legal arrangement that shareholders vote on and, if they vote in favour of it, it binds the company and all of the shareholders. Approval of a scheme of arrangement requires a 50% majority of the number of shareholders voting and a 75% majority of the total votes cast, as well as approval by the Court.

The scheme of arrangement for the demerger is referred to in this Booklet as the Demerger Scheme and the scheme of arrangement for the acquisitions is referred to as the Transfer Scheme.

The purpose of this Booklet is to explain the details of these proposals to you so that you can vote on the matters being proposed and so you can choose what you would like to receive in exchange for your FAL Shares.

The FAL Directors unanimously recommend that you

VOTE "FOR" THE PROPOSALS

in the absence of a superior proposal.

16 September 2005

Dear FAL Shareholder,

On 25 May 2005, the FAL Board announced its intention to demerge FAL and to recommend that Woolworths and Metcash acquire the demerged FAL operations. This Booklet sets out the terms of the proposed Demerger and acquisition of FAL by Woolworths and Metcash and the steps associated with the implementation of these. It is possible that the Demerger may occur even if the acquisitions do not proceed because there are additional conditions which apply only to the acquisitions*. A summary of the potential outcomes for FAL is set out on page 4 of this Booklet.

Based on the recent share prices of Woolworths and Metcash, the range of values you are most likely to receive is between \$25.54 and \$27.49 per FAL Share**. However, the total value of what is being offered to you by Woolworths and Metcash depends on a number of adjustments explained fully in this Booklet. It is not possible to tell you an exact value at this stage. The Demerger and acquisitions have been found to be "*in the best interests of Foodland Shareholders*" by Grant Samuel, the Independent Expert appointed by the FAL Board.

In March you received a Target's Statement in response to the original Metcash Takeover Offer. The FAL Board set out two key objectives in the Target's Statement to maximise the strategic value of FAL for FAL Shareholders and to avoid the unacceptable risks inherent under the original Metcash Takeover Offer. The recommended proposals achieve both of these objectives.

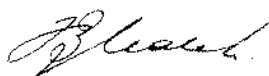
The value of what is being offered by Woolworths and Metcash is well above the Independent Expert's minimum valuation and most Australian FAL Shareholders who receive Woolworths Shares and Metcash Shares will be eligible for Capital Gains Tax roll-over relief, which will therefore defer any Capital Gains Tax on receipt of these shares.

The FAL Board unanimously recommends that you vote "FOR" all of the matters to be voted on at the Meetings, in the absence of a superior proposal. The FAL Directors intend to vote their own shares in favour of the proposals.

If you have questions you can ring the FAL Shareholder Information Line on 1800 068 729 (within Australia) or +61 3 9415 4125 (outside of Australia), Monday to Friday between 9.00am and 7.00pm AEST.

On behalf of the FAL Board I would like to take this opportunity to thank you for your continued support. Your vote is important in determining whether the Demerger and acquisitions proceed and I look forward to seeing you at the Meetings scheduled for 2 November 2005.

Yours sincerely,



Len Bleasel AM
Chairman

* See page 10 for details of the conditions for each of the Schemes to proceed. Note that some of these conditions are particularly significant as they involve other parties and are therefore outside the control of FAL Shareholders, FAL, Woolworths and Metcash.

** The range of consideration options available to you is explained on pages 5 to 8 and in Part 3 of this Booklet. These figures are based on the value of two consideration options: Metcash Cash and Woolworths Standard Consideration (valued at \$25.54) and Metcash Shares and Woolworths Standard Consideration (valued at \$27.49) and are based on share prices of Woolworths and Metcash at close of trading on 9 September 2005. The values of other consideration options may fall outside the range as indicated on page 8. The value of what you will receive if the Transfer Scheme proceeds is also subject to adjustments based on the financial position of the FAL Group as at the Consideration Determination Date. These adjustments (including their assumed level for the purposes of the range provided) are also explained in Part 5.

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WHAT DO YOU NEED TO DO?

1. Carefully read this Booklet.

If you have any questions, you can call the FAL Shareholder Information Line on 1800 068 729 (within Australia) or +61 3 9415 4125 (outside of Australia), Monday to Friday between 9.00am and 7.00pm AEST.

If you are in doubt about what to do, you should contact your financial adviser.

2. Vote on the matters being proposed.

You can vote:

- by proxy, using the enclosed Proxy Form;
- in person by coming to the Meetings to be held on 2 November 2005;
- by attorney; or
- by corporate representative (if the shareholder is a company).

If you wish to vote FOR the matters being proposed by proxy you should place a "x" in the FOR box for each resolution on the Proxy Form. To ensure that your Proxy Form is valid for each of the Metcash considering the proposals, you should return the Proxy Form by 10.00am Perth time on 31 October 2005 (proxies must be received at least 48 hours before the relevant meeting). You can do this by using one of the enclosed reply paid envelopes or by faxing the Proxy Form to FAL's Share Registry on 08 9323 2033 (within Australia) or +61 8 9323 2033 (outside of Australia) or to FAL on 08 9311 6011 (within Australia) or +61 8 9311 6011 (outside of Australia).

3. Choose what you would like to receive in exchange for your FAL Shares.

You need to do this even if you vote against the proposals because, if the proposals proceed, you will receive cash and/or shares from Woolworths and cash or shares from Metcash in exchange for your FAL Shares.

You can do this by filling in the Election Form which is also enclosed with this Booklet. You must return your signed and completed Election Form by 7.00pm Perth time on 10 November 2005. You can also do this by using one of the enclosed reply paid envelopes or by faxing the Election Form to FAL's Share Registry on 08 9323 2033 (within Australia) or +61 8 9323 2033 (outside of Australia) or to FAL on 08 9311 6011 (within Australia) or +61 8 9311 6011 (outside of Australia).

If you later want to change an Election you have made, you should call the FAL Shareholder Information Line above and ask for a Change of Election Form.

WHAT ARE THE POSSIBLE OUTCOMES OF THE PROPOSALS?

As there are two key proposals, there are three possible outcomes for FAL depending on whether one or both of the schemes proceeds. These outcomes are set out in the table below.

| Demerger Scheme proceeds | Transfer Scheme proceeds | Outcome |
|--------------------------|--------------------------|---|
| YES | YES | Outcome 1: FAL is acquired by Woolworths and Metcash. |
| YES | NO | Outcome 2: FAL is demerged and separated into two listed companies, one owning FAL's Australian Operation and one owning FAL's New Zealand Operation. |
| NO | NO | Outcome 3: There is no change. FAL remains a separately listed company. |

Outcome 1: FAL is acquired by Woolworths and Metcash

The proposal for FAL to be acquired by Woolworths and Metcash is conditional on the proposal to demerge FAL proceeding. If both proposals proceed, the operations of FAL will be acquired by Woolworths and Metcash.

Outcome 2: FAL is demerged and separated into two listed companies

If the proposal for FAL to be acquired by Woolworths and Metcash does **not** proceed but the proposal to demerge FAL **does** proceed, FAL will be split into two listed companies, one owning FAL's Australian Operation and one owning FAL's New Zealand Operation.

Outcome 3: There is no change in FAL

If neither proposal proceeds, there will be no change in FAL and it will remain as a separately listed company.

WHAT WILL YOU RECEIVE FOR YOUR FAL SHARES IF BOTH PROPOSALS PROCEED?

If **BOTH** proposals proceed, what you receive for your FAL Shares will depend on which alternative you choose. In exchange for your FAL Shares, you will receive **TWO** components:

The Woolworths component – your choice of:

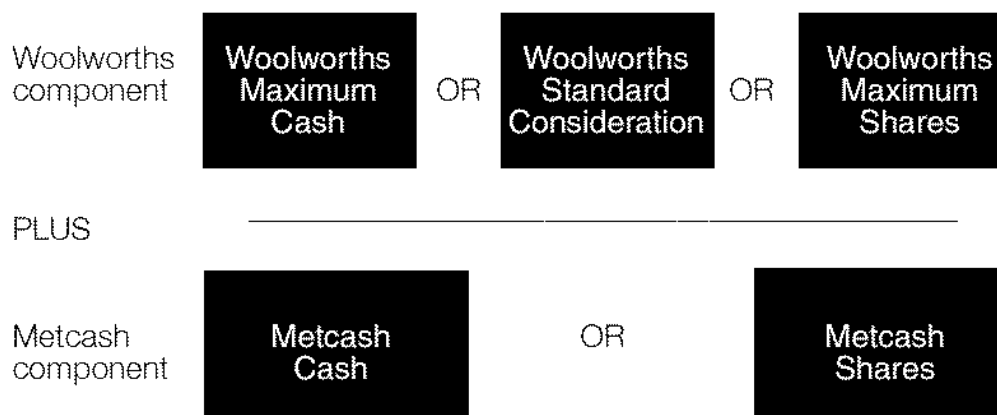
- **Woolworths Maximum Cash:** up to 100% in cash (approximately \$18.54* cash per FAL Share) depending on the Elections of other FAL Shareholders; or
- **Woolworths Maximum Shares:** up to 100% in Woolworths Shares (approximately 1.2099* Woolworths Shares per FAL Share) depending on the Elections of other FAL Shareholders; or
- **Woolworths Standard Consideration:** approximately \$7.93* cash and 0.6925* Woolworths Shares per FAL Share.

The composition of the Woolworths Maximum Cash and Woolworths Maximum Shares choices is subject to an adjustment (called "rebalancing") based on the aggregate Elections made by all FAL Shareholders because there are only fixed amounts of Woolworths Shares and Woolworths Cash available. An example of how the rebalancing works is included in Part 3 of this Booklet.

The Metcash component – your choice of:

- **Metcash Cash:** approximately \$6.33* per FAL Share; or
- **Metcash Shares:** approximately 2.07* Metcash Shares per FAL Share.

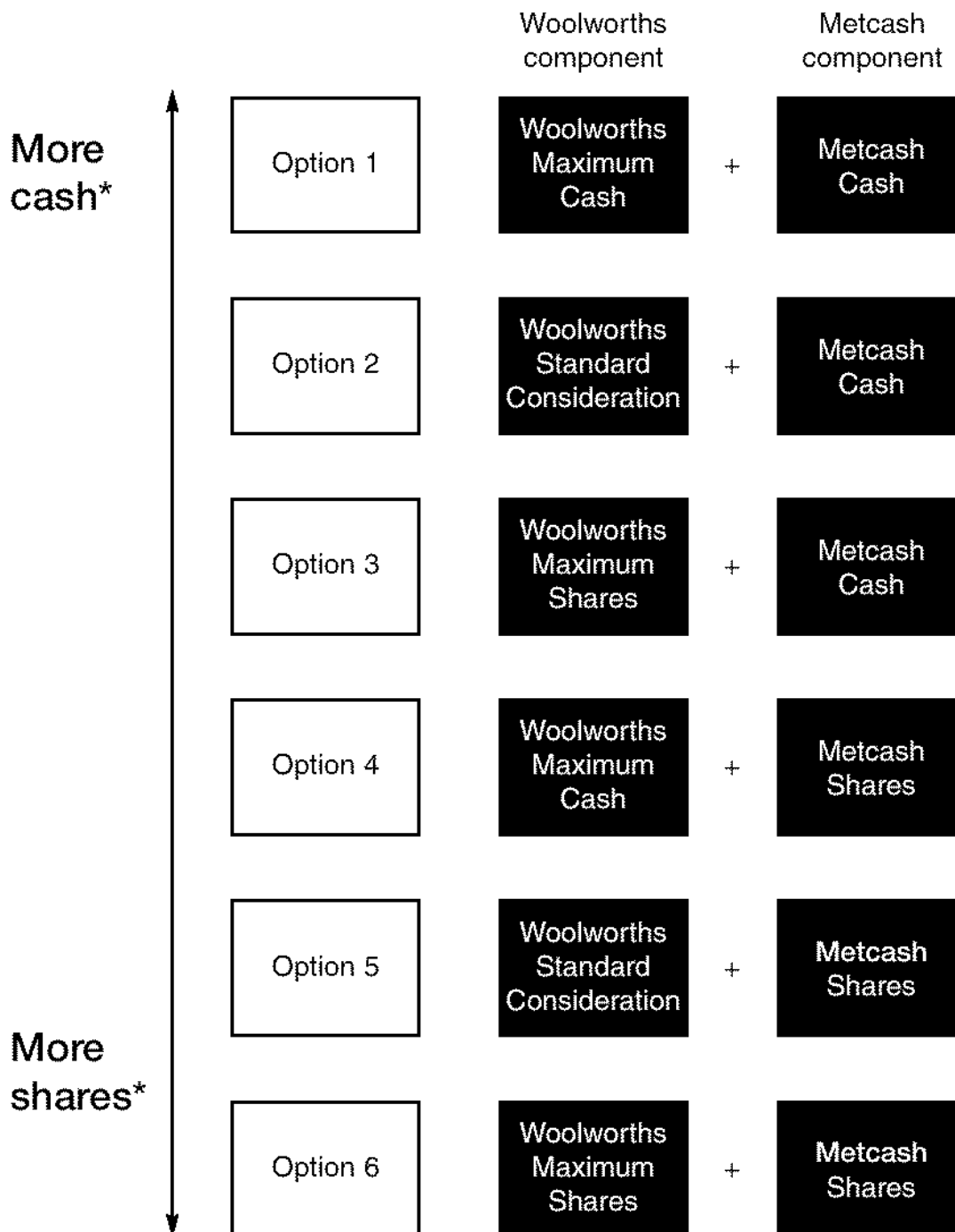
Remember, you receive **BOTH** the Woolworths component **AND** the Metcash component:



* The Woolworths component and the Metcash component are subject to certain adjustments based on the financial position of the FAL Group as at the Consideration Determination Date. These adjustments (including their assumed levels for the purposes of these values) are explained in Part 3 of this Booklet.

WHAT WILL YOU RECEIVE FOR YOUR FAL SHARES IF BOTH PROPOSALS PROCEED? (cont.)

This means, there are **six options** available to you:



If you do not make an Election and if the Transfer Scheme proceeds, you will automatically receive the Woolworths Standard Consideration and Metcash Cash (i.e. Option 2).

* The exact order of the six options in relation to the value of cash and shares received depends on:

- the Woolworths and Metcash share prices; and
- the relative demand for Woolworths Shares and Woolworths Cash (as there are only fixed amounts of Woolworths Shares and Woolworths Cash available, the combination of these you receive may be adjusted (referred to in this Booklet as "rebalancing") - see Part 3 of this Booklet).

WHAT VALUE WILL YOU RECEIVE FOR YOUR FAL SHARES IF BOTH PROPOSALS PROCEED?

This is complicated and it is explained fully in Part 3 of this Booklet. The value of what you will receive is subject to a number of adjustments and the value of the share component depends on Woolworths and Metcash share prices. If you elect to receive Woolworths Maximum Cash or Woolworths Maximum Shares, the proportion of Woolworths Cash and Woolworths Shares you will receive may be rebalanced, as explained on page 5. The examples shown below for Option 2 and Option 5 include Woolworths Standard Consideration and, therefore, are not subject to rebalancing.

| | | Option 2 | Option 5 |
|---|--------------------------------|---|--|
| Woolworths component | Woolworths Cash | \$7.93 cash | \$7.93 cash |
| | Woolworths Shares | + 0.6925 Woolworths Shares | + 0.6925 Woolworths Shares |
| Metcash component | Metcash Cash or Metcash Shares | + \$6.33 cash | + 2.07 Metcash Shares |
| | | = | = |
| Total of both components per FAL Share* | | \$14.26 cash + 0.6925 Woolworths Shares | \$7.93 cash + 0.6925 Woolworths Shares + 2.07 Metcash Shares |
| Total value per FAL Share* | | \$25.54 | \$27.49 |

If a rebalancing of the Woolworths Maximum Shares and Woolworths Maximum Cash is not required, the value of what you receive under all of the Options 1 to 6 is shown below:

| | Option 1* | Option 2* | Option 3* | Option 4* | Option 5* | Option 6* |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Woolworths Component = | \$18.54 | \$19.21 | \$19.72 | \$18.54 | \$19.21 | \$19.72 |
| Metcash Component = | \$6.33 | \$6.33 | \$6.33 | \$8.28 | \$8.28 | \$8.28 |
| Total Value per FAL Share = | \$24.87 | \$25.54 | \$26.05 | \$26.82 | \$27.49 | \$28.00 |

* These amounts are based on the Woolworths Share price of \$18.30 and Metcash Share price of \$4.00 as at close of trading 9 September 2005. The exact value of what you will receive from Woolworths and Metcash depends on the share price of Woolworths Shares and Metcash Shares (see page 8), and certain adjustments based on the financial position of the FAL Group at the Consideration Determination Date. These adjustments (including their assumed level for the purposes of these examples) are explained in Part 3 of this Booklet.

WHAT HAPPENS TO THE VALUE OF WHAT YOU RECEIVE IF THE SHARE PRICES CHANGE?

Both the Woolworths component and the Metcash component can include shares. Therefore, the value of what you receive for your FAL Shares can be affected by changes in the share prices of Woolworths and Metcash.

The table below shows the total value of what you receive if you choose Woolworths Standard Consideration and Metcash Cash (Option 2) based on a range of share prices for Woolworths Shares.

TOTAL VALUE PER FAL SHARE – OPTION 2*

Woolworths Share Price

| | \$14.00 | \$14.50 | \$15.00 | \$15.50 | \$16.00 | \$16.30 | \$16.50 | \$17.00 | \$17.50 | \$18.00 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | \$23.95 | \$24.30 | \$24.64 | \$24.99 | \$25.33 | \$25.54 | \$25.68 | \$26.03 | \$26.37 | \$26.72 |

The value of \$25.54 represents the value of what you will receive for each FAL Share under Option 2 based on the Woolworths Share price of \$16.30 current as at close of trading on 9 September 2005.

The table below shows the total value of what you receive if you choose Woolworths Standard Consideration and Metcash Shares (Option 5) based on a range of share market prices for Woolworths Shares and Metcash Shares.

TOTAL VALUE PER FAL SHARE – OPTION 5*

Woolworths Share Price

| | \$14.00 | \$14.50 | \$15.00 | \$15.50 | \$16.00 | \$16.30 | \$16.50 | \$17.00 | \$17.50 | \$18.00 |
|---------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| \$3.50 | \$24.87 | \$25.21 | \$25.56 | \$25.91 | \$26.25 | \$26.46 | \$26.60 | \$26.94 | \$27.29 | \$27.64 |
| \$3.60 | \$25.07 | \$25.42 | \$25.77 | \$26.11 | \$26.46 | \$26.67 | \$26.80 | \$27.15 | \$27.50 | \$27.84 |
| \$3.70 | \$25.28 | \$25.63 | \$25.97 | \$26.32 | \$26.67 | \$26.87 | \$27.01 | \$27.36 | \$27.70 | \$28.05 |
| \$3.80 | \$25.49 | \$25.83 | \$26.18 | \$26.53 | \$26.87 | \$27.08 | \$27.22 | \$27.56 | \$27.91 | \$28.26 |
| \$3.90 | \$25.69 | \$26.04 | \$26.39 | \$26.73 | \$27.08 | \$27.29 | \$27.43 | \$27.77 | \$28.12 | \$28.46 |
| \$4.00 | \$25.90 | \$26.25 | \$26.59 | \$26.94 | \$27.29 | \$27.49 | \$27.63 | \$27.98 | \$28.32 | \$28.67 |
| \$4.10 | \$26.11 | \$26.45 | \$26.80 | \$27.15 | \$27.49 | \$27.70 | \$27.84 | \$28.19 | \$28.53 | \$28.88 |
| \$4.20 | \$26.32 | \$26.66 | \$27.01 | \$27.35 | \$27.70 | \$27.91 | \$28.05 | \$28.39 | \$28.74 | \$29.09 |
| \$4.30 | \$26.52 | \$26.87 | \$27.21 | \$27.56 | \$27.91 | \$28.12 | \$28.25 | \$28.60 | \$28.95 | \$29.29 |
| \$4.40 | \$26.73 | \$27.08 | \$27.42 | \$27.77 | \$28.11 | \$28.32 | \$28.46 | \$28.81 | \$29.15 | \$29.50 |
| \$4.50 | \$26.94 | \$27.28 | \$27.63 | \$27.98 | \$28.32 | \$28.53 | \$28.67 | \$29.01 | \$29.36 | \$29.71 |

The value of \$27.49 represent the value of what you will receive for each FAL Share under Option 5 based on the Woolworths Share price of \$16.30 and the Metcash Share price of \$4.00 current as at close of trading on 9 September 2005.

* The final consideration is subject to certain adjustments based on the financial position of the FAL Group as at the Consideration Determination Date. These adjustments (including their assumed level for the purposes of these examples) are explained in Part 3 of this Booklet.

WHAT WILL YOU RECEIVE IF JUST THE DEMERGER PROPOSAL PROCEEDS?

If just the Demerger proposal proceeds and the acquisition of FAL by Woolworths and Metcash does not proceed, FAL will be split into two listed companies:

- FAL which will continue to own FAL's existing Australian Operation; and
- a company that has been established to own FAL's New Zealand Operation, called Progressive Enterprises Holdings Limited (referred to in this Booklet as "PEH").

Under the Demerger proposal, you will retain all of your FAL Shares and you will receive an equal number of PEH Shares.* You will not have to pay any money for the PEH Shares you receive and they will automatically be issued to you without you having to do anything further.

FAL will continue to be listed on ASX and an application will be made for PEH to be listed on ASX and NZX.

The FAL Board unanimously believes the Demerger is in the best interests of FAL Shareholders, even if the Transfer Scheme does not proceed. However, both the FAL Board and Grant Samuel, the Independent Expert appointed by the FAL Board, believe it is in the best interests for both Schemes to proceed.

* FAL Shareholders who have registered addresses other than in Australia and New Zealand will receive a cash entitlement instead of PEH Shares - see Part 13 of this Booklet.

WHAT ARE THE CONDITIONS FOR THE PROPOSALS TO PROCEED?

Conditions

The Schemes are subject to conditions.

If these conditions are not fulfilled, either or both of the Schemes may not proceed or, with the approval of the Court, it may be necessary to renegotiate what you receive for your FAL Shares from Woolworths and Metcash. If there is any renegotiation, ASIC would also need to be advised of any changes to what you will receive from Woolworths and Metcash.

Details of conditions

The Demerger and transfer proposals are conditional on both of the following occurring:

- FAL Shareholders must pass resolutions relating to the Demerger and transfer as described in this Booklet; and
- the Court must approve the Demerger Scheme and the Transfer Scheme as described in this Booklet.

There are also a number of other specific regulatory, procedural and commercial conditions and approvals which are described in this Booklet – see Part 1.9.2 of this Booklet for a description of these conditions and approvals.

In particular,

- the Transfer Scheme is conditional on Woolworths acquiring control of all of the 20 Action branded Australian supermarkets and two supermarket development sites (referred to in this Booklet as the "Woolworths Action Stores"). In order to do so, it will be necessary to obtain the consent of the landlords of all of those supermarkets; and
- the Transfer Scheme is conditional on obtaining all necessary consents for a change in control required under the leases of the New Zealand Stores which are currently in FAL's New Zealand Operation.

WHAT ARE THE CONDITIONS FOR THE PROPOSALS TO PROCEED? (cont.)

What happens if conditions not met?

These conditions are particularly significant as they involve other parties and are therefore outside the control of FAL Shareholders, FAL, Woolworths and Metcash. In addition, the transfer of one or more of the Woolworths Action Stores could be prevented from occurring as a result of action taken by a governmental agency such as the ACCC.

In the event that any Woolworths Action Store is not transferred or a consent required to a change in control of a lease for a New Zealand Store is not obtained, effectively Woolworths may elect to terminate the Transfer Scheme and the acquisition of FAL by Woolworths and Metcash will not proceed. This means that, in these circumstances, Woolworths will be able to determine whether or not the acquisition of FAL by Woolworths and Metcash will proceed.

As an alternative to allowing the Transfer Scheme to terminate, Woolworths, Metcash and FAL could endeavour to agree some modifications to the Transfer Scheme to deal with these matters and allow the Transfer Scheme to proceed. These modifications would need to include a modification or waiver of the unfulfilled conditions and a change to the Woolworths Consideration and the Metcash Consideration. The parties would need to obtain the approval of the Court to any modifications of the Transfer Scheme and ensure that FAL Shareholders were provided with sufficient notice of the modifications to enable them properly to consider these matters before the Meetings. The parties would also need to advise ASIC of any modifications to the Transfer Scheme.

Demerger Scheme

Even if the Transfer Scheme is terminated, the Demerger Scheme may still proceed if it receives the necessary approval of FAL Shareholders and the Court. If this happens, FAL and PEH will become separate listed entities but Woolworths and Metcash will *not* acquire FAL.

WHY DO YOUR DIRECTORS RECOMMEND YOU VOTE FOR THE PROPOSALS?

These are the key reasons the FAL Directors recommend you vote FOR the Demerger Scheme and FOR the Transfer Scheme.

✓ The offer value for FAL significantly exceeds both the historic market trading price of FAL and the earnings multiples paid in comparable transactions

✓ The Demerger unlocks the strategic value of FAL's Australian Operation and New Zealand Operation as it allows these operations to be acquired separately

✓ The Demerger Scheme and the Transfer Scheme have been found to be "IN THE BEST INTERESTS OF FOODLAND SHAREHOLDERS" by the Independent Expert

✓ FAL Shareholders will be able to share in any future benefits to Woolworths and Metcash from the acquisitions by electing to receive both Woolworths Shares and Metcash Shares

✓ Most Australian FAL Shareholders will be eligible for Capital Gains Tax roll-over relief in relation to Woolworths Shares and Metcash Shares they receive in exchange for their FAL Shares

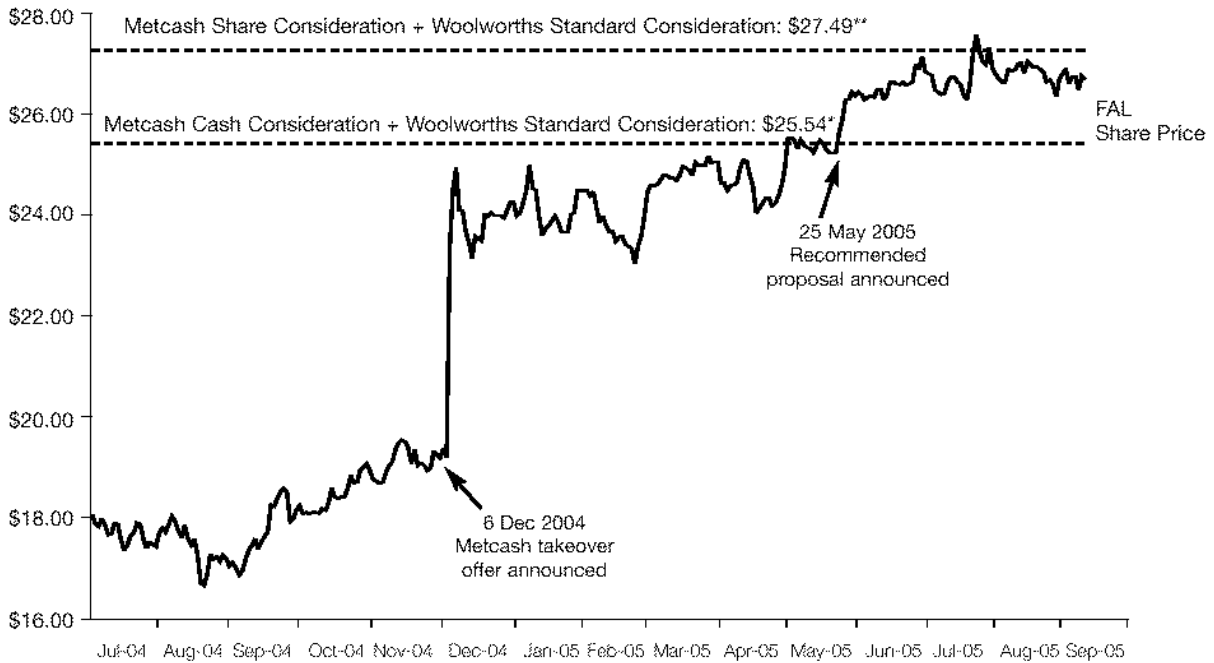
✓ FAL will control the process up until the date that ownership passes for both the Australian Operation and the New Zealand Operation

✓ If the proposal fails, there may be limited prospects of realising greater value through an alternative transaction. The FAL share price is likely to fall as a result

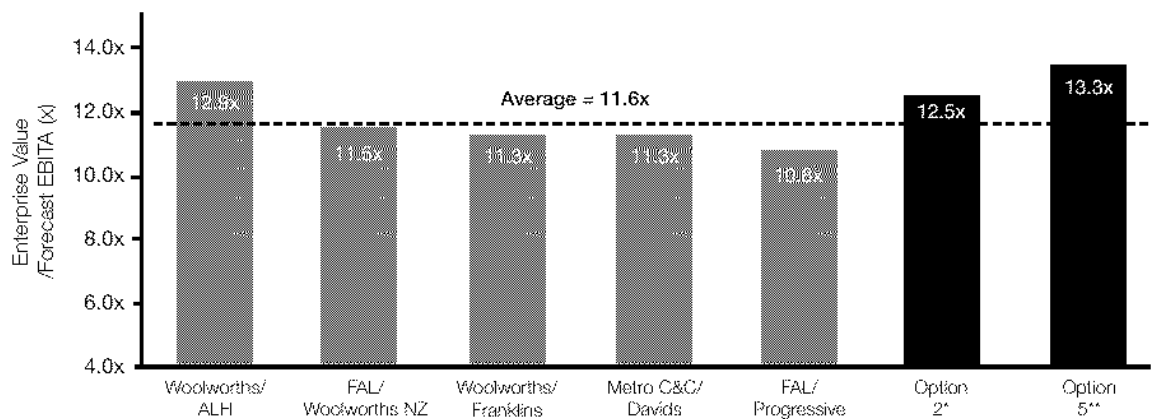


THE OFFER VALUE FOR FAL SIGNIFICANTLY EXCEEDS BOTH THE HISTORIC MARKET TRADING PRICE OF FAL AND THE EARNINGS MULTIPLES PAID IN COMPARABLE TRANSACTIONS

THE VALUE OF THE PROPOSAL SIGNIFICANTLY EXCEEDS THE HISTORIC TRADING PRICE OF FAL



THE VALUE OF THE PROPOSAL SIGNIFICANTLY EXCEEDS THE EARNINGS MULTIPLES PAID IN COMPARABLE TRANSACTIONS



* \$25.54 per FAL Share assumes that you receive the Woolworths Standard Consideration and the Metcash Cash Consideration (Option 2) and is based on the Woolworths Share price of \$18.30 as at close of trading on 9 September 2005. The final consideration is subject to certain adjustments based on the financial position of the FAL Group at the Consideration Determination Date (described in Part 3 of this Booklet). These adjustments (including their assumed level in calculating this value) are explained in Part 3 of this Booklet. Option 2 earnings multiple based on FAL Group's FY06 normalised forecast EBITA of \$266.6 million.

** \$27.49 per FAL Share assumes that you receive Woolworths Standard Consideration and Metcash Share Consideration (Option 5) and is based on the Woolworths Share price of \$18.30 and the Metcash Share price of \$4.00 as at close of trading on 9 September 2005. The final consideration is subject to certain adjustments based on the financial position of the FAL Group at the Consideration Determination Date (described in Part 3 of this Booklet). These adjustments (including their assumed level in calculating this value) are explained in Part 3 of this Booklet. Option 5 earnings multiple based on FAL Group's FY06 normalised forecast EBITA of \$266.6 million.

✓ **THE DEMERGER UNLOCKS THE STRATEGIC VALUE OF FAL'S AUSTRALIAN OPERATION AND NEW ZEALAND OPERATION AS IT ALLOWS THESE OPERATIONS TO BE ACQUIRED SEPARATELY**

- The Demerger Scheme enables the strategic value of FAL to be unlocked because it allows FAL's Australian Operation and New Zealand Operation to become available to potential buyers who are most likely to pay full value to acquire these operations.
- In FAL's opinion, Woolworths is a logical strategic buyer of FAL's New Zealand Operation (along with control of a number of Action supermarkets), while Metcash is a logical strategic buyer of FAL's Australian Operation.
- Therefore, the Demerger Scheme enables each of FAL's operations to be acquired separately at what the FAL Board believes is the highest price currently achievable after running an extensive and competitive sale process.

"The Transfer Scheme can only proceed if the Demerger Scheme is approved. Given that it is in shareholders' best interests for the Transfer Scheme to proceed, it is in the best interests of Foodland shareholders to approve the Demerger Scheme."

"The Demerger Scheme could proceed without the Transfer Scheme. However, this is a less attractive outcome for Foodland shareholders than to proceed with both the Demerger Scheme and the Transfer Scheme."

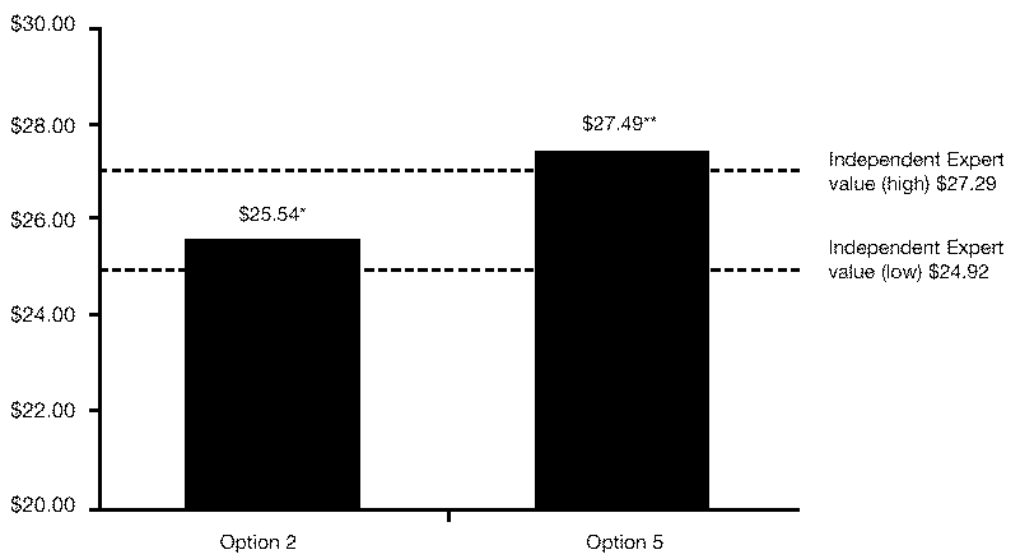
Grant Samuel, the Independent Expert



THE DEMERGER SCHEME AND THE TRANSFER SCHEME HAVE BEEN FOUND TO BE “IN THE BEST INTERESTS OF FOODLAND SHAREHOLDERS” BY THE INDEPENDENT EXPERT

- The Independent Expert appointed by the FAL Board, Grant Samuel, has valued FAL Shares at between \$24.92 and \$27.29. The total value of the offers by Woolworths and Metcash is within and above this range based on current share prices.
- The Independent Expert has concluded that the proposals are "in the best interests of Foodland Shareholders".

THE VALUE OF THE PROPOSAL IS WITHIN AND ABOVE THE INDEPENDENT EXPERT'S VALUATION RANGE FOR FAL



"In Grant Samuel's view, shareholders are likely to be better off if both the Demerger Scheme and the Transfer Scheme proceed than if they do not. Accordingly, Grant Samuel has concluded that both the Demerger Scheme and the Transfer Scheme are in shareholders' best interests."

"The Foodland directors would be justified in recommending that shareholders vote in favour of both the Demerger Scheme and the Transfer Scheme."

Grant Samuel, the Independent Expert

* \$25.54 per FAL Share assumes you receive the Woolworths Standard Consideration and the Metcash Cash Consideration (Option 2) and is based on the Woolworths Share price of \$16.30 as at 9 September 2005. The final consideration is subject to certain adjustments based on the financial position of the FAL Group at the Consideration Determination Date. These adjustments (including their assumed level in calculating this value) are explained in Part 3 of this Booklet.

** \$27.49 per FAL Share assumes that you receive Woolworths Standard Consideration and Metcash Share Consideration (Option 5), and is based on the Woolworths Share price of \$16.30 and the Metcash Share price of \$4.00 as at 9 September 2005. The final consideration is subject to certain adjustments based on the financial position of the FAL Group at the Consideration Determination Date. These adjustments (including their assumed level for the purposes in calculating this value) are explained in Part 3 of this Booklet.

✓ **FAL SHAREHOLDERS WILL BE ABLE TO SHARE IN ANY FUTURE BENEFITS TO WOOLWORTHS AND METCASH FROM THE ACQUISITIONS BY ELECTING TO RECEIVE BOTH WOOLWORTHS SHARES AND METCASH SHARES**

- Metcash expects to generate synergy benefits and cost savings through the acquisition of FAL. FAL believes Woolworths should benefit from diversifying into the New Zealand market.
- By receiving Woolworths Shares and Metcash Shares, FAL Shareholders will participate in any benefits to Woolworths and Metcash resulting from the transaction.

"The Proposal allows Foodland shareholders to share in the strategic value and synergies available to Metcash and Woolworths, either on a crystallised basis (to the extent that shareholders accept cash) or by participating in the future performance of the merged businesses (to the extent that shareholders accept shares)."

"Metcash should be able to achieve substantial synergies through merging Foodland's wholesaling operations into its own business. These synergies should include savings in relation to buying costs, warehouse and logistics costs, and finance, information technology and other support costs."

"Similarly,... Woolworths should be able to achieve significant synergies between its own operations and Foodland's New Zealand supermarket business, including savings in relation to buying costs and support costs such as information technology."

"The synergies available to Metcash and Woolworths would not be achievable by Foodland on a stand alone basis."

Grant Samuel, the Independent Expert

✓ **MOST AUSTRALIAN FAL SHAREHOLDERS WILL BE ELIGIBLE FOR CAPITAL GAINS TAX ROLL-OVER RELIEF IN RELATION TO WOOLWORTHS SHARES AND METCASH SHARES THEY RECEIVE IN EXCHANGE FOR THEIR FAL SHARES**

- FAL understands the ATO will publish a class ruling confirming that most Australian FAL Shareholders will be eligible for CGT roll-over relief in relation to any Woolworths Shares and/or Metcash Shares that they receive in exchange for their FAL Shares.
- This will defer any CGT liability that those Australian FAL Shareholders will otherwise incur on disposal of their FAL Shares, until the time that they dispose of the Woolworths Shares and/or Metcash Shares that they receive in exchange for their FAL Shares.

✓ **FAL WILL CONTROL THE PROCESS UP UNTIL THE DATE THAT OWNERSHIP PASSES FOR BOTH THE AUSTRALIAN OPERATION AND THE NEW ZEALAND OPERATION**

- Unlike the Metcash Takeover Offer, the FAL Board is managing the Transfer Scheme and the Demerger Scheme processes in the best interests of FAL Shareholders.
- The FAL-managed Schemes will ensure that FAL Shareholders remain in control during the Demerger process whether or not FAL's Australian and New Zealand operations are demerged and whether the demerged operations are acquired by Woolworths and Metcash.
- The FAL Board has chosen to control the process so that risks associated with the completion of the Transfer Scheme and Demerger Scheme are minimised. Some of the risks associated with the Metcash Takeover Offer and the value uncertainty of the Metcash preference share consideration will be avoided.
- Metcash has recommended that FAL Shareholders take no action in relation to the Metcash Takeover Offer and vote FOR the proposed schemes. In addition, Metcash has recommended that FAL Shareholders who have accepted the Metcash Takeover Offer withdraw their acceptance.

✓ **IF THE PROPOSALS FAIL, THERE MAY BE LIMITED PROSPECTS OF REALISING GREATER VALUE THROUGH AN ALTERNATIVE TRANSACTION. THE FAL SHARE PRICE IS LIKELY TO FALL AS A RESULT**

- Since the initial Metcash takeover offer was announced in December 2004, the FAL Directors have undertaken a comprehensive process to seek acquirers for FAL as a whole and on a break-up basis. A number of parties were given the opportunity to undertake due diligence and to submit offers accordingly. The combination of the separate offers from Woolworths and Metcash is the most attractive proposal that has been received by the FAL Board. The recommended proposal represents the most attractive outcome for FAL Shareholders. Over nine months have elapsed since the initial Metcash offer was announced and the FAL Board considers the emergence of a superior offer for the FAL Group to be unlikely.

"The prospects of realising greater value through an alternative transaction are remote. In the absence of the Transfer Scheme, the market value of Foodland (or the demerged Foodland and Progressive Enterprises) could be expected to fall."

"It is possible for the Demerger Scheme to proceed without the Transfer Scheme. In Grant Samuel's view there is no reason to believe that shareholders would derive superior value, at least in the short to medium term, through some unspecified transaction subsequent to a demerger."

Grant Samuel, the Independent Expert

QUESTIONS AND ANSWERS

This section provides some questions and answers about the Schemes. These are not intended to cover all issues in relation to the Schemes but only to help you get started in understanding them. This section should be read in conjunction with the rest of the Booklet. Note that FAL may vary the dates included in some of the answers without prior notice to FAL Shareholders. Certain terms and abbreviations used in this Booklet (generally with capital letters) have defined meanings, which are explained in the Dictionary in Part 20 of this Booklet.

To assist you, FAL has established a Shareholder Information Line. The telephone number is toll free 1800 068 729 (within Australia) or +61 3 9415 4125 (outside of Australia). It is available Monday to Friday between 9.00am and 7.00pm AEST.

If you are in any doubt about what to do, you should contact your financial adviser.

General questions

What is proposed?

It is proposed that Woolworths and Metcash will acquire all of FAL by means of a Demerger Scheme and a Transfer Scheme.

See Part 1 of this Booklet.

Why have I received this Booklet?

This Booklet has been sent to you because you are a FAL Shareholder and the proposal for FAL to be acquired by Woolworths and Metcash requires the approval of FAL Shareholders. It also requires the approval of the Court. This Booklet is intended to help you to decide how to vote on the Shareholder Resolutions necessary for the acquisition and to choose what you want to receive in exchange for your FAL Shares.

What should I do?

1. Read this Booklet carefully

If you are in any doubt as to what to do, you should contact your financial adviser immediately.

2. Vote at the Meetings

You can vote at the Meetings in person or by proxy. Further information on how to vote at the Meetings is provided below under the heading "Questions about voting" and in more detail in the Notices of Meetings included in Part 19 of this Booklet.

The FAL Board unanimously recommends that FAL Shareholders vote FOR the proposals in the absence of a superior proposal.

3. Choose the consideration you would like to receive

You should choose the form of consideration you would like to receive from Woolworths and Metcash using the Election Form accompanying this Booklet and return your signed and completed Election Form to FAL's Share Registry by 7.00pm Perth time on 10 November 2005.

General questions

How is it proposed that FAL will be acquired by Woolworths and Metcash?

The acquisition of FAL by Woolworths and Metcash requires two steps. First, FAL must be split into two separate parts:

- the New Zealand Operation; and
- the Australian Operation.

This involves the Demerger Scheme to separate these two operations.

Secondly, there is the Transfer Scheme to:

- transfer the New Zealand Operation **and** control of the Woolworths Action Stores to Woolworths; and
- transfer the Australian Operation **without** control of the Woolworths Action Stores to Metcash.

The Woolworths Action Stores are 20 Action supermarkets and two development sites located in NSW, Queensland and Western Australia. If the Demerger and Transfer Schemes both proceed, Woolworths will get control of the Woolworths Action Stores together with the New Zealand Operation. If the Demerger Scheme proceeds but the Transfer Scheme does not proceed, FAL will retain control of the Woolworths Action Stores as part of its Australian Operation.

See Part 1 of this Booklet.

How will the Demerger work?

The Demerger requires shareholders to vote on two matters:

- the Demerger Scheme; and
- the Capital Reduction.

If FAL Shareholders vote in favour of both matters, the Demerger will proceed involving the following three key elements:

- FAL will undertake a Capital Reduction (and pay an amount called the "Capital Reduction Amount");
- FAL will pay a special dividend (called a "Demerger Dividend"); and
- the amounts payable to you under the Capital Reduction and the Demerger Dividend will automatically be used (unless you are an Ineligible Overseas Shareholder) to acquire shares in Progressive Enterprises Holdings Limited. (PEH is a company that has recently been established by FAL to be the holding company of the New Zealand Operation.)

If the acquisitions by Woolworths and Metcash proceed, the PEH Shares will be automatically transferred to Woolworths - see the questions and answers below under "What happens if the Transfer Scheme **and** the Demerger Scheme proceed?". If the acquisitions do not proceed, PEH will become a separately listed company - see the questions and answers under "What happens if the Transfer Scheme does not proceed but the Demerger Scheme does proceed?"

See Parts 1 and 4 of this Booklet.

General questions

What FAL Shareholder and Court approvals are required?

FAL Shareholders will vote on the Transfer Scheme **and** the Demerger Scheme and, if sufficient votes are received in favour of both the Transfer Scheme **and** the Demerger Scheme, the Court will be asked to approve both Schemes.

If sufficient votes are received to approve the Demerger Scheme **but not** the Transfer Scheme, the Court will be asked to approve just the Demerger Scheme.

Each of the Schemes will be voted on at a separate meeting. There will also be a General Meeting to vote on the Capital Reduction. (The Capital Reduction is a necessary step for the Demerger Scheme.) The Demerger Scheme is conditional on the Capital Reduction being approved by FAL Shareholders. The first Meeting will commence at 10.00am Perth time on 2 November 2005.

See Part 1.9 of this Booklet.

What other material conditions must be met?

There are also a number of other specific regulatory, procedural and commercial conditions and approvals which are described in this Booklet. In particular:

- the Transfer Scheme is conditional on Woolworths acquiring control of all of the Woolworths Action Stores. In order to do so, it will be necessary to obtain the consent of the landlords of all of those supermarkets; and
- the Transfer Scheme is conditional on obtaining all necessary consents for a change in control required under the leases of the New Zealand Stores which are currently in FAL's New Zealand Operation.

What happens if these conditions are not met?

If these conditions are not fulfilled, either or both of the Schemes may not proceed or, with the approval of the Court, it may be necessary to renegotiate what you receive for your FAL Shares from Woolworths and Metcash. If there is any renegotiation, ASIC would also need to be advised of any changes to what you will receive from Woolworths and Metcash.

These conditions are particularly significant as they involve other parties and are therefore outside the control of FAL Shareholders, FAL, Woolworths and Metcash. In addition, the transfer of one or more of the Woolworths Action Stores could be prevented from occurring as a result of action taken by a governmental agency such as the ACCC.

In the event that any Woolworths Action Store is not transferred or a consent required to a change in control of a lease for a New Zealand Store is not obtained, effectively Woolworths may elect to terminate the Transfer Scheme and the acquisition of FAL by Woolworths and Metcash will not proceed. This means that, in these circumstances, Woolworths will be able to determine whether or not the acquisition of FAL by Woolworths and Metcash will proceed.

As an alternative to allowing the Transfer Scheme to terminate, Woolworths, Metcash and FAL could endeavour to agree some modifications to the Transfer Scheme to deal with these matters and allow the Transfer Scheme to proceed. These modifications would need to include a modification or waiver of the unfulfilled conditions and a change to the Woolworths Consideration and the Metcash Consideration. The parties would need to obtain the approval of the Court to any modifications of the Transfer Scheme and ensure that FAL Shareholders were provided with sufficient notice of the modifications to enable them properly to consider these matters before the Meetings. The parties would also need to advise ASIC of any modifications to the Transfer Scheme.

Even if the Transfer Scheme is terminated, the Demerger Scheme may still proceed if it receives the necessary approval of FAL Shareholders and the Court. If this happens, FAL and PEH will become separate listed entities but Woolworths and Metcash will not acquire FAL.

See Part 3.1 of this Booklet.

General questions

What will I receive for my FAL Shares if both Schemes proceed?

You will receive two components:

- a combination of cash **and/or** Woolworths Shares called the "Woolworths Consideration"; and
- cash **or** Metcash Shares called the "Metcash Consideration".

("Consideration" is a legal term for what you receive in exchange for something.)

For details on your choices read the answers to "What is the Woolworths Consideration?" and "What is the Metcash Consideration?" below.

The exact amount offered to you under each of these choices is not known yet because it will be calculated **after** the Consideration Determination Date.

See Part 3 of this Booklet.

What will I receive if only the Demerger Scheme proceeds?

The questions and answers below under the heading "What happens if the Transfer Scheme does **not** proceed but the Demerger Scheme **does** proceed?" discuss what you will receive if only the Demerger Scheme proceeds.

Can the Transfer Scheme proceed without the Demerger Scheme proceeding?

No. The Transfer Scheme cannot proceed without the Demerger Scheme proceeding. The Transfer Scheme is conditional on the Demerger Scheme becoming Effective. FAL's New Zealand Operation and FAL's Australian Operation must be separated before they can be transferred to Woolworths and Metcash. The Demerger Scheme is itself conditional on the Capital Reduction.

See Part 1.3 of this Booklet.

Can the Demerger Scheme proceed without the Transfer Scheme proceeding?

Yes. The Demerger Scheme can proceed without the Transfer Scheme proceeding. The Demerger Scheme is not conditional on the Transfer Scheme becoming Effective (but it is conditional on the Capital Reduction).

See Part 1.3 of this Booklet.

General questions

Can FAL's New Zealand Operation be transferred to Woolworths without a transfer of FAL's Australian Operation to Metcash and vice versa?

No. The transfer of FAL's New Zealand Operation to Woolworths and FAL's Australian Operation to Metcash is proposed to be implemented under **one** scheme of arrangement: the Transfer Scheme. One of these transfers cannot occur without the other. Both transfers will occur if the Transfer Scheme becomes Effective. If the Transfer Scheme does not become Effective, the acquisitions will not occur.

See Parts 1.1 and 1.3 of this Booklet.

What is the Capital Reduction?

The Capital Reduction is a return of capital on your FAL Shares which is a necessary step for the Demerger Scheme to occur. It reduces the size of FAL as a result of the New Zealand Operation being separated from the Australian Operation. It will automatically be applied as part of the consideration for the Demerger. You will not receive any cash from the Capital Reduction.

See Parts 1.9.4 and 14.23 of this Booklet.

What is the Demerger Dividend?

The Demerger Dividend is a special dividend required to implement the Demerger. Under the Demerger Scheme, the amount of your entitlement to the Demerger Dividend, together with the Capital Reduction Amount, will automatically be applied as the consideration for the Demerger. You will not receive any cash from the Demerger Dividend.

See Parts 1.9.5 and 14.23 of this Booklet.

How do the FAL Directors recommend I vote?

The FAL Board unanimously believes that BOTH the Transfer Scheme and the Demerger Scheme are in the best interests of FAL Shareholders and recommends that you vote FOR all resolutions in the absence of a superior proposal. The FAL Directors who hold FAL Shares at the time of the Scheme Meetings intend to vote FOR all resolutions.

See Parts 1.6 and 2 of this Booklet.

What is the Independent Expert's opinion?

The Independent Expert (Grant Samuel) has concluded that the Transfer Scheme and the Demerger Scheme are in the best interests of FAL Shareholders.

See Parts 1.7 and 15.1 of this Booklet.

What happens if the Transfer Scheme and the Demerger Scheme proceed?

What will I receive?

As indicated above, if the Transfer Scheme and the Demerger Scheme both proceed you will receive:

- the Woolworths Consideration (Woolworths Shares **and/or** cash); and
- the Metcash Consideration (Metcash Shares **or** cash).

Remember that you receive BOTH Woolworths Consideration AND Metcash Consideration.

See Part 3 of this Booklet.

What happens if the Transfer Scheme and the Demerger Scheme proceed?

What will I receive if I am an overseas FAL Shareholder?

If your address on the FAL Share Register is not in Australia or New Zealand, you are an Ineligible Overseas Shareholder and you will **not** be able to receive any shares.

First, as part of the Demerger, the PEH Shares that you would otherwise receive under the Demerger Scheme will be transferred to Woolworths in exchange for the Woolworths Consideration which you select. If you choose a form of Woolworths Consideration which includes Woolworths Shares, a Woolworths' agent will sell those shares and you will be paid an amount equal to the average price paid for all Woolworths Shares sold on behalf of Ineligible Overseas Shareholders in this way (net of any brokerage, taxes and charges).

Secondly, if you select Metcash Shares under the Transfer Scheme, the Metcash Shares that you would otherwise receive under the Transfer Scheme will be transferred to Metcash's agent who will sell the Metcash Shares forming part of the Metcash Consideration. You will be paid an amount equal to the average price paid for all Metcash Shares sold on behalf of Ineligible Overseas Shareholders in this way (net of any brokerage, taxes and charges).

At the same time, you will also be paid any cash to which you are entitled under the Transfer Scheme.

New Zealand FAL Shareholders will be treated in the same way as Australian FAL Shareholders and will be eligible to receive Woolworths Shares and Metcash Shares. Note however that there are different tax consequences for New Zealand FAL Shareholders (which are described in Part 12 of this Booklet).

See Part 13 of this Booklet.

What is the Woolworths Consideration?

The Woolworths Consideration is made up of two parts:

- the Woolworths Cash Consideration (a total of about \$934 million* to be divided up among FAL Shareholders); and
- the Woolworths Share Consideration (a total of 81,592,689 Woolworths Shares to be divided up among FAL Shareholders).

The total amount of cash and Woolworths Shares available are referred to as the "Woolworths Cash Consideration Cap" and the "Woolworths Share Consideration Cap" respectively.

Woolworths is offering you the following choice of consideration:

- the Woolworths Maximum Cash Consideration; or
- the Woolworths Maximum Share Consideration; or
- the Woolworths Standard Consideration.

These are described in more detail in the next three questions and answers.

The Woolworths Shares offered as consideration will not participate in the final dividend declared by Woolworths in respect of the financial year ended 26 June 2005.

See Part 3.2 of this Booklet.

*\$1,250 million less an adjustment estimated by FAL to be \$316 million for the Net Assumed Debt of the PEH Post-Demerger Group as at the Consideration Determination Date. This Net Assumed Debt consists of external debt and certain other adjustments which are explained in Part 3 of this Booklet.

What happens if the Transfer Scheme and the Demerger Scheme proceed?

What is the Woolworths Maximum Cash Consideration?

As described in "What is the Woolworths Consideration?", the Woolworths Consideration is made up of a combination of cash and/or Woolworths Shares.

Under this option you will receive up to 100% of your Woolworths Consideration in cash (approximately \$18.54 for each FAL Share subject to certain adjustments in relation to the financial position of the FAL Group). These adjustments (including the level of the adjustments assumed by FAL in calculating this value) are described in Part 3 of this Booklet.

If you choose the Woolworths Maximum Cash Consideration, you will receive the highest proportion of cash being offered by Woolworths. You should therefore choose this option if you want to maximise the cash you receive from Woolworths.

It is not possible at this stage to determine the exact proportions of cash and Woolworths Shares you will receive under the Woolworths Maximum Cash Consideration because it depends on the Elections of all FAL Shareholders.

Depending on the choices of all other FAL Shareholders, you may receive all cash and no Woolworths Shares from Woolworths if you choose Woolworths Maximum Cash. However, due to a limitation called the "Woolworths Cash Consideration Cap", it is also possible that the amount of cash available to FAL Shareholders who choose the Woolworths Maximum Cash Consideration may be rebalanced on a pro rata basis.

See Part 3.2 of this Booklet.

What is the Woolworths Maximum Share Consideration?

Under this option you will receive up to 100% of your Woolworths Consideration in Woolworths Shares (approximately 1.2099 Woolworths Shares per FAL Share subject to certain adjustments in relation to the financial position of the FAL Group). These adjustments (including the level of the adjustments assumed by FAL in calculating this value) are described in Part 3 of this Booklet.

If you choose the Woolworths Maximum Share Consideration, you will receive the highest proportion of Woolworths Shares being offered by Woolworths. You should therefore choose this option if you want to maximise the Woolworths Shares you receive from Woolworths.

Again, it is not possible at this stage to determine the exact proportions of cash and Woolworths Shares you will receive under the Woolworths Maximum Share Consideration because this will depend on the Elections of all FAL Shareholders.

Depending on the choices of all other FAL Shareholders you may receive all Woolworths Shares and no cash if you choose Woolworths Maximum Share Consideration. However, due to a limitation called the "Woolworths Share Consideration Cap", it is possible that the number of Woolworths Shares available to FAL Shareholders who choose the Woolworths Maximum Share Consideration may be rebalanced on a pro rata basis.

See Part 3.2 of this Booklet.

What happens if the Transfer Scheme and the Demerger Scheme proceed?

What is the Woolworths Standard Consideration?

The Woolworths Standard Consideration is a fixed combination of Woolworths Shares and cash.

The Woolworths Standard Consideration is equal to approximately \$7.93 and 0.6925 Woolworths Shares per FAL Share (subject to some adjustments in relation to the financial position of the FAL Group as at the Consideration Determination Date. These adjustments (including the level of the adjustments assumed by FAL in calculating these amounts) are described in Part 3 of this Booklet.

Rebalancing does not apply to Woolworths Standard Consideration as the proportions are fixed.

See Part 3.2 of this Booklet.

What is rebalancing?

Rebalancing applies only if you choose Woolworths Maximum Share Consideration or Woolworths Maximum Cash Consideration. Because there are fixed amounts of Woolworths Shares and Woolworths Cash available, it may be necessary to adjust the proportion of Woolworths Shares or cash you receive. This is described further in the next two questions and answers.

See Part 3.2.3 of this Booklet.

How might I be affected by a rebalancing if I choose the Woolworths Maximum Cash Consideration?

If the total number of FAL Shareholders who choose the Woolworths Maximum Cash Consideration would result in the Woolworths Cash Consideration Cap being exceeded, there will be a rebalancing of the cash component available under the Woolworths Maximum Cash Consideration. Depending on the extent of the rebalancing required, you may receive a similar (or the same) amount of cash and a similar (or the same) number of Woolworths Shares to what you would have received if you had elected to receive the Woolworths Standard Consideration.

See Part 3.2 of this Booklet.

How might I be affected by a rebalancing if I choose the Woolworths Maximum Share Consideration?

If the total number of FAL Shareholders who choose the Woolworths Maximum Share Consideration would result in the Woolworths Share Consideration Cap being exceeded, there will be a rebalancing of the Woolworths Shares available under the Woolworths Maximum Share Consideration. Depending on the extent of the rebalancing required, you may receive a similar (or the same) amount of cash and a similar (or the same) number of Woolworths Shares to what you would have received if you had elected to receive the Woolworths Standard Consideration.

See Part 3.2 of this Booklet.

What happens if the Transfer Scheme and the Demerger Scheme proceed?

What is the Metcash Consideration?

Metcash is offering you the following choice of consideration in exchange for your FAL Shares:

- the Metcash Cash Consideration; or
- the Metcash Share Consideration.

The Metcash Shares offered as consideration will not participate in the interim dividend declared by Metcash in respect of the six months ending 31 October 2005 which will have a record date before the Consideration Date. Therefore, the Metcash Shares you receive if you elect the Metcash Share Consideration will not participate in this interim dividend even though the interim dividend may be paid after the Consideration Date.

The Metcash Cash Consideration and Metcash Share Consideration are described in more detail in the next two questions and answers.

Unlike the Woolworths Consideration, there is no rebalancing mechanism for the Metcash Consideration.

See Part 3.3 of this Booklet.

What is the Metcash Cash Consideration?

The Metcash Cash Consideration is a total of about \$746 million to be divided up among all FAL Shareholders who choose to receive cash from Metcash. This equals approximately \$6.33 per FAL Share. The consideration will depend on some adjustments based on the financial position of the FAL Group at the Consideration Determination Date. These adjustments (including the level of the adjustments assumed by FAL in calculating this value) are described in Part 3 of this Booklet.

See Part 3.3 of this Booklet.

What is the Metcash Share Consideration?

The Metcash Share Consideration is 2.07 Metcash Shares for each FAL Share. Based on a share price of \$4.00 as at close of trading on 9 September 2005, this equals approximately \$8.28 per FAL Share. The final consideration will depend on some adjustments based on the financial position of the FAL Group at the Consideration Determination Date. These adjustments (including the level of the adjustments assumed by FAL in calculating this value) are described in Part 3 of this Booklet.

See Part 3.3 of this Booklet.

What happens if the Transfer Scheme and the Demerger Scheme proceed?

How and by when must I choose the consideration I want to receive?

You must choose the consideration you want to receive by filling in the enclosed Election Form and returning it to the FAL Share Registry before 7.00pm Perth time on Thursday 10 November 2005. You can use the enclosed reply paid envelope to return the Election Form.

What form of consideration will I receive if I do not choose?

If you do not make a choice in relation to the Woolworths Consideration, you will automatically receive the Woolworths Standard Consideration.

If you do not make a choice in relation to the Metcash Consideration, you will automatically receive the Metcash Cash Consideration.

See Part 3.10 of this Booklet.

Why don't you tell me NOW what I am going to receive for my FAL Shares?

The amount you receive cannot be worked out yet because it depends on some adjustments based on the financial position of the FAL Group as at the Consideration Determination Date. It also depends on the proportions of cash and Woolworths Shares you and all other FAL Shareholders choose to receive under the Transfer Scheme.

These adjustments and further information on how the Scheme Consideration is calculated are fully set out in Part 3 of this Booklet.

The Metcash Consideration and the Woolworths Consideration are expected to be announced to the ASX no later than 24 October 2005. Details of any rebalancing in relation to the Woolworths Maximum Cash Consideration and the Woolworths Maximum Share Consideration (and the final cash and share allocation under each of these consideration alternatives) will be announced no later than 25 November 2005. FAL's announcements in relation to the Transfer Scheme Consideration will be posted on FAL's website at www.fal.com.au.

You should note that the total value of what you receive will also depend on the Woolworths Consideration and the Metcash Consideration you elect to receive.

See Part 3 of this Booklet.

What adjustments are based on the financial position of the FAL Group?

The adjustments are based on a number of aspects of the financial position of the FAL Group as at the Consideration Determination Date.

See Part 3 of this Booklet.

When will I receive my consideration in exchange for my FAL Shares?

Holding statements for Woolworths Shares and/or Metcash Shares you choose to receive are expected to be despatched to you no later than 29 November 2005. Cheques for the cash consideration you choose to receive are expected to be despatched to you no later than 1 December 2005.

See Parts 3.11 and 3.12 of this Booklet.

How will fractional shares be treated?

If under the Transfer Scheme you become entitled to a fraction of a Woolworths Share or a fraction of a Metcash Share (or both), the number of Woolworths Shares and Metcash Shares (or both) that you receive will be rounded up or down to the nearest whole number. (0.5 will be rounded up to the next whole number).

What happens if the Transfer Scheme and the Demerger Scheme proceed?

Will I have to pay brokerage fees or stamp duty?

No. You will not have to pay any brokerage or stamp duty in connection with the Transfer Scheme and the Demerger Scheme. However, if you are an Ineligible Overseas Shareholder, the cash amount you receive will be **net of any brokerage, taxes and charges** incurred in selling Woolworths Shares and Metcash Shares on your behalf.

See Part 13 of this Booklet.

If I am an Australian resident and the Transfer Scheme proceeds, will I be taxed on what I receive?

If you are an Australian resident, you may be able to claim rollover relief from CGT in relation to the Woolworths Shares and Metcash Shares you receive although this will depend on your personal circumstances.

See Part 12 of this Booklet.

If I am a New Zealand resident and the Transfer Scheme and the Demerger Scheme proceed, will I be taxed on what I receive?

If you are a New Zealand resident, an amount equal to the full value of the PEH Shares received will be treated as a dividend and will be fully taxable for New Zealand tax purposes.

See Part 12 of this Booklet.

What happens if the Transfer Scheme does *not* proceed but the Demerger Scheme *does* proceed?

IMPORTANT NOTE

Remember the questions and answers in this section only apply if the acquisition of FAL by Woolworths and Metcash **does not occur**.

What will I receive?

If the Transfer Scheme does **not** proceed but the Demerger Scheme **does** proceed, you will receive one share in PEH for every FAL Share you hold at the Demerger Record Date, unless you are an Ineligible Overseas Shareholder.

For example, if you hold 1,000 FAL Shares at the Demerger Record Date, then after the Demerger is implemented (and assuming you do not trade your shares) you will continue to hold 1,000 FAL Shares and you will also hold 1,000 PEH Shares.

If you are an Ineligible Overseas Shareholder, the PEH Shares to which you are entitled will be issued to FAL or its agent who will sell the PEH Shares and you will be paid an amount equal to the average price paid for all PEH Shares sold on behalf of Ineligible Overseas Shareholders in this way (net of any brokerage, taxes and charges).

You are not required to pay any money for the PEH Shares you receive under the Demerger Scheme.

See Part 4 of this Booklet.

Do I have to do anything to receive PEH Shares?

No. If the Demerger proceeds, you will automatically receive the PEH Shares.

You will receive the PEH Shares even if you voted against the Demerger Scheme or did not vote at all.

See Part 4 of this Booklet.

What happens if the Transfer Scheme does *not* proceed but the Demerger Scheme *does* proceed?

When will I receive a holding statement for my PEH Shares?

Holding statements for the PEH Shares are expected to be despatched to you on 24 November 2005.

See Part 4.5.4 of this Booklet.

Will I have to pay brokerage fees or stamp duty?

No. You will not have to pay any brokerage fees or stamp duty in connection with the PEH Shares. However, if you are an Ineligible Overseas Shareholder, the cash you receive for the PEH Shares to which you are entitled will be **net of any brokerage, taxes and charges** incurred in selling them on your behalf.

See Part 13 of this Booklet.

What will be the impact on my holding of FAL Shares and my interest in FAL?

The number of FAL Shares you hold will not change as a result of the Demerger. However, if the Transfer Scheme does **not** proceed and the Demerger Scheme **does** proceed, the market price of your FAL Shares is expected to decrease reflecting the separate value of the PEH Shares transferred to you. The value of your investment will be a combination of both the value of the FAL Shares you hold and the value of the PEH Shares you hold. The total of these values will not necessarily correlate to the historical FAL Share price. Other factors may also affect the value of your FAL Shares.

See Part 2.3 of this Booklet.

What will be the impact on FAL's dividends?

The Demerger will affect the amount of FAL's dividends because, following the Demerger, FAL will no longer own the New Zealand Operation. The quantum of FAL's dividends following the Demerger has not yet been determined and will be a matter for consideration by the FAL Board at the relevant time.

You will also be entitled to dividends paid by PEH. The PEH Board will determine PEH's dividend policy. No dividend policy has yet been determined for PEH.

The dividend policy of FAL and PEH after the Demerger will be determined by each board after having regard to factors such as capital requirements for ongoing activities and the need to maximise shareholder value.

Can I sell the PEH Shares that I receive?

Yes. You may sell the PEH Shares you receive on the ASX once trading in PEH Shares commences. PEH Shares are also intended to be listed on the NZX in New Zealand.

When will PEH Shares commence trading on the ASX and NZX?

FAL expects PEH Shares to commence trading on the ASX, initially on a deferred settlement basis, on 24 November 2005. FAL expects PEH Shares to commence trading on the NZX on 24 November 2005, initially on a deferred settlement (delayed delivery) basis.

If the Demerger Scheme is implemented, will I be taxed on what I receive?

Generally, for Australian FAL Shareholders, no tax will be payable where roll-over relief is chosen. For FAL Shareholders resident in New Zealand, an amount equal to the full value of the PEH Shares received will be treated as a dividend and will be fully taxable for New Zealand tax purposes.

See Part 12 of this Booklet (for the tax consequences for residents of both Australia and New Zealand).

Questions about voting

When and where will the Meetings be held?

The first of the Meetings will commence at 10.00am Perth time on 2 November 2005 in the Plaza Ballroom East at the Burswood International Resort Casino, Perth (201 Great Eastern Highway, Burswood, Western Australia). There will be three Meetings held, one immediately after the other. These Meetings are to approve the Transfer Scheme, the Capital Reduction and the Demerger Scheme (in that order). The meeting to approve the Transfer Scheme will be held first so that FAL Shareholders who attend the Meetings (and their proxies) will, if it is possible to count the votes quickly, know whether the Transfer Scheme has been approved before they vote on the Capital Reduction and the Demerger Scheme.

See Part 1.9.1 of this Booklet.

Am I entitled to vote?

If you are registered on the FAL Share Register at 5.00pm Perth time on 31 October 2005 you will be entitled to vote at the Meetings.

See Part 1.9.1 of this Booklet.

How do I vote?

You can vote:

- by proxy, using the enclosed Proxy Form;
- in person by coming to the Meetings;
- by attorney; or
- by corporate representative (if the shareholder is a company).

See Part 19 of this Booklet.

Can I use one Proxy Form for all three Meetings?

Yes. If you wish to appoint a Proxy, the enclosed Proxy Form can be used for all three Meetings.

What voting majorities are required?

The voting majority to approve each of the Schemes is:

- a majority in number (more than 50%) of FAL Shareholders present and voting at the relevant meeting (in person, by proxy, attorney, or in the case of a corporate shareholder, by corporate representative); and
- FAL Shareholders who together hold at least 75% of the total number of FAL Shares voted at the relevant meeting.
- The voting majority to approve the Capital Reduction is a majority in number of the FAL Shares voted at the relevant meeting.

Questions about voting

Should I vote?

While you do not have to vote, the FAL Board believes that the Schemes and the Capital Reduction are important to all FAL Shareholders and urges you to read this Booklet carefully and vote FOR all resolutions.

What happens if I do not vote or if I vote against the Schemes and they both proceed?

If you are an FAL Shareholder as at the Demerger Record Date (5.00pm Perth time on 17 November 2005) and **both Schemes proceed**, the PEH Shares to which you are entitled under the Demerger Scheme will be transferred to Woolworths and your FAL Shares will be transferred to Metcash. You will be entitled to receive the Transfer Scheme Consideration even though you did not vote or voted against one or both of the Schemes. You will also be entitled to make an Election in relation to your choice of the Woolworths Consideration and the Metcash Consideration.

See Parts 1 and 3 of this Booklet.

What happens if I do not vote or if I vote against the Schemes and only the Demerger Scheme proceeds?

If you are an FAL Shareholder as at the Demerger Record Date (5.00pm Perth time on 17 November 2005) and **only the Demerger Scheme proceeds**, PEH Shares will be transferred to you even though you did not vote or voted against the Demerger Scheme.

See Part 4 of this Booklet.

When will the results of the Meetings be known?

The results of each Meeting are expected to be available shortly after the conclusion of the Meetings and will be announced to the ASX once available. FAL's announcement to the ASX will be published on FAL's website at www.fal.com.au.

You should note that the Schemes are subject to the approval of the Court. The Court hearing for approving the Schemes is expected to be held on 9 November 2005.

What happens if neither the Transfer Scheme nor the Demerger Scheme proceed?

If neither the Transfer Scheme nor the Demerger Scheme proceed:

- FAL Shareholders will retain their FAL Shares but they will not receive PEH Shares;
- FAL's Australian Operation and FAL's New Zealand Operation will continue to be owned by FAL; and
- FAL will continue as a company listed on the ASX but FAL's operations may be affected by uncertainty caused by the Demerger Scheme not proceeding and this may have a detrimental effect on FAL's share price.

In this scenario, it will be the FAL Board's intention to continue operating in line with its previously stated objectives. FAL Shareholders who retain their FAL Shares will continue to share in any benefits and risks in relation to FAL's ongoing operations.

See Part 2.4 of this Booklet.

What about the previous Metcash Takeover Offer for FAL?

You should take no action in relation to the previous Metcash Takeover Offer. If you have accepted the previous Metcash Takeover Offer you should withdraw your acceptance. Metcash has also advised FAL Shareholders to do this.

Will there be an FAL dividend for the 2005 financial year?

The FAL Board does not intend to declare any dividends prior to the Meetings. If the Transfer Scheme proceeds, there will be no FAL dividend declared for the 2005 financial year. If the Transfer Scheme does not proceed it is likely that FAL, or the demerged entities, will consider paying a dividend for the 2005 financial year but no decision has yet been made on this.

Why is this Booklet so long?

For these reasons:

- it is proposed FAL be acquired by **two** companies, Woolworths and Metcash, which makes these proposals more complicated than usual;
- both Woolworths and Metcash are offering alternative forms of consideration including their own shares which means this Booklet has to contain information about Woolworths and Metcash;
- the proposals involve the demerger of FAL and it is possible that just the demerger part of the proposals will happen. Therefore the Booklet needs to describe FAL and PEH if just the Demerger proceeds; and
- in order to maximise the possible value for FAL Shareholders, it has been necessary to make the proposals relatively complex.

IMPORTANT DATES AND TIMES

Important meeting and Court dates and times

| | |
|--|--|
| Last time and date by which your Proxy Form should be lodged to be valid for all Meetings* | 10.00am Perth time on Monday 31 October 2005 |
| Last time and date for determining eligibility to vote at the Meetings | 5.00pm Perth time on Monday 31 October 2005 |
| Transfer Scheme Meeting | 10.00am Perth time on Wednesday 2 November 2005 |
| General Meeting for Capital Reduction | 10.30am Perth time on Wednesday 2 November 2005 (or as soon after that time as the Transfer Scheme Meeting is concluded or adjourned) |
| Demerger Scheme Meeting | 11.00am Perth time on Wednesday 2 November 2005 (or as soon after that time as the General Meeting for the Capital Reduction is concluded or adjourned) |
| Court hearing for approval of the Schemes | Wednesday 9 November 2005 |

Important dates and times if the Transfer Scheme and the Demerger Scheme proceed

| | |
|---|---|
| Announcement of the details of the Transfer Scheme Consideration | No later than Monday 24 October 2005 |
| Last date and time by which your Election Form for the Woolworths Consideration and the Metcash Consideration must be lodged (and last date and time to change an Election Form that has already been lodged) | 7.00pm Perth time on Thursday 10 November 2005 |
| Demerger Effective Date | Thursday 10 November 2005 |
| Transfer Effective Date | Thursday 10 November 2005 |
| Last day FAL Shares trade on the ASX with an entitlement to participate in the Schemes | Thursday 10 November 2005 |
| Trading in FAL Shares is suspended | Thursday 10 November 2005 |
| Demerger Record Date and Transfer Record Date: time and date for determining entitlement to Transfer Scheme Consideration | 5.00pm Perth time on Thursday 17 November 2005 |
| Demerger Implementation Date and Transfer Implementation Date: transfer of PEH to Woolworths and FAL to Metcash take effect | Thursday 24 November 2005 |
| Announcement of details of any rebalancing in relation to the Woolworths Shares available under the Transfer Scheme and the final cash and share allocation for the Transfer Scheme Consideration | No later than Friday 25 November 2005 |
| Despatch of Woolworths and Metcash holding statements | No later than Tuesday 29 November 2005 |
| Payment of Transfer Scheme Consideration: issue of Woolworths Shares and Metcash Shares and despatch of cheques by Woolworths and Metcash | Thursday 1 December 2005 |
| Woolworths Shares and Metcash Shares issued under the Transfer Scheme commence trading | Thursday 1 December 2005 |

* Proxies must be lodged at least 48 hours before the commencement of the meeting.

Important dates and times if the Demerger Scheme proceeds but the Transfer Scheme does not proceed

| | |
|--|--|
| Demerger Effective Date | Thursday 10 November 2005 |
| Last day FAL Shares trade on the ASX with an entitlement to PEH Shares | Thursday 10 November 2005 |
| FAL Shares commence trading without an entitlement to PEH Shares | Friday 11 November 2005 |
| Demerger Record Date: time and date for determining entitlements to PEH Shares | 5.00pm Perth time on Thursday 17 November 2005 |
| Demerger Implementation Date | Thursday 24 November 2005 |
| Despatch of PEH holding statements | Thursday 24 November 2005 |
| PEH Shares expected to commence trading on a deferred settlement basis on the ASX and on a deferred settlement (delayed delivery) basis on the NZX | Thursday 24 November 2005 |
| Deferred settlement (delayed delivery) trading ends and normal trading commences | Monday 28 November 2005 |
| Settlement of all deferred settlement (delayed delivery) trades in PEH | Thursday 1 December 2005 |

Unless stated otherwise, all times referred to in this Booklet are Perth time.

The timetable and the dates above (and the references to these dates throughout this Booklet) are only indicative and FAL can vary these times and dates without directly notifying FAL Shareholders. However, changes will be announced to the ASX and notified on the FAL website at www.fal.com.au. Certain dates are conditional on the approval of those dates by the ASX and the Court.

TECHNICAL LEGAL INFORMATION

Reading this Booklet

You or your financial adviser should read this Booklet in its entirety before making a decision as to how to vote on the resolutions to be considered at the Meetings and what form of consideration to choose. If you are not able to read this Booklet or are unable to decide what to do, you should consult your financial adviser. If there is anything you do not understand, you can call the FAL Shareholder Information Line on 1800 068 729 (within Australia) or +61 3 9415 4125 (outside of Australia) Monday to Friday between 9.00am and 7.00pm AEST or consult your financial adviser.

Availability of Booklet

The Booklet is available to you in electronic form at FAL's website at www.fal.com.au. You may also obtain an additional copy of the Booklet free of charge by calling the FAL Shareholder Information Line.

Objecting to the Schemes

If you wish to object to the Schemes at the Court hearing or make a complaint to ASIC about the Schemes, you should note that the Court hearing for approval of the Schemes is to be held on 9 November 2005.

ASIC

A copy of this Booklet has been registered by ASIC for the purposes of section 412(6) of the Corporations Act. Neither ASIC nor its officers take any responsibility for the contents of this Booklet. A copy of this Booklet has also been lodged with ASIC in accordance with section 256C(5) of the Corporations Act.

Court orders, notices and Schemes

On 16 September 2005, the Court ordered meetings of all FAL Shareholders to be convened to consider and, if thought fit, approve the Transfer Scheme and the Demerger Scheme, with or without amendment or modification. The notices convening the Transfer Scheme Meeting and the Demerger Scheme Meeting are set out in Part 19 of this Booklet. The Transfer Scheme is set out in Part 18.2 of this Booklet and the Demerger Scheme is set out in Part 18.4 of this Booklet. To the extent of any inconsistency between anything in the Schemes and anything anywhere else in this Booklet, the Schemes prevail.

The orders of the Court convening the Meetings are not and should not be treated as an endorsement by the Court of, or any other expression of opinion by the Court, on the Schemes or any other element of the Demerger or the proposal for FAL to be acquired by Woolworths and Metcash.

In accordance with section 411(4)(b) of the Corporations Act, the Schemes (with or without modification) must be approved by an order of the Court. If the Transfer Scheme, the Demerger Scheme and the Capital Reduction Resolution are approved at the Meetings, FAL intends to apply to the Court on 9 November 2005 for the necessary orders to give effect to the Schemes.

ASX

Woolworths and Metcash are both listed on the ASX and applications will be made for official quotation on the ASX of all Metcash Shares and all Woolworths Shares issued under the Transfer Scheme.

A conditional application has been made for admission of PEH to the ASX official list and for quotation of all PEH Shares on the ASX. This application will be conditional on, among other things, the Transfer Scheme **not** being approved.

A copy of this Booklet together with some further information has been lodged with the ASX. Neither the ASX nor any of its officers take any responsibility for the contents of this Booklet. The fact that the ASX may admit PEH to the ASX official list and grant official quotation of PEH Shares is not to be taken in any way as an indication of the merits of PEH.

FAL Shares will continue to be quoted on the ASX if the Transfer Scheme is not approved.

NZX

A conditional application has been made for admission of PEH to the NZX and for quotation of all PEH Shares on the NZX. This application will be conditional on, among other things, the Transfer Scheme **not** being approved.

A copy of this Booklet together with some further information has been lodged with the NZX. Neither the NZX nor any of its officers take any responsibility for the contents of this Booklet. The fact that the NZX may admit PEH to the NZX and grant quotation of PEH Shares is not to be taken in any way as an indication of the merits of PEH.

Status of this Booklet

This Booklet is not a prospectus lodged under Chapter 6D of the Corporations Act. Section 708(17) of the Corporations Act provides that Part 6D.2 of the Corporations Act does not have effect in relation to any offer of securities if it is made under a compromise or arrangement under Part 5.1 of the Corporations Act, approved at a meeting held as a result of an order made by the Court under section 411(1) or (1A) of the Corporations Act.

US Securities and Exchange Commission

This Booklet has not been filed with or reviewed by the US Securities Exchange Commission, any US state securities commission or other US regulatory authority, nor have any of these authorities passed upon or endorsed the merits of the Transfer Scheme, the Demerger Scheme, or the Capital Reduction or the accuracy, adequacy or completeness of this Booklet. Any representation to the contrary is a criminal offence under US law.

Investment decisions

This Booklet is intended for all FAL Shareholders collectively and does not take into account your individual objectives, financial situation and needs. This Booklet should not be relied upon as the sole basis for any investment decision in relation to FAL Shares, PEH Shares, Woolworths Shares, Metcash Shares or any other securities. You need to have regard to all the publicly available information concerning those companies, all of which are listed on the ASX (except for PEH, which as at the date of this Booklet, forms part of FAL). If you are in any doubt about what you should do, you should seek independent advice before making any investment decision in relation to FAL Shares, PEH Shares, Woolworths Shares or Metcash Shares.

Forward looking statements

Certain statements in this Booklet relate to the future, including forward looking statements relating to the financial position and strategy of FAL, PEH, Metcash and Woolworths. These forward looking statements are generally based on stated or implied assumptions which may prove to be incorrect and involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of FAL, PEH, Woolworths or Metcash to be materially different from future results, performance or achievements expressed or implied by such statements. Such risks, uncertainties and other important factors include, among other things: general economic conditions, exchange rates, interest rates, the regulatory environment, structural changes in the retail industry, selling prices, supplier prices, technology failure and competitive pressures in Australia and New Zealand. Where the statements relate to FAL or PEH, these statements reflect views of the FAL Board held only as at the date of this Booklet and are based on the implementation of initiatives, projects and objectives of the FAL Group existing only as at the date of this Booklet. Where the statements relate to Woolworths or Metcash, these statements reflect the views of the board of Woolworths or Metcash respectively, held only as at the date of this Booklet and are based on the implementation of initiatives, projects and objectives of Woolworths or Metcash respectively existing only as at the date of this Booklet.

None of FAL, PEH, Woolworths, Metcash nor any of the directors of those companies makes or gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements will actually occur and you are cautioned not to place undue reliance on such forward looking statements.

Subject to any continuing obligations under applicable law or any relevant listing rule, FAL, PEH, Woolworths and Metcash expressly disclaim any obligation to give any updates or revisions to any forward looking statements to reflect any change in expectations after the date of this Booklet or any change in events, conditions or circumstances on which any such statement is based.

Woolworths responsibility for information in this Booklet

The statements contained in Part 5 of this Booklet (other than Part 5.3.3 and Part 5.11) have been prepared by Woolworths and Woolworths takes responsibility for those statements. FAL does not take responsibility for those statements, has not verified those statements and does not represent or warrant that they are correct.

The statements contained in Part 5.3.3 of this Booklet are based on information about Woolworths and information about FAL, which FAL has provided Woolworths for the purpose of enabling Woolworths to prepare the Woolworths Unaudited Pro-Forma Combined Financial Information contained in that Part. Woolworths takes responsibility for the Woolworths Unaudited Pro-Forma Combined Financial Information except to the extent that that information is based on information about FAL, for which FAL takes responsibility.

The statements in Part 5.11 have been prepared by Deloitte Touche Tohmatsu and Woolworths does not take responsibility for those statements.

None of Woolworths, Woolworths NZ or any of their directors, officers, employees or advisers:

- (a) makes or has authorised the making of any other statement in this Booklet;
- (b) has approved this Booklet; or
- (c) assumes any responsibility or liability for any other statement that is included in this Booklet.

Metcash responsibility for information in this Booklet

The statements contained in Part 6 of this Booklet (other than Parts 6.9.2, 6.9.4.2(h), 6.9.4.2(i), 6.9.5 and 6.13) have been prepared by Metcash and Metcash takes responsibility for those statements. FAL does not take responsibility for those statements, has not verified those statements and does not represent or warrant that they are correct.

The statements contained in Parts 6.9.2, 6.9.4.2(h), 6.9.4.2(i), 6.9.5, 6.13 and 6.15 of this Booklet are based on information about Metcash and information about FAL, which FAL has provided to Metcash for the purpose of enabling Metcash to prepare the unaudited pro forma combined financial information and the forecast financial information contained in those Parts. Metcash takes responsibility for the unaudited pro forma combined financial information and the forecast financial information in those Parts, except to the extent that that information is based on information about FAL, for which FAL takes responsibility.

The statements in Part 6.15 have been prepared by PricewaterhouseCoopers Securities Limited and Metcash does not take responsibility for those statements.

None of Metcash, Metcash Trading or any of their directors, officers, employees or advisers:

- (a) makes or has authorised the making of any other statement in this Booklet;
- (b) has approved this Booklet; or
- (c) assumes any responsibility or liability for any other statement that is included in this Booklet.

Taxation disclosure

Ernst & Young has provided the opinion letter included in Part 12 of this Booklet in relation to the tax implications of the Transfer Scheme and the Demerger Scheme for FAL Shareholders whose registered address on the FAL Share Register is in Australia or New Zealand or who are otherwise deemed resident in Australia for tax purposes. Residents of other jurisdictions should seek additional tax advice.

Defined terms

Certain terms and abbreviations used in this Booklet (generally with capital letters) have defined meanings, which are explained in the Dictionary in Part 20 of this Booklet. Certain terms and abbreviations used in the Proxy Form, Election Form and Change of Election Form also have the meanings which are explained in the Dictionary in Part 20 of this Booklet. The reports in Part 15 and the documents reproduced in Parts 16, 17, 18 and 19 of this Booklet each have their own defined terms which are sometimes different from those in the Dictionary in Part 20.

Data in charts, graphs and tables

Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at a date as soon as practicable before the date of this Booklet.

Date

This Booklet is dated 16 September 2005.

Part 1

Introduction and key elements of the proposals

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1 Introduction and key elements of the proposals

1.1 The proposal for FAL to be acquired by Woolworths and Metcash

1.1.1 Overview

Following the unsolicited offer by Metcash for FAL's Australian Operation in December 2004, the FAL Board has been considering an initiative to realise the strategic value of FAL by separating FAL's Australian and New Zealand operations.

This has led to a proposal for the acquisition of FAL's New Zealand Operation by Woolworths and its Australian Operation by Metcash. It is also proposed that Woolworths will acquire control of the Woolworths Action Stores which are a number of Action branded stores and some development sites, a shopping centre and a residential property which form part of the Australia Operation. Control of the remaining Action network will be acquired by Metcash. Metcash has indicated that, following this acquisition, it intends to divest control of these stores to independent retailers or management and employees of the stores.

It is proposed that that these transactions will occur through the implementation of two Schemes: the Demerger Scheme and the Transfer Scheme. The Transfer Scheme cannot proceed without the Demerger Scheme.

Whether or not the Transfer Scheme proceeds, FAL intends to proceed with the Demerger Scheme (subject to approval by FAL Shareholders and the Court). This means that as an FAL Shareholder you have two choices:

- (a) decide whether you want FAL to be acquired by Woolworths and Metcash; and
- (b) if FAL is not acquired by Woolworths and Metcash, decide whether you want FAL's New Zealand Operation and FAL's Australian Operation to be separated.

The way in which the Demerger will occur if the Demerger Scheme proceeds but the Transfer Scheme does not proceed is discussed in Part 4 of this Booklet. (However, most of the aspects of the Demerger Scheme are the same under each of these scenarios.)

1.1.1.1 The Demerger Scheme

To facilitate the acquisition of FAL by Metcash and Woolworths, FAL's operations must first be divided into two separate parts:

- (a) PEH, which will hold FAL's New Zealand Operation; and
- (b) FAL, which will hold FAL's Australian Operation.

The Demerger Scheme involves three key elements: the Capital Reduction, the Demerger Dividend and the Demerger Scheme. If the Capital Reduction and Demerger Scheme are approved by FAL Shareholders and the Court, then on the Demerger Implementation Date:

- (a) FAL will undertake the Capital Reduction and pay the Capital Reduction Amount;
- (b) FAL will pay the Demerger Dividend (this does not need to be voted on by FAL Shareholders); and
- (c) the amounts in (a) and (b) will automatically be used to acquire PEH Shares on behalf of FAL Shareholders. Each FAL Shareholder on the FAL Share Register at the Demerger Record Date will receive one PEH Share for every FAL Share they hold, except Ineligible Overseas Shareholders whose PEH Shares will be dealt with in the manner described in Part 13 of this Booklet.

FAL Shareholders who are entitled to receive PEH Shares under the Demerger Scheme are not required to pay any money for those PEH Shares because their entitlement to the Capital Reduction Amount and the Demerger Dividend will be applied to pay for the transfer of these PEH Shares. FAL Shareholders will not have the option of taking their entitlement to the Capital Reduction Amount or the Demerger Dividend in cash.

The PEH Shares to which FAL Shareholders are entitled under the Demerger Scheme (including those of Ineligible Overseas Shareholders) represent all of the PEH Shares on issue.

There are a number of steps required to restructure the Australian Operation and the New Zealand Operation before the Demerger becomes Effective. This restructuring is discussed in Part 14.15 of this Booklet.

1.1.1.2 The Transfer Scheme

Immediately following the Demerger it is proposed that:

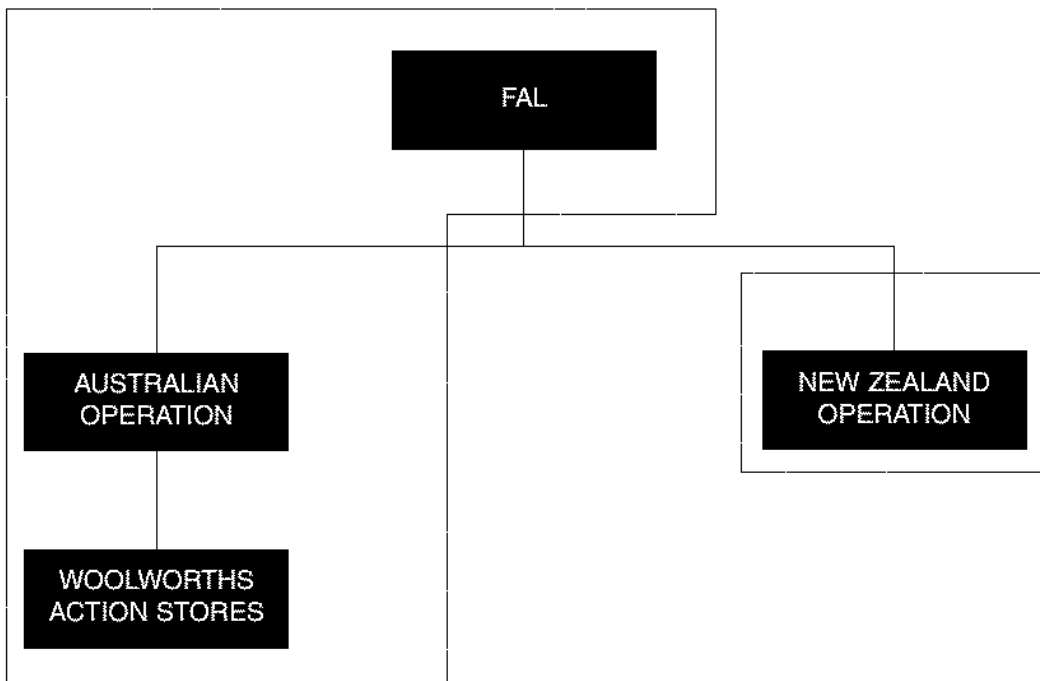
- (a) PEH will be transferred to Woolworths; and
- (b) FAL will be transferred to Metcash.

If the Transfer Scheme is approved, control of the Woolworths Action Stores will be transferred to Woolworths **in addition to** the transfer of the New Zealand Operation.

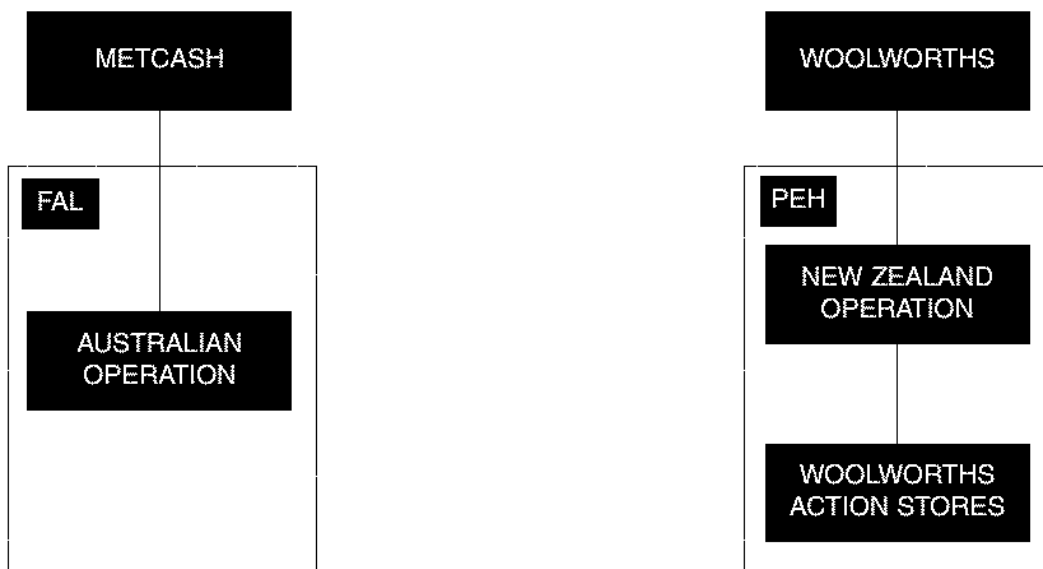
It is important to note that the transfer of PEH to Woolworths and FAL to Metcash is proposed to be implemented under one scheme of arrangement: the Transfer Scheme. These transfers cannot occur separately. They will both occur if the Transfer Scheme becomes Effective. If the Transfer Scheme does not become Effective, neither the transfer to Woolworths nor the transfer to Metcash will occur.

The diagrams below show how the FAL Group will look following the Demerger Scheme and then following the Transfer Scheme.

The separation of FAL's operations through the Demerger Scheme



The acquisition of FAL's operations through the Transfer Scheme



The diagrams set out above are simplified diagrams designed to show the structure of the FAL Group. The entities comprising the operations of FAL and PEH are not shown.

1.1.2 What will you receive if the Transfer Scheme and the Demerger Scheme both proceed?

You will receive both the Woolworths Consideration and the Metcash Consideration. Each of these is discussed in detail in Part 3 of this Booklet.

1.2 The proposal to demerge FAL (whether or not FAL is acquired by Metcash and Woolworths)

Whether or not the Transfer Scheme proceeds, the Board of FAL believes that the New Zealand Operation and Australian Operation should be separated so as to “unlock” the value of FAL.

Subject to FAL Shareholders approving the Demerger Scheme and fulfilment of other required conditions, FAL intends to demerge its New Zealand Operation and Australian Operation even if FAL Shareholders do not approve the Transfer Scheme.

Therefore, if FAL is **not** acquired by Woolworths and Metcash, it is proposed that the New Zealand and Australian operations of FAL will be demerged and will operate as two separately listed companies:

- (a) PEH, which will own and operate the New Zealand Operation; and
- (b) FAL, which will own and operate the Australian Operation.

In these circumstances, your existing investment in FAL will be divided into two separate investments: one part in FAL and the other part in PEH. FAL will continue to be listed on the ASX. It is intended that PEH will be listed on the ASX and on the NZX as an overseas listed issuer. The Woolworths Action Stores will continue to be controlled by FAL as part of the Australian Operation.

Parts 7, 8, 9 and 10 of this Booklet discuss the structure of FAL and PEH that will result if the Demerger **proceeds** but the Transfer Scheme **does not** proceed.

Remember – the separate listing of PEH will only occur if the Demerger Scheme proceeds but the Transfer Scheme does not proceed.

1.3 Possible outcomes for FAL

1.3.1 Summary of possible outcomes

The outcome for FAL will depend on whether the Demerger Scheme proceeds and whether the Transfer Scheme proceeds. The possible outcomes are set out in the table below.

| Demerger Scheme proceeds | Transfer Scheme proceeds | Outcome |
|--------------------------|--------------------------|---|
| YES | YES | Outcome 1: FAL is acquired by Woolworths and Metcash and FAL Shareholders receive the Woolworths Consideration and the Metcash Consideration. |
| YES | NO | Outcome 2: FAL is demerged and separated into two companies: FAL and PEH each listed on the ASX and PEH is also intended to be listed on the NZX. |
| NO | NO | Outcome 3: There is no change. FAL remains a separately listed company and it will remain in its current form. |

1.3.2 Outcome 1: FAL is acquired by Woolworths and Metcash

The Transfer Scheme is conditional on the Demerger Scheme becoming Effective: it cannot proceed without the Demerger Scheme proceeding. The New Zealand Operation and the Australian Operation of FAL must be separated before they can be transferred to Woolworths and Metcash.

If the Transfer Scheme becomes Effective, you will receive consideration from both Woolworths and Metcash.

1.3.3 Outcome 2: FAL is demerged and separated into two companies

If the Demerger proceeds and the Transfer Scheme does not proceed, you will receive one PEH Share for every FAL Share you hold and your investment in FAL will be divided into separate investments in each of FAL and PEH. FAL will continue to be listed on the ASX and it is intended that PEH be listed on the ASX and on the NZX (as an overseas listed issuer). The financial position and expected performance of FAL and PEH after the Demerger are discussed in detail in Parts 8 and 10 respectively of this Booklet.

1.3.4 Outcome 3: There is no change in FAL

If neither the Transfer Scheme nor the Demerger Scheme proceeds, there will be no change in FAL and it will remain in its current form. Accordingly:

- (a) you will retain your FAL Shares but you will not receive PEH Shares; and
- (b) FAL's Australian Operation and FAL's New Zealand Operation will continue to be owned by FAL.

1.4 Why has the FAL Board proposed the Demerger and acquisition of FAL by Metcash and PEH by Woolworths?

The FAL Board has proposed the Transfer Scheme and the Demerger Scheme because it believes they will deliver maximum value and certainty to FAL Shareholders for both FAL's New Zealand Operation and Australian Operation.

The FAL Board believes that the Metcash Takeover Offer created both uncertainty and substantial legal and value transfer risks for FAL Shareholders because FAL Shareholders would not have remained in control of FAL during the demerger process that was proposed by Metcash. By contrast, under the currently proposed Schemes, the FAL Board and FAL Shareholders will remain in control while also allowing FAL Shareholders to realise a price for FAL which reflects the strategic nature of FAL's New Zealand Operation and Australian Operation.

1.5 Why has the FAL Board proposed the Demerger of FAL and PEH even if the Transfer Scheme does not proceed?

The FAL Board believes that the Transfer Scheme is in the best interests of FAL Shareholders. However, even if the Transfer Scheme does not proceed, the FAL Board still believes that the Demerger is in the best interest of FAL Shareholders as it "unlocks" the underlying value of the New Zealand Operation and the Australian Operation.

1.6 What does the FAL Board recommend?

The FAL Board unanimously believes that the Transfer Scheme, the Capital Reduction and the Demerger Scheme are in the best interests of FAL Shareholders, in the absence of a superior proposal.

The FAL Board also unanimously believes that, even if the Transfer Scheme does not proceed, the Capital Reduction and the Demerger Scheme are in the best interests of FAL Shareholders, and will not have a materially adverse impact on the interests of FAL's creditors.

The key advantages, disadvantages and risks of the Transfer Scheme and the Demerger Scheme (including the Capital Reduction) are set out in Part 2 of this Booklet.

Each FAL Director recommends that you vote FOR the Transfer Scheme *and* the Demerger Scheme (including the Capital Reduction), and intends to vote all FAL Shares controlled by him* at the time of the Scheme Meetings in favour of all the resolutions.

This recommendation could change if a higher offer is received but, as at the date of this Booklet, the Board is unaware of any higher offer.

1.7 What is the Independent Expert's opinion?

The FAL Board commissioned an Independent Expert (Grant Samuel) to prepare a report on the Schemes to determine whether, in its opinion:

- (a) the Transfer Scheme *and* the Demerger Scheme; and
- (b) the Demerger Scheme implemented *without* the Transfer Scheme,

are in the best interests of FAL Shareholders. The report is set out in Part 15.1 of this Booklet.

The report concludes that, taking into account all relevant matters:

- (a) the Transfer Scheme *and* the Demerger Scheme; and
- (b) the Demerger Scheme implemented *without* the Transfer Scheme,

are in the best interests of FAL Shareholders.

In addition, the Transfer Scheme Consideration price range of:

- \$25.54** per FAL Share based on the Woolworths Standard Consideration and the Metcash Cash Consideration; to
- \$27.49** per FAL Share based on the total value of the Woolworths Standard Consideration and the Metcash Share Consideration,

is well above the minimum valuation of \$24.92 per FAL Share determined by the Independent Expert.

1.8 What are the advantages, disadvantages and risks of the Transfer Scheme and the Demerger Scheme?

The advantages, disadvantages and risks of the Transfer Scheme and the Demerger Scheme and other relevant considerations are set out in Part 2 of this Booklet. The FAL Board has considered these matters carefully before making its recommendation and is of the view that the advantages outweigh the disadvantages and the Transfer Scheme *and* the Demerger Scheme are in the best interests of FAL Shareholders.

Part 2 of this Booklet also covers the advantages, disadvantages and risks of FAL continuing operations in its current form, without approval of the Transfer Scheme *or* the Demerger Scheme.

1.9 How will the Schemes be implemented?

1.9.1 Meetings

The first step in implementing the Schemes will be to hold three separate meetings of FAL Shareholders.

* Due to New Zealand taxation consequences, Mr Norman Geary and Sir Colin Maiden, FAL Directors who are New Zealand residents, intend to sell their FAL Shares prior to the Transfer implementation Date. However, they intend to vote in favour of all resolutions at the Meetings.

** The value of \$25.54 is based on the value of the Woolworths Standard Consideration and Metcash Cash Consideration (Option 2 referred to on pages 5 and 8). The value of \$27.49 is based on the value of the Woolworths Standard Consideration and the Metcash Share Consideration (Option 5 referred to on pages 5 and 8). These values are based on the Woolworths Share price of \$16.30 and the Metcash Share price of \$4.00 as at close of trading on 9 September 2005. The consideration is subject to some adjustments based on the financial position of the FAL Group at the Consideration Determination Date. These adjustments (and their assumed levels for the purposes of calculating the values of \$25.54 and \$27.49) are explained in Part 3 of this Booklet.

These are:

- (a) the Transfer Scheme Meeting;
- (b) the General Meeting for the Capital Reduction (the Capital Reduction is explained in Part 1.9.4 of this Booklet); and
- (c) the Demerger Scheme Meeting.

Each of the Meetings will be held in the Plaza Ballroom East at the Burswood International Resort Casino, Perth (201 Great Eastern Highway, Burswood, Western Australia) on 2 November 2005, one after the other, starting with the Transfer Scheme Meeting which commences at 10:00am Perth time.

If you are registered on the FAL Share Register at 5.00pm Perth time on 31 October 2005 you are entitled, in person, by attorney, by proxy or, in the case of corporate shareholders, by corporate representative, to attend and vote at the Meetings.

Voting at the Meetings will be on a poll (rather than by show of hands). This means that the number of votes you have will be equal to the number of FAL Shares you hold.

Notices of the Meetings are included in Part 19 of this Booklet.

1.9.2 Required approvals

The key approvals required for implementing the acquisition of FAL by Woolworths and Metcash are as follows:

- (a) FAL Shareholders must vote in favour of the Transfer Scheme at the Transfer Scheme Meeting;
- (b) FAL Shareholders must vote in favour of the Capital Reduction at the General Meeting;
- (c) FAL Shareholders must vote in favour of the Demerger Scheme at the Demerger Scheme Meeting;
- (d) the Court must approve the Transfer Scheme and the Demerger Scheme at a Court hearing to be held following the Meetings;
- (e) Woolworths acquiring control of all of the Woolworths Action Stores (see Parts 3.2.2 and 3.2.7 of this Booklet); and
- (f) any consents for a change in control required under the leases of the New Zealand Stores must be obtained (see Parts 3.2.2 and 3.2.7 of this Booklet).

There are a number of other conditions that must be complied with before the Schemes take effect but these are regulatory or procedural in nature or within the control of the parties involved in the Schemes. These conditions are in the Transfer Scheme (set out in full in Part 18.2 of this Booklet - see clause 3 headed "Conditions precedent to this Transfer Scheme"), the Demerger Scheme (set out in full in Part 18.4 of this Booklet - see clause 3 headed "Conditions precedent to this Demerger Scheme") and the Merger Implementation Agreement (set out in full in Part 16 of this Booklet - see clause 2 headed "Conditions precedent for Transfer Scheme - FAL, WOW, Woolworths NZ").

These approvals in paragraphs (a), (b), (c) and (d) are set out in more detail in Part 1.10 of this Booklet.

It is important to note that if the Transfer Effective Date does not occur by 31 December 2005 (or such later date as the parties to the Merger Implementation Agreement agree before 31 December 2005), one or more of FAL, Woolworths or Metcash will have the right to terminate the Merger Implementation Agreement. If the Merger Implementation Agreement is terminated, the Transfer Scheme will lapse and the acquisition of FAL by Woolworths and Metcash will not occur.

1.9.3 What if the Transfer Scheme does not proceed but the Demerger Scheme does proceed?

If the Transfer Scheme does *not* proceed but the Demerger Scheme *does* proceed, the key approvals required for implementing the Demerger Scheme are as follows:

- (a) FAL Shareholders must vote in favour of the Demerger at the Demerger Scheme Meeting;
- (b) FAL Shareholders must vote in favour of the Capital Reduction at the General Meeting;
- (c) the Court must approve the Demerger Scheme at a Court hearing to be held following the Meetings; and
- (d) the ASX must approve the admission of PEH to the official list of the ASX and for official quotation of PEH Shares on the ASX, subject only to the Demerger Scheme taking effect and such other conditions acceptable to the FAL Board.

Again there are a number of other conditions that must be complied with before the Demerger Scheme takes effect but these are regulatory or procedural in nature or within the control of the parties to the Demerger Scheme.

Further details of these approvals, the other conditions that must be complied with and other information on the implementation of the Demerger Scheme if the Transfer Scheme is **not** approved are set out in Part 4 of this Booklet.

If the Demerger Effective Date does not occur by 31 December 2005 (or such later date as FAL determines), the Demerger Scheme will lapse and the Demerger will not proceed. The Transfer Scheme will **not** proceed if the Demerger Scheme does not proceed.

1.9.4 What is the Capital Reduction?

The Capital Reduction is a return of capital on your FAL Shares which, under the Demerger Scheme, will be applied, together with the Demerger Dividend, as consideration for the transfer of the PEH Shares to you. If the Transfer Scheme and the Demerger Scheme proceed, those PEH Shares will immediately be transferred to Woolworths in exchange for the Woolworths Consideration. Once approved by the FAL Shareholders, the Capital Reduction binds you, even if you vote against the Capital Reduction or do not vote at all.

See Part 14.23 of this Booklet for further information on the Capital Reduction.

1.9.5 What is the Demerger Dividend?

The Demerger Dividend is a special dividend which, under the Demerger Scheme, will be applied, together with the Capital Reduction Amount, as consideration for the transfer of the PEH Shares to you. You will not receive any cash from the Demerger Dividend.

If the Transfer Scheme and the Demerger Scheme do proceed, those PEH Shares will immediately be transferred to Woolworths in exchange for the Woolworths Consideration.

See Part 14.23 of this Booklet for further information on the Demerger Dividend.

1.9.6 What is a scheme of arrangement?

The Transfer Scheme and the Demerger Scheme will be implemented via schemes of arrangement.

A scheme of arrangement is a legal arrangement, often between a company and its shareholders, for restructuring a company. Under a scheme of arrangement, a company makes a proposal which, subject to receiving necessary consents and court approval, binds all of the company's shareholders and creditors.

For a scheme of arrangement to have effect, it must be approved by the shareholders of the company and be approved by the Court (or the Supreme Court of a State). Once approved by the required majority of shareholders and the Court, the scheme binds all shareholders, even those who voted against the scheme and those who did not vote at all.

1.10 What are the shareholder majorities required?

The shareholder majorities required to approve the Schemes are as follows:

- (a) the Transfer Scheme must be approved at the Transfer Scheme Meeting by a majority in number of FAL Shareholders present and voting (either in person or by proxy), and by at least 75% of the votes cast. To take effect the Transfer Scheme must be subsequently approved by the Court;
- (b) the Capital Reduction must be approved at the General Meeting by a majority in number of votes cast by FAL Shareholders (either in person or by proxy); and
- (c) the Demerger Scheme must be approved at the Demerger Scheme Meeting by a majority in number of FAL Shareholders present and voting (either in person or by proxy), and by at least 75% of the votes cast. To take effect the Demerger Scheme must be subsequently approved by the Court.

The Transfer Scheme Resolution is conditional on the Capital Reduction Resolution and the Demerger Scheme Resolution.

The Capital Reduction Resolution and the Demerger Scheme Resolution are conditional on each other.

See the notices convening the Meetings set out in Part 19 of this Booklet for the text of the Shareholder Resolutions.

1.11 How do I vote?

Detailed instructions on how to vote are set out in Part 19 of this Booklet.

1.12 Should I vote?

Yes, while you do not have to vote, the FAL Directors believe that the Transfer Scheme, the Capital Reduction and the Demerger Scheme are matters of importance to all FAL Shareholders and, therefore, the FAL Board strongly recommends that you vote.

If the Transfer Scheme **and** the Demerger Scheme proceed, then, even if you voted against the Schemes (or did not vote at all), you will automatically receive the Woolworths Consideration and the Metcash Consideration (unless you are an Ineligible Overseas Shareholder in which case you will just receive cash).

If the Transfer Scheme **does not** proceed but the Demerger Scheme **does** proceed, then even if you voted against the Demerger (or did not vote at all), you will receive the PEH Shares that you are entitled to under the Demerger Scheme (unless you are an Ineligible Overseas Shareholder in which case you will just receive cash).

1.13 Is it important for me to make an Election?

Yes, it is very important that you fill in and return the Election Form to select the Woolworths Consideration and the Metcash Consideration that you want to receive.

If you do not make an Election, you will automatically receive the Woolworths Standard Consideration and the Metcash Cash Consideration in respect of all of your FAL Shares.

The consideration you receive may affect your taxation liability in relation to the Transfer Scheme. In particular, selecting more shares and less cash may defer your potential Capital Gains Tax liability. It is therefore important for you to consider the taxation consequences before making an Election. Further details of the tax consequences of the Transfer Scheme are set out in Part 12 of the Booklet.

1.14 Am I entitled to participate in the Schemes?

If you are registered on the FAL Share Register at the Demerger Record Date and the Transfer Record Date, you are entitled to:

- (a) participate in the Capital Reduction;
- (b) participate in the Demerger Dividend (which, together with the Capital Reduction referred to in (a) is then applied on your behalf to acquire one PEH Share for every FAL Share you hold at the Demerger Record Date (except Ineligible Overseas Shareholders));
- (c) the Woolworths Consideration in respect of the PEH Shares you will hold at the Transfer Record Date as a result of the Demerger; and
- (d) the Metcash Consideration in respect of the FAL Shares you hold at the Transfer Record Date.

Dealings in FAL Shares before the Demerger Record Date and the Transfer Record Date will be recognised if:

- (a) in the case of dealings using CHESS, you are registered as the holder of the relevant FAL Shares on or before the Demerger Record Date and the Transfer Record Date; and
- (b) in all other cases, if registrable transfers or transmission applications in respect of those dealings are received by FAL on or before the Demerger Record Date and the Transfer Record Date at the place where the FAL Share Register is kept.

FAL will not accept for registration, or recognise for the purpose of determining an entitlement under the Capital Reduction, the Demerger Dividend or the Schemes, any transfer or transmission application in respect of FAL Shares if received after the Demerger Record Date and the Transfer Record Date.

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Part 2

Advantages, disadvantages and risks of the Schemes

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2 Advantages, disadvantages and risks of the Schemes

2.1 Introduction

The FAL Board believes that the advantages of the acquisition of FAL by Woolworths and Metcash through the Transfer Scheme and the Demerger Scheme significantly outweigh the disadvantages and risks of these Schemes.

Further, the FAL Board believes that even if the Transfer Scheme does not proceed, the advantages of just implementing the Demerger on its own still outweigh the disadvantages and risks of the Demerger.

The respective advantages, disadvantages and risks of:

- (a) implementing the Transfer Scheme *and* the Demerger Scheme; and
- (b) implementing just the Demerger Scheme,

are considered below.

The implications for FAL of continuing operations in their current form, without implementation of either of the Transfer Scheme or the Demerger Scheme, are also considered in this Part (see Part 2.4) of this Booklet.

2.2 Advantages, disadvantages and risks of implementing the Transfer Scheme *and* the Demerger Scheme

The FAL Board believes that the advantages and benefits of the Transfer Scheme outweigh the disadvantages and risks of the Transfer Scheme which, as indicated above, must be undertaken in conjunction with the Demerger Scheme.

2.2.1 Advantages of the Transfer Scheme

2.2.1.1 Fair value

The FAL Board believes that the Transfer Scheme Consideration represents fair value for the FAL Shares and the PEH Shares.

In forming this view, the FAL Board has considered:

- (a) the historic market trading price of FAL and the earnings multiples paid in comparable transactions;
- (b) the ability to unlock the strategic value of FAL's Australian Operation and New Zealand Operation by allowing them to be acquired separately;
- (c) the findings of the Independent Expert (see Part 15.1 of this Booklet);
- (d) the potential value to Woolworths of gaining full control of the New Zealand Operation and the ability for FAL Shareholders to participate in the potential synergy benefits through acquiring Woolworths Shares;
- (e) the potential value to Metcash of gaining full control of the Australian Operation and the ability for FAL Shareholders to participate in the potential synergy benefits through acquiring Metcash Shares;
- (f) the eligibility of most Australian FAL Shareholders for Capital Gains Tax relief in relation to Woolworths Shares and Metcash Shares they receive in exchange for their FAL Shares;
- (g) the ability of FAL to control the Demerger process up until the date that ownership passes for both the Australian Operation and the New Zealand Operation;
- (h) the possibility of alternative higher bids in the future, in light of the exposure the FAL Board has given FAL to the market and the discussions with potential acquirers prior to announcing the recommended proposal with Woolworths and Metcash on 25 May 2005;
- (i) the likely prices at which FAL Shares and PEH Shares will trade if the Transfer Scheme is not implemented; and
- (j) the growth prospects for the Australian Operation and the New Zealand Operation in the existing competitive environment.

2.2.1.2 Significant premium to historical trading prices of FAL Shares

The consideration offered by Woolworths and Metcash under the Transfer Scheme represents a value range of \$25.54* (Woolworths Standard Consideration and Metcash Cash Consideration – "Option 2") to \$27.49* (Woolworths Standard Consideration and Metcash Share Consideration – "Option 5") per FAL Share. The premium which these values represent to the historical trading price of FAL Shares is also set out in the table.

| | Option 2 \$25.54 | Option 5 \$27.49 |
|---|---------------------|---------------------|
| Premium to the closing price of FAL Shares on the ASX of \$19.21 on 3 December 2004, being the last trading day prior to the announcement of the Metcash Takeover Offer | 33.0% | 43.1% |
| Premium to the volume weighted average price of FAL Shares traded on the ASX of \$18.57 for the three months immediately before 6 December 2004 | 37.5% | 48.0% |
| Premium to the highest closing price of FAL Shares traded on the ASX at any time until 6 December 2004, being \$20.90 on 9 March 2004 | 22.2% | 31.5% |
| Premium to the highest closing price of FAL Shares traded on the ASX after the announcement of the Metcash Takeover Offer on 6 December 2004 but before the announcement of the recommended proposal on 25 May 2005, being \$25.55 on 3 May 2005 and 4 May 2005 | 0.0% | 7.6% |

Note that the indicative values of the Woolworths Consideration and the Metcash Consideration will change depending on the share price of Woolworths Shares and Metcash Shares. You should check for more up-to-date share prices. The indicative values are also subject to some adjustments which are explained in Part 3 of this Booklet.

2.2.1.3 Certainty of value for FAL Shareholders

The FAL Board considers that the Transfer Scheme Consideration represents more certain value within a reasonable timeframe for FAL Shareholders than is likely to be achieved by holding FAL Shares and PEH Shares after a successful Demerger.

FAL Shareholders can choose to maximise the cash consideration to be received in order to increase value certainty. Alternatively, FAL Shareholders can choose to maximise the share consideration received from Woolworths and Metcash in order to increase exposure to any potential appreciation in the share price of Woolworths and Metcash following their acquisition of FAL.

2.2.1.4 The Independent Expert has concluded the Transfer Scheme is in the best interests of FAL Shareholders

The Independent Expert has reviewed the terms of the Transfer Scheme and considers that, in the absence of a superior proposal, it is in the best interests of FAL Shareholders.

The Independent Expert's Report is set out in full in Part 15.1 of this Booklet.

2.2.1.5 If the Transfer Scheme is not approved, it may have a negative effect on the FAL Share price

Over the past few months, the price of FAL Shares has risen considerably. This may have been due to speculation about, and then the existence of, an offer by Woolworths and a revised offer by Metcash for the components of FAL that they are seeking to acquire. The FAL Board believes that there is a risk that the market value of FAL Shares and PEH Shares may fall if the Transfer Scheme does not proceed.

* The value of \$25.54 is based on the value of the Woolworths Standard Consideration and Metcash Cash Consideration (Option 2 referred to on pages 6 to 8). The value of \$27.49 is based on the value of the Woolworths Standard Consideration and the Metcash Share Consideration (Option 5 referred to on pages 6 to 8). These values are based on the Woolworths Share price of \$16.30 and the Metcash Share price of \$4.00 as at close of trading on 9 September 2005. The consideration is subject to some adjustments based on the financial position of the FAL Group at the Consideration Determination Date. These adjustments (and their assumed levels for the purposes of calculating the values of \$25.54 and \$27.49) are explained in Part 3 of this Booklet.

2.2.1.6 No brokerage or stamp duty

FAL Shareholders will not incur any brokerage or stamp duty in connection with selling their interest in FAL via the Transfer Scheme (except for Ineligible Overseas Shareholders - see Part 13 of this Booklet).

2.2.1.7 Capital Gains Tax consequences

FAL has applied for an ATO class ruling confirming that roll-over relief and demerger relief will be available to eligible Australian FAL Shareholders who receive PEH Shares under the Demerger Scheme and Woolworths Shares or Metcash Shares under the Transfer Scheme. FAL understands this treatment will be confirmed in a class ruling to be published by the ATO prior to the Court approving the Demerger Scheme.

If both the Demerger Scheme and the Transfer Scheme proceed, FAL Shareholders who are subject to Capital Gains Tax may be eligible to elect to apply a discount to any capital gain which arises on the transfer of their FAL Shares. FAL Shareholders will be eligible to choose to apply a Capital Gains Tax discount where they are an individual, trustee of a trust or complying superannuation fund, and they have held their FAL Shares for greater than 12 months. For FAL Shares acquired prior to 21 September 1999, FAL Shareholders may choose to apply indexation to the cost base of FAL Shares until the September 1999 quarter.

Further details of the taxation implications of the Demerger Scheme and Transfer Scheme are set out in Part 12 of this Booklet.

2.2.2 Possible disadvantages and risks of the Transfer Scheme

2.2.2.1 FAL not continuing as an independent entity

FAL Shareholders may prefer the demerged FAL and the new PEH be independent listed companies. They may not wish to be shareholders of Woolworths and/or Metcash or may already hold shares in these companies and believe that more shares will make them "overweight" in these shares. However, such FAL Shareholders may minimise their exposure to these shares as a result of the Transfer Scheme by choosing the Metcash Cash Consideration and the Woolworths Maximum Cash Consideration or by selling the Metcash Shares and the Woolworths Shares they receive on the ASX.

2.2.2.2 Exact value of consideration is not certain

While FAL Shareholders can elect to receive either Metcash Cash or Metcash Shares with certainty, the combination of Woolworths Shares and Woolworths Cash to be received is subject to the rebalancing mechanism described in Part 3 of this Booklet and depends on the Elections made by all FAL Shareholders. For this reason, FAL Shareholders will not know, when they make their Election, the exact proportions of cash and Woolworths Shares they will actually receive from Woolworths.

As a result of not having certainty regarding the relative levels of cash and shares payable by Woolworths, FAL Shareholders may not be able to assess precisely the effects of the Transfer Scheme on:

- (a) their risk profile (i.e. the mix of Woolworths Shares and cash they will receive); and
- (b) their tax exposure (i.e. since FAL Shareholders may not know the mix and amount of Woolworths Shares they will receive, FAL Shareholders will not be able to determine conclusively how the tax implications set out in Part 12 of this Booklet will apply to them).

To a lesser extent, there is also some uncertainty in relation to the amount of consideration from **both** Woolworths and Metcash: FAL Shareholders will not know the exact Woolworths Consideration or the exact Metcash Consideration when making their Election because these are subject to adjustments based on the financial position of the FAL Group at the Consideration Determination Date.

2.2.2.3 Australian taxation consequences

There may be adverse taxation consequences for some Australian resident FAL Shareholders. For FAL Shareholders who are subject to Capital Gains Tax, and who do not choose to obtain scrip roll-over relief in relation to the disposal of their FAL Shares or PEH Shares, a capital gain may arise and tax may be payable.

Where no amount is recovered in respect of the ATO Claim before the Consideration Determination Date, FAL Shareholders will receive a right to a proportion of any cash that is received in the future in respect of the ATO Claim, less any costs in relation to pursuing the ATO Claim. FAL Shareholders who are subject to Capital Gains Tax will not be able to choose roll-over relief in relation to the value of the right received. A capital gain may therefore arise and tax may be payable.

Further details of the tax implications of the Transfer Scheme are set out in Part 12 of this Booklet.

2.2.2.4 New Zealand taxation consequences

For FAL Shareholders resident in New Zealand, if the Demerger Scheme and Transfer Scheme are approved, an amount equal to the full value of the PEH Shares received will be treated as a dividend and will be fully taxable for New Zealand taxation purposes. See Part 12 of this Booklet.

2.2.2.5 Potential redundancies

As a result of FAL being acquired by Woolworths and Metcash, some employees of the FAL Group will be made redundant - see Parts 5 and 6 of this Booklet.

2.2.2.6 FAL Shareholders will no longer control FAL or PEH

FAL Shareholders will no longer be able to hold a direct interest in FAL and will no longer collectively control FAL (or PEH).

2.2.3 Risks associated with Woolworths and Metcash Shares

FAL Shareholders may elect to receive Woolworths Shares and may elect to receive Metcash Shares as Transfer Scheme Consideration. To this extent, the value of the Transfer Scheme Consideration will depend on the value of Woolworths Shares or Metcash Shares (as the case may be) at the relevant time.

The key risks that may affect the performance of Woolworths and Woolworths Shares are considered in Part 5 of this Booklet. The key risks that may affect the performance of Metcash and Metcash Shares are considered in Part 6 of this Booklet.

2.2.4 Factors relating to cash consideration

2.2.4.1 Benefits of cash consideration

Cash consideration is certain and is not affected by fluctuations in share prices.

2.2.4.2 Taxation considerations relevant to cash consideration

Receiving cash consideration could trigger a Capital Gains Tax liability for some FAL Shareholders which could otherwise be deferred. Further details of the tax implications of the Transfer Scheme are set out in Part 12 of this Booklet.

2.2.5 Factors relating to share consideration

2.2.5.1 Benefits of share consideration

Receiving share consideration will provide FAL Shareholders with the following benefits:

- (a) FAL Shareholders will receive an interest in:
 - (i) Woolworths, Australia's largest retailer measured by market capitalisation (with over 2,500 total retail locations) and Australia's largest food and grocery retailer (with 723 supermarkets around Australia); and
 - (ii) Metcash, Australia's third largest participant in the Australian grocery industry.

Further details on the profile of Woolworths and Metcash are set out Part 5 and Part 6 respectively of this Booklet.

- (b) FAL Shareholders who are residents of Australia for tax purposes, and who hold their FAL Shares as capital assets, will be eligible for Capital Gains Tax roll-over relief in relation to the Woolworths Shares and/or Metcash Shares received under the Transfer Scheme. FAL understands this treatment will be confirmed in a class ruling to be published by the ATO prior to the Court approving the Demerger Scheme. Further details of this roll-over relief are set out in Part 12 of this Booklet.

2.2.5.2 Risks of share consideration

FAL Shareholders should be aware of the following risks in relation to receiving share consideration (either or both of Woolworths Shares and Metcash Shares).

- (a) The value of each component of the share consideration will fluctuate with the value of Woolworths Shares or Metcash Shares (as the case may be) and therefore the value of the consideration a FAL Shareholder receives for their PEH and FAL Shares may be higher or lower than the cash consideration being offered under the Transfer Scheme.
- (b) FAL Shareholders who receive share consideration (either or both of Woolworths Shares and Metcash Shares) will have an interest in a different mix of businesses than they currently have an interest in through their FAL shareholding. Woolworths is a large retailer with extensive supermarket and general merchandise experience across Australia. Metcash is a wholesale distributor of groceries, liquor and associated products with the majority of its operations in Australia.
- (c) FAL Shareholders with substantial holdings who receive share consideration in exchange for their FAL and PEH Shares will receive a smaller percentage holding in Woolworths and/or Metcash than their percentage holding in FAL prior to the Demerger Scheme and Transfer Scheme proceeding. For large shareholders, this may mean that they are no longer a substantial shareholder.

2.2.6 Specific risks of the Transfer Scheme and Demerger Scheme for New Zealand FAL Shareholders

2.2.6.1 No New Zealand prospectus or investment statement

Woolworths and Metcash are exempted by the Securities Act (Overseas Companies) Exemption Notice 2002 (New Zealand) from certain requirements of the Securities Act 1978 (New Zealand) and Securities Regulations 1983 (New Zealand) in respect of the Transfer Scheme, including the requirement to prepare a New Zealand prospectus and New Zealand investment statement. Accordingly, no New Zealand prospectus and no New Zealand investment statement will be prepared in respect of the Transfer Scheme. This Booklet has been prepared in accordance with the requirements of Australian law and may not contain all of the information contained in a New Zealand prospectus and New Zealand investment statement that New Zealand investors would otherwise be entitled to be given.

2.2.6.2 Financial reporting

Woolworths and Metcash are Australian companies and are subject to Australian financial reporting requirements. Australian financial reporting requirements may be different from and not compatible in all respects with New Zealand financial reporting requirements. This may be a disadvantage for New Zealand investors.

2.2.6.3 New Zealand law and courts

Woolworths and Metcash are Australian companies and may not be subject in all respects to New Zealand law, or be subject to the jurisdiction of New Zealand courts. Again, this may be a disadvantage for New Zealand investors.

2.3 Advantages, disadvantages and risks of the Demerger Scheme proceeding without the Transfer Scheme proceeding

IMPORTANT NOTE: This Part 2.3 considers the advantages, disadvantages and risks of the Demerger Scheme if it proceeds but the Transfer Scheme does not proceed. Therefore this Part 2.3 is only relevant where the Transfer Scheme does not proceed but the Demerger Scheme does proceed. It considers the merits of the Demerger (i.e. Outcome 2 in the table in Part 1.3 of this Booklet) in comparison with the current structure of FAL and your investment in FAL (i.e. Outcome 3 in the table in Part 1.3 of this Booklet).

The FAL Board believes that the advantages and benefits of the Demerger Scheme outweigh the disadvantages and risks of the Demerger Scheme, regardless of the outcome of the Transfer Scheme Proposal.

2.3.1 Advantages of the Demerger Scheme

Advantages of the Demerger Scheme are outlined below:

2.3.1.1 Increased shareholder value

The Demerger Scheme allows the strategic value of FAL to be unlocked because it allows the Australian Operation and New Zealand Operation to be acquired by those buyers who will pay the maximum amount for those operations. Therefore, the FAL Board believes the Australian Operation and the New Zealand Operation will, in aggregate, be more valuable if separated. The FAL Board is aware that there are a number of parties with access to potential synergy benefits with some of FAL's businesses. These parties are more likely to make offers for the separated FAL businesses if the Transfer Scheme is not approved.

2.3.1.2 Individual business focus

As a result of the Demerger, each of FAL and PEH will be able to focus their attention and financial resources on their respective geographic markets. In particular, both the FAL Board and the PEH Board and their respective managements will be able to focus their attention to pursuing their respective company's individual growth and operational strategies.

2.3.1.3 Simplify FAL's corporate structure and improve transparency

The FAL Board believes that the separation of the New Zealand Operation and the Australian Operation will result in simplified corporate structures that should help FAL Shareholders and PEH Shareholders, other potential investors and the broader financial community to understand and evaluate better the financial performance, operations and strategies and potential for each company.

Such transparency should allow that both FAL and PEH achieve their appropriate market valuation.

The FAL Board believes that this transparency will make both FAL and PEH attractive investment propositions in Australia and New Zealand.

2.3.1.4 Greater investor choice

The Demerger will give existing FAL Shareholders and new investors greater choice and flexibility in their investments in FAL and PEH.

The Demerger is structured so that current FAL Shareholders can choose whether to continue to invest in FAL or PEH or both. FAL and PEH have significantly different investment characteristics, which appeal to different investors. For example, the relative market positions, level of exposure to food retailing versus food wholesaling, geographic factors (and resulting economic and taxation implications) and growth profiles are quite different for the Australian Operation and the New Zealand Operation.

2.3.1.5 Dividend franking

As the majority of FAL's profits are derived from New Zealand operations, unless the Demerger occurs, it is unlikely that FAL will be able to provide fully franked dividends to its Australian shareholders in future years. As the Demerger will result in the divestment of the New Zealand Operation, after the Demerger the majority of FAL's profits will be derived from the Australian Operation. This will increase the likelihood of fully franked dividends being paid by FAL in the future.

Conversely, after the Demerger, the earnings of the New Zealand Operation will be almost entirely in New Zealand and therefore, in the absence of agreement between the governments of Australia and New Zealand changing existing arrangements, those earnings will not generate Australian franking credits. However, it is likely that PEH will be able to pay to New Zealand resident shareholders dividends which are either fully or almost fully imputed. This is explained further in Part 9.6.3.1 of this Booklet.

2.3.1.6 Capital Gains Tax consequences

FAL has applied for an ATO class ruling confirming that demerger relief will be available to eligible Australian FAL Shareholders who receive PEH Shares under the Demerger Scheme. FAL understands this treatment will be confirmed in a class ruling to be published by the ATO prior to the Court approving the Demerger Scheme.

Further details of the tax implications of the Demerger Scheme are set out in Part 12 of this Booklet.

2.3.2 Disadvantages of the Demerger Scheme

2.3.2.1 Additional costs for PEH

If the Demerger Scheme proceeds but the Transfer Scheme does not proceed, PEH will be an independent company, listed on the ASX and (it is intended) on the NZX as an overseas listed issuer, which will necessarily involve additional corporate costs, such as share registry costs and the cost of having a separate board of directors. These costs will include PEH Directors' fees, travel and accommodation costs for PEH Board meetings, share registry fees, stock exchange listing fees, the cost of printing and circulating shareholder information, including annual reports, notices of meetings and road show presentations, facility hire for shareholder meetings and other shareholder relations expenses. Further, PEH will need to bear the stand alone accounting, legal, treasury and taxation services costs associated with being a public listed company.

It is expected that these additional costs will initially be in the order of approximately NZ\$4.07 million per annum.

2.3.2.2 Loss of synergy benefits

The demerged companies may lose the synergy benefits of joint sourcing of house brands in the event that FAL and PEH cannot agree to continue the joint sourcing arrangements currently in place and the synergy benefits of joint development of information technology applications.

2.3.2.3 Ineligible Overseas Shareholders

Ineligible Overseas Shareholders will not receive PEH Shares under the Demerger Scheme. Instead, the PEH Shares to which these shareholders would otherwise be entitled will be sold and the average net proceeds will be remitted to them (net of any brokerage, taxes and charges). Further details regarding Ineligible Overseas Shareholders are set out in Part 13 of this Booklet.

2.3.2.4 New Zealand taxation consequences

For FAL Shareholders resident in New Zealand, if the Demerger Scheme proceeds, an amount equal to the full value of the PEH Shares received will be treated as a dividend and will be fully taxable for New Zealand tax purposes. See Part 12 of this Booklet.

2.3.2.5 Impact on shareholder value and interest in FAL

As a result of the Demerger, there will be two listed entities (FAL and PEH) each individually with a lower market capitalisation than FAL before the Demerger. These companies may attract lower investor interest and lower liquidity than FAL had before the Demerger.

2.3.3 General risks associated with the Demerger Scheme if it proceeds without the Transfer Scheme proceeding

2.3.3.1 Share market performance of FAL and PEH

The FAL Board believes that the Demerger will enhance shareholder value (when calculated on a combined market value over FAL Shares and PEH Shares) for the reasons set out in section 2.3.1. However, the share price performance of FAL Shares prior to the Demerger and of FAL Shares and PEH Shares following the Demerger is uncertain and could be subject to significant fluctuations in response to various factors and events.

2.3.3.2 PEH dividends

PEH is the Australian incorporated holding company of the PEH Post-Demerger Group. As part of the Demerger, PEH will acquire all of the shares in Foodland N.Z. Finance Limited, the current holding company of the group of companies that owns the New Zealand Operation. PEH as the new holding company will treat retained earnings held by FNZFL (and its controlled entities) at the date of acquisition by PEH as pre-acquisition retained earnings. Dividends may only be paid out of profits. Any dividends paid out of pre-acquisition profits by FNZFL to PEH will reduce the carrying amount of the investment by PEH in FNZFL rather than be available for distribution to PEH Shareholders as post acquisition profits.

PEH will record the investment in FNZFL at its fair value at the date of the acquisition. If the New Zealand economy declined markedly over a sustained period then there is the potential that there may be impairment losses to be recognised by PEH in relation to the carrying value of its investment in FNZFL. The recognition of any post acquisition impairment loss on the carrying value of PEH's investment in FNZFL would reduce PEH's ability to pay future dividends in a post Demerger year to the extent the post acquisition profits derived by PEH (received by way of dividends from FNZFL paid out of its post acquisition profits) are eliminated by an impairment loss if one were to arise.

2.3.3.3 Net proceeds of sale received by Ineligible Overseas Shareholders

Ineligible Overseas Shareholders will not receive PEH Shares under the Demerger Scheme. The PEH Shares to which Ineligible Overseas Shareholders would otherwise be entitled under the Demerger Scheme will instead be sold and the average net sale proceeds will be remitted to them. There is no guarantee as to the average sale price that will be received in respect of these PEH Shares. Further details regarding Ineligible Overseas Shareholders are contained in Part 13 of this Booklet.

2.3.4 Specific risks of the Demerger Scheme for New Zealand FAL Shareholders if it proceeds without the Transfer Scheme proceeding

2.3.4.1 Currency exchange risk

If the Demerger proceeds, FAL Shareholders will acquire PEH Shares under the Demerger Scheme. As PEH is an Australian company and PEH Shares will be valued in Australian dollars, the New Zealand dollar value of PEH Shares may be affected by any fluctuations in the New Zealand/Australia exchange rate.

2.3.4.2 Financial Reporting

PEH is an Australian company, and is subject to Australian financial reporting requirements. Australian financial reporting requirements may be different from, and not compatible in all respects with, New Zealand financial reporting requirements.

2.3.4.3 New Zealand law and courts

PEH is an Australian company and may not be subject in all respects to New Zealand law, or be subject to the jurisdiction of New Zealand courts.

2.3.4.4 No New Zealand prospectus or investment statement

FAL and PEH are exempted by the Securities Act (Overseas Companies) Exemption Notice 2002 (New Zealand) from certain requirements of the Securities Act 1978 (New Zealand) and Securities Regulations 1983 (New Zealand) in respect of the Demerger, including the requirement to prepare a New Zealand prospectus and New Zealand investment statement. Accordingly, no New Zealand prospectus and no New Zealand investment statement will be prepared in respect of the Demerger. This Booklet has been prepared in accordance with the requirements of Australian law and may not contain all of the information contained in a New Zealand prospectus and New Zealand investment statement.

2.3.4.5 Listing on the NZX

Application has been made for PEH to be listed on the NZX as an overseas listed issuer and it is intended that PEH be listed on the NZX. However, there is no legal requirement for the listing of PEH on the NZX to be maintained. If the listing is not maintained, New Zealand FAL Shareholders may not have access to information concerning PEH in the same way as they would if PEH were listed on the NZX.

2.3.5 Other considerations relevant to the Demerger proceeding without the Transfer Scheme

The following matters are also important to note in relation to the situation that the Demerger Scheme proceeds without the Transfer Scheme.

2.3.5.1 Financial impact on FAL and PEH

The financial impact of the Demerger on FAL and PEH is explained in Parts 7, 8, 9 and 10 of this Booklet.

2.3.5.2 Future dividends of FAL and PEH

After the Demerger, FAL will not own the New Zealand Operation. Accordingly, the Demerger is expected to have a material impact on the quantum of FAL's profits and, therefore, the amount available for distribution as dividends.

The quantum of FAL's dividends following the Demerger has not yet been determined and will be a matter for consideration by the FAL Board at the relevant time. Similarly, the quantum of PEH's dividend will be a matter for consideration by the PEH Board at the relevant time.

2.3.5.3 Uncertainty in relation to share price

FAL's business and PEH's business may be affected by any uncertainty caused by the proposed Transfer Scheme not proceeding. This may be detrimental to the price of FAL Shares and PEH Shares.

2.3.5.4 ASX and NZX listings and intention for ongoing operations

If the Demerger Scheme proceeds but the Transfer Scheme does not proceed, FAL will remain listed on the ASX and, provided its application for listing is accepted, PEH will be listed on the ASX (and on the NZX as an overseas listed issuer). FAL will operate the Australian Operation in line with its previously stated objectives. PEH will operate the New Zealand Operation. In these circumstances, FAL Shareholders who retain their FAL Shares will continue to share in any benefits and risks in relation to the Australian Operation and PEH Shareholders who retain their PEH Shares will continue to share in any benefits and risks in relation to the New Zealand Operation.

2.3.6 Independent Expert's opinion

The FAL Board has commissioned an Independent Expert (Grant Samuel) to prepare a report on the Demerger Scheme. The report is set out in Part 15.1 of this Booklet.

The Independent Expert has concluded that the Demerger is in the best interests of FAL Shareholders.

2.4 Implications of the Demerger Scheme *not* being approved and the Transfer Scheme *not* being approved

2.4.1 FAL Share price

If neither of the Schemes proceeds, the FAL Board believes the FAL Share price is likely to fall in the absence of an alternative proposal on superior terms.

2.4.2 No consideration

If neither of the Schemes proceeds, then:

- (a) FAL Shareholders will retain their FAL Shares, however, they will not receive any PEH Shares, Woolworths Shares, Metcash Shares or any cash.
- (b) FAL's businesses may be affected by uncertainty caused by the Demerger Scheme and Transfer Scheme not proceeding. This may be detrimental to FAL's share price.

2.4.3 Continued ASX listing and intention for ongoing operations

If neither the Demerger Scheme nor the Transfer Scheme proceeds, FAL will remain listed on the ASX and the Australian Operation and New Zealand Operation will continue to be owned by FAL. It would be the FAL Board's intention to continue operating in line with its previously stated objectives. In these circumstances, FAL Shareholders who retain their FAL Shares would continue to share in any benefits and risks in relation to FAL's ongoing business.

Part 3

What you will receive for your FAL Shares if the Transfer Scheme proceeds

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3 What you will receive for your FAL Shares if the Transfer Scheme proceeds

3.1 Transfer Scheme Consideration

3.1.1 Two components

You will receive:

- (a) the Woolworths Consideration; **and**
- (b) the Metcash Consideration,

if the Transfer Scheme **and** the Demerger Scheme are approved by FAL Shareholders and the Court.

These components of Transfer Scheme Consideration are explained in detail in this Part 3.

Woolworths Consideration

The Woolworths Consideration comprises cash of \$1,250 million less Net Assumed Debt* and approximately 81.59 million Woolworths Shares. The cash and shares are to be divided up among all FAL Shareholders. However, you can elect to maximise either the cash or share component you receive. The exact amount of cash and Woolworths Shares you receive depends on what you and all the other FAL Shareholders choose to receive. If you choose to receive the Woolworths Standard Consideration, then you will receive approximately \$7.93 in cash plus 0.6925 Woolworths Shares per FAL Share, subject to some adjustments based on the financial position of the PEH Post-Demerger Group as at the Consideration Determination Date which are explained in Part 3.2 of this Booklet.

Metcash Consideration

Metcash is offering FAL Shareholders the choice of cash or Metcash Shares. The cash is a total of about \$746 million to be divided up among all FAL Shareholders who choose to receive cash from Metcash. This equals approximately \$6.33 per FAL Share. Alternatively, you can choose to receive approximately 2.07 Metcash Shares for each of your FAL Shares. Both of these amounts are subject to some adjustments based on the financial position of the FAL Group as at the Consideration Determination Date which are explained in Part 3.3 of this Booklet. The assumed level of adjustments for the purposes of calculating these numbers is explained in Part 3.3.3 of this Booklet.

3.1.2 Total Value

The total value of what you receive for your FAL Shares depends on the value of any Woolworths Shares and Metcash Shares you choose to receive and the cash amount you choose to receive and the final level of adjustments.

The FAL Board makes no recommendation as to the form of Transfer Scheme Consideration you should elect to receive. In making an Election, you should take into account the factors outlined in this Booklet, your own personal tax position and your other personal circumstances. If in doubt, you should consult your financial adviser.

3.1.3 Conditions to Transfer Scheme

The Schemes are subject to conditions.

If these conditions are not fulfilled, either or both of the Schemes may not proceed or, with the approval of the Court, it may be necessary to renegotiate what you receive for your FAL Shares from Woolworths and Metcash. If there is any renegotiation, ASIC would also need to be advised of any changes to what you will receive from Woolworths and Metcash.

* The Net Assumed Debt is estimated by FAL to be approximately \$316 million as at the Consideration Determination Date. This Net Assumed Debt consists of external debt and certain other adjustments which are explained in Part 3.2.6 of this Booklet. The estimated value of Net Assumed Debt is explained in Part 3.2.8.

In addition to FAL Shareholder and Court approval (see Part 1.9.2 of this Booklet), the Transfer Scheme is subject to a number of regulatory, procedural and commercial conditions and approvals. In particular, the Transfer Scheme is:

- conditional on Woolworths acquiring control of all of the Woolworths Action Stores. In order to do so, it will be necessary to obtain the consent of the landlords of all of those supermarkets; and
- conditional on obtaining all necessary consents for a change in control required under the leases of the New Zealand Stores which are currently in FAL's New Zealand Operation.

These conditions are particularly significant as they involve other parties and are therefore outside the control of FAL Shareholders, FAL, Woolworths and Metcash. In addition, the transfer of one or more of the Woolworths Action Stores could be prevented from occurring as a result of action taken by a governmental agency such as the ACCC - see Part 5.4.3(g) of this Booklet.

In the event that any Woolworths Action Store is not transferred or a consent required to a change in control of a lease for a New Zealand Store is not obtained, effectively Woolworths may elect to terminate the Transfer Scheme and the acquisition of FAL by Woolworths and Metcash will not proceed. This means that, in these circumstances, Woolworths will be able to determine whether or not the acquisition of FAL by Woolworths and Metcash will proceed.

As an alternative to allowing the Transfer Scheme to terminate, Woolworths, Metcash and FAL could endeavour to agree some modifications to the Transfer Scheme to deal with these matters and allow the Transfer Scheme to proceed. These modifications would need to include a modification or waiver of the unfulfilled conditions and a change to the Woolworths Consideration and the Metcash Consideration. The parties would need to obtain the approval of the Court to any modifications of the Transfer Scheme and ensure that FAL Shareholders were provided with sufficient notice of the modifications to enable them properly to consider these matters before the Meetings. The parties would also need to advise ASIC of any modifications to the Transfer Scheme.

Even if the Transfer Scheme is terminated, the Demerger Scheme may still proceed if it receives the necessary approval of FAL Shareholders and the Court. If this happens, FAL and PEH will become separate listed entities but Woolworths and Metcash will not acquire FAL.

3.2 Woolworths Consideration

3.2.1 What are the choices of Woolworths Consideration?

You may elect to receive **one** of the following three choices of Woolworths Consideration:

- (a) the Woolworths Maximum Cash Consideration;
- (b) the Woolworths Maximum Share Consideration; or
- (c) the Woolworths Standard Consideration.

Each of those choices includes different proportions of a cash component **and** a Woolworths Share component.

The Woolworths Shares offered as consideration will not participate in the final dividend declared by Woolworths in respect of the financial year ended 26 June 2005.

3.2.2 Woolworths Consideration mix and adjustments to Woolworths Consideration amount

The total consideration which will be payable by Woolworths to FAL Shareholders if the Transfer Scheme is implemented will be:

- (a) \$1,250 million less the amount of Net Assumed Debt of the PEH Post-Demerger Group on the Consideration Determination Date, expected by FAL to be about \$316 million (referred to as the "Woolworths Cash Consideration Cap"); and
- (b) 81,592,689 Woolworths Shares (referred to as the "Woolworths Share Consideration Cap").

The limits on the cash payable by Woolworths (i.e. the Woolworths Cash Consideration Cap) and the number of Woolworths Shares available (i.e. the Woolworths Share Consideration Cap) mean that in certain circumstances the proportions of cash and Woolworths Shares you receive may have to be adjusted.

If you elect to receive Woolworths Maximum Cash Consideration and if a large proportion of other FAL Shareholders also elect to receive Woolworths Maximum Cash Consideration, the cash you receive will be rebalanced and you will receive a greater proportion of Woolworths Shares than you would otherwise have received. In the most extreme case, if all FAL Shareholders elect to receive Woolworths Maximum Cash Consideration, what you receive will be rebalanced so that you (and all other FAL Shareholders) receive a combination of cash and Woolworths Shares which is the same as the Woolworths Standard Consideration.

If you elect to receive Woolworths Maximum Share Consideration and if a large proportion of other FAL Shareholders also elect to receive Woolworths Maximum Share Consideration, the Woolworths Shares you receive will be rebalanced and you will receive a greater proportion of cash than you would otherwise have received. In the most extreme case, if all FAL Shareholders elect to receive Woolworths Maximum Share Consideration, what you receive will be rebalanced so that you (and all the other FAL Shareholders) receive a combination of cash and Woolworths Shares which is the same as the Woolworths Standard Consideration.

The table in Part 3.2.4.2 of this Booklet gives you further examples of how the rebalancing works in various situations. Remember that:

- (a) rebalancing only affects the **proportions** of cash and Woolworths Shares you receive;
- (b) rebalancing only applies if you elect to receive either the Woolworths Maximum Cash Consideration or the Woolworths Maximum Share Consideration - it does not affect Woolworths Standard Consideration; and
- (c) rebalancing does not apply to the Metcash Consideration.

As indicated above, the Woolworths Consideration (and the total value of what you receive from Woolworths) will be adjusted for matters related to changes in the economic value of PEH at the time the Schemes are implemented (which is referred to in this Booklet as the "Net Assumed Debt"). The sorts of matters which will affect the amount of Net Assumed Debt include external borrowings, cash on hand, the amount of capital expenditure, the disposal of assets and the payment of expenses in the period up to or at the Consideration Determination Date.

Broadly, if Net Assumed Debt goes up, the Woolworths Consideration will go down, and vice versa.

Details of how the Net Assumed Debt will be calculated are set out fully in Part 3.2.6 of this Booklet.

The total consideration payable by Woolworths if the Transfer Scheme is implemented is made up of:

- (a) the Woolworths Standard Consideration;
- (b) the Woolworths Cash Consideration; and
- (c) the Woolworths Share Consideration.

Each of these is described below.

3.2.2.1 Woolworths Standard Consideration

The Woolworths Standard Consideration is equal to:

$$\frac{\$1,250 \text{ million} - \text{Net Assumed Debt}}{\text{Total PEH Shares}} + \frac{81,592,689 \text{ Woolworths Shares}}{\text{Total PEH Shares}}$$

cash and Woolworths Shares for each PEH Share in respect of which the Woolworths Standard Consideration is payable.

3.2.2.2 Woolworths Cash Consideration

The Woolworths Cash Consideration is equal to:

$$\frac{\$2,500 \text{ million} - \text{Net Assumed Debt}}{\text{Total PEH Shares}}$$

cash for each PEH Share in respect of which the Woolworths Cash Consideration is payable.

3.2.2.3 Woolworths Share Consideration

The Woolworths Share Consideration is the number of Woolworths Shares equal to:

$$\frac{\$2,500 \text{ million} - \text{Net Assumed Debt}}{15.32 \times \text{Total PEH Shares}}$$

Woolworths Shares for each PEH Share in respect of which the Woolworths Share Consideration is payable.

3.2.2.4 Elections available

You can elect to receive:

- (a) the Woolworths Standard Consideration (which will mean that you will receive the Woolworths Standard Consideration described above for each of your PEH Shares); or
- (b) the Woolworths Maximum Cash Consideration, which will mean that you will receive:
 - (i) the Woolworths Cash Consideration for the lesser of the total number of PEH Shares you hold on the Transfer Record Date and the number of PEH Shares determined in accordance with the formula set out in Part 3.2.4.1 of this Booklet; and
 - (ii) the Woolworths Share Consideration for the balance of your PEH Shares; or
- (c) the Woolworths Maximum Share Consideration, which will mean that you will receive:
 - (i) the Woolworths Share Consideration for the lesser of the total number of PEH Shares you hold on the Transfer Record Date and the number of PEH Shares determined in accordance with the formula set out in Part 3.2.4.2 of this Booklet; and
 - (ii) the Woolworths Cash Consideration for the balance of your PEH Shares.

By choosing the Woolworths Maximum Cash Consideration or the Woolworths Maximum Share Consideration, you will have the opportunity to maximise the amount of cash or the number of Woolworths Shares you receive for your PEH Shares.

An Election must be made using the Election Form accompanying this Booklet. If you do not make a valid Election, you will automatically receive the Woolworths Standard Consideration.

To be valid, Election Forms must be completed and received by the FAL Share Registry in accordance with the instructions on the Election Form by 7.00pm Perth time on 10 November 2005. Once made, a valid election may be varied until that time on that date.

3.2.3 Woolworths Consideration rebalancing

If the total amount of cash consideration or share consideration which Woolworths would otherwise have been required to pay or issue to satisfy Elections made by FAL Shareholders exceeds the Woolworths Cash Consideration Cap or exceeds the Woolworths Share Consideration Cap respectively, the amount of cash or the number of Woolworths Shares received by those FAL Shareholders will be rebalanced on a pro rata basis.

The consideration you receive if you elect to receive the Woolworths Maximum Cash Consideration or the Woolworths Maximum Share Consideration will therefore depend on the Elections made or deemed to have been made by all other FAL Shareholders. When you make an Election, you will not know the precise consideration mix to be provided to you under the Transfer Scheme until on or about 25 November 2005. Due to the Woolworths Cash Consideration Cap and the Woolworths Share Consideration Cap, it is possible that if you elect to receive the Woolworths Maximum Cash Consideration or the Woolworths Maximum Share Consideration you may receive a similar (or the same) amount of cash and a similar (or the same) number of Woolworths Shares as you would receive if you had elected to receive the Woolworths Standard Consideration.

3.2.4 Election formulae

If you elect to receive the Woolworths Maximum Share Consideration or the Woolworths Maximum Cash Consideration, the number of PEH Shares in relation to which you will be entitled to receive cash or Woolworths Shares under the Transfer Scheme will be based on the formulae set out in Parts 3.2.4.1 and 3.2.4.2 of this Booklet.

The amount of cash representing the difference between the Woolworths Cash Consideration Cap and the aggregate amount of cash allocated to FAL Shareholders who are entitled to receive the Woolworths Standard Consideration will be allocated to FAL Shareholders who elect to receive the Woolworths Maximum Cash Consideration. In the event that there is excess cash under the Woolworths Cash Consideration Cap after allocating cash to FAL Shareholders who are entitled to receive the Woolworths Standard Consideration and the Woolworths Maximum Cash Consideration, this cash will be allocated pro rata to FAL Shareholders who elect to receive the Woolworths Maximum Share Consideration.

Similarly, the number of Woolworths Shares representing the difference between the Woolworths Share Consideration Cap and the aggregate number of Woolworths Shares allocated to FAL Shareholders who are entitled to receive the Woolworths Standard Consideration will be allocated to FAL Shareholders who elect to receive the Woolworths Maximum Share Consideration. In the event that there are excess Woolworths Shares under the Woolworths Share Consideration Cap after allocating Woolworths Shares to FAL Shareholders who are entitled to receive the Woolworths Standard Consideration and the Woolworths Maximum Share Consideration, these Woolworths Shares will be allocated pro rata to FAL Shareholders who elect to receive the Woolworths Maximum Cash Consideration.

3.2.4.1 Woolworths Maximum Cash Consideration

If you elect to receive the Woolworths Maximum Cash Consideration, then the number of PEH Shares in relation to which you will be entitled to receive the Woolworths Cash Consideration will be the lesser of:

- (a) the total number of FAL Shares held by you as an FAL Shareholder on the Transfer Record Date; and
- (b) the number (F) determined by applying the formula set out below.

$$F = ((C - N)/A) \times E$$

where:

C is \$1,250 million less Net Assumed Debt (which need not be a whole number);

For example, if Net Assumed Debt is \$316 million, C is \$934 million;

N is the total amount of cash (which need not be a whole number) which FAL Shareholders who elect to receive the Woolworths Standard Consideration or who do not make any Election at all are entitled to receive.

For example if Net Assumed Debt is \$316 million, and if FAL Shareholders who will hold 20% of PEH Shares are entitled to receive the Woolworths Standard Consideration, N is \$187 million;

A is the amount of cash (which need not be a whole number) determined as follows:

$$A = \left(\frac{\$2,500 \text{ million} - \text{NAD}}{\text{TPS}} \right) \times \text{MCC}$$

where:

NAD is Net Assumed Debt;

TPS is Total PEH Shares; and

MCC is the total number of PEH Shares to be held by FAL Shareholders who elect to receive Woolworths Maximum Cash Consideration.

For example, if FAL Shareholders who will hold 60% of PEH Shares elect to receive the Woolworths Maximum Cash Consideration and if Net Assumed Debt is \$316 million, A is \$1,310 million ((((\$2,500 million - \$316 million) / 117,828,603) X (60% X 117,828,603) = \$1,310 million); and

E is the number of FAL Shares held on the Transfer Record Date.

You will receive the Woolworths Share Consideration in respect of the balance of your PEH Shares.

3.2.4.2 Woolworths Maximum Share Consideration

If you elect to receive the Woolworths Maximum Share Consideration then the number of PEH Shares in relation to which you will be entitled to receive the Woolworths Share Consideration will be the lesser of:

- (a) the total number of FAL Shares held by you as an FAL Shareholder on the Transfer Record Date; and
- (b) the number (G) determined by applying the formula set out below.

$$G = ((S - O) / B) \times E$$

where:

S is 81,592,689 Woolworths Shares;

O is the total number of Woolworths Shares which FAL Shareholders who elect to receive the Woolworths Standard Consideration or who do not make any Election at all are entitled to receive;

For example, if FAL Shareholders who will hold 20% of PEH Shares are entitled to receive the Woolworths Standard Consideration, O is equal to 16,318,538 Woolworths Shares;

B is the number of Woolworths Shares (which need not be a whole number) determined as follows:

$$B = \left(\frac{\$2,500 \text{ million} - \text{NAD}}{15.32 \times \text{TPS}} \right) \times \text{MSC}$$

where:

NAD is Net Assumed Debt;

TPS is Total PEH Shares; and

MSC is the total number of PEH Shares to be held by FAL Shareholders who elect to receive Woolworths Maximum Share Consideration.

For example, if FAL Shareholders who will hold 20% of PEH Shares elect to receive the Woolworths Maximum Share Consideration and if Net Assumed Debt is \$316 million, B is 28,511,749 Woolworths Shares $((\$2,500 \text{ million} - \$316 \text{ million}) / (15.32 \times 117,828,603) \times (20\% \times 117,828,603) = 28,511,749)$; and

E is the number of the FAL Shares held on the Transfer Record Date.

You will receive the Woolworths Cash Consideration in respect of the balance of your PEH Shares.

The table below shows the results of "rebalancing" in various scenarios (rounded to the nearest dollar and Woolworths Share). By way of example, the scenario in the second row of the table below demonstrates the position if:

- (a) FAL Shareholders who will hold 60% of PEH Shares elect to receive the Woolworths Maximum Cash Consideration;
- (b) FAL Shareholders who will hold 20% of the PEH Shares do not make an Election or elect to receive the Woolworths Standard Consideration; and
- (c) the remaining FAL Shareholders elect to receive the Woolworths Maximum Share Consideration.

Examples of how the rebalancing works*

| Total Elections as a % of total PEH Shares on issue | | | Woolworths Consideration** per PEH Share received by FAL Shareholders choosing: | | | Comment |
|---|-----------------------------------|--|---|-------------------------------------|--|--|
| Woolworths Maximum Cash Consideration | Woolworths Standard Consideration | Woolworths Maximum Share Consideration | Woolworths Maximum Cash Consideration | Woolworths Standard Consideration | Woolworths Maximum Share Consideration | |
| 100% | 0% | 0% | \$7.93 and 0.6925 Woolworths Shares | N/A | N/A | All FAL Shareholders receive the Woolworths Standard Consideration |
| 80% | 20% | 20% | \$10.57 and 0.5200 Woolworths Shares | \$7.93 and 0.6925 Woolworths Shares | No cash and 1.2099 Woolworths Shares | FAL Shareholders who elect the Woolworths Maximum Cash Consideration will be rebalanced |
| 40% | 20% | 40% | \$15.85 and 0.1751 Woolworths Shares | \$7.93 and 0.6925 Woolworths Shares | No cash and 1.2099 Woolworths Shares | FAL Shareholders who elect the Woolworths Maximum Cash Consideration will be rebalanced |
| 20% | 20% | 60% | \$18.54 and no Woolworths Shares | \$7.93 and 0.6925 Woolworths Shares | \$4.39 and 0.8233 Woolworths Shares | FAL Shareholders who elect the Woolworths Maximum Share Consideration will be rebalanced |
| 0% | 0% | 100% | N/A | N/A | \$7.93 and 0.6925 Woolworths Shares | All FAL Shareholders receive the Woolworths Standard Consideration |
| 25% | 50% | 25% | \$15.85 and 0.1751 Woolworths Shares | \$7.93 and 0.6925 Woolworths Shares | No cash and 1.2099 Woolworths Shares | FAL Shareholders who elect the Woolworths Maximum Cash Consideration will be rebalanced |
| 33% | 33% | 33% | \$15.85 and 0.1751 Woolworths Shares | \$7.93 and 0.6925 Woolworths Shares | No cash and 1.2099 Woolworths Shares | FAL Shareholders who elect the Woolworths Maximum Cash Consideration will be rebalanced |

* Values and amounts in this table are subject to the effect of rounding.

** Assumes Net Assumed Debt is \$316 million (the actual Net Assumed Debt may be more or less than this amount).

The number of PEH Shares in respect of which FAL Shareholders will receive cash and the number of PEH Shares in respect of which they will receive Woolworths Shares will, if necessary, be rounded up or down to the nearest whole number (with a fraction of 0.5 being rounded up).

In addition, fractional entitlements to Woolworths Shares which arise from the calculation of the number of Woolworths Shares to be provided by Woolworths to an FAL Shareholder under the Transfer Scheme will be rounded up or down to the nearest whole number of shares (with a fraction of 0.5 being rounded up).

The Transfer Scheme contains provisions to address any attempts by FAL Shareholders to seek to take unfair advantage of the above treatment of fractions (for example, by splitting their holding of FAL Shares).

3.2.5 Value of Woolworths Consideration

The value of the Woolworths Consideration that you will receive under the Transfer Scheme will depend on the Election that you make and, if part or all of the consideration to be provided for your PEH Shares is Woolworths Shares, the share price of Woolworths Shares on the ASX after the new Woolworths Shares commence trading. Assuming Net Assumed Debt of \$316 million, if you elect or are entitled to receive the Woolworths Standard Consideration, you will receive \$7.93 in cash and 0.6925 Woolworths Shares for every PEH Share you receive (i.e. for every FAL Share you hold), subject to the effects of rounding described above. The table below illustrates the implied value of a holding of a PEH Share in relation to which the Woolworths Standard Consideration is payable, based on a variety of possible Woolworths Share prices.

The table below is only for illustrative purposes and the Woolworths Share prices stated should not be taken as an indication of the likely Woolworths Share prices following the implementation of the Transfer Scheme. No assurance can be, or is, given as to the prices at which Woolworths Shares will trade following the implementation of the Transfer Scheme.

| Woolworths Share Price | Implied value of Woolworths Standard Consideration for each PEH Share* |
|------------------------|--|
| \$14.00 | \$17.62 |
| \$14.50 | \$17.97 |
| \$15.00 | \$18.31 |
| \$15.50 | \$18.66 |
| \$16.00 | \$19.01 |
| \$16.30 | \$19.21 |
| \$16.50 | \$19.35 |
| \$17.00 | \$19.70 |
| \$17.50 | \$20.04 |
| \$18.00 | \$20.39 |

* Implied value assumes a Woolworths Standard Consideration of \$7.93 and 0.6925 Woolworths Shares for each PEH Share; the assumed level of adjustments specified in Part 3.2.7 of this Booklet and excludes any effects of tax. Amounts are rounded to the nearest cent.

The chart below shows the historical price of Woolworths Shares since 1 July 2004.



The last recorded sale price for Woolworths Shares on ASX on 15 September 2005 was \$16.13.

During the three months ended on 15 September 2005:

- (a) the highest recorded sale price for Woolworths Shares on ASX was \$16.87, which was recorded on 18 August 2005; and
- (b) the lowest recorded sale price for Woolworths Shares on ASX was \$15.78, which was recorded on 8 and 19 July 2005.

The latest recorded sale price for Woolworths Shares on the ASX before the public announcement of the Transfer Scheme was \$15.62 (on 23 May 2005).

The Woolworths Shares offered as consideration will not participate in the final dividend declared in respect of the financial year ended 26 June 2005.

3.2.6 Determination of Net Assumed Debt

Broadly, Net Assumed Debt is the amount of the external debt of the PEH Post-Demerger Group. It is expected by FAL that Net Assumed Debt will be approximately \$316 million. However, it may be more or less than this amount.

The exact adjustment for Net Assumed Debt will be calculated as at close of business on the Consideration Determination Date, in accordance with the following formula set out in the Merger Implementation Agreement (see Part 16 of this Booklet):

$$\text{NAD} = \text{B} - (\text{C} + \text{WBP} + \text{SD}) + (\text{UC} + \text{D} + \text{Ex} + \text{UnC} + \text{Inv} + \text{O})$$

where:

NAD is Net Assumed Debt;

B is the aggregate amount of Finance Debt as at the close of business on the Consideration Determination Date of the PEH Post-Demerger Group;

C is the amount as at the close of business on the Consideration Determination Date of cash or cash equivalents including but not limited to:

- (a) cash floats (being cash amounts held in-store comprising till floats and the cashier's recoup float which is used to top up coin shortages in till floats at the time of clearing each morning);
- (b) retail EFTPOS clearing, being EFTPOS sales transactions which are yet to be processed by the bank as at the close of business of the relevant store;
- (c) cash on hand, being cash takings which are in the store safe as at the close of business of the relevant store;
- (d) cash in transit (being cash takings which have left the store premises but have not yet been recognised by the bank (takings with Armourguard/Chubb and takings being processed by the bank)) as at the close of business of the relevant store; and
- (e) government bonds,

of the PEH Post-Demerger Group but excluding any cash or cash equivalents held in the Woolworths Action Stores which are included in the WOW Balancing Payment ("WBP" below);

WBP is the amount of the "WOW Balancing Payment" provided for in the WOW Action Agreements;

SD is the amount of any stamp duty (and any related fines, interest and penalties that have become due and payable) paid by FAL on certain matters set out in the Merger Implementation Agreement prior to the close of business on the Consideration Determination Date;

UC is the amount, as at the close of business on the Consideration Determination Date, of any trade creditors of the PEH Post-Demerger Group that were not paid but should have been paid on or before the close of business on the Consideration Determination Date in accordance with the normal practices, policies and payment cycle of the New Zealand Operation in respect of that creditor or class of creditors;

D is the amount received in the period commencing on 23 May 2005 and ending at close of business on the Consideration Determination Date by any member of the FAL Group for or in connection with the disposal of:

- (a) any interest in any real property that forms part of or relates to the New Zealand Operation or the Woolworths Action Stores other than the properties listed in schedule 7 to the Merger Implementation Agreement; or
- (b) any other asset (excluding trading stock sold in the ordinary course of business) that forms part of or relates to the New Zealand Operation or the Woolworths Action Stores where the consideration was greater than \$500,000 for an individual item or was sold as part of the sale of a portfolio of assets where the consideration for the portfolio was greater than \$1.5 million;

- Ex** is the total, as at the close of business on the Consideration Determination Date, of all external costs incurred or anticipated to be incurred by the PEH Post-Demerger Group as a consequence of or in response to the Metcash Takeover Offer or in undertaking the Demerger Scheme and the Transfer Scheme including (excluding, for the avoidance of doubt, Tax and stamp duty):
- (a) payments that are owing or will become owing to employees as a consequence of the Metcash Takeover Offer, the Demerger Scheme or the Transfer Scheme including any retention payments referred to in the "WOW Disclosed Matters" (as defined in Merger Implementation Agreement) and those parts of the incentive or bonus payments referred to in the WOW Disclosed Matters that relate to the period prior to the Consideration Determination Date;
 - (b) shareholder communications, including advertising and the printing and distribution of the Target's Statement, this Booklet and communicating with shareholders in relation to the Metcash Takeover Offer, the Target's Statement, this Booklet, the Demerger Scheme and the Transfer Scheme; and
 - (c) obtaining financial, legal, accounting and other specialist and expert advice, opinions and reports in relation to the Metcash Takeover Offer, the Target's Statement, this Booklet, the Demerger Scheme and the Transfer Scheme;
- UnC** is the amount by which the aggregate capital expenditure paid by the FAL Group in relation to the PEH Post-Demerger Group in the period commencing on 23 May 2005 and ending at the close of business on the Consideration Determination Date (both dates inclusive) including capital expenditure paid on the properties and for other business purposes set out in schedule 6 of the Merger Implementation Agreement is less than NZ\$88,775,000 (referred to in this definition as "Target CAPEX Amount") provided that if any capital expenditure on any such property or in relation to any such business purpose has not been incurred during that period due to the occurrence of "Events Outside of FAL's Control" (as defined in the Merger Implementation Agreement) (referred to in this definition as "Unincurred Capital Expenditure"), then the Target CAPEX Amount will be reduced by the amount of the Unincurred Capital Expenditure;
- Inv** is the amount by which the "Average Inventory" (as defined in the Merger Implementation Agreement) of the New Zealand Operation as at the close of business on the Consideration Determination Date is less than NZ\$226.2 million; and
- O** is the aggregate amount as at the close of business on the Consideration Determination Date of any expense relating to rent and other outgoings under leases, information technology licenses, utilities (including water, electricity and gas), wages and salaries, advertising and taxation of the PEH Post-Demerger Group that would or should have been paid on or before the Consideration Determination Date, determined in accordance with the following:
- (a) in the case of rent and other outgoings under leases, the provisions of the applicable leases and the normal practices, policies and payment cycles of the New Zealand Operation;
 - (b) in the case of information technology licences, the normal practices, policies and payment cycles of the New Zealand Operation in respect of that expense or class of expense;
 - (c) in the case of utilities (including water, electricity and gas), the normal practices, policies and payment cycles of the New Zealand Operation in respect of that expense or class of expense;
 - (d) in the case of advertising, the normal practices, policies and payment cycles of the New Zealand Operation in respect of that expense or class of expense;
 - (e) in the case of tax, where payment had fallen due in accordance with the applicable statutory payment timetable or an assessment notice, demand or other document issued by a Government Agency; and
 - (f) in the case of wages and salaries, group tax and superannuation, the normal practices, policies and payment cycles of the New Zealand Operation in respect of that expense or class of expense,
- but is not paid at the close of business on the Consideration Determination Date, where the aggregate amount in respect of any category referred to in (a), (b) and (c) above is greater than \$1 million.

3.2.7 Woolworths Consideration - assumed level of adjustments

Based on information available to FAL on 31 August 2005, it is estimated by FAL that Net Assumed Debt as at the Consideration Determination Date will be approximately \$316 million.

This has been assumed for the purposes of calculating the estimates of the value of the Woolworths Consideration and the total value of the Transfer Scheme Consideration included in this Booklet.

You should note that the estimate of the value of these adjustments is based on a number of assumptions regarding future events and actions which are expected to take place. However, the actual position is likely to vary from this estimated position.

The main component of Net Assumed Debt which may vary materially from the amount estimated for the purposes of estimating Net Assumed Debt is the amount by which the capital expenditure paid by PEH and the companies that will be Subsidiaries of PEH is less than NZ\$88,775,000. However, any such shortfall is likely to be balanced, at least in part, by a reduction in net external debt.

3.2.8 Timing for determination of Net Assumed Debt

The Net Assumed Debt will be determined as at 2 October 2005 and the details of the Transfer Scheme Consideration are expected to be announced by 24 October 2005.

3.3 Metcash Consideration

3.3.1 What are the choices of Metcash Consideration?

You may elect to receive **one** of the following two choices of Metcash Consideration:

- (a) the Metcash Cash Consideration; **or**
- (b) the Metcash Share Consideration,

in exchange for all of your FAL Shares.

In contrast to the Woolworths Consideration, there is no rebalancing mechanism for the Metcash Consideration so the amount of cash or number of Metcash Shares you receive is not affected by what any other FAL Shareholders elect to receive.

You must make an Election using the Election Form accompanying this Booklet. If you do not make a valid Election you will automatically receive the Metcash Cash Consideration.

To be valid, Election Forms must be completed and received by FAL in accordance with the instructions on the Election Form by 7.00pm Perth time on 10 November 2005. Once made, a valid election may be varied until that time on that date.

3.3.2 Determination of the Metcash Consideration

3.3.2.1 How will the Metcash Cash Consideration be determined?

The Metcash Cash Consideration is an amount equal to \$755 million, adjusted in the manner described below, and divided by the total number of FAL Shares on issue as at the Transfer Implementation Date.

Unadjusted, the Metcash Cash Consideration is **\$6.41 per FAL Share**.

Each of the adjustments to the total Metcash Consideration relates to the financial position of the FAL Group as at the Consideration Determination Date. Some of these adjustments have already been agreed at the date of this Booklet. The adjustments that have not been agreed are those for each of the following:

- (a) the Australian Surplus Cash Balance;
- (b) Working Capital;
- (c) Tax Receivable;
- (d) External Debt of FAL (if any);
- (e) Metcash Agreed Amounts;
- (f) Demerger and Transfer Scheme Costs; and
- (g) surplus property and capital expenditure.

These adjustments (including relevant definitions) and other agreed adjustments are set out in the Merger Implementation Agreement. Each of these matters are also discussed further below.

(a) *The Australian Surplus Cash Balance*

The Australian Surplus Cash Balance is based on the cash balance of the FAL Post-Demerger Group as at the Consideration Determination Date. The greater the Australian Surplus Cash Balance, the more Metcash is willing to pay for FAL and vice versa.

If the Australian Surplus Cash Balance as at the Consideration Determination Date is **greater than** \$18 million, the difference will be **added** to the total Metcash Cash Consideration.

If the Australian Surplus Cash Balance as at the Consideration Determination Date is **less than** \$18 million, the difference will be **subtracted** from the total Metcash Cash Consideration.

(b) *Working capital*

There will be an adjustment for working capital in the Australian Operation if Actual Working Capital as at the Consideration Determination Date is more than 8% below the Threshold Working Capital. The way that the adjustment will work is that if the value of Actual Working Capital is less than 92% of Threshold Working Capital, the difference between the value of Actual Working Capital and 92% of the Threshold Working Capital will be **subtracted** from the total Metcash Consideration.

Working Capital is the total value of inventory and trade debtors, net of trade creditors. The Threshold Working Capital is the average Working Capital of the Australian Operation (minus the inventory in the Woolworths Action Stores) and pre-paid rent as at the last trading day of the month for the six calendar months up to and including the Consideration Determination Date.

If the value of Actual Working Capital, being the Working Capital of the Australian Operation (minus the inventory in the Woolworths Action Stores) and pre-paid rent as at the Consideration Determination Date, is greater than or equal to 92% of the Threshold Working Capital, there will be no adjustment to the Metcash Consideration.

(c) *Capital expenditure on development sites*

It has been agreed that \$1.3 million in respect of the excess value of four Woolworths Action Stores (specified in the Merger Implementation Agreement) will be **subtracted** from the total Metcash Cash Consideration.

(d) *Tax Receivable*

FAL is currently in dispute with the ATO in relation to the ATO Claim. FAL's financial accounts include a tax receivable for \$25 million in relation to the ATO Claim.

If FAL or a Subsidiary of FAL receives any amount in relation to the ATO Claim from the ATO before the Consideration Determination Date, or the ATO has agreed unconditionally and irrevocably in writing to pay an amount to FAL or a Subsidiary of FAL in relation to the ATO Claim before the Consideration Determination Date, that amount will be **added** to the total Metcash Cash Consideration.

If no amount is recovered in respect of the ATO Claim before the Consideration Determination Date, there will be no adjustment to the Metcash Cash Consideration.

However, if FAL is unable to recover in relation to the ATO Claim from the ATO before this time, Metcash Trading has agreed that it will use reasonable endeavours to procure that FAL continues to pursue the ATO Claim after the Consideration Determination Date. An amount of \$1 million will be deducted from the total Metcash Cash Consideration and Metcash must spend up to this amount in pursuing the ATO Claim. If any amount in relation to the ATO Claim is subsequently recovered, Metcash Trading has agreed that it will pay an additional amount to FAL Shareholders equal to the amount (if any) recovered in respect of the ATO Claim plus any portion of the \$1 million not expended in pursuing the ATO Claim or settling the ATO Claim after the Consideration Determination Date. Such an amount will be paid to FAL Shareholders within 28 days of receipt of the proceeds from the ATO.

This means that you could potentially receive a *separate* payment for this amount **some time after** you receive the main portion of the Transfer Scheme Consideration.

Without any adjustment for costs and interest received on any refund of amounts paid, the ATO Claim is worth up to approximately \$0.21 per FAL Share.

(e) *Terminated Woolworths' contracts*

An amount of \$6.0 million in respect of terminated Woolworths' contracts will be **subtracted** from the total Metcash Cash Consideration.

(f) *External Debt of FAL*

The net external borrowings of the FAL Post-Demerger Group as at the close of business on the Consideration Determination Date (if there is any remaining) will be **subtracted** from the total Metcash Cash Consideration.

(g) *Metcash Agreed Amounts*

If Metcash requests that FAL incurs a liability or commitment in relation to the Australian Operation (other than the Woolworths Action Stores) or provides prior approval for the relevant liability or commitment to be incurred, the amount of that liability or commitment will be **added** to the Metcash Cash Consideration.

(h) *Demerger and Transfer Scheme Costs*

The Demerger Scheme and Transfer Scheme Costs which have not been paid by FAL by the Consideration Determination Date will be **subtracted** from the Metcash Cash Consideration.

These costs are in relation to:

- (i) shareholder communications, including advertising and the printing and distribution of this Booklet and communicating with FAL Shareholders in relation to this Booklet, the Demerger Scheme and the Transfer Scheme; and
- (ii) obtaining financial, legal, accounting and other specialist and expert advice, opinions and reports; and
- (iii) board retirement costs, redundancy costs for any FAL personnel above the General Manager of Action and the General Manager of Wholesale and Franchise & Supply.

It has also been agreed that an amount of \$14 million will be **added** to the Metcash Cash Consideration in respect of a reimbursement for costs associated with the Demerger Scheme and Transfer Scheme.

(i) *Surplus property and capital expenditure*

There will be an adjustment for the disposal of certain surplus properties and capital expenditure on surplus properties. The greater of the following amounts will be **deducted** from the Metcash Cash Consideration:

- the amount received by the FAL Post Demerger Group for the disposal of any interest in any real property listed in Schedule 5 of the Merger Implementation Agreement and which, as at the Consideration Determination Date, is not retained as cash (or cash equivalent) within the Australian Operation; and
- the value attributed to the relevant real property in schedule 5 to the Merger Implementation Agreement.

Any capital expenditure paid by the FAL Post Demerger Group after 1 February 2005 and prior to the Consideration Determination Date on the properties set out in schedule 5 of the Merger Implementation Agreement will be **added** to the total Metcash Cash Consideration.

For example, if the net amount of adjustments in (a) to (i) is negative \$9.4 million and there are 117,828,603 FAL Shares on Completion, the Metcash Cash Consideration will be (\$755 million - \$9.4 million) / 117,828,603, or \$6.33 per FAL Share.

3.3.2.2 *How will the Metcash Share Consideration be determined?*

The Metcash Share Consideration will be determined in accordance with the following formula:

$$\text{MSC} = 2.09 + \frac{A}{\$3.38 \times \text{FS}}$$

where:

MSC is Metcash Share Consideration per FAL Share;

FS is FAL Shares on issue on the Transfer Implementation Date; and

A is net amount of the adjustments (which may be a positive or negative number).

For example, if the net amount of the adjustments is negative \$9.4 million and there are 117,828,603 FAL Shares on the Transfer Implementation Date, the Metcash Share Consideration is 2.07 Metcash Shares per FAL Share.

The nature and subject of the adjustments relating to the Metcash Share Consideration are the same as the adjustments described above.

The Metcash Shares offered as consideration will not participate in the interim dividend declared by Metcash in respect of the period from 1 May 2005 to a date in September or October 2005.

As for the Metcash Cash Consideration, if an amount in respect of the ATO Claim is recovered from the ATO **after** the Consideration Determination Date, if you choose to receive Metcash Shares you will receive a separate cash payment for this amount some time after the main portion of the Metcash Share Consideration.

3.3.3 Metcash Consideration - estimate of adjustments

Based on information available to FAL on 31 August 2005, it is estimated by FAL that the net amount of the adjustments to the Metcash Consideration as at the Consideration Determination Date will be a negative adjustment of approximately \$9.4 million.

This estimate has been assumed for the purposes of calculating the estimates of the value of the Metcash Consideration and the value of the Total Scheme Consideration included in this Booklet. This estimate assumes that nothing is received from the ATO for the Tax Receivable Amount.

However, you should note that the estimate is based on a number of assumptions regarding future events and actions which are expected to take place. The actual position is likely to vary from this estimated position.

3.3.4 Timing for determination of Metcash Cash Consideration and Metcash Share Consideration

The Metcash Cash Consideration and the Metcash Share Consideration will be determined as at 2 October 2005 and the details are expected to be announced by 24 October 2005.

3.3.5 Value of Metcash Consideration

The value of the Metcash Cash Consideration is \$6.33 per FAL Share, subject to the adjustments described in Part 3.3.2 of this Booklet. This includes FAL's assumed level of adjustments as at the Consideration Determination Date.

The value of the Metcash Share Consideration is equal to the value of 2.07 Metcash Shares, subject to the adjustments described in Part 3.3.2 of this Booklet. This includes FAL's assumed level of adjustments as at the Consideration Determination Date. The table below illustrates the implied value of a holding of an FAL Share in relation to which the Metcash Share Consideration is payable, based on a variety of possible Metcash Share prices.

The table below is only for illustrative purposes and the Metcash Share prices stated should not be taken as an indication of the likely Metcash Share prices following the implementation of the Transfer Scheme. No assurance can be, or is, given as to the prices at which Metcash Shares will trade following the implementation of the Transfer Scheme.

| Metcash Share Price | Implied value of Metcash Share Consideration for each FAL Share* |
|---------------------|--|
| \$3.50 | \$7.25 |
| \$3.60 | \$7.45 |
| \$3.70 | \$7.66 |
| \$3.80 | \$7.87 |
| \$3.90 | \$8.07 |
| \$4.00 | \$8.28 |
| \$4.10 | \$8.49 |
| \$4.20 | \$8.69 |
| \$4.30 | \$8.90 |
| \$4.40 | \$9.11 |
| \$4.50 | \$9.32 |

* Implied values exclude any effects of tax. Amounts are rounded to the nearest cent.

The last recorded sale price for Metcash Shares on the ASX on 15 September 2005 was \$3.91.

During the three months ended on 15 September 2005:

- (a) the highest recorded sale price for Metcash Shares on the ASX was \$4.32, which was recorded on 25 July 2005; and
- (b) the lowest recorded sale price for Metcash Shares on the ASX was \$3.62, which was recorded on 16 June 2005.

The latest recorded sale price for Metcash Shares on the ASX before the public announcement of the Transfer Scheme was \$3.38 on 20 May 2005.

The chart below shows the historical price of Metcash Shares traded on the ASX since 1 July 2004.



Note: The Metcash share price chart reflects the adjusted Metcash share price. Prior to 15 February an adjustment factor of 0.8953 (announced by the ASX for the CULs issue) has been applied to Metcash actual share price.

3.4 Woolworths Share Adjustment Events and Metcash Share Adjustment Events

The components of the Transfer Scheme Consideration comprising Woolworths Shares and Metcash Shares are based on the capital structure of Woolworths and Metcash as at 31 August 2005.

If Woolworths or Metcash changes its capital structure between the date of this Booklet and the Second Court Date, then the way the Woolworths Consideration or the Metcash Consideration is calculated may be adjusted to take into account the effect of the relevant change in the capital structure on the value of the Metcash Shares or Woolworths Shares issued under the Transfer Scheme. Changes in capital structure may include certain dividends, a return of capital or an issue of shares which may have a dilutive or concentrative effect on the value of the Woolworths and Metcash Shares issued to FAL Shareholders under the Transfer Scheme.

If such an event occurs before the Second Court Date, FAL and Woolworths or Metcash (as appropriate) will enter into discussions in relation to an appropriate adjustment to the Transfer Scheme Consideration. If agreement on an appropriate adjustment cannot be reached within five Business Days of the occurrence of the relevant adjustment event (or any shorter period ending on the Business Day before the Transfer Record Date), the Consideration Expert will be asked to make a determination in relation to any necessary adjustment.

Importantly:

- (a) any distribution or dividend announced or declared by Metcash to the extent that such dividend is consistent with customary levels of prior final dividends paid by Metcash;
- (b) the final dividend declared by Woolworths in respect of the financial year ended 26 June 2005;
- (c) any shares issued under Woolworths dividend re-investment plan in respect of the final dividend for the financial year ending 26 June 2005 and any shares arising on the exercise of options issued under a Woolworths Directors, employee or incentive share or option plan;
- (d) a buy-back of shares by Woolworths under its existing and already approved share buy-back program;
- (e) any shares issued under the Metcash dividend re-investment plan for the interim dividend in respect of the period to September or October 2005 or Metcash's dividend re-investment plan underwriting deed; and
- (f) the issue of shares by Metcash on any conversion of the CUPS or CULs.

are **not** events that will result in an adjustment to the Woolworths Consideration or the Metcash Consideration.

Woolworths have agreed that there will be no Woolworths Share Adjustment Event and Metcash have agreed that there will be no Metcash Share Adjustment Event in the period from the Second Court Date until the Consideration Date.

3.5 The Consideration Expert

FAL, Woolworths and Metcash will endeavour to agree on the elements of the Transfer Scheme Consideration in accordance with the formulae and principles described in Parts 3.2 and 3.3 of this Booklet.

However, KPMG has been appointed as a Consideration Expert to determine the following elements of the Transfer Scheme Consideration:

- (a) the Metcash Cash Consideration;
- (b) the Metcash Share Consideration;
- (c) the Net Assumed Debt;
- (d) the Woolworths Cash Consideration;
- (e) the Woolworths Standard Consideration;
- (f) the Woolworths Share Consideration;
- (g) the Actual Working Capital;
- (h) the Threshold Working Capital; and
- (i) the Demerger and Transfer Scheme Costs,

(collectively referred to in this Booklet as the "Consideration Components").

The parties will agree the procedures and processes which the Consideration Expert must apply in calculating and determining each of the Consideration Components, including, for the avoidance of doubt, each of the adjustments to the Metcash Scheme Consideration under the Merger Implementation Agreement and the individual components of the formula for Net Assumed Debt. These procedures and processes must be such as to enable the Consideration Expert to form the view that each of the Consideration Components has been properly calculated and determined and, without limiting the foregoing must include procedures and processes which will enable the Consideration Expert:

- (a) to be satisfied that it has been provided with all information which is required for the purpose of calculating and determining each of the Consideration Components and which is necessary for the Consideration Expert to be able to complete the agreed procedures and processes; and
- (b) to verify that information.

In calculating and determining each of the Consideration Components in accordance with the Merger Implementation Agreement, the Consideration Expert must apply Australian Accounting Standards as applied to FAL's annual accounts for the year ended 1 August 2004 (and the accounting policies set out in those accounts) except where the parties have agreed otherwise.

Where the parties have agreed to a particular part (but not all) of the Metcash Consideration or the Woolworths Consideration (as the case may be), the Consideration Expert will use that agreed part in making its determination in relation to the Transfer Scheme Consideration.

3.6 When will the exact Woolworths Consideration and the Metcash Consideration be determined?

FAL expects to announce the exact amount of cash and/or shares that FAL Shareholders are entitled to under the Transfer Scheme to the ASX no later than 25 November 2005. These will also be posted on the FAL website at www.fal.com.au.

3.7 How do you indicate what Woolworths Consideration and Metcash Consideration you want to receive?

You must indicate your preferred consideration by completing and returning the Election Form accompanying this Booklet. You must use an Election Form for BOTH Woolworths Consideration and Metcash Consideration. To be valid, Election Forms must be completed and received by FAL in accordance with the instructions on the Election Forms by 7.00pm Perth time on 10 November 2005.

3.8 Can you change your Election?

Yes, you can change your Election by calling the FAL Shareholder Information Line on 1800 068 729 (within Australia) or +61 3 9415 4125 (outside of Australia), requesting a Change of Election Form and returning your properly signed and completed Change of Election Form to the FAL Share Registry by 7.00pm Perth time on 10 November 2005.

3.9 Elections by nominee and trustee FAL Shareholders

FAL Shareholders who hold one or more parcels of FAL Shares as trustee or nominee for, or otherwise on account of, another person, may make separate Elections in relation to each of those parcels of FAL Shares. Trustees or nominees who would like further information on how to make separate Elections in relation to parcels of FAL Shares should contact the FAL Shareholder Information Line for further information on 1800 068 729 (within Australia) or +61 3 9415 4125 (outside of Australia). It is available Monday to Friday between 9.00am and 7.00pm AEST.

3.10 What happens if you don't make an Election?

If the Transfer Scheme is implemented and you do not submit a properly signed and completed Election Form to the FAL Share Registry by 7.00pm Perth time on 10 November 2005 you will automatically receive:

- (a) the Woolworths Standard Consideration; and
- (b) the Metcash Cash Consideration.

If you make a valid Election for the Metcash Consideration but not the Woolworths Consideration you will receive:

- (a) the Woolworths Standard Consideration; and
- (b) your choice of the Metcash Consideration.

If you make a valid Election for the Woolworths Consideration but not the Metcash Consideration, you will receive:

- (a) your choice of the Woolworths Consideration; and
- (b) the Metcash Cash Consideration.

3.11 Payment of cash to FAL Shareholders

It is expected that payment of the cash component of the Woolworths Consideration (if any) and the Metcash Cash Consideration (if chosen) will be despatched to FAL Shareholders by cheque in Australian dollars, not later than 1 December 2005.

3.12 Distribution of holding statements

It is expected that holding statements for the Woolworths Shares that form part of the Woolworths Consideration and the Metcash Share Consideration (if chosen) will be despatched to FAL Shareholders by not later than 29 November 2005. If the Demerger Scheme is approved but the Transfer Scheme is not approved, holding statements for PEH Shares will be despatched to FAL Shareholders by not later than 24 November 2005. Cheques and holding statements will be sent by prepaid post to the FAL Shareholders' addresses in the FAL Share Register or to the address notified on their application form or otherwise in writing.

Part 4

How the Demerger Scheme will work if it proceeds but the Transfer Scheme does *not* proceed

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4 How the Demerger Scheme will work if it proceeds but the Transfer Scheme does *not* proceed

IMPORTANT: This section of the Booklet describes the Demerger if the Demerger Scheme does proceed but the Transfer Scheme does *not* proceed.

4.1 What is the main outcome if the Demerger Scheme proceeds but the Transfer Scheme does *not* proceed?

If the Demerger Scheme proceeds but the Transfer Scheme does *not* proceed, your existing investment in FAL will be divided into two separate investments in each of FAL and PEH; FAL will continue to be listed on the ASX and PEH will apply to be listed on the ASX (and on the NZX as an overseas listed issuer). Each FAL Shareholder will then own one PEH Share for each of their FAL Shares.

The steps involved in the separation of your investment in FAL into FAL and PEH as a result of the Demerger are explained in this Part of the Booklet. Remember, this Part of the Booklet only applies if *just* the Demerger Scheme proceeds.

4.2 Elements of the Demerger Scheme if the Transfer Scheme does *not* proceed

If the Demerger Scheme is approved by FAL Shareholders and is approved by the Court, then on the Demerger Implementation Date:

- (a) the share capital of FAL will be reduced by the Capital Reduction Amount;
- (b) FAL will pay the Demerger Dividend; and
- (c) each FAL Shareholder registered on the FAL Share Register at the Demerger Record Date will receive one PEH Share for every FAL Share they hold (except Ineligible Overseas Shareholders). In the case of Ineligible Overseas Shareholders, the PEH Shares that would otherwise have been transferred to them will be held by FAL (or its agent) and dealt with in the manner described in Part 13 of this Booklet.

You will not be required to pay any money for the PEH Shares because your entitlement to the amount of the Capital Reduction and the Demerger Dividend will be automatically applied to pay for the transfer of the PEH Shares to you. You will not have the option of taking your entitlement to the amount of the Capital Reduction or Demerger Dividend in cash.

Under the Demerger, FAL Shareholders will collectively be entitled to all of the PEH Shares on issue.

4.2.1 Conditions to the Demerger

The terms of the Demerger Scheme are set out in Part 18.4 of this Booklet.

If the Demerger *is* approved by FAL Shareholders but the Transfer Scheme is *not* approved by FAL Shareholders, it is an additional condition that the ASX approves the admission of PEH to the official list of the ASX and grants permission for official quotation of the PEH Shares on the market conducted by the ASX, subject only to the Scheme becoming Effective and such other conditions as may be acceptable to FAL.

If the Demerger Effective Date does not occur by 31 December 2005 (or such later date as FAL determines), the Demerger Scheme will lapse and the Demerger will not proceed.

4.2.2 Timing of the Demerger

An indicative timetable appears on pages 34 and 35 of this Booklet under the heading "Important dates and times". A specific indicative timetable is included in relation to events relevant to both the Transfer Scheme and the Demerger Scheme and events relevant only if the Transfer Scheme *is not* approved but the Demerger Scheme *is* approved.

The dates and times in the indicative timetable may change depending on a number of factors, some of which are outside the control of FAL (for example, the timing of Court approval of the Schemes). In addition, FAL has the right to vary the times and dates in the timetable without notifying FAL Shareholders.

4.3 Meetings

The Transfer Scheme Meeting will be held **before** the General Meeting to vote on the Capital Reduction and the Demerger Scheme Meeting. The Transfer Scheme will be conditional on FAL Shareholders approving the Demerger Scheme at the Demerger Scheme Meeting and the Demerger Scheme is conditional on FAL Shareholders approving the Capital Reduction at the General Meeting.

If FAL Shareholders do not approve the Transfer Scheme at the Transfer Scheme Meeting, the General Meeting to consider the Capital Reduction Resolution and the Demerger Scheme Meeting will still proceed. If the Capital Reduction and Demerger Scheme are approved by FAL Shareholders, FAL will seek to implement the Demerger Scheme in accordance with the steps outlined below.

4.4 Court approval

In accordance with section 411(4)(b) of the Corporations Act, the Demerger Scheme (with or without modification) must be approved by an order of the Court. If the Capital Reduction Resolution and Demerger Scheme are passed at the General Meeting and Demerger Scheme Meeting, FAL intends to apply to the Court on 9 November 2005 for the necessary orders to give effect to the Demerger Scheme.

4.5 Steps required after FAL Shareholder and Court approval

4.5.1 Demerger Effective Date

The Demerger Effective Date is the date on which the office copy of the Court order approving the Demerger Scheme pursuant to section 411(4)(b) of the Corporations Act is lodged with ASIC by FAL.

4.5.2 Notice to the ASX

Upon the Demerger Scheme becoming Effective, FAL will give notice of that fact to the ASX.

4.5.3 Transfer of PEH Shares

On the Demerger Implementation Date, the PEH Shares to which you are entitled under the Demerger Scheme will be transferred to you (unless you are an Ineligible Overseas Shareholder).

It is expected that all FAL Shareholders will have their names entered on the PEH share register by 10.00pm on 24 November 2005. In the case of joint holdings, the names will be entered in the same order as they stand in the FAL Share Register.

Except for your tax file number, binding instructions or notifications between you and FAL relating to your FAL Shares at the Demerger Record Date (including any instructions relating to payment of dividends or communications from FAL) will, from the Demerger Record Date, be deemed to be similarly binding instructions to, and accepted by, PEH in respect of the PEH Shares transferred to you.

4.5.4 Distribution of holding statements for PEH

Holding statements for PEH Shares are expected to be despatched to FAL Shareholders (who are not Ineligible Overseas Shareholders) under the Demerger Scheme on 24 November 2005. Holding statements will be mailed to the FAL Shareholders' addresses in the FAL Share Register or to the address notified by them in writing.

4.5.5 Listing of PEH and trading of PEH Shares on the ASX and the NZX

An application has been made for admission of PEH to the ASX official list and NZX and for official quotation of all PEH Shares on the ASX and quotation on the NZX (in the case of the NZX, as an overseas listed issuer).

If the Transfer Scheme is not approved, PEH Shares are expected to commence trading on the ASX and the NZX, initially on a deferred settlement basis on the ASX and on a deferred settlement (delayed delivery) basis on the NZX, on 24 November 2005. Holding statements will be despatched on 24 November 2005. It is your responsibility to determine your entitlement to PEH Shares before trading shares to avoid the risk of trading PEH Shares you do not own. If you sell your PEH Shares before receiving your holding statement you do so at your own risk.

4.5.6 Expiry date

If the Demerger Effective Date does not occur by 31 December 2005 (or such later date as FAL determines) then the Demerger Scheme will lapse and the New Zealand Operation will continue to be owned by FAL. However, in this event, FAL may continue to explore and pursue divestment opportunities for the Australian Operation and/or the New Zealand Operation.

4.6 Restructuring of FAL's operations

The steps required to restructure FAL's operations for the Demerger are described in Part 14.15 of this Booklet.

The same steps will occur if the Demerger proceeds without the Transfer Scheme except that PEH will not get control of the Woolworths Action Stores if the Transfer Scheme is not approved and FAL will retain control of the Woolworths Action Stores.

It is also important to note that, for accounting purposes, the effective date of separation of PEH from FAL will be the Demerger Implementation Date (intended to be 24 November 2005). This will require FAL to consolidate the results of PEH up to and including this date.

4.7 FAL Employee Share Plan

In anticipation of the Schemes taking effect, the FAL Board intends to exercise its powers under the FAL Employee Share Plan to terminate the plan.

It is also intended that participants in the FAL Employee Share Plan will be offered a choice either to:

- (a) pay out the relevant loans made to them in respect of their FAL Shares held under the FAL Employee Share Plan (in which case the relevant FAL Shares will be transferred to them and they can deal with them as they see fit); or
- (b) elect that their FAL Shares be sold by the trustee of the FAL Employee Share Plan. In accordance with the terms of the FAL Employee Share Plan, the proceeds of sale will be applied to repayment of outstanding loans made to employees under the FAL Employee Share Plan and to meet sale costs, with any balance being paid to the relevant employee.

A formal decision to terminate the FAL Employee Share Plan has not yet been made. It is expected that the formal decision to terminate the FAL Employee Share Plan will be made prior to the Demerger Implementation Date.

Once the formal decision to terminate the FAL Employee Share Plan is made, where employees have not paid out the relevant loans, their FAL Shares held under the FAL Employee Share Plan will be sold on the ASX.

4.8 FAL's creditors

In the opinion of the FAL Board, the Demerger will not, if it proceeds, have a materially adverse impact on the interests of FAL's creditors. No material additional liability will be incurred by FAL, other than that which may arise pursuant to the contracts between FAL and PEH (see Part 14.16 of this Booklet).

Further, apart from the Capital Reduction and Demerger Dividend, there will be no other outflow of funds or property from FAL under, or by reason of, the Demerger, other than transaction costs incurred in connection with the implementation of the Demerger and except as otherwise disclosed in this Booklet.

Grant Samuel has been retained as the Independent Expert to provide its opinion as to whether, amongst other things, the Demerger Scheme is materially prejudicial to creditors of FAL. The Independent Expert's Report concludes that the interests of creditors of FAL will not be materially prejudiced by the Demerger Scheme. The full report is contained in Part 15.1 of this Booklet.

4.9 FAL Board and PEH Board

The FAL Board and the PEH Board are comprised of the same board members. These Board members are named in Part 14.2 of this Booklet.

If the Demerger Scheme proceeds but the Transfer Scheme does not proceed, the FAL Board and the PEH Board will each meet within three months of the Demerger Implementation Date to determine the appropriate composition of each board in light of the changed circumstances. The "new" boards may be comprised of existing and new board members. The FAL Directors do not know at this stage whether there will be any common directors on the FAL Board and the PEH Board. However, board members for each company will be appointed to ensure the appropriate mix of skills and experience to best serve the interests of FAL Shareholders and PEH Shareholders.

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Part 5

Information about Woolworths

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5 Information about Woolworths

5.1 Profile of Woolworths

5.1.1 Overview of Woolworths

Woolworths is Australia's largest retailer measured by market capitalisation and has over 2,500 total retail locations. Woolworths is also Australia's largest food and grocery retailer, with 723 supermarkets around the country, and is a major liquor retailer, now operating 938 retail liquor outlets and 169 pubs and clubs. Woolworths had total sales of approximately \$31,352.5 million and NPAT of approximately \$790.5 million for the financial year ended 26 June 2005 and has more than 145,000 employees.

Woolworths was listed on the ASX in 1993 under the symbol WOW. As at 26 June 2005, Woolworths had a total equity market capitalisation of approximately \$17,500 million. S&P has had an A- long term credit rating on Woolworths since 2001.

The business operated by FAL in New Zealand under the brand name "Woolworths" is unrelated to Woolworths.

Woolworths' activities are primarily conducted through three groups:

- (a) Supermarkets Group - encompassing supermarkets, retail liquor outlets and petrol stations;
- (b) General Merchandise Group - encompassing discount department stores and consumer electronics retailing; and
- (c) Hotels Group - encompassing hotel operations including bars, restaurants, gaming, functions and accommodation.

5.1.2 History and ownership

Historical Highlights

| | |
|------|--|
| 1924 | Woolworths founded as a variety store retailer (broadly on F.W. Woolworths formats) and listed on the Sydney Stock Exchange |
| 1958 | Experimented with small food sections and then acquired BCC Stores Holding Co. Limited, providing Woolworths with an introduction to food retailing |
| 1960 | Became the first Australian retailer to operate in all states and territories of Australia |
| 1976 | Opened the first BIG W Discount Store |
| 1981 | Acquired a 60% interest in Dick Smith Electronics |
| 1983 | Acquired the remaining interest in Dick Smith Electronics |
| 1985 | Australian Safeway Store Group acquired from Safeway in the U.S. which received a 19.99% interest in Woolworths |
| 1987 | The 'Fresh Food People' campaign launched focusing on the freshest food and best range at the lowest prices |
| 1989 | Industrial Equity Limited completed a takeover offer for Woolworths which resulted in Woolworths delisting from the ASX |
| 1993 | Woolworths re-listed on the ASX with a market capitalisation of approximately \$2,450 million and over 320,000 shareholders including 19,000 employees |
| 1996 | Diversified into petrol retailing opening its first Plus Petrol outlet offering discounts on presentation of its shopping receipts |
| 1998 | Commonwealth Bank of Australia and Woolworths announced an alliance aimed to provide a range of co-branded financial services for customers |
| 1999 | 'Project Refresh' launched: a company-wide program to reinvigorate the business and create cost savings |

Historical Highlights

| | |
|------|--|
| 2000 | Acquired four Advantage Supermarkets in Western Australia and an approximately 38% interest in Internet retailer GreenGrocer.com.au. A number of outlets acquired from the Booze Brothers liquor chain in South Australia. Chisholm Manufacturing and Rockman's clothing stores sold |
| 2001 | Tandy consumer electronics chain of 222 stores acquired from Canada-based Intertan Inc, 71 Franklins supermarkets acquired from the Hong Kong-based Dairy Farm International (four stores subsequently divested), 69 Liberty Oil petrol stations leased. Crazy Prices discount stores sold |
| 2002 | Woolworths established Bruandwo with The Bruce Mathieson Group to acquire pubs and operate the Queensland liquor business. Exited wholesale operations through Australian Independent Wholesalers |
| 2003 | Woolworths and Caltex signed a co-branded service station agreement to operate discount fuel stations |
| 2004 | Bruandwo acquired control of Australian Leisure and Hospitality Group Limited |
| 2005 | Proposed acquisition of FAL's New Zealand Operation and Woolworths Action Stores announced |

5.1.3 Woolworths' principal activities

5.1.3.1 Supermarkets Group - Supermarkets

Woolworths' Supermarkets Division, trading as Woolworths, Safeway and Food for Less, is Australia's largest food retailer, with 723 stores.

Woolworths and Safeway stores are large supermarkets offering a wide range of products including frozen food, dairy, delicatessen, fresh fruit and vegetables, meat, groceries, bakery, health and beauty and general merchandise. These core supermarkets average about 2,200 square metres in size and are generally located in primary shopping centres or in stand alone locations.

5.1.3.2 Supermarkets Group - Liquor

Total liquor sales for the financial year ended 26 June 2005 (including sales by Woolworths' 75% owned subsidiary, Bruandwo) totalled approximately \$2,600 million.

Woolworths is a major liquor retailer in Australia, operating 938 liquor outlets across its liquor brands. The business operates under four distinct brands, each servicing a different segment of the liquor market:

- Woolworths Liquor and Safeway Liquor - Liquor outlets that are, in most cases, attached to supermarkets, stocking a range of beers, wines and spirits. There are 369 locations throughout Australia (although five of these are not attached to supermarkets).
- BWS (Beer, Wine and Spirits) - Free standing outlets that stock a range of beers, wines and spirits at 373 locations throughout Australia. In addition to these 373 locations, a further 146 outlets owned by Bruandwo are currently being rebranded, primarily as BWS stores.
- Dan Murphy's - Free standing large liquor outlets that have a supermarket-like layout. Dan Murphy's philosophy is based on providing a large range of liquor at low prices, supported by personalised fine wine advice and expertise. There are 37 Dan Murphy's stores in Victoria, New South Wales, the Australian Capital Territory, South Australia and Queensland.
- First Estate - Free standing outlets that primarily offer wine consumers a range of premium wines. There are 13 locations throughout New South Wales.

5.1.3.3 Supermarkets Group - Petrol retailing

Woolworths' first petrol station site opened in central New South Wales in 1996. Woolworths offers a petrol discount (currently four cents per litre) on production of a receipt showing purchases totalling \$30 or more from a Woolworths supermarket or BIG W store. The Woolworths petrol business is a stand alone business as well as an adjunct to its supermarket and general merchandise retail businesses, creating incremental store sales. Petrol retailing fits within Woolworths' core competency of high volume, low margin businesses.

In August 2003, Woolworths announced a petrol retailing and convenience store alliance with Caltex Australia Limited. This alliance has added around 117 outlets to its existing petrol discount network. The co-branded alliance outlets are in every state and territory and are generally located near Woolworths' stores. Woolworths sets retail petrol prices in accordance with its petrol pricing policy and Woolworths also sets the redemption discounts.

As at 26 June 2005, Woolworths' petrol discount network included 456 petrol outlets (including 339 petrol outlets operated by Woolworths and 117 petrol outlets operated as a result of the Caltex alliance) and is targeting a network of approximately 470 outlets (including outlets operated as a result of the Caltex alliance).

5.1.3.4 Supermarket Group - Summary financials

| Supermarkets Group (Including Petrol) Financial Summary (\$m) | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| | FY 2005 52 weeks | FY 2004 52 weeks | FY 2003 52 weeks | FY 2002 53 weeks | FY 2001 52 weeks |
| Sales | 26,878.0 | 24,192.5 | 22,749.5 | 20,714.3 | 17,519.4 |
| Gross margin | 23.3% | 24.1% | 24.4% | 24.8% | 25.0% |
| Cost of Doing Business | 19.2% | 20.1% | 20.6% | 21.2% | 21.5% |
| EBIT ¹ | 1,142.1 | 984.2 | 878.1 | 767.4 | 627.1 |
| EBIT ¹ margin | 4.1% | 4.0% | 3.8% | 3.6% | 3.5% |
| Funds Employed | 1,782.9 | 1,387.2 | 1,457.0 | 1,495.5 | 1,312.8 |
| Return on Funds Employed | 70.3% | 67.5% | 57.9% | 53.2% | 48.1% |

5.1.3.5 General Merchandise Group - Discount Department Stores

BIG W is the Discount Department Store Division of Woolworths, with 120 BIG W stores across Australia.

BIG W offers a variety of merchandise including men's, women's and children's apparel; footwear; fabrics; confectionery; health and beauty products; office supplies; automotive accessories; small appliances; home entertainment and garden equipment and supplies.

BIG W's "everyday low price" strategy has been a significant factor in BIG W's growth in sales and earnings over the past decade.

| BIG W Group Financial Summary (\$m) | | | | | |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | FY 2005 52 weeks | FY 2004 52 weeks | FY 2003 52 weeks | FY 2002 53 weeks | FY 2001 52 weeks |
| Sales | 2,908.7 | 2,717.9 | 2,500.3 | 2,280.5 | 2,069.8 |
| Gross margin | 29.8% | 30.3% | 30.9% | 31.3% | 31.4% |
| Cost of Doing Business | 25.7% | 26.0% | 26.7% | 27.2% | 27.4% |
| EBIT ¹ | 118.0 | 116.2 | 103.7 | 93.5 | 83.4 |
| EBIT ¹ margin | 4.1% | 4.3% | 4.2% | 4.1% | 4.0% |
| Funds Employed | 371.9 | 325.7 | 269.5 | 299.2 | 273.9 |
| Return on Funds Employed | 33.8% | 39.0% | 36.5% | 32.6% | 30.1% |

Note:

1. No purchased goodwill in BIG W.

5.1.3.6 General Merchandise Group - Consumer Electronics retailing

Woolworths has 342 consumer electronics stores in Australia and New Zealand. Woolworths' aim is to provide a range of the latest technology in consumer electronic products with superior in-store and after-sales service. Woolworths operates the business under three brand names: Dick Smith Electronics, Tandy and Dick Smith Electronics PowerHouse.

- (a) Dick Smith Electronics / Tandy - A network of 202 Dick Smith Electronics outlets and 122 Tandy outlets across Australia and New Zealand. Dick Smith Electronics and Tandy have a focus on communications, including mobile phones and in-home entertainment through TVs and computer games.

- (b) Dick Smith Electronics PowerHouse - Electronics superstores which provide a range of well-known brands in an interactive environment at competitive prices. There are now 17 PowerHouse stores in Australia and one in New Zealand.

Consumer Electronics Financial Summary (\$m)

| | FY 2005 52 weeks | FY 2004 52 weeks | FY 2003 52 weeks | FY 2002 53 weeks | FY 2001 52 weeks |
|--------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Sales | 1,007.5 | 886.3 | 791.2 | 659.0 | 418.0 |
| Gross margin | 30.4% | 31.6% | 33.6% | 37.2% | 39.5% |
| Cost of Doing Business | 25.2% | 26.6% | 28.9% | 32.9% | 32.1% |
| EBITA | 55.0 | 48.2 | 41.2 | 31.3 | 31.3 |
| EBIT | 51.8 | 44.1 | 37.0 | 28.0 | 30.8 |
| EBIT margin | 5.1% | 5.0% | 4.7% | 4.3% | 7.4% |
| Funds Employed | 236.1 | 220.4 | 245.1 | 253.0 | 208.3 |
| Return on Funds Employed | 22.7% | 18.9% | 14.9% | 12.1% | 22.1% |

5.1.3.7 Wholesale

Woolworths has previously operated a separate wholesale grocery business, Australian Independent Wholesalers. However, Woolworths exited this business in 2001. Its only remaining interest in wholesaling is a 60% interest in Statewide Independent Wholesalers Limited in Tasmania, which distributes to Woolworths stores and independent retailers.

5.1.3.8 Hotels Group

Woolworths' hotel interests are principally operated through its partly owned subsidiary Bruandwo. Bruandwo is 75% owned by Woolworths and 25% owned by The Bruce Mathieson Group.

Bruandwo and its wholly owned subsidiaries MGW and ALH operate 169 hotels across all states of Australia, except Tasmania, the Northern Territory and the Australian Capital Territory, and constitute Australia's largest hotel operator. Hotel operations include bars, restaurants, function facilities, accommodation, wagering and gaming. Bruandwo operates 7,250 electronic gaming machines.

Bruandwo acquired control of ALH pursuant to a takeover offer in 2004. ALH's hotel operations comprise 135 hotels across all states in Australia, except Tasmania, the Northern Territory and the Australian Capital Territory.

MGW's operations are confined to Queensland where it operates 34 hotels. In Queensland, licensed pubs are permitted to operate retail liquor outlets on-site, and, subject to regulatory approval, up to an additional three detached bottle shops within ten kilometres by road of the licensed hotel premises. Other than detached bottle shops associated with licensed hotels, the sale of liquor is generally not permitted in Queensland outside of hotel and club premises.

Bruandwo is currently awaiting regulatory approval to acquire the Victorian hotel, club and liquor retailing assets of The Bruce Mathieson Group, including 26 hotels (see Part 5.2.6 of this Booklet for further details of this transaction).

ALH's financial results have been fully consolidated with those of Woolworths from 31 October 2004. From 2 January 2005, MGW's financial results have been fully consolidated with those of Woolworths. Previously, MGW was equity accounted in the financial records of Woolworths.

Hotels Financial Summary (\$m)

| | FY 2005 ¹ |
|------------------------|----------------------|
| Sales | 415.8 |
| Gross margin | 82.7% |
| Cost of Doing Business | 69.5% |
| EBITA | 64.8 |
| EBIT | 54.9 |
| EBIT margin | 13.2% |

Note:

1. Includes results for ALH in relation to the period from 1 November 2004 to 26 June 2005, and the results for MGW in relation to the period from 23 January 2005 to 26 June 2005.

5.1.3.9 Number of Stores

Woolworths has operations located in all Australian states and territories. In addition, the Dick Smith Electronics business has a small presence in New Zealand. Store number data as at 26 June 2005 is given in the table below.

| Store type | Total |
|---|------------------|
| Supermarkets | 723 |
| Attached liquor stores | 364 |
| Freestanding liquor stores ² | 574 |
| Petrol stations | 456 ³ |
| BIG W | 120 |
| Consumer Electronics | 342 |
| Total | 2,579 |

Notes:

1. Excludes hotels.
2. Includes 382 retail liquor outlets operated by Bruandwo.
3. Includes 117 petrol stations operated under the Caltex alliance.

5.1.4 Vision, goals and strategies

5.1.4.1 The Woolworths strategy

Woolworths' vision is to continue to drive its core retail business, bringing to its customers greater convenience and quality, the best ranges and consistently lower prices across all of its businesses.

Woolworths targets four key areas of performance measurement for its business in the long term, namely:

- (a) sales growth in the upper single digits assisted by bolt-on acquisitions;
- (b) EBIT growth outperforming sales growth assisted by cost savings;
- (c) EPS growth outperforming EBIT growth assisted by capital management; and
- (d) maintenance of its A- credit rating from S&P.

Part 5.2.7 of this Booklet includes qualifications in relation to forward-looking statements made by Woolworths. The qualifications set out in Part 5.2.7 of this Booklet apply to the key areas of performance measurement set out above.

Woolworths' key areas of performance measurement are set out in the "Five Year Report Card", below. These areas of performance measurement (with the exception of the credit rating) have been included in Woolworths' annual and half year results presentation to the market for each of the five financial years ended 24 June 2001 to 26 June 2005.

| | FY 2005 | FY 2004 | FY 2003 | FY 2002 | FY 2001 |
|--|---------|---------|---------|---------|---------|
| Sales growth in the upper single digits assisted by bolt-on acquisitions | +12.2% | +6.1% | +7.6% | +17.0% | +10.1% |
| EBIT ¹ will outperform sales growth assisted by cost savings | +20.5% | +12.6% | +13.6% | +17.8% | +13.7% |
| EPS after goodwill will outperform EBIT ¹ growth assisted by capital management | +12.3% | +16.0% | +15.6% | +25.1% | +24.1% |
| Credit rating (S&P) ¹ | A- | A- | A- | A- | A- |

Note:

1. As noted in Part 5.1.4.6 of this Booklet, Woolworths' current long term S&P credit rating is A-, with a negative outlook.

Woolworths' long term objective is that EPS growth will outperform EBIT growth. However, where Woolworths undertakes major acquisitions which result in the need to defer its normal ongoing capital management initiatives for a period of time, EPS growth in relation to such periods will not necessarily outperform EBIT growth.

EPS growth for the financial year ended 26 June 2005 has been impacted by Woolworths entering into an underwriting agreement in relation to the Woolworths DRP (see Part 5.6.4 of this Booklet for further details) and because Woolworths did not undertake any share buyback activity in the financial year. These steps were taken in order to maintain Woolworths' long term S&P A- credit rating following the acquisition of ALH during the year. EPS has also been affected by the issue of Woolworths Shares pursuant to Woolworths' employee share and option plans.

Part 5.2.7 of this Booklet contains details of Woolworths' current earnings guidance for the financial year ending 25 June 2006.

5.1.4.2 Growth strategies

Woolworths is successfully delivering its strategy of capitalising on opportunities for continuing growth in both sales and earnings. These include the following:

(a) Opportunity to grow market share

Woolworths has approximately 28% market share of the Australian food, liquor and grocery retail market. Independent operators and smaller chains collectively occupy nearly 50% of this market. Woolworths considers that there is further opportunity to grow and plans to continue to develop its food, liquor and grocery retail business.

(b) Defined plans to continue space roll out

It is expected that Woolworths will continue to open 15 to 25 supermarkets each year for the foreseeable future, which together with the continued expansion of existing stores, will increase its trading area by more than 3% per year. Woolworths intends to increase the number of BIG W stores by six to ten each year, from 120 to a target of 150. Dan Murphy's is expected to open between six and twelve liquor outlets per year. The roll out of Dan Murphy's stores is expected to accelerate as Woolworths utilises sites which have become available to it as a result of the acquisition of ALH. The petrol business currently has 456 outlets including 117 Caltex co-branded alliance sites, with an overall target of 470 outlets.

Woolworths' store expansion program is supported by detailed plans for the next three to five years identifying specific sites.

(c) Expansion of new and existing categories

Woolworths has considerable experience in introducing new categories and formats, for instance, liquor, petrol, consumer electronics and hotels and expanding existing categories and formats, such as fresh food. Woolworths considers that there are further opportunities to branch into new categories and formats while continuing to expand existing categories and formats.

Woolworths is targeting growth in its liquor retailing operations. Despite Woolworths being a major liquor retailer in Australia, it currently has slightly over 20% of the packaged liquor market and considers that there is capacity for it to extend this market share. Woolworths' liquor sales for the financial year ended 26 June 2005 were approximately \$2,600 million.

The trend towards gradual deregulation of both trading hours and product restrictions continues to assist sales. For example, Queensland, South Australia and Tasmania have increased trading hours to include Sundays and, in January 2006, a change to liquor licensing regulation in Victoria is due to occur under which the cap on the number of liquor licenses that a single entity may hold will be removed.

(d) Branding

Woolworths' product range features the major industry brands and a strong private label business. While Woolworths retains a commitment to branded merchandise, Woolworths' private label, Homebrand, continues to be Australia's largest selling grocery brand. Woolworths will continue to expand the Homebrand range.

In addition, where Woolworths can establish a definable point of difference, it intends to introduce Woolworths 'Select', a premium range of Woolworths branded product.

Woolworths 'Select' products aim to be at the top of the range in the relevant category, while having a price advantage relative to products of comparable quality.

Woolworths also aims to continue to develop and grow its sales of major industry brands.

Where possible, Woolworths stores offer Australian sourced products. In addition, Woolworths has a program which seeks to replace imported products with Australian produced products.

(e) *Continued focus on improved in-store execution and service*

Woolworths will continue to focus on improving in-store execution, ranging and customer service.

(f) *Lower prices - a sales driver*

Further cost savings will enable Woolworths to lower prices which in turn will drive volume increases. Cost savings going forward will be underpinned by implementing an end-to-end supply chain improvement program. For further details see Part 5.1.4.3 of this Booklet in relation to Project Refresh.

(g) *Acquisitions*

The strength of Woolworths' balance sheet allows Woolworths to consider bolt-on and larger acquisition opportunities should they become available within its core business competencies. ALH was a unique acquisition which has provided an excellent platform for further growth.

(h) *International opportunities*

If the Transfer Scheme is implemented, Woolworths will have a solid retail base in New Zealand with opportunities to develop that business further, as outlined in Part 5.3.2.2 of this Booklet.

Woolworths is currently negotiating with the Tata Group to develop a consumer electronics business in India. It is currently envisaged that Woolworths will provide sourcing, wholesaling and some management support to this business and that the Tata Group will manage the retail operations of the business.

5.1.4.3 *Project Refresh and costs*

Project Refresh, since its inception in 1999, has concentrated on improving business efficiency processes across all businesses, resulting in significant cost reductions. Over the past six years, Project Refresh has delivered cost savings amounting to 3.15% of sales. Measured in dollars, this represents a cumulative saving over the past six years of approximately \$3,500 million.

Woolworths' current focus is on an end-to-end supply chain improvement program commencing in supermarkets which addresses the following key design considerations:

- (a) common integrated systems required to support supply chain operations;
- (b) store supply chain costs (from the supermarket back dock to the shelf);
- (c) distribution centre (referred to in this Booklet as "DC") location and numbers;
- (d) DC function (cross-docking and flow-through);
- (e) composite supply chain (integrating cold and ambient);
- (f) transport management (primary and secondary freight); and
- (g) process improvements across the network.

Woolworths carried out extensive and detailed planning to ensure each initiative will be effective on implementation. Overall, the supply chain improvement program is broken down into a series of plans which are individually monitored in terms of costs, functionality and timing. Each initiative is, on its own, a significant improvement. However, the interaction of these initiatives provides great impetus to the overall project outcomes and benefits and Woolworths' competitive position.

Significant progress has been made to date with implementation now well underway on many of the major aspects of this project.

Woolworths has introduced "Every Day Low Pricing" for key lines in supermarkets. There has been strong customer acceptance of this offer, and it will continue to develop as cost reductions are realised.

The technology required to support Woolworths' new supply chain is critical to its success. Woolworths has now passed the high risk part of its IT application development and is now applying the systems throughout its business.

Woolworths' inventory replenishment program is progressing well. Stocksmart (DC forecast based replenishment) has been implemented in Woolworths' DCs and AutostockR (store forecast based replenishment) has been rolled out to all supermarkets five months ahead of the original schedule and within budget. Woolworths has started to utilise the advantages that these systems provide. Because of the success of AutostockR, Woolworths has expanded the use of the program beyond that originally envisaged for it. In addition, Woolworths intends to roll out new Point of Sale technology during 2006.

Supermarket DCs will be reduced from 31 DCs to nine regional distribution centres (referred to in this Booklet as "RDCs") and two National Distribution Centres. The strategic location of these DCs is important in order to optimise network efficiencies. The Perth RDC was completed ahead of schedule and within budget and is now operational. The Wyong, Wodonga, Townsville and Brisbane sites are within budget. Woolworths expects Wyong and Townsville to be operational later in the 2005 calendar year, with Brisbane and Wodonga becoming operational in the 2006 calendar year.

The financial year ending 25 June 2006 will, as a result, see the completion of the majority of Woolworths' new DC network and the transition from the old to the new network. This, together with the systems already developed, represents a major achievement and significant strategic benefit to Woolworths.

During the financial year ended 26 June 2005, investment in existing DC infrastructure has been undertaken in New South Wales, Victoria and South Australia. The South Australian site is now fully operational as an RDC, with the Mulgrave site now also fully operational as a National Distribution Centre. Yennora is expected to be operating as a National Distribution Centre before the end of 2005. Work is well underway at Woolworths' Minchinbury RDC and Woolworths expects that the new temperature controlled section of this facility will be operational in the first half of the 2006 calendar year.

The rationalisation of DCs, combined with new cross-dock and flow-through processes, supported by new warehouse management systems, will effectively utilise Woolworths' site advantages and further reduce costs and stock levels.

Reducing the volume of direct store deliveries and introducing electronic store delivery will reduce costs by utilising DC infrastructure, as well as eliminating administration costs. The cost of transport from DCs to stores will also be reduced.

For stores, the introduction of phased replenishment, store restocking capabilities, as well as store-ready unit load devices (such as shelf-ready trays and roll cages) will reduce overall costs.

Roll cages have been successfully implemented in Western Australia. The introduction of roll cages into Victoria, South Australia and Queensland is planned over the coming months.

Woolworths expects the cost of inbound freight will be reduced by management of inbound freight volumes into its DCs and by the use of a TMS. With the TMS now implemented for primary freight, a new secondary freight system is being piloted. This will seek to optimise transport loads and routes and visibility of stock in transit. Rollout of this secondary freight system will commence late this year.

Woolworths values its relationship with its suppliers and aims to work with them to improve efficiencies across the supply chain. Woolworths aims to do this through collaboration with its vendors by sharing information and requesting feedback. Workshops have been conducted nationally with vendors to develop collaborative business plans.

5.1.4.4 Woolworths' new head office

Woolworths is in the process of consolidating its support office operations into a single facility located at Norwest Business Park in the North West suburbs of Sydney in the second half of calendar year 2005. This facility is eventually expected to accommodate 2,600 employees, currently located in nine different sites.

In June 2005, Woolworths entered into arrangements with Westpac Banking Corporation group (**Westpac**) in relation to its new head office site. Under these arrangements, Woolworths granted Westpac a call option to enter into a long term lease over the head office site. Woolworths similarly was granted a put option to require Westpac to enter into the long term lease over the site. The arrangements also provided that the exercise of either of these options would result in the grant to Woolworths of a sub-lease of the head office site for an initial term of 15 years, with six 5 year options to extend this sub-lease.

On 4 August 2005, Westpac Office Trust paid Woolworths a fee in relation to the call option. Subsequently, on 2 September 2005, Westpac Office Trust exercised the call option. As a result, agreements for lease and sub-lease are now in place between the parties. The long term lease will be granted to Westpac Office Trust, commencing late October 2005. The sub-lease back to Woolworths will commence in November 2005.

For accounting purposes the grant of the options for the long term lease is treated as an effective sale of the site by Woolworths at the time the options were granted in June 2005.

Woolworths' proceeds in relation to these arrangements are \$241.67 million.

5.1.4.5 Capital management

Woolworths currently sets its capital structure with the objective of maintaining its A- credit rating.

To the extent consistent with this, Woolworths undertakes capital return strategies that seek to increase EPS growth and distribute franking credits to shareholders, mainly through ordinary dividends and share buybacks. Over the past six years, approximately \$3,853 million, comprising off and on-market buybacks and dividends, has been returned to shareholders (including the final dividend for the financial year ended 26 June 2005). Woolworths' capital management strategy has enhanced EPS growth whilst allowing Woolworths to take advantage of growth opportunities, such as the ALH acquisition.

To assist in strengthening the balance sheet, Woolworths has entered into an underwriting agreement in connection with the Woolworths DRP which ensures that an amount equal to 100% of the first four interim and final dividends payable in the calendar years 2005 and 2006 (including the amount of such dividends that Woolworths Shareholders elect to receive in Woolworths Shares pursuant to the Woolworths DRP) is subscribed for Woolworths Shares (see Part 5.6.4 of this Booklet for further details).

Woolworths will re-examine opportunities for future share buybacks following the integration of ALH and, if the Transfer Scheme is implemented, the integration of the New Zealand Operation and the Woolworths Action Stores. Woolworths intends that its capital structure going forward will preserve capital strength in order to retain flexibility and allow further growth opportunities to be pursued.

Whilst no decision has been made, Woolworths is reviewing strategies in relation to the sale of its DCs.

Franking credits available for distribution as at 26 June 2005 amounted to \$606.3 million.

5.1.4.6 Credit rating

On 27 May 2005, following Woolworths' announcement that it was seeking to acquire the New Zealand Operation and the Woolworths Action Stores, S&P affirmed its A- long term and A-2 short term corporate credit ratings on Woolworths. The outlook on the long term rating is negative.

5.1.5 Directors, officers and corporate governance

5.1.5.1 Corporate governance

The ASX Corporate Governance Council released *Principles of Good Corporate Governance and Best Practice Recommendations* on 31 March 2003. These principles have been incorporated in the Listing Rules for reporting purposes.

Woolworths seeks to maintain the highest level of disclosure and compliance.

Woolworths has established several independent Board committees:

- (a) Corporate Governance Committee;
- (b) Audit Committee; and
- (c) Personnel Policy Committee.

For a full description of Woolworths' commitment to corporate governance, please refer to pages 42 to 46 of Woolworths' Annual Report for the financial year ended 27 June 2004.

5.1.5.2 Board of Directors

| Board of Directors | | |
|------------------------------|-----|---|
| Name | Age | Titles |
| James Alexander Strong | 61 | Chairman, Chairman of the Corporate Governance Committee, Member Audit Committee and Personnel Policy Committee |
| Roger Campbell Corbett AM | 63 | Group Managing Director and Chief Executive Officer, Member Board of Trustees and Woolworths Group Superannuation Scheme - AM, BCom, FAIM |
| Adrienne Elizabeth Clarke AC | 67 | Member Personnel Policy Committee and Corporate Governance Committee - AC PhD, FAA, FTSE |
| Diane Jennifer Grady | 57 | Chairman of the Personnel Policy Committee and Member Corporate Governance Committee - BA (Hons), MA, MBA |
| Leon Michael L'Huilier | 62 | Chairman of the Audit Committee, Member Corporate Governance Committee - BCom (Hons), MBA, M Phil |
| Roderick Sheldon Deane | 64 | Member Corporate Governance Committee and Member Audit Committee - PhD, BCom (Hons), FCA, FCIM, FNZIM, LL.D (honorary from Victoria University) |
| John Frederick Astbury | 61 | Chairman of the Board of Trustees, Woolworths Group Superannuation Scheme, Member Audit Committee and Member Corporate Governance Committee - FAICD |

James Alexander Strong is also Chairman of Insurance Australia Group Limited and Rip Curl Group Pty Ltd. He is also a member of the boards of various arts and sporting organisations. He was the Chief Executive and Managing Director of Qantas Airways Limited until March 2001, and previously the Chief Executive of Australian Airlines Limited, Managing Partner and National Chairman of Corrs Chambers Westgarth Solicitors and Group Chief Executive of DB Group Limited (New Zealand). He was appointed a Woolworths Director in March 2000 and Chairman in April 2001.

Roger Campbell Corbett AM was appointed Group Managing Director and Chief Executive Officer in January 1999, having been Chief Operating Officer since July 1998, Managing Director, Retail since July 1997 and Managing Director of BIG W since May 1990. He has had more than 40 years experience in retail and was previously director of Operations and a director of David Jones (Australia) Pty Limited as well as Merchandising and Stores Director and a Director of Grace Bros. Mr Corbett was appointed a non-executive Director of Fairfax Holdings Limited in February 2003. He is a director of MGW and a director of Bruandwo which owns MGW. He was appointed a Woolworths Director in 1990.

Professor Adrienne Elizabeth Clarke AC is also a director of Fisher & Paykel Healthcare Corporation Limited, Tridan Limited and Hexima Limited. She is Laureate Professor at the University of Melbourne with a distinguished record of achievement in the Sciences of Botany and Biology. She was previously Chairman of the CSIRO Board (1991 - 1996), a member of the Prime Minister's Supermarket to Asia Council (1996 - 2001) and a member of the Federal Government's Trade Policy Advisory Group (2000 - 2004). She was appointed a Woolworths Director in July 1994.

Diane Jennifer Grady is also a director of Bluescope Steel Limited, Watty Limited and a trustee of the Sydney Opera House. Previously Ms Grady was a partner at McKinsey and Co. where she led the firm's Retailing and Consumer Goods practice in Australia. In that capacity, she advised retailing clients in Australia, the USA and the UK on strategic, organisational and operational issues and assisted major consumer goods companies in Australia to develop strategies and trade terms for their retail accounts. Ms Grady was also a worldwide leader of McKinsey's Change Management and Organisation Practice. She was appointed a Woolworths Director in July 1996.

Leon Michael L'Huilier is also a director of Repco Limited, and Chairman of its Audit and Remuneration Committee. He is an experienced chief executive in the grocery, manufacturing and liquor industries, most recently as the CEO of Lion Nathan. He has broad experience as an independent director of major organisations in logistics, property and financial services. He was previously a director and Audit Committee Chairman of Fortis Limited, a director of MPG Logistics (now part of Mayne Logistics) and was the former Chairman of the Australian Prime Property Fund, a major retail shopping centre group. He is a former director of MLC Limited, and Challenge Bank Limited. He is a director of MGW and a director of Bruandwo, which owns MGW. He was appointed a Woolworths Director in September 1997.

Dr Roderick Sheldon Deane is also the Chairman of Telecom Corporation of New Zealand Limited (having previously held the position of Chief Executive and Managing Director). He is also the Chairman of Fletcher Building Limited, Te Papa Tongarewa (The Museum of New Zealand), ANZ National Bank Limited, the NZ Seed Fund and a director of ANZ Banking Group Limited. Dr Deane is a board member and Patron of New Zealand's largest charitable organisation, the iHC, and is Chairman of the City Gallery Wellington Foundation. He was previously Chief Executive of the Electricity Corporation of NZ Limited, Chairman of the State Services Commission, and Deputy Governor of the Reserve Bank of NZ. He was appointed a Woolworths Director in April 2000.

John Frederick Astbury is also a director of AMP Limited and of Insurance Australia Group Limited. He was previously Finance Director of Lend Lease Corporation Limited and Chief General Manager of National Australia Bank Limited. He has a long career in banking and financial services in both the UK and Australia. Mr Astbury was appointed a Woolworths Director in January 2004.

5.1.5.3 Senior management

Stephen Bradley joined BIG W in 1987 as the Systems Development Manager and subsequently became the Information Technology Manager. In 1999 he was appointed General Manager, Information Technology for Woolworths. In 2004, Stephen assumed his current position of Chief Logistics and Information Technology Officer with responsibility for the Supply Chain and Information Technology. Prior to joining Woolworths, Stephen worked for Sainsbury and the Woolwich Building Society in the United Kingdom.

Bernie Brookes joined Woolworths in 1988 as State Merchandise Manager, Queensland. He subsequently became Merchandise Manager, Victoria, Retail Operations Manager and General Manager, Queensland and Chief General Manager, Buying and Marketing, Supermarkets. He was appointed to the position of Chief General Manager, Project Refresh Stage 3 in 2004 and was appointed to his current position of Director, Corporate Marketing in 2005.

Julie Coates is the Woolworths Director, Human Resources. In this role Julie is responsible for establishing human resources strategy, policy and process to manage more than 145,000 employees across Australia in Supermarkets, General Merchandise and Hotels businesses. Before joining Woolworths in 2002, she held senior positions with Coles Myer and David Jones Limited.

Marty Hamnett joined Woolworths in 1970 as an 'after school' casual. On leaving school, he undertook Woolworths' Management Trainee Course and managed his first store at the age of 19. In the following years, Marty held various senior management positions in both the buying and operations areas of the Supermarket Division. He was General Manager, Supermarkets in Western Australia and Queensland and General Manager of BIG W. He was appointed to the position of Director of General Merchandise with overall responsibility for both the BIG W Discount Department Stores and the Consumer Electronics Division in 2004 and in 2005 was appointed to his current position as Director, Business Development.

Michael Luscombe joined Woolworths as a Management Trainee in 1978. He held various positions in Store and Area Management, Human Resources and Buying, with senior appointments in divisional Store Operations and Marketing. He subsequently had executive appointments in the establishment of Woolworths' Consumer Banking Offer and the Supply Chain division. In the latter appointment, he led the team that constructed the new Supply Chain strategy for the Supermarket division. Michael was appointed to his current role of Director of Supermarkets in September 2004.

Naum Onikuf joined Woolworths in 1987 to assist in the reinvigoration of The Fresh Food People campaign. He has had a broad range of general management and operational management appointments with Woolworths including General Manager, Supermarkets, New South Wales and General Manager, Safeway Supermarkets, Victoria. He was appointed Director, Supermarkets before being appointed to his current role as Chief General Manager, Freestanding Liquor and Petrol in 2003. Naum was with Coles Myer for 23 years before joining Woolworths.

Tom Pockett is Woolworths' Chief Financial Officer. Prior to joining Woolworths in 2002 he was Deputy Chief Financial Officer of Commonwealth Bank of Australia and prior to that worked for the Lend Lease Group in various senior financial roles, including General Manager Finance.

5.2 Woolworths Historical Financial Information for 2001 to 2005, both inclusive

5.2.1 Overview

This Part 5.2 sets out selected information derived from:

- (a) Woolworths' audited consolidated statements of financial performance for the financial years ended 24 June 2001 to 27 June 2004 and Woolworths' unaudited consolidated statement of financial performance for the financial year ended 26 June 2005;

- (b) Woolworths' audited consolidated statements of cash flows for the financial years ended 24 June 2001 to 27 June 2004 and Woolworths' unaudited consolidated statement of cash flows for the financial year ended 26 June 2005;
- (c) Woolworths' audited consolidated statements of financial position for the financial years ended 24 June 2001 to 27 June 2004 and Woolworths' unaudited consolidated statement of financial position for the financial year ended 26 June 2005; and
- (d) Woolworths' underlying financial books and records in relation to the financial years ended 24 June 2001 to 26 June 2005.

The information set out in this Part 5.2 should be read together with the information contained in Part 5.8 of this Booklet which sets out Woolworths' significant accounting policies. Part 5.9 of this Booklet sets out information on the effects of the adoption of AIFRS on Woolworths.

Woolworths will report for the first time in compliance with AIFRS when the results for the half year ending 1 January 2006 are released. Accordingly, the adoption of AIFRS has not impacted upon the accounting policies that have been applied in relation to the Woolworths Historical Financial Information which is referred to in this Part 5.2.

Please note also that the information in Parts 5.2 and 5.3 of this Booklet relate to Woolworths' overall business. Further financial information in relation to the businesses comprising the Woolworths Supermarkets Group, General Merchandise Group and Hotels Group is set out in Part 5.1.3 of this Booklet.

5.2.2 Woolworths' summary of profit and loss

The table below sets out a summary of Woolworths' financial performance for the last five financial years and has been derived from Woolworths' audited consolidated statements of financial performance for the financial years ended 24 June 2001 to 27 June 2004 and Woolworths' unaudited consolidated statement of financial performance for the financial year ended 26 June 2005 and the underlying financial books and records of Woolworths in relation to those financial years. The table below is a summary only.

| Five Year Summary – Profit and Loss (\$m) | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| | FY 2005 52 weeks | FY 2004 52 weeks | FY 2003 52 weeks | FY 2002 53 weeks | FY 2001 52 weeks |
| Sales revenue (sales of goods) | 31,352.5 | 27,933.9 | 26,321.4 | 24,473.0 | 20,915.1 |
| Cost of goods sold | (23,549.9) | (20,975.5) | (19,703.0) | (18,295.0) | (15,561.0) |
| Gross Profit | 7,802.6 | 6,958.4 | 6,618.4 | 6,177.0 | 5,354.1 |
| Gross profit margin | 24.9% | 24.9% | 25.1% | 25.2% | 25.6% |
| Cost of Doing Business | (5,519.6) | (5,893.3) | (5,672.7) | (5,344.3) | (4,647.5) |
| Cost of Doing Business margin | 20.8% | 21.1% | 21.6% | 21.8% | 22.2% |
| EBIT | 1,283.0 | 1,065.1 | 945.7 | 832.7 | 706.6 |
| EBIT margin | 4.1% | 3.8% | 3.6% | 3.4% | 3.4% |
| Interest | (153.7) | (47.3) | (39.7) | (50.5) | (13.1) |
| WINS interest ^{1,2} | - | (42.9) | (41.1) | (39.8) | (47.7) |
| Profit before tax | 1,129.3 | 974.9 | 864.9 | 742.4 | 645.8 |
| Taxation | (337.7) | (286.7) | (255.0) | (218.5) | (217.4) |
| Profit after tax | 791.6 | 688.2 | 609.9 | 523.9 | 428.4 |
| Outside equity interest | (1.1) | (0.4) | (0.4) | (0.7) | (0.4) |
| Net operating profit after tax and servicing WINS | 790.5 | 687.8 | 609.5 | 523.2 | 428.0 |
| EPS before goodwill (cents) | 79.7 | 70.1 | 60.7 | 52.5 | 41.0 |
| EPS after goodwill (cents) | 75.7 | 67.4 | 58.1 | 50.2 | 40.2 |
| EPS growth before goodwill | 13.7% | 15.5% | 15.6% | 28.0% | 24.7% |
| EPS growth after goodwill | 12.3% | 16.0% | 15.6% | 25.1% | 24.1% |

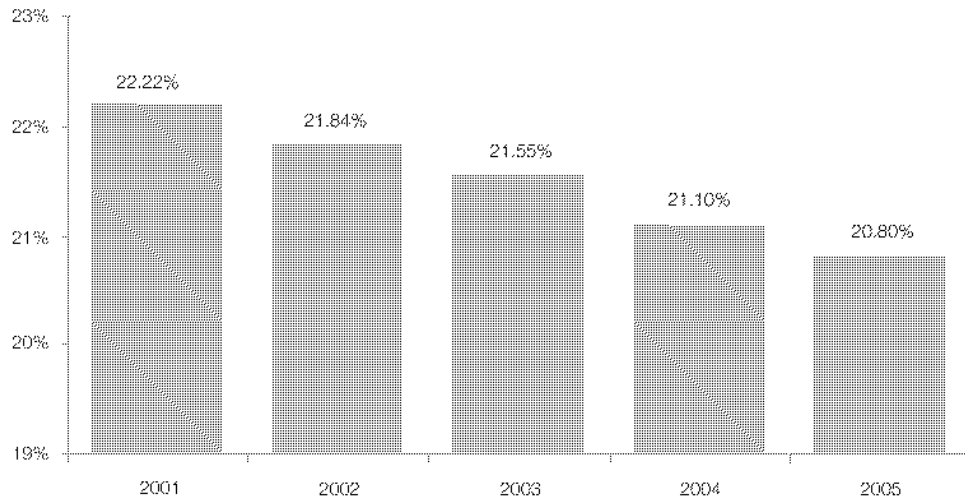
Notes:

- In the financial years ended 24 June 2001 to 27 June 2004 (inclusive), interest paid in relation to the WINS was shown as a distribution directly in equity, consistent with the classification of the WINS in the statement of financial position of Woolworths for these periods. In the financial year ended 26 June 2005, WINS were classified as debt and therefore the WINS interest has been included as part of profit before tax. For consistency in this table, the WINS interest for the financial years ended 24 June 2001 to 27 June 2004 has been presented as part of profit before tax.
- On 15 December 1999 a total of 6,000,000 WINS were listed on the ASX. The WINS are perpetual income notes with a face value of \$100 and, in general terms, holders of WINS are entitled to a distribution calculated and paid quarterly in arrears, at a margin of 2.0% over the 90 day bank bill swap rate at the relevant quarter. The WINS are redeemable at any time by Woolworths.

Sales and EBIT have exhibited solid positive growth over each of the past five financial years with sales averaging 10.6% growth per annum and EBIT averaging approximately 15.6% growth per annum. In the financial year ended 26 June 2005, Woolworths had total sales of \$31,352.5 million and EBIT of \$1,283.0 million.

The growth in EBIT has been underpinned by Woolworths' vigorous pursuit of cost savings. In the year to 26 June 2005, Woolworths reduced costs by 0.3% as a percentage of sales. Over the past six years, Woolworths has delivered cost savings amounting to approximately \$3,500 million or 3.15% of sales. This has greatly benefited both customers (through reduced prices) and Woolworths Shareholders (through growth in EPS).

Cost of Doing Business as a percentage of sales



Note: Cost of Doing Business as a percentage of sales for the financial year ended 27 June 1999 was 23.95%.

Profit after tax and outside equity interest for the financial year ended 26 June 2005 was \$790.5 million. This represents an increase of 14.9% over the past year. Over the last five years profit after tax has achieved an average growth rate of 22.3% per annum.

EPS before goodwill for the financial year ended 26 June 2005 was 79.7 cents per share. EPS for the year has grown 13.7% over the prior year. Woolworths' long term goal is to achieve EPS growth greater than EBIT growth assisted by capital management. EPS growth in the financial year ended 26 June 2005 was adversely impacted because of an absence of any share buyback activity in the financial year and because of the issue of over 20 million Woolworths Shares under Woolworths' employee share and option plans and the issue of approximately 19.5 million Woolworths Shares under the Woolworths DRP and the Woolworths DRP underwriting arrangements, in each case in that financial year. The Woolworths DRP underwriting agreement was entered into following the acquisition of ALH in the 2005 financial year.

The table below sets out details of Woolworths' sales and EBIT by business group for the last five financial years and has been derived from Woolworths' audited consolidated statements of financial performance for the financial years ended 24 June 2001 to 27 June 2004 and Woolworths' unaudited consolidated statement of financial performance for the financial year ended 26 June 2005 and the underlying financial books and records of Woolworths in relation to those financial years. The table below is a summary only.

| Segmented Financial Overview - Sales and EBIT by Group (\$m) | | | | | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Sales | FY 2005 52 weeks | FY 2004 52 weeks | FY 2003 52 weeks | FY 2002 53 weeks | FY 2001 52 weeks |
| Food, Liquor and Groceries | 23,569.6 | 21,997.6 | 21,039.0 | 19,595.0 | 16,772.3 |
| Petrol | 3,308.4 | 2,194.9 | 1,710.5 | 1,119.3 | 747.1 |
| Supermarkets Group | 26,878.0 | 24,192.5 | 22,749.5 | 20,714.3 | 17,519.4 |
| BiG W | 2,908.7 | 2,717.9 | 2,500.3 | 2,280.5 | 2,059.8 |
| Consumer Electronics | 1,007.5 | 886.3 | 791.2 | 659.0 | 418.0 |
| General Merchandise Group | 3,916.2 | 3,604.2 | 3,291.5 | 2,939.5 | 2,487.8 |
| Hotels | 415.8 | - | - | - | - |
| Continuing Operations | 31,210.0 | 27,796.7 | 26,041.0 | 23,653.8 | 20,007.2 |
| Wholesale | 142.5 | 137.2 | 280.4 | 819.2 | 697.8 |
| Other discontinued operations | - | - | - | - | 210.1 |
| Total | 31,352.5 | 27,933.9 | 26,321.4 | 24,473.0 | 20,915.1 |
| EBIT | FY 2005 52 weeks | FY 2004 52 weeks | FY 2003 52 weeks | FY 2002 53 weeks | FY 2001 52 weeks |
| Food, Liquor and Groceries | 1,077.2 | 941.7 | 825.1 | 734.7 | 614.0 |
| Petrol | 36.3 | 18.6 | 29.9 | 12.7 | 4.6 |
| Supermarkets Group | 1,113.5 | 960.3 | 855.0 | 747.4 | 618.6 |
| BiG W | 118.0 | 116.2 | 103.7 | 93.5 | 83.4 |
| Consumer Electronics | 51.8 | 44.1 | 37.0 | 28.0 | 30.8 |
| General Merchandise Group | 169.8 | 160.3 | 140.7 | 121.5 | 114.2 |
| Hotels | 54.9 | - | - | - | - |
| Total trading result | 1,338.2 | 1,120.6 | 995.7 | 868.9 | 732.8 |
| Property income | 20.3 | 21.7 | 26.6 | 34.2 | 33.1 |
| Central overheads | (77.9) | (79.0) | (76.7) | (77.8) | (59.0) |
| Continuing operations | 1,280.6 | 1,063.3 | 945.6 | 825.3 | 706.9 |
| Wholesale | 2.4 | 1.8 | 0.1 | 7.4 | 5.0 |
| Other discontinued operations | - | - | - | - | (5.3) |
| Group EBIT | 1,283.0 | 1,065.1 | 945.7 | 832.7 | 706.6 |

Food, liquor and groceries represent 75.2% of sales and 84.0% of EBIT of the Woolworths business. Sales over the five financial years ending 26 June 2005 have grown at an annual average rate of 9.2% per annum driven by a combination of solid comparable store growth, trading area growth and bolt-on acquisitions. EBIT over the five years ending 26 June 2005 has grown at an annual average rate of 15.1% underpinned by continued cost reductions.

Petrol sales have grown significantly over the five financial years to 26 June 2005 with sales increasing on average at 48.0% per annum. Petrol EBIT for the financial year ended 26 June 2005 was \$36.3 million, an increase of 95.2% over the prior financial year. The prior financial year EBIT was adversely impacted by lower gross margins which were primarily caused by the introduction in that year of a competitor's petrol discount offer.

BiG W represents 9.3% of sales and 9.2% of EBIT of the Woolworths business. Sales over the last five financial years increased on average 8.7% per annum reflecting the success of BiG W's "everyday low price" strategy. EBIT has increased 9.8% per annum on average over the last five financial years.

Consumer Electronics has grown sales and EBIT 25.4% and 15.6%, respectively, per annum over the five financial years ended 26 June 2005. This strong growth reflects the continued attractiveness of this electronics sector, especially in such areas as computers, digital cameras, MP3 players and home entertainment systems.

ALH and MGW

The retail liquor results for ALH and MGW have been included in Woolworths' Supermarkets Food, Liquor and Groceries results. This is consistent with the treatment of Woolworths' other retail liquor operations.

ALH and MGW's other operations, namely on premise liquor, food and accommodation and gaming have been included in a new business group known as "Hotels". Part 5.1.3.8 of this Booklet contains a description of the ownership and structure of this group.

Following the transfer to Bruandwo of the assets referred to in Part 5.2.6 of this Booklet by The Bruce Mathieson Group, the hotel liquor results of The Bruce Mathieson Group will also be included in this business group. The Bruce Mathieson Group's retail liquor results will be included within the Supermarkets' Food, Liquor and Groceries business group.

Excellent progress is being made in relation to the integration of ALH. The ALH retail liquor business is now being managed as part of Woolworths' retail liquor business with The Bruce Mathieson Group managing ALH's hotel portfolio. Corporate overheads have been reduced and Woolworths' buying terms have been adopted. Significant opportunity exists for Woolworths to expand its retail liquor business, in particular Dan Murphy's. Woolworths is currently reviewing other potential property opportunities and is also currently implementing plans to improve the operating performance of the Hotels group. Woolworths is currently progressing as anticipated in achieving its expected benefits from the ALH acquisition.

ALH's financial results have been fully consolidated with those of Woolworths since 31 October 2004. From 2 January 2005, MGW's financial results have been fully consolidated with those of Woolworths. Previously, MGW was equity accounted in the financial records of Woolworths.

Hotels' sales have been driven by continued growth in major markets, including Queensland and Victoria. Since the acquisition of ALH, Woolworths has focused on repositioning and improving the performance of all areas of the ALH business, and in particular, gaming and on premise liquor. Gaming revenue continues to grow in Victoria and Queensland. However, in Queensland, revenue in the second half of the financial year ended 26 June 2005 was impacted by the introduction of smoking bans. The impact of these smoking bans was in line with Woolworths' expectations.

Buying margins have and will continue to improve as a result of moving to Woolworths' buying terms.

There have been noticeable improvements in the Cost of Doing Business of ALH. These are attributable to a number of post acquisition initiatives, including:

- (a) the restructuring of ALH's corporate offices; and
- (b) the implementation of operating efficiencies at venues.

No redevelopment profits have been realised due to the current suspension of Woolworths' venue redevelopment program, pending the completion of a business review of this program. It is expected that a key aspect of the new redevelopment program when it has been finalised will be an expansion of the number of Dan Murphy's sites.

5.2.3 Woolworths' summary of cash flow information

The table below sets out a summary of Woolworths' cash flow for the last five financial years and has been derived from Woolworths' audited consolidated statements of cash flows for the financial years ended 24 June 2001 to 27 June 2004 and Woolworths' unaudited consolidated statement of cash flows for the financial year ended 26 June 2005 and the underlying financial books and records of Woolworths for those financial years. The table below is a summary only.

| Five Year Summary – Cash Flow (\$m) | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| | FY 2005 52 weeks | FY 2004 52 weeks | FY 2003 52 weeks | FY 2002 53 weeks | FY 2001 52 weeks |
| EBITDA | 1,744.0 | 1,472.7 | 1,344.0 | 1,183.7 | 1,016.4 |
| Net interest paid (including cost of income notes) ¹ | (161.5) | (95.7) | (82.3) | (97.4) | (72.7) |
| Tax paid | (398.3) | (324.1) | (283.8) | (238.1) | (225.7) |
| Operating cash flow before working capital | 1,184.2 | 1,052.9 | 977.9 | 848.2 | 718.0 |
| (Increase)/decrease in inventory | (51.4) | (0.1) | (2.2) | (86.4) | (60.0) |
| Other working capital movements | 98.2 | 166.6 | 233.8 | 372.9 | 103.3 |
| Operating cash flows after working capital | 1,221.0 | 1,219.4 | 1,209.5 | 1,134.7 | 761.3 |
| Payments from property, plant and equipment | (1,180.5) | (718.7) | (593.4) | (596.7) | (537.4) |
| Proceeds on disposal of property, plant and equipment | 97.7 | 138.1 | 114.5 | 203.8 | 173.1 |
| Other investing cash flows ² | (1,285.4) | 1.4 | (65.3) | (350.9) | (154.2) |
| Free cash flow | (1,147.2) | 640.2 | 665.3 | 390.9 | 242.8 |
| Movement in gross debt | 1,312.5 | (133.7) | 118.3 | (114.4) | 211.5 |
| Dividends paid ³ | (201.9) | (346.9) | (307.3) | (251.5) | (212.1) |
| (Advances)/repayments of employee loans | 15.3 | 14.9 | (25.5) | (42.7) | (30.8) |
| Buyback of shares | - | (140.9) | (534.1) | - | (349.4) |
| New shares issued | 104.7 | 28.0 | 75.6 | 56.7 | 44.0 |
| Net cash flow | 83.4 | 61.6 | (7.7) | 39.0 | (94.0) |

Note:

1. In the financial years ended 24 June 2001 to 27 June 2004 (inclusive), interest paid in relation to the WINs was shown as a financing activity in the statements of cash flows of Woolworths, consistent with the classification of WINs in the statement of financial position of Woolworths for these periods. In the financial year ended 26 June 2005, WINs were reclassified as debt and therefore the WINs interest has been included as an operating cash flow. For consistency in this table, the WINs interest for the financial years ended 24 June 2001 to 27 June 2004 has been presented as part of operating cash flow.
2. In the financial year ended 26 June 2005, "other investing cash flows" includes payments by Bruandwo for the acquisitions of ALH and MGW in that period.
3. In the financial year ended 26 June 2005, Woolworths entered into an underwriting agreement in connection with the Woolworths DRP which ensures that an amount equal to 100% of the first four interim and final dividends payable in the calendar years 2005 and 2006 (including the amount of such dividends that Woolworths Shareholders elect to receive in Woolworths Shares pursuant to the Woolworths DRP) is subscribed for Woolworths Shares (see Part 5.6.4 of this Booklet for further details).

Woolworths has a strong and predictable cash flow underpinned by its food, liquor and grocery businesses. Operating cash flows before working capital have increased at an average annual rate of 11.0% over the last five financial years, which is in line with EBITDA growth. In general terms, operating cash flows after working capital are affected by fluctuations in working capital, arising in the ordinary course of business, at the end of the relevant financial period. Woolworths is dedicated to further improving working capital by targeting reductions in inventory days of one to two days per year.

Payments for property, plant and equipment increased in the financial years ended 26 June 2005 and 27 June 2004, primarily due to the investments in Woolworths' new supply chain technology and DCs (see Part 5.1.4.3 of this Booklet in relation to Project Refresh) and its new office facilities at Norwest Business Park (see Part 5.1.4.4 of this Booklet).

As stated, Woolworths has returned to shareholders, by way of dividends and share buybacks, approximately \$3,583 million over the last six financial years (this includes Woolworths' dividend for the financial year ended 26 June 2005 which has been declared but not paid).

In the four financial years to 26 June 2005, 85,380,232 new Woolworths Shares were issued under Woolworths' employee share and option plans and the Woolworths DRP. In the financial year ended 26 June 2005, 7,695,040 Woolworths Shares were issued under the Woolworths DRP underwriting arrangements, 11,836,090 Woolworths Shares were issued under the Woolworths DRP and 20,018,222 Woolworths Shares were issued under Woolworths' employee share and option plans.

Woolworths' Fixed Charge Cover Ratio has strengthened from 2.40 times in the financial year ended 24 June 2001 to 2.48 times in the financial year ended 26 June 2005.

5.2.4 Woolworths' summary of financial position

The table below sets out Woolworths' financial position at the end of each of the last five financial years and has been derived from Woolworths' audited consolidated statements of financial position for the financial years ended 24 June 2001 to 27 June 2004 and Woolworths' unaudited consolidated statement of financial position for the financial year ended 26 June 2005 and the underlying financial books and records of Woolworths for those financial years.

| Five Year Summary – Statement of Financial Position (\$m) | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|
| | FY 2005 | FY 2004 | FY 2003 | FY 2002 | FY 2001 |
| Current assets | | | | | |
| Cash | 432.3 | 348.9 | 287.3 | 295.0 | 256.0 |
| Receivables | 490.0 | 208.6 | 242.4 | 258.6 | 194.9 |
| Inventories | 1,977.3 | 1,847.0 | 1,843.1 | 1,838.4 | 1,731.8 |
| Property, plant and equipment | 28.2 | 259.6 | 133.7 | 98.3 | 126.8 |
| Other | 109.2 | 112.3 | 114.1 | 97.7 | 79.0 |
| Total current assets | 3,037.0 | 2,776.4 | 2,620.6 | 2,588.0 | 2,388.5 |
| Non-current assets | | | | | |
| Receivables | 79.8 | 96.4 | 186.0 | 139.5 | 44.2 |
| Investments accounted for using the equity method | - | 3.6 | 1.8 | - | 18.8 |
| Other financial assets | 1.1 | 28.0 | 1.2 | 1.2 | 1.4 |
| Property, plant and equipment | 3,552.6 | 2,467.6 | 2,348.5 | 2,267.3 | 2,130.7 |
| Intangibles | 2,011.4 | 572.3 | 555.3 | 545.0 | 313.4 |
| Deferred tax assets | 285.1 | 195.4 | 172.6 | 181.8 | 187.7 |
| Other financial assets | 10.9 | 5.7 | 0.6 | 0.8 | 0.5 |
| Total non-current assets | 5,920.9 | 3,369.0 | 3,265.8 | 3,135.6 | 2,694.7 |
| Total assets | 8,957.9 | 6,145.4 | 5,886.4 | 5,723.6 | 5,083.2 |
| Current liabilities | | | | | |
| Accounts payable | 2,335.6 | 2,176.3 | 2,078.9 | 2,000.6 | 1,666.4 |
| Accruals | 851.9 | 554.5 | 541.9 | 440.1 | 399.0 |
| Interest bearing liabilities | 235.5 | 18.0 | 150.5 | 34.1 | 341.7 |
| Current tax liabilities | 105.5 | 132.2 | 144.1 | 113.4 | 125.0 |
| Provisions | 393.5 | 348.0 | 328.2 | 509.6 | 427.3 |
| Total current liabilities | 3,722.0 | 3,229.0 | 3,243.6 | 3,097.8 | 2,959.4 |
| Non-current liabilities | | | | | |
| Interest bearing liabilities | 2,614.0 | 494.8 | 496.4 | 498.2 | 301.9 |
| Deferred tax liabilities | 12.4 | 4.5 | 7.2 | 78.3 | 111.7 |
| Provisions | 412.4 | 364.6 | 316.0 | 228.8 | 184.6 |
| Total non-current liabilities | 3,038.8 | 863.9 | 819.6 | 803.3 | 598.2 |
| Total liabilities | 6,760.8 | 4,092.9 | 4,063.2 | 3,901.1 | 3,557.6 |
| Net assets | 2,197.1 | 2,052.5 | 1,823.2 | 1,822.5 | 1,525.6 |
| Equity | | | | | |
| Contributed equity | 977.9 | 575.4 | 608.5 | 593.8 | 476.2 |
| Reserves | 207.9 | 184.6 | 183.7 | 184.1 | 182.8 |
| Retained profits | 978.0 | 704.3 | 445.2 | 457.2 | 279.9 |
| Equity attributable to the members of Woolworths | 2,163.8 | 1,464.3 | 1,235.4 | 1,235.1 | 938.9 |
| Woolworths Income Notes ¹ | - | 583.0 | 583.0 | 583.0 | 583.0 |
| Outside equity interest in controlled entities: | | | | | |
| Reserves | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| Retained profits | 32.4 | 4.3 | 3.9 | 3.5 | 2.8 |
| Total outside equity interest | 33.3 | 5.2 | 4.8 | 4.4 | 3.7 |
| Total equity | 2,197.1 | 2,052.5 | 1,823.2 | 1,822.5 | 1,525.6 |

Note:

1. in the financial year ended 26 June 2006, WINs were reclassified as debt.

As evidenced by the increase in net assets, Woolworths' balance sheet has strengthened over the last five financial years.

The increase in intangibles in the financial year ended 26 June 2005 was due to goodwill, liquor and gaming licence values and property development rights resulting from the acquisitions of ALH and MGW.

Total assets has increased significantly in the financial year ended 26 June 2005 due to the acquisition of ALH and the first-time consolidation of MGW.

Interest bearing liabilities in the financial year ended 26 June 2005 have increased due to the debt associated with the acquisition of ALH and the first time consolidation of MGW, which was previously equity accounted.

5.2.5 Investigating Accountant's Report

Part 5.11 of this Booklet sets out Deloitte Touche Tohmatsu's report on the Woolworths Historical Financial Information and the Woolworths Unaudited Pro-Forma Combined Financial Information.

5.2.6 Anticipated material events after 26 June 2005

As part of the shareholder arrangements between The Bruce Mathieson Group and Woolworths in relation to Bruandwo, The Bruce Mathieson Group will procure the transfer and/or lease to Bruandwo of certain of its hotel, club and liquor retailing assets. Subject to the parties obtaining regulatory approvals, this transfer is expected to be completed prior to 31 December 2005 and will involve the transfer to Bruandwo of the businesses of 26 hotels in Victoria, the management businesses of nine clubs (including five AFL clubs) in Victoria and the businesses of 14 retail liquor outlets in Victoria.

5.2.7 Earnings guidance

Parts 5.2.2 to 5.2.4 of this Booklet set out historical financial information of Woolworths and provides information as to the profile and performance of Woolworths.

From time to time, Woolworths provides earnings guidance based on management's current expectations of future results. Woolworths' latest earnings guidance was released on 22 August 2005 for Woolworths' financial year ending 25 June 2006. This guidance does not take into account any effect of the acquisition of the New Zealand Operation and the Woolworths Action Stores if the Transfer Scheme is implemented.

This guidance indicated that Woolworths anticipated the following results in the financial year ending 25 June 2006:

- (a) overall group sales growth in the upper single digits;
- (b) EBIT will continue to grow faster than sales; and
- (c) NPAT growth in the lower double digits.

In addition, Woolworths' long term objective is for EPS growth to outperform EBIT growth, assisted by capital management. However, in the financial year ending 25 June 2006, EPS will be impacted by the issue of Woolworths Shares under the Woolworths employee share and option plans and under the underwriting arrangements in relation to the Woolworths DRP (see Part 5.6.4 of this Booklet for further details).

This guidance is given on the basis of current retail trading patterns and the present business, competitive and economic climate continuing.

The statements made in this Part 5.2.7 are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those set out in or implied by the forward-looking statements. Woolworths' forward-looking statements are based on management's current expectations and, unless otherwise noted, do not take into account the impact of any future acquisition, merger or any other business combination, divestiture or financing that may be completed by Woolworths after the date of this Booklet. Any projections of future results of operations should not be construed in any manner as a guarantee that such results will, in fact, occur.

In addition to the risks and uncertainties of ordinary business operations, important factors that could cause actual events or results to differ materially from the expectations expressed or implied by such forward-looking statements are those identified in Part 5.4 of this Booklet (Risks) and other investment considerations, as well as other matters not yet known to Woolworths or not currently considered material by Woolworths.

5.3 Information about the New Zealand Operation and the Woolworths Action Stores

5.3.1 Woolworths' intentions in relation to the New Zealand Operation and the Woolworths Action Stores

5.3.1.1 Overview

This Part 5.3.1 sets out Woolworths' intentions concerning the New Zealand Operation and the Woolworths Action Stores in relation to the following:

- (a) the continuation of the businesses comprising the New Zealand Operation;
- (b) any major changes to those businesses including any redeployment of the fixed assets of those businesses; and
- (c) the future employment of the present employees of those businesses.

These intentions have been formed on the basis of information concerning the New Zealand Operation and the Woolworths Action Stores which is publicly available as well as a review of limited information which was made available by FAL.

Final decisions will only be made by Woolworths in the light of all material information and circumstances at the relevant time and after Woolworths has conducted a review of the operations of those businesses referred to below. Accordingly, the statements set out in this Part 5.3.1 are statements of current intentions only. These statements may change as new information becomes available or if circumstances change.

5.3.1.2 Rationale for acquisition

The proposed acquisition is in line with Woolworths' strategy of pursuing growth opportunities both organically and through the acquisition of existing businesses. The acquisition of the Woolworths Action Stores allows Woolworths to expand its existing Australian retail supermarket network by filling gaps in the network, particularly in Western Australia. The acquisition of the New Zealand Operation provides Woolworths with the opportunity to expand its core business of retail supermarkets outside Australia by the acquisition of a substantial business in a country which is culturally similar and geographically close to Australia.

5.3.1.3 Woolworths Action Stores

The Woolworths Action Stores will be rebranded under the Woolworths banner, integrated into the existing Woolworths network of retail supermarkets and operated in accordance with the practices employed by Woolworths in operating its existing retail supermarket network. Subject to the foregoing, there is no intention to make any change to the business conducted by the Woolworths Action Stores including any intention to redeploy any of the fixed assets of those businesses and Woolworths intends to continue the future employment of the present employees of the Woolworths Action Stores.

5.3.1.4 New Zealand Operation

It is Woolworths' intention that the New Zealand Operation will form part of the Supermarkets Group for reporting purposes. At this stage no decision has been made as to whether the New Zealand Operation will report as a separate division within the Woolworths Group. However, the New Zealand Operation will not be operated on a completely stand alone basis and Woolworths intends that it will seek to integrate the New Zealand Operation within Australia in areas such as finance, accounting and administration and IT.

Woolworths intends to conduct an immediate broad-based and general review of the structure and operations of the retail supermarkets business which forms the main part of the New Zealand Operation, to assess the performance of that business and identify areas in which improvements to performance can be made. While no final decisions have been made on these matters, Woolworths expects during the course of this review to identify opportunities which may enhance the performance of the business in various respects including:

- (a) by reducing costs in several ways: by obtaining improved buying terms; by reducing supply chain costs by applying Woolworths' supply chain and logistics technology and practices; and by integrating various head office functions between Australia and New Zealand;
- (b) by improving the working capital of the business mainly by better inventory management;
- (c) by growing sales by applying Woolworths' operational expertise to enhance overall performance by improving store range, merchandising, store layout, in-store execution and by applying fair and consistent pricing; and
- (d) by implementing strategies to deal with loss-making and underperforming stores.

In addition to improving performance, Woolworths intends to grow and expand the retail supermarkets business by refurbishing existing sites where required and continuing FAL's planned store roll-out strategy. Woolworths also intends to investigate the viability in the New Zealand marketplace of introducing new formats including general merchandise, liquor and pharmacy.

As noted above, Woolworths intends to reduce costs by integrating various functions between Australia and New Zealand. However, Woolworths will not be in a position to form a final view on the extent to which savings are achievable until after it has completed the review referred to above.

Based on the information currently available to it, Woolworths expects that a number of employment positions in the head office of the New Zealand Operation will become redundant. Woolworths will endeavour to offer to redeploy head office employees whose positions become redundant across the broader Woolworths Group in either Australia or New Zealand. Head office employees who are made redundant and who are not redeployed in the broader Woolworths Group will receive a redundancy payment in accordance with their entitlements.

Woolworths intends to continue to conduct the franchise, wholesale and supply businesses which comprise the balance of the New Zealand Operation in substantially the same way as those businesses are now carried on. Woolworths does, however, intend to undertake a review of those businesses and, if opportunities to improve the performance of those businesses are identified during the course of that review, Woolworths will consider at that time whether it is appropriate to make changes to those businesses.

5.3.1.5 Other intentions

Subject to the foregoing, it is the present intention of Woolworths:

- (a) to continue to operate the New Zealand Operation and the Woolworths Action Stores;
- (b) not to make any major changes to those businesses, nor to redeploy any of the fixed assets of those businesses; and
- (c) to continue the employment of the present employees of those businesses.

5.3.2 Merger benefits

5.3.2.1 Introduction

This Part 5.3.2 outlines the potential benefits which may flow to Woolworths as a result of the acquisition by Woolworths of the New Zealand Operation and the Woolworths Action Stores.

Although Woolworths has identified areas where it believes potential benefits may flow to it and has prepared estimates of these benefits for internal planning purposes, the estimates are not sufficiently reliable for presentation in this Booklet. This is because the information on which Woolworths has relied in preparing estimates of the potential benefits is incomplete, being based only upon publicly available information and limited information made available to it by FAL. In addition, Woolworths' estimates of the potential benefits are based on assumptions that are subject to a wide range of operational and economic factors which are inherently variable and cannot be forecast with any degree of accuracy.

Similarly, the timing of the realisation of the potential benefits is dependent upon a variety of economic and operational assumptions and cannot be predicted with any degree of certainty. On the basis of the assumptions that it has made, Woolworths expects that the potential benefits will be achievable over a three year period.

Consequently, this Part 5.3.2 identifies the potential benefits which Woolworths believes may flow from the acquisition of the New Zealand Operation and the Woolworths Action Stores, without attempting to quantify those benefits. Whether these benefits can be achieved is uncertain and will only become clear after completion of the acquisition and the completion of the business reviews foreshadowed in Part 5.3.1 of this Booklet.

5.3.2.2 Projected benefits – New Zealand Operation

Projected benefits have been broken into the categories outlined below:

(a) Buying

Woolworths expects it will be able to generate savings in the New Zealand Operation by improving buying terms.

(b) Supply chain

Woolworths has made significant progress in its supply chain improvement program. Many critical IT systems are now complete. Woolworths' current position in this program allows it to expect that it will be able to improve the New Zealand Operation's supply chain, including the operating efficiency of the New Zealand Operation's DCs. By applying Woolworths' new supply chain and logistics technology and practices, Woolworths anticipates it will generate productivity savings across the business and improve the management of working capital of the New Zealand Operation.

(c) Overheads

Woolworths expects that it will be able to generate savings through the amalgamation of selected back-office functions including head office, finance and administration, IT and buying and merchandising.

(d) Operational improvements

Woolworths expects it will be able to improve the performance of individual supermarkets by applying its operational expertise to enhance the overall customer offer through improved store range, merchandising, store layout, in-store execution and the application of fair and consistent pricing.

(e) Private label

Woolworths expects to enhance the current customer offer further by utilising its expertise in its Home Brand (value for money) range and its premium private label categories (principally known as Woolworths 'Select').

(f) Information Technology

Woolworths expects it will also be required to invest in IT infrastructure as part of its integration of the New Zealand Operation with the aim of standardising IT and reporting systems across the combined group. The integration of systems will replace FAL's current program to develop and roll out new IT and reporting systems. Woolworths expects that replacing FAL's current program will generate savings as Woolworths can leverage off and transfer its IT platforms.

(g) Price reinvestment

Woolworths expects to pass a portion of achieved benefits on to the consumer by reinvesting the savings in price reductions.

The reduced prices are to some extent expected to generate further sales growth in the New Zealand Operation.

(h) New Categories/Formats

Woolworths will evaluate the opportunity to introduce new categories and/or new formats for the New Zealand Operation, for example, general merchandise, liquor and pharmacy.

5.3.2.3 Projected benefits – Woolworths Action Stores

The supermarkets, associated liquor stores and development sites included in the Woolworths Action Stores will be added to Woolworths' existing Australian supermarket network without the need for additional infrastructure. Some initial capital expenditure will be required to re-brand and re-position these stores to Woolworths' standards. Woolworths expects to generate benefits through operating these stores in accordance with the practices employed by Woolworths in operating its existing retail supermarket network.

5.3.2.4 Implementation of transaction

(a) Implementation costs

Woolworths expects it will incur various one-off costs such as marketing, training, re-branding of the supermarkets, associated liquor stores and development sites included in the Woolworths Action Stores, IT and redundancy payments to staff in implementing the intentions referred to in Part 5.3.1 of this Booklet.

(b) Transaction costs

Woolworths will also incur transaction costs including stamp duty and other taxes, adviser fees and incidental costs.

5.3.3 Pro-Forma Financial Statements

5.3.3.1 Overview

Set out below in Parts 5.3.3.3 and 5.3.3.4 are an unaudited pro-forma combined statement of financial performance for Woolworths, the PEH Post-Demerger Group and the Woolworths Action Stores (Woolworths Unaudited Pro-Forma Combined Statement of Financial Performance) and an unaudited pro-forma combined statement of financial position for Woolworths, the PEH Post-Demerger Group and the Woolworths Action Stores (Woolworths Unaudited Pro-Forma Combined Statement of Financial Position) (together Woolworths Unaudited Pro-Forma Combined Financial Information) prepared in accordance with the recognition and measurement criteria of AIFRS and which have been derived from:

- (a) the unaudited pro-forma consolidated statement of financial performance of Woolworths for the 52 weeks ended 26 June 2005 prepared in accordance with the recognition and measurement criteria of AIFRS (extracted from Part 5.9 of this Booklet);
- (b) the unaudited pro-forma consolidated statement of financial position of Woolworths as at 26 June 2005 prepared in accordance with the recognition and measurement criteria of AIFRS (extracted from Part 5.9 of this Booklet);
- (c) the unaudited pro-forma consolidated statement of financial performance of the PEH Post-Demerger Group for the 52 weeks ended 31 July 2005 (extracted from Part 10.6.3 of this Booklet);
- (d) the unaudited pro-forma consolidated statement of financial position of the PEH Post-Demerger Group as at 31 July 2005 (extracted from Part 10.7 of this Booklet);
- (e) an unaudited statement of profit after income tax for the Woolworths Action Stores for the 52 weeks ended 31 July 2005 prepared in accordance with the recognition and measurement criteria of AIFRS. This unaudited statement of profit after income tax has been determined based on the assumptions outlined in Note 4 in Part 5.3.3.4 of this Booklet;
- (f) an unaudited statement of assets and liabilities for the Woolworths Action Stores prepared in accordance with the recognition and measurement criteria of AIFRS. This unaudited statement of assets and liabilities has been determined based on the assumptions outlined in Note 4 in Part 5.3.3.4 of this Booklet; and
- (g) the pro-forma adjustments set out in the notes to the Woolworths Unaudited Pro-Forma Combined Financial Information and the assumptions set out in Part 5.3.3.2 of this Booklet.

The Woolworths Unaudited Pro-Forma Combined Financial Information has been prepared to illustrate:

- the unaudited pro-forma combined financial performance of Woolworths, the PEH Post-Demerger Group and the Woolworths Action Stores as if the Transfer Scheme had been implemented on 28 June 2004 (being the first day of the Illustrative 52 Week Period defined in Part 5.3.3.2 of this Booklet); and
- the unaudited pro-forma combined financial position of Woolworths, the PEH Post-Demerger Group and the Woolworths Action Stores as if the Transfer Scheme had been implemented on 26 June 2005 (being the last day of the Illustrative 52 Week Period).

It should be noted that the items relating to the PEH Post-Demerger Group referred to in Parts 5.3.3.1 (c) and (d) of this Booklet, have been provided to Woolworths by FAL and the items referred to in Parts 5.3.3.1 (e) and (f) of this Booklet, have been prepared by Woolworths based on information provided by FAL (as described in Note 4 to the Woolworths Unaudited Pro-Forma Combined Statement of Financial Position). In each case Woolworths has not verified this information and takes no responsibility for this information.

5.3.3.2 Key Assumptions in preparation of the Woolworths Unaudited Pro-Forma Combined Financial Information

- (a) **Financial Year End:** The Woolworths Unaudited Pro-Forma Combined Financial Information has been prepared by combining:
 - (in the case of the Woolworths Unaudited Pro-Forma Combined Statement of Financial Performance) the unaudited pro-forma consolidated statement of financial performance for Woolworths for the 52 weeks ended 26 June 2005, the unaudited pro-forma consolidated statement of financial performance for the PEH Post-Demerger Group for the 52 weeks ended 31 July 2005 and the unaudited statement of profit after income tax for the Woolworths Action Stores for the 52 weeks ended 31 July 2005; and
 - (in the case of the Woolworths Unaudited Pro-Forma Combined Statement of Financial Position) the unaudited pro-forma consolidated statement of financial position for Woolworths as at 26 June 2005, the unaudited pro-forma consolidated statement of financial position of the PEH Post-Demerger Group as at 31 July 2005 and the unaudited statement of assets and liabilities for the Woolworths Action Stores.

Accordingly, information in relation to Woolworths and information in relation to the PEH Post-Demerger Group and the Woolworths Action Stores relates to differing financial periods. However, for the purposes of the Woolworths Unaudited Pro-Forma Combined Financial Information, it has been assumed that these periods are identical. This period is referred to as the Illustrative 52 Week Period and relates to the notional 52 weeks beginning 28 June 2004 and ended 26 June 2005.

- (b) **AIFRS:** The Woolworths Unaudited Pro-Forma Combined Financial Information has been prepared in accordance with the recognition and measurement criteria of AIFRS.
- (c) **Synergies:** No synergistic benefits have been included in the Woolworths Unaudited Pro-Forma Combined Financial Information.
- (d) **Restructuring:** No provisions for restructuring have been included in the Woolworths Unaudited Pro-Forma Combined Financial Information.
- (e) **Capital Expenditure:** The Woolworths Unaudited Pro-Forma Combined Financial Information does not take into account the impact of any possible capital expenditure which may be planned by Woolworths if the Transfer Scheme is implemented.
- (f) **Other Intangibles:** For the purposes of preparing the Woolworths Unaudited Pro-Forma Combined Financial Information, it has been assumed that there are no separately identifiable intangibles. In the event that separately identifiable intangibles are subsequently identified, this will have the effect of reducing goodwill arising on the acquisition of the PEH Post-Demerger Group and the Woolworths Action Stores. If any separately identifiable intangibles are considered to have finite lives, then net profit after tax will also decrease as a result of the requirement to amortise these intangibles over their estimated useful life.
- (g) **Variation in Accounting Policies:** No allowance for variations in accounting policies between Woolworths and FAL has been made in the Woolworths Unaudited Pro-Forma Combined Financial Information.

Woolworths has not had sufficient access to FAL's financial records to determine the consequences that may arise as a result of differences in accounting policies or in the application of accounting policies between Woolworths and FAL and, therefore, there is some uncertainty associated with the extent or the amount of the impact of these differences. Woolworths does not make any representation or warranty, express or implied, in relation to the extent or the amount of the impact caused by any accounting policy differences referred to above.

However, based on a review of the accounting policies set out in the Annual Report of FAL for the year ended 1 August 2004, the following differences in accounting policies between Woolworths and FAL have been identified:

- Valuation of finished goods inventory - Woolworths values short life retail stocks at the lower of average cost or net realisable value and long life retail stocks using the retail inventory method (which involves the discounting of the selling value of total inventory by the current average mark-up expressed as a percentage of sales). FAL values finished goods at the lower of cost and net realisable value using landed cost, on a first-in first-out basis.
- Depreciation of property, plant and equipment – Woolworths and FAL apply different rates of depreciation for some classes of property, plant and equipment.

5.3.3.3 Woolworths Unaudited Pro-Forma Combined Statement of Financial Performance

The table below sets out a summary of the Woolworths Unaudited Pro-Forma Combined Statement of Financial Performance for the Illustrative 52 Week Period. It has been derived from:

- (a) the unaudited pro-forma consolidated statement of financial performance of Woolworths for the 52 weeks ended 26 June 2005 prepared in accordance with the recognition and measurement criteria of AIFRS (extracted from Part 5.9 of this Booklet);
- (b) the unaudited pro-forma consolidated statement of financial performance of the PEH Post-Demerger Group for the 52 weeks ended 31 July 2005 (extracted from Part 10.6.3 of this Booklet);
- (c) an unaudited statement of profit after income tax for the Woolworths Action Stores for the 52 weeks ended 31 July 2005 prepared in accordance with the recognition and measurement criteria of AIFRS. This unaudited statement of profit after income tax has been determined on the basis of the assumptions outlined in Note 4 in Part 5.3.3.4 of this Booklet; and
- (d) the pro-forma adjustments set out in the notes to the Woolworths Unaudited Pro-Forma Combined Statement of Financial Performance and the assumptions set out in Part 5.3.3.2 of this Booklet.

Woolworths Unaudited Pro-Forma Combined Statement of Financial Performance

| | Woolworths | PEH Post- Demerger Group and Woolworths | Pro-Forma Adjustments | Note | Pro-Forma AIFRS |
|--|-----------------------|---|--------------------------|------|--------------------|
| | AIFRS Adjusted (a) | Action Stores AIFRS Adjusted (b) | | | |
| | \$m | \$m | \$m | | \$m |
| Revenue from operations | 31,352.5 | 4,275.9 | - | | 35,628.4 |
| EBIT | 1,305.8 | 202.1 | - | | 1,507.9 |
| Net Interest Expense | (153.7) | (22.2) | (63.0) | 1 | (238.9) |
| Profit from ordinary activities before income tax expense | 1,152.1 | 179.9 | (63.0) | | 1,269.0 |
| Income Tax Expense | (334.5) | (58.5) | 18.9 | 2 | (374.1) |
| Net Profit from ordinary activities after income tax expense | 817.6 | 121.4 | (44.1) | | 894.9 |
| Net (profit)/loss attributable to outside equity interest | (1.1) | - | - | | (1.1) |
| Operating net profit attributable to the members of Woolworths | 816.5 | 121.4 | (44.1) | | 893.8 |
| EPS | | | | | |
| Basic EPS (cents) | 78.23 | | | | 79.43 |
| Weighted average shares on issue (million) | 1,043.7 | | 81.6 | | 1,125.3 |

(a) The Woolworths AIFRS information has been extracted from Part 5.9 of this Booklet.

(b) The information in this column is an aggregation of information in the unaudited pro-forma consolidated statement of financial performance of the PEH Post-Demerger Group for the 52 weeks ended 31 July 2005 (extracted from Part 10.6.3 of this Booklet) and the unaudited statement of profit after income tax for the Woolworths Action Stores for the 52 weeks ended 31 July 2005 referred to in Part 5.3.3.3(c) of this Booklet.

Notes:

1. *Net Interest Expense.*

As set out in Note 2 to the Woolworths Unaudited Pro-Forma Combined Statement of Financial Position in Part 5.3.3.4 of this Booklet, if the Transfer Scheme is implemented, Woolworths is likely to incur debt to fund the transaction. For the purposes of preparing the Woolworths Unaudited Pro-Forma Combined Financial Information, this debt has been assumed to be \$934.0 million. In addition, if the Transfer Scheme is implemented, Woolworths will incur transaction costs directly relating to the acquisition of the PEH Post-Demerger Group and the Woolworths Action Stores. For the purposes of preparing the Woolworths Unaudited Pro-Forma Combined Financial Information, these transaction costs have been assumed to be \$36.0 million. The interest cost in respect of the debt and transaction costs referred to above has been assumed to be 6.5%, which approximates Woolworths' weighted average cost of debt for the 52 weeks ended 26 June 2005.

2. *Income Tax Expense.*

Tax has been calculated at 30%. This represents the tax benefit (at 30%) associated with the interest cost discussed in Note 1.

3. *ALH and MGW.*

In relation to Woolworths, ALH's financial results have been consolidated for the period from 31 October 2004 to 26 June 2005. In addition, MGW's financial results are consolidated for the period from 2 January 2005 to 26 June 2005. Previously, MGW was equity accounted in the financial records of Woolworths.

5.3.3.4 Woolworths Unaudited Pro-Forma Combined Statement of Financial Position

The table below sets out a summary of the Woolworths Unaudited Pro-Forma Combined Statement of Financial Position as at 26 June 2005 (being the last day of the illustrative 52 Week Period). It has been derived from:

- the unaudited pro-forma consolidated statement of financial position of Woolworths as at 26 June 2005 prepared in accordance with the recognition and measurement criteria of AIFRS (extracted from Part 5.9 of this Booklet);
- the unaudited pro-forma consolidated statement of financial position of the PEH Post-Demerger Group as at 31 July 2005 (extracted from Part 10.7 of this Booklet);
- an unaudited statement of assets and liabilities for the Woolworths Action Stores prepared in accordance with the recognition and measurement criteria of AIFRS. This unaudited statement of assets and liabilities has been determined based on the assumptions outlined in Note 4 in this Part 5.3.3.4 of this Booklet; and
- the pro-forma adjustments set out in the notes to the Woolworths Unaudited Pro-Forma Combined Statement of Financial Position and the assumptions set out in Part 5.3.3.2 of this Booklet.

Woolworths Unaudited Pro-Forma Combined Statement of Financial Position

| | Woolworths AIFRS Adjusted (a) | PEH Post- Demerger Group and Woolworths Action Stores AIFRS Adjusted (b) | Pro-Forma Adjustments | Note | Pro-Forma AIFRS |
|---|-------------------------------------|--|--------------------------|------|--------------------|
| | \$m | \$m | \$m | | \$m |
| CURRENT ASSETS | | | | | |
| Cash | 432.3 | 35.2 | - | | 467.5 |
| Receivables | 415.6 | 24.9 | - | | 440.5 |
| Inventories | 1,966.0 | 225.8 | - | | 2,191.8 |
| Property, plant and equipment | 73.5 | - | - | | 73.5 |
| Other | 109.2 | 2.2 | - | | 111.4 |
| Total current assets | 2,996.6 | 288.1 | - | | 3,284.7 |
| NON-CURRENT ASSETS | | | | | |
| Receivables | 79.8 | 1.7 | - | | 81.5 |
| Other financial assets | 1.1 | 0.5 | - | | 1.6 |
| Property, plant and equipment | 3,423.5 | 397.0 | - | | 3,820.5 |
| Intangibles | 2,042.2 | - | 2,202.3 | 1 | 4,244.5 |
| Deferred tax asset-timing difference | 288.0 | 28.5 | - | | 316.5 |
| Other | 10.9 | 0.3 | - | | 11.2 |
| Total non-current assets | 5,845.5 | 428.0 | 2,202.3 | | 8,475.8 |
| Total assets | 8,842.1 | 716.1 | 2,202.3 | | 11,760.5 |
| CURRENT LIABILITIES | | | | | |
| Accounts payable | 2,335.6 | 279.9 | - | | 2,615.5 |
| Accruals | 651.9 | - | - | | 651.9 |
| Interest-bearing liabilities | 235.5 | 1.4 | - | | 236.9 |
| Current tax liabilities | 105.5 | - | - | | 105.5 |
| Provisions | 400.5 | 37.1 | - | | 437.6 |
| Other | 3.6 | - | - | | 3.6 |
| Total current liabilities | 3,732.6 | 318.4 | - | | 4,051.0 |
| NON-CURRENT LIABILITIES | | | | | |
| Interest-bearing liabilities | 2,614.0 | 372.3 | 934.0 | 2 | 3,955.3 |
| | | - | 35.0 | 2 | - |
| Deferred tax liabilities | 1.3 | - | - | | 1.3 |
| Provisions | 412.4 | 8.7 | - | | 421.1 |
| Other | 42.7 | - | - | | 42.7 |
| Total non-current liabilities | 3,070.4 | 381.0 | 969.0 | | 4,420.4 |
| Total liabilities | 6,803.0 | 699.4 | 969.0 | | 8,471.4 |
| NET ASSETS | 2,039.1 | 16.7 | 1,233.3 | | 3,289.1 |
| EQUITY | | | | | |
| Contributed Equity | 977.9 | 393.7 | 1,250.0 | 2 | 2,227.9 |
| | | | (393.7) | (c) | - |
| Employee Remuneration Reserve | 11.8 | - | - | | 11.8 |
| Shares held in trust | (88.7) | - | - | | (88.7) |
| Reserves | 23.3 | (486.6) | 486.6 | (c) | 23.3 |
| Retained earnings | 1,081.5 | 109.6 | (109.6) | (c) | 1,081.5 |
| Equity attributable to the members of Woolworths | 2,005.8 | 16.7 | 1,233.3 | | 3,255.8 |
| WfNs | - | - | - | | - |
| Outside equity interest in controlled entities | | | | | |
| Reserves | 0.9 | - | - | | 0.9 |
| Retained profits | 32.4 | - | - | | 32.4 |
| Total outside equity interest | 33.3 | - | - | | 33.3 |
| TOTAL EQUITY | 2,039.1 | 16.7 | 1,233.3 | | 3,289.1 |

- (a) The Woolworths AIFRS information has been extracted from Part 5.9 of this Booklet.
- (b) The information in this column is an aggregation of information in the unaudited pro-forma consolidated statement of financial position of the PEH Post-Demerger Group as at 31 July 2005 (extracted from part 10.7 of this Booklet) and the unaudited statement of assets and liabilities for the Woolworths Action Stores referred to in Part 5.3.3.4(c) of this Booklet.
- (c) Represents elimination of equity in the PEH Post-Demerger Group and Woolworths Action Stores on consolidation.

Notes:

1. Goodwill

The initial determination of goodwill and other assets and liabilities (including intangible assets) related to the acquisition of the PEH Post-Demerger Group and the Woolworths Action Stores will initially be reported as 'provisional' values with adjustments made to finalise these values within twelve months of the implementation of the Transfer Scheme. At the date of this Booklet it is not possible to determine the actual values of the assets acquired and liabilities assumed. As a result, the actual determination of goodwill may change.

For the purpose of the Woolworths Unaudited Pro-Forma Combined Financial Information, goodwill has been calculated as the excess of the Woolworths Consideration over the fair value of the assets to be acquired if the Transfer Scheme is implemented, calculated as follows:

| | \$ million |
|--|----------------|
| Net Assets of PEH Post-Demerger Group and Woolworths Action Stores on acquisition: | 16.7 |
| Purchase Price is made up of: | |
| Equity issue (a) | 1,250.0 |
| Acquisition Costs | 35.0 |
| Debt less Net Assumed Debt (b) | 934.0 |
| Restated Purchase Price: | 2,219.0 |
| Goodwill is made up of: | |
| Net Assets (under AIFRS) (c) | 16.7 |
| Less Restated Purchase Price | 2,219.0 |
| Goodwill on acquisition | 2,202.3 |

- (a) This balance will change as the price of Woolworths Shares moves above or below \$15.32 (being the price of Woolworths Shares at which the in principle terms of the Transfer Scheme were agreed).
- (b) Total Debt funding of \$1,250.0 million less Net Assumed Debt which has been assumed at \$316.0 million results in net debt assumed of \$934.0 million. A description of how Net Assumed Debt will be calculated is contained in Part 3.2.6 of this Booklet.
- (c) Aggregate of PEH Post-Demerger Group net liabilities of \$82.1 million (refer to Note 3) and the Woolworths Action Stores net assets of \$68.8 million (refer to Note 4).

The goodwill which will arise on acquisition has not been allocated between the PEH Post-Demerger Group and the Woolworths Action Stores.

2. Transaction Pricing

If the Transfer Scheme is implemented, Woolworths will provide FAL Shareholders with a combination of cash and Woolworths Shares (subject to a total pool of Woolworths Shares of approximately 81.6 million shares and a total cash pool of \$1,250.0 million, less Net Assumed Debt). For the purposes of this Woolworths Unaudited Pro-Forma Combined Financial Information, Net Assumed Debt has been assumed to be \$316.0 million. This results in restated debt of \$934.0 million.

Transaction costs directly relating to the acquisition of the PEH Post-Demerger Group and the Woolworths Action Stores will be capitalised as part of the acquisition cost. These costs have been estimated at \$35.0 million and will include costs incurred in respect of stamp duty, advisory fees (investment bank, legal, tax accounting and consideration expert), registry and printing fees. These transaction costs will be financed through debt funding.

For the purpose of deriving the pro-forma adjustments, the price for Woolworths Shares has been assumed to be \$15.32 (being the price of Woolworths Shares at which the in principle terms of the Transfer Scheme were agreed). This provides an equity value of \$1,250.0 million.

3. Fair value of net assets – New Zealand Operation

Certain assumptions have been made in determining the fair value of the PEH Post-Demerger Group net liabilities (refer to Note 1, above).

The fair value of the PEH Post-Demerger Group net liabilities acquired of \$52.1 million has been determined by excluding goodwill of \$578.2 million from the net assets of \$526.1 million as set out in the unaudited pro-forma consolidated statement of financial position of the PEH Post-Demerger Group as at 31 July 2005 (as set out in Part 10.7 of this Booklet). For the purposes of the Woolworths Unaudited Pro-Forma Combined Financial Information, goodwill will be based on the restated purchase price of \$2,202.3 million referred to in Note 1 above.

4. Fair value of net assets – Woolworths Action Stores

The only financial information which FAL has provided to Woolworths in relation to the Woolworths Action Stores is unaudited revenue information for the 52 weeks ended 31 July 2005 and information in relation to the book value of the development sites included in the Woolworths Action Stores at 31 July 2005. Therefore an assumed unaudited statement of profit after income tax for the 52 weeks ended 31 July 2005 and unaudited statement of assets and liabilities in relation to the Woolworths Action Stores has been used for the purposes of the preparation of the Woolworths Unaudited Pro-Forma Combined Financial Information, with the following assumptions having been made:

In respect of the assumed forecast statement of profit after income tax for the 52 weeks ended 31 July 2005 for the Woolworths Action Stores, the following assumptions have been made:

- annual sales have been derived from information provided by FAL to Woolworths in respect of sales of the Woolworths Action Stores for the 52 weeks ended 31 July 2005;
- EBITA has been assumed to be 7% of sales; and
- income tax has been calculated using a tax rate of 30%.

in respect of the assumed unaudited statement of assets and liabilities for the Woolworths Action Stores, the following assumptions have been made:

- inventory has been calculated as being equal to 3% of sales;
- accounts payable has been assumed to be equal in value to inventory;
- the value of property, plant and equipment has been determined based on an average of \$3.0 million for each of the Woolworths Action Stores;
- current and non-current provisions have been determined using an average, being \$0.32 million per store for current liabilities and \$0.19 million per store for non-current liabilities;
- assets acquired in relation to the development sites, the residential property at Port Hedland and Woodvale Shopping Centre in Western Australia which are included in the Woolworths Action Stores have been included in the assumed unaudited statement of assets and liabilities at FAL's book value of \$21.5 million, based on information provided to Woolworths by FAL; and
- no other assets and liabilities have been acquired.

Using the assumptions noted above, the net assets of the Woolworths Action Stores for the purposes of preparing the Woolworths Unaudited Pro-Forma Combined Financial Information have been determined to be \$88.8 million.

5.4 Risks

5.4.1 Introduction

There are many factors that may influence the price of Woolworths Shares and future dividends paid on Woolworths Shares, including those that:

- (a) are external and apply to investments generally; and
- (b) apply, and will continue to apply, specifically to the business of Woolworths.

Some of the specific risks can be mitigated by the use of safeguards and appropriate controls while others are likely to remain outside the control of Woolworths.

If the Transfer Scheme is implemented, FAL Shareholders (other than Ineligible Overseas Shareholders) may receive Woolworths Shares as part of the Woolworths Consideration (see Part 3.2 of this Booklet for further details). It is therefore important to be aware of risks that may have an adverse impact on the financial performance of Woolworths and the value of Woolworths Shares, which include those set out below.

5.4.2 External risk factors

Many external factors will affect the price of Woolworths Shares. At any point in time these factors may include:

- (a) movements in the general level of share prices on local and international share markets;
- (b) the success of marketing and other strategies adopted by Woolworths, relative to its competitors' strategies;
- (c) developments in the retail and other industries generally;
- (d) the economic outlook in Australia and internationally;
- (e) changes in government fiscal, monetary and regulatory policies;
- (f) turnover and volatility of financial markets in Australia and overseas;
- (g) changes in interest rates, inflation rates, exchange rates and commodity prices; and
- (h) acts of terrorism.

5.4.3 Woolworths' specific risks

Set out below are specific risks associated with Woolworths:

- (a) *Increased or new competition*

Woolworths occupies a leading position in the Australian retail market and considers that there are a number of factors that will enable it to maintain and defend this position in the face of increased activity from existing and potential competitors, both local and foreign based.

Nevertheless, there can be no assurance that the actions of competitors will not have material adverse effects on Woolworths' operating and financial performance.

(b) System and computer network interruptions

The ongoing performance of Woolworths' operations is dependent, in part, on the reliability and availability of its systems and computer networks. System and computer network interruptions due to fire, power loss, telecommunication failure and other events beyond Woolworths' control may result in the temporary unavailability of key operating processes. In some circumstances this may result in a decline in revenues due to supply disruptions, consumer dissatisfaction, or an increase in certain costs. Woolworths carries business interruption insurance, which may offset the financial effect of such an event.

(c) Reliance on key management

The responsibility of overseeing day-to-day operations and the strategic management of Woolworths is concentrated amongst a number of key employees. There can be no assurance that there will be no detrimental impact on Woolworths if one or a number of these key employees were to cease employment with Woolworths.

Woolworths' success and growth strategy will also depend on its ability to attract and retain key management and operating personnel. An inability to attract and retain the requisite key personnel by Woolworths could have a material adverse effect on Woolworths' business, operating results and financial condition.

(d) Integration of growth opportunities and strategy

At the present time Woolworths is completing the integration of ALH as well as pursuing several new growth initiatives, new adjacencies (for instance Woolworths' premium private label referred to in Part 5.1.4.2(d) of this Booklet) and ongoing initiatives associated with Project Refresh. It will also need to integrate the New Zealand Operation and the Woolworths Action Stores if the Transfer Scheme is implemented.

The concurrent integration of these businesses and implementation of these initiatives involves some risk for Woolworths' overall business as it will occupy a significant part of management time and require careful management over the next 12 to 18 months. In addition there is a risk that Woolworths will not derive the value which it expects to derive from the integration of these businesses and the implementation of these initiatives if it does not devote sufficient time and attention to them.

Upon successful integration of these businesses and implementation of these initiatives, the number of services Woolworths provides and the operating complexities involved in operating its business will increase. Woolworths expects that this growth and increased operating complexity may place additional demands on its operating systems and management. Woolworths' operating systems and management resources will need to keep pace with these demands in order to ensure that Woolworths' business, operating results and financial condition are not materially adversely affected.

(e) Retail globalisation

There is an international trend in breaking down national barriers in retailing. This is generally known as retail globalisation. Australia is not necessarily isolated from this trend which can affect such things as sourcing, competition, ownership and management.

(f) Regulatory risk

Woolworths is subject to a range of legal and other regulatory controls imposed by state, territory and federal government bodies, including industry specific regulation.

The legal and other regulatory controls affecting Woolworths govern matters with respect to a wide range of areas including, for example, trade practices and competition regulation, taxation regulation and hotel, gaming and liquor regulation. The regulatory regime is complex and is subject to change over time depending on the policies of the government in place.

Woolworths is not able to predict the impact that future regulation or changes in the interpretation or operation of existing regulation may have upon it. Such changes could have a material adverse impact on Woolworths' business, results of operation and financial condition.

(g) ACCC

If the Transfer Scheme is completed, Woolworths will acquire control of the Woolworths Action Stores. The acquisition by Woolworths of the Woolworths Action Stores is being considered by the ACCC under section 50 of the TPA. The Transfer Scheme is not conditional on the ACCC authorising or approving the acquisition by Woolworths of the Woolworths Action Stores.

Woolworths has provided details of its proposed acquisition of the Woolworths Action Stores to the ACCC which is currently reviewing the acquisition in accordance with its procedures under the Guideline for Informal Merger Reviews. In reviewing the competitive effect of an acquisition under section 50 of the TPA, the ACCC seeks submissions from relevant parties and conducts market enquiries.

On 31 August 2005 the ACCC concluded its first phase of review of the acquisition of the Woolworths Action Stores. The ACCC published a Statement of Issues setting out a preliminary view that the proposed acquisition raises competition concerns in respect of eight local areas (Mudgeeraba and Mermaid Waters in Queensland, Willetton, Spearwood, Noranda, Maddington, Woodvale and Kalgoorlie in Western Australia) representing seven of the 22 Woolworths Action Stores (as Spearwood was under commercial consideration as an alternative to the nominated store Noranda). The ACCC considered that two additional local areas raised initial concerns but has not formed a preliminary view about those areas.

The ACCC Statement of Issues states that the ACCC intends to make its final decision by mid October and encourages Woolworths to resolve the competition issues with the ACCC. Woolworths is working closely with the ACCC in this regard and is confident of reaching an acceptable resolution.

In the event that any Woolworths Action Store is *not* transferred, effectively Woolworths may elect to terminate the Transfer Scheme and the acquisition of FAL by Woolworths and Metcash will *not* proceed. This means that, in these circumstances, Woolworths will be able to determine whether or not the Transfer Scheme under which Woolworths and Metcash acquire FAL will proceed.

If the Transfer Scheme does *not* proceed, the Demerger Scheme may still proceed alone if it obtains the necessary approval of FAL Shareholders and the Court. In this circumstance, FAL and PEH will become separate listed entities but Woolworths and Metcash will *not* acquire FAL.

As an alternative to allowing the Transfer Scheme to terminate, Woolworths, Metcash and FAL could endeavour to agree some modifications to the Transfer Scheme to deal with these matters and allow the Transfer Scheme to proceed. These modifications would need to include a modification or waiver of the unfulfilled conditions and a change to the Woolworths Consideration and the Metcash Consideration. The parties would need to obtain the approval of the Court to any modifications of the Transfer Scheme and ensure that FAL Shareholders were provided with sufficient notice of the modifications to enable them properly to consider these matters before the Meetings. The parties would also need to advise ASIC of any changes - see Part 3.1 of this Booklet.

(h) Unanticipated events

In operating a business of the size and complexity of that operated by Woolworths, there is a risk of a range of events occurring which could not be anticipated by management. It is possible that one or more of these unanticipated events could have a material adverse impact on Woolworths' business, results of operation and financial condition.

5.5 Woolworths Consideration

5.5.1 Consideration payable by Woolworths under the Transfer Scheme

For details of the Woolworths Consideration, see Part 3 of this Booklet.

5.5.2 Source of cash consideration

5.5.2.1 Bridge Facility

The funds which are required to pay FAL Shareholders their cash entitlements under the Transfer Scheme will be obtained by Woolworths drawing down funds under the Woolworths Bridge Facility which Woolworths has entered into with Citibank.

Pursuant to the terms of the agreement dated 17 August 2005 between Woolworths and Citibank, Woolworths is able to borrow an aggregate amount from Citibank which is in excess of the amount necessary to fully fund the cash required by Woolworths to satisfy:

- (a) the total cash consideration payable to the holders of PEH Shares if the Transfer Scheme is implemented; and

- (b) the amounts required to meet all transaction and other costs associated with the Transfer Scheme.

5.5.2.2 Woolworths Bridge Facility Agreement

The material terms and conditions of the Woolworths Bridge Facility Agreement have been agreed and are summarised in Parts 5.5.2.3 to 5.5.2.9 of this Booklet.

5.5.2.3 Conditions precedent to availability of funds

The conditions precedent to the ability of Woolworths to drawdown under the Woolworths Bridge Facility are consistent with those contained in Woolworths' existing debt facilities and, except as stated below, are procedural in nature. The conditions precedent under the Woolworths Bridge Facility Agreement which are in the sole control of Woolworths are that:

- (a) the representations and warranties given by Woolworths under the Woolworths Bridge Facility Agreement are true and correct;
- (b) there has been no material adverse change in the financial condition, business or assets of Woolworths and its subsidiaries that would affect the ability of Woolworths to perform its payment obligations under the Woolworths Bridge Facility since the date of the most recent audited accounts; and
- (c) no event of default (see Part 5.5.2.4 of this Booklet) under the Woolworths Bridge Facility Agreement subsists or is pending.

5.5.2.4 Events of default

The events of default applicable to the Woolworths Bridge Facility are consistent with those contained in Woolworths' existing debt facilities and are considered by Woolworths to be customary for facilities and arrangements of this nature. They include (among other things):

- (a) failure to pay any amount owing in respect of the facility when due;
- (b) failure to perform obligations under the Woolworths Bridge Facility Agreement;
- (c) breach of representations and warranties;
- (d) the occurrence of an insolvency event in respect of Woolworths;
- (e) the revocation, termination or expiry of any government authorisation which is material to the performance by Woolworths of its payment obligations under the facility;
- (f) cross defaults in relation to other debt of Woolworths or its subsidiaries with a value exceeding \$50.0 million (including debt with Citibank); and
- (g) the occurrence of a material adverse change in the financial condition of Woolworths.

5.5.2.5 Representations and warranties

The representations and warranties given by Woolworths in the Woolworths Bridge Facility Agreement are consistent with those contained in Woolworths' existing debt facilities and are considered by Woolworths to be customary for borrowing arrangements of this nature.

5.5.2.6 Undertakings

The undertakings by Woolworths contained in the Woolworths Bridge Facility Agreement are consistent with those contained in Woolworths' existing debt facilities and are considered by Woolworths to be customary for banking arrangements of this nature. They include the following:

- (a) not to create or allow to exist a security interest on or over its present or future property except for security interests arising in certain circumstances including where Woolworths acquires encumbered assets (including companies) after the date of the Woolworths Bridge Facility Agreement;
- (b) not to dispose of all or a substantial part of its property, other than by certain types of disposals including disposals made in the ordinary course of trading or on arm's length commercial terms; and
- (c) to maintain certain financial ratios regarding interest cover and gearing.

5.5.2.7 Period of commitment

The obligation of Citibank to make loans to Woolworths under the Woolworths Bridge Facility will, if the loans have not already been made, terminate on the date which is 364 days after the date the Woolworths Bridge Facility Agreement was executed, being 15 August 2006.

If Woolworths' debt pursuant to the Woolworths Bridge Facility is refinanced, the amount available to be drawn down under the Woolworths Bridge Facility will be reduced by the amount that Woolworths receives in relation to the refinancing.

5.5.2.8 Repayment

Funds made available under the Woolworths Bridge Facility will be due to be repaid 364 days after execution of the Woolworths Bridge Facility Agreement being 15 August 2006. Early repayment may be required if an event of default (see Part 5.5.2.4 of this Booklet) under the Woolworths Bridge Facility Agreement occurs or if any person or persons acquire control of more than 50% of the issued share capital of Woolworths.

5.5.2.9 Provision of consideration

Woolworths is unaware of any reason which would prevent any condition precedent to drawdown under the Woolworths Bridge Facility from being satisfied in sufficient time to allow funds to be paid to FAL Shareholders if the Transfer Scheme is implemented.

On the basis of the arrangements described in this Part 5.5.2 of this Booklet, Woolworths is of the opinion that it has a reasonable basis for holding the view, and it holds the view, that it will be able to provide the consideration required to satisfy its obligations under the Transfer Scheme.

5.6 Information about Woolworths Shares

5.6.1 Entitlements of Woolworths Shares

The Woolworths Shares to be issued under the Transfer Scheme will be fully paid ordinary shares and will rank equally with existing Woolworths Shares, except that they will not be eligible to participate in the final dividend to be declared and paid in respect of the financial year ended 26 June 2005. Woolworths Shares are quoted by ASX. Application will be made to ASX for official quotation of the Woolworths Shares to be issued pursuant to the Transfer Scheme within seven days after the date of this Booklet.

5.6.2 Rights attaching to Woolworths Shares

The rights attaching to Woolworths Shares are summarised in this Part 5.6.2. This summary does not purport to be exhaustive nor to constitute a definitive statement of the rights and liabilities of Woolworths Shareholders, which can involve complex questions of law arising from the interaction of the Woolworths Constitution and statutory, common law and Listing Rules requirements. The Woolworths Shares carry the following rights, privileges and restrictions. Full details of the rights attaching to the Woolworths Shares are set out in the Woolworths Constitution.

- (a) Woolworths Shares are under the control of the Woolworths Board which may allot all or any of the shares to such persons at such times and on such terms and conditions and having attached to them such preferred, deferred or other special rights or such restrictions, whether with regard to dividend, voting, return of capital or otherwise as the Woolworths Directors think fit. If Woolworths in general meeting is required to authorise an issue of shares, then the Woolworths Directors' powers are subject to any directions properly given by Woolworths at that meeting.
- (b) Each holder of Woolworths Shares is entitled to receive notice of, and to attend and vote at, general meetings of Woolworths and to receive all notices, accounts and other documents required to be furnished to shareholders under the Woolworths Constitution, the Corporations Act or the Listing Rules.
- (c) Woolworths Shareholders may attend in person or by proxy, attorney or representative and vote on issues requiring a shareholders' resolution at general meetings. Such issues include the election of Woolworths Directors and any changes to the Woolworths Constitution. Notice is given to shareholders when those meetings are to be held and of the general nature of business to be considered. At a general meeting every holder of Woolworths Shares present in person or by proxy, attorney or representative has one vote on a show of hands and, on a poll, one vote per fully paid ordinary share (and a proportion of a vote for Woolworths Shares partly paid, equal to the proportion the amount paid on the relevant shares bears to its total issue price).

- (d) Woolworths Shareholders have the right to participate in the profits of Woolworths through the receipt of dividends. Dividends are a share of the profits of Woolworths. The size of any dividend will depend, among other things, upon Woolworths' profitability during the relevant financial year. It is Woolworths' present policy to pay dividends twice yearly. Subject to the rights of holders of shares issued with any special or restricted rights, that portion of the profits of Woolworths which the Woolworths Directors may from time to time determine to distribute by way of a dividend, must be declared and paid on all of the ordinary shares of a particular class in respect of which the dividend is paid to their holders in proportion to the number of shares held by them respectively.
- (e) Woolworths Shareholders have the opportunity to receive each year a copy of Woolworths' Annual Report which provides a comprehensive review of Woolworths' performance as a whole during the previous financial year.
- (f) In the event that Woolworths is wound up, depositors, other creditors and holders of WINS will be paid out in priority to Woolworths Shareholders. Any surplus available will be distributed among shareholders in accordance with the Corporations Act.
- (g) Subject to the Woolworths Constitution, the Corporations Act, any other laws and the Listing Rules, Woolworths Shares are freely transferable.
- (h) The rights attaching to Woolworths shares of any class may be altered with the approval of a special resolution passed at a separate general meeting of the holders of shares of that class or with the written consent of the holders of at least three-quarters of the issued shares of that class.
- (i) Woolworths is entitled to purchase shares in itself in accordance with the requirements of the Corporations Act.
- (j) The Woolworths Constitution provides that shareholder approval will be required in relation to any proportional takeover schemes in respect of Woolworths Shares.

5.6.3 Recent trading history of Woolworths Shares, dividend payments and details of substantial holders

5.6.3.1 Recent trading history

Part 3.2.5 of this Booklet sets out the recent trading history of Woolworths Shares on ASX for the three months ended 9 September 2005.

5.6.3.2 Distribution of equity securities

The following table shows analysis of numbers of Woolworths Shareholders by size of holding as at 26 June 2005.

| Range of Woolworths Shares | Number of Woolworths Shareholders | Number of Woolworths Shares | Issued Capital % | Number of option holders |
|--|-----------------------------------|-----------------------------|------------------|--------------------------|
| 1 - 1,000 | 179,885 | 70,516,127 | 6.65 | - |
| 1,001 - 5,000 | 123,383 | 238,680,561 | 22.48 | 991 |
| 5,001 - 10,000 | 11,365 | 80,989,576 | 7.62 | 162 |
| 10,001 - 100,000 | 5,380 | 110,077,816 | 10.37 | 308 |
| 100,001 - over | 213 | 561,235,921 | 52.88 | 11 |
| Total | 320,186 | 1,061,480,001 | 100 | 1,472 |
| Less than marketable parcel of 31 shares | 9,716 | | | |

5.6.3.3 20 largest shareholders

The names of the 20 largest holders of Woolworths Shares as at 26 June 2005 are listed below:

| 20 Largest Holders of Woolworths Shares | | | |
|---|--|----------------------|------------------|
| Rank | Name | Woolworths Shares | Issued Capital % |
| 1 | J.P. Morgan Nominees Australia Limited | 139,340,289 | 13.13 |
| 2 | National Nominees Limited | 101,379,717 | 9.55 |
| 3 | Westpac Custodian Nominees Limited | 73,112,638 | 6.89 |
| 4 | Citicorp Nominees Pty Limited | 26,369,318 | 2.48 |
| 5 | Queensland Investment Corporation | 21,127,860 | 1.99 |
| 6 | ANZ Nominees Limited | 16,136,311 | 1.52 |
| 7 | Cogent Nominees Pty Limited | 13,727,203 | 1.29 |
| 8 | Woolworths Custodian Pty Ltd | 11,811,971 | 1.11 |
| 9 | AMP Life Limited | 10,877,387 | 1.02 |
| 10 | ANZ Nominees Limited (Cash Income A/C) | 9,491,737 | 0.89 |
| 11 | Citicorp Nominees Pty Limited (CFS W/SLE Imputation FND A/C) | 5,873,908 | 0.55 |
| 12 | HSBC Custody Nominees (Australia) Limited | 5,826,522 | 0.55 |
| 13 | Government Superannuation Office (A/C State Super Fund) | 5,568,524 | 0.52 |
| 14 | ANZ Nominees Limited (Income Reinvest Plan A/C) | 4,590,719 | 0.43 |
| 15 | Australian Foundation Investment Company Limited | 4,551,465 | 0.43 |
| 16 | Perpetual Trustee Company Limited | 4,405,553 | 0.42 |
| 17 | UBS Nominees Pty Ltd (Prime Broking A/C) | 4,239,937 | 0.40 |
| 18 | Cogent Nominees Pty Limited (SMP Accounts) | 4,168,326 | 0.39 |
| 19 | Citicorp Nominees Pty Limited (CFS Imputation Fund A/C) | 3,892,365 | 0.37 |
| 20 | Victorian Workcover Authority | 3,801,358 | 0.36 |
| | Top 20 total | 470,293,108 | 44.31 |
| | Total Woolworths Shares outstanding | 1,061,480,001 | 100.0 |

5.6.3.4 History of dividends paid in last four years

| History of Dividends Paid on Woolworths Shares | | | | |
|--|---------|-----------------|---------------|----------------------|
| Date of dividend (payment) | Type | Cents per share | Franking rate | Woolworths DRP price |
| 27 April 2001 | Interim | 12.0 | 34% | \$7.99 |
| 5 October 2001 | Final | 15.0 | 30% | \$10.98 |
| 30 April 2002 | Interim | 15.0 | 30% | \$12.23 |
| 8 October 2002 | Final | 18.0 | 30% | \$11.78 |
| 30 April 2003 | Interim | 18.0 | 30% | \$11.71 |
| 3 October 2003 | Final | 21.0 | 30% | \$11.37 |
| 30 April 2004 | Interim | 21.0 | 30% | \$11.49 |
| 8 October 2004 | Final | 24.0 | 30% | \$13.16 |
| 29 April 2005 | Interim | 24.0 | 30% | \$15.50 |

5.6.3.5 Substantial shareholders

On the basis of disclosures contained in notices received by Woolworths under Part 6C.1 of the Corporations Act, there are two substantial shareholders in Woolworths as at the date of this Booklet.

The Capital Group Companies Inc has provided substantial shareholding notices in relation to a relevant interest in 61,822,101 Woolworths Shares representing 5.82% of Woolworths Shares.

Barclays Global Investors Australia Limited has provided substantial shareholding notices in relation to a relevant interest in 53,277,199 Woolworths Shares representing 5.01% of Woolworths Shares.

5.6.3.6 Unquoted equity securities

There are 29,020,082 unexercised options granted to employees over unissued Woolworths Shares.

5.6.4 Woolworths Dividend Reinvestment Plan

Woolworths has established the Woolworths DRP which provides Woolworths Shareholders with a choice of reinvesting all or a proportion of the dividends paid on Woolworths Shares in Woolworths Shares rather than receiving such dividends in cash.

Participation in the Woolworths DRP is optional and is open to all holders of Woolworths Shares, with the exception of shareholders with a registered address in any place where, in the opinion of the Woolworths Directors, participation, or the making of an offer or an invitation to participate in the Woolworths DRP, would require the issue of a prospectus under overseas law. The Woolworths Directors may also accept or reject any Notice of Dividend Election (as defined in the Woolworths DRP), or discontinue participation of a participant at any time, without being bound to give any reason for doing so.

A Woolworths Shareholder may participate in the Woolworths DRP in respect of some or all of their Woolworths Shares.

The Woolworths Directors determine, with respect to the operation of the Woolworths DRP for any dividend, whether to issue new Woolworths Shares or to acquire on-market such number of Woolworths Shares as are required under the Woolworths DRP.

Woolworths Shares allocated under the Woolworths DRP are currently acquired at a discount of 2.5% to the average of the daily volume weighted average market price of Woolworths Shares sold on the Stock Exchange Automated Trading System over the period of ten trading days commencing on the second trading day after the record date for the dividend, or such other period determined by either the Woolworths Directors or a committee of the Woolworths Directors appointed in accordance with the Woolworths Constitution.

The dividend payable on Woolworths Shares which are subject to the Woolworths DRP (after deducting any withholdings, such as withholding tax) is credited to the participant's plan account and then used by Woolworths to issue or acquire on-market such number of Woolworths Shares as can be allocated under the Woolworths DRP. In calculating the number of Woolworths Shares to be allocated to a participant, fractions are rounded up or down to the nearest amount equivalent to the price of one share as calculated under the Woolworths DRP rules. The participant is not entitled to any fractional entitlements to Woolworths Shares under the Woolworths DRP, nor to receive payment of any residual cash balance or otherwise in respect of amounts rounded down.

The allocation of Woolworths Shares under the Woolworths DRP is not subject to brokerage, commissions, or other transaction costs. All administrative costs are borne by Woolworths. However, participating Woolworths Shareholders are responsible for any taxes or other imposts assessed against or imposed on a participant.

Woolworths Shares allocated under the Woolworths DRP rank equally in every respect with existing issued Woolworths Shares and participate in all dividends subsequently declared or paid unless varied by the provision of a Notice of Variation (as defined in the Woolworths DRP) by the participating Woolworths Shareholder. Woolworths is obliged to apply for quotation on ASX of Woolworths Shares issued under the Woolworths DRP.

The Woolworths DRP can be modified by the Woolworths Directors at any time with one month's notice. The Woolworths DRP can be suspended or terminated by the Woolworths Directors at any time, after giving such notice (if any) as the directors determine is appropriate.

Woolworths has entered into an underwriting agreement in relation to the Woolworths DRP. Under this arrangement Woolworths pays Woolworths Shareholders their dividend entitlement in cash to the extent that they have not elected to take up their full entitlement under the Woolworths DRP and the underwriter subscribes for a number of shares calculated by reference to the aggregate amount of cash which has been paid to Woolworths Shareholders who have not elected to take up their full share entitlement under the Woolworths DRP. The price per share paid by the underwriter is the average of the daily volume weighted average market price of Woolworths Shares sold on the Stock Exchange Automated Trading System over a period of ten trading days commencing on the third trading day after the record date for the relevant dividend. This price does not include the 2.5% discount referred to above which applies in relation to the issue of Woolworths Shares to Woolworths Shareholders under the Woolworths DRP. This underwriting agreement applied to the interim dividend dated 29 April 2005, and will apply to the following three interim and final dividends payable in the calendar years 2005 and 2006. In relation to the 29 April 2005 interim dividend, 7,695,040 Woolworths Shares were issued to the underwriter.

5.6.5 Woolworths employee share plans and incentive plans

5.6.5.1 Employee ownership

Woolworths considers equity ownership as a key motivating factor. It has established plans for the allocation of shares to over 50,000 of its permanent employees.

5.6.5.2 Woolworths Short Term Incentive Plan

The Woolworths Short Term Incentive Plan provides an annual cash incentive based on a maximum percentage of salary and payable upon the achievement of Woolworths financial key result areas as well as a component for individual performance.

The key result areas are constituted by sales, EBIT, Return on Funds Employed and Cost of Doing Business. These key result area targets are set at the beginning of the financial year for each business within Woolworths and are measured based on improvements to the prior year. The targets and weightings for each key result area are reviewed and adjusted at the beginning of the financial year to reflect the specific objectives of each business within Woolworths. Payment is made following the end of the financial year to which they relate.

The Woolworths Short Term Incentive Plan has been structured to ensure that payment under this plan to the Chief Executive Officer, senior executives and all other management are closely aligned to reflect business performance.

5.6.5.3 Woolworths Long Term Incentive Plans

Woolworths Shareholders approved long term incentive plans on 26 November 1999 and on 26 November 2004.

Pursuant to the Woolworths 1999 LTIP, eligible executives selected by Woolworths are invited to apply for a specified number of options over Woolworths Shares.

Pursuant to the Woolworths 2004 LTIP, eligible executives selected by Woolworths are invited to apply for:

- (a) a specified number of options over Woolworths Shares;
- (b) a right to receive a specified number of Woolworths Shares by way of issue or transfer for no cash payment;
- (c) beneficial interests in a specified number of Woolworths Shares; or
- (d) cash awards.

The size and timing of invitations is at the discretion of the Woolworths Board but the total number of Woolworths Shares which may (subject to compliance with the Corporations Act and the Listing Rules), be issued pursuant to the exercise of rights under the rules of each of the two Woolworths LTIPs, is limited to no more than 5% of the total number of Woolworths Shares on issue at the date of the invitation in the case of the Woolworths 1999 LTIP and no more than 5% of the total number of Woolworths Shares on issue at the date of the invitation in the case of the Woolworths 2004 LTIP.

Rights granted to selected employees under the Woolworths LTIPs are issued and vest only on the basis of achievement of performance hurdles comprising EPS and TSR hurdles each for 50% of each grant.

(a) Options granted prior to 30 June 2002 under the Woolworths 1999 LTIP

Ten per cent of options granted prior to 30 June 2002 vest annually where the EPS growth is at least 8% per annum on a compound basis. Where EPS growth over the initial three financial years from grant date is at least 8% per annum compounded over five years, all options relating to the EPS hurdle (50%) vest. In respect of the TSR hurdle, the percentage of options in the total grant that vest depends upon Woolworths' TSR figure relative to the percentile performance of certain comparator companies.

Each grant of options is divided into four tranches, with the tranches becoming exercisable progressively over years three to five following the grant date, upon achievement of the specified performance hurdles.

Whilst, under the rules of the Woolworths 1999 LTIP, the Woolworths Board may require payment to be made on grant of options, it has not required any such payments to be made in connection with the grant of options under the Woolworths 1999 LTIP. The table below sets out details of the exercise prices of options granted pursuant to the Woolworths 1999 LTIP.

Options expire on the latest of twelve months after the option holder's death or three months after the option holder ceases to be an employee, or, in any event, at the end of the option period (being ten years from the date of grant).

(b) Options granted subsequent to 30 June 2002 under the Woolworths 1999 LTIP

Options granted subsequent to 30 June 2002 under the Woolworths 1999 LTIP continue to require the achievement of both EPS and TSR based performance hurdles. In order to encourage above share market peer performance, the allocation of further options was approved on the basis of an increase in the EPS growth hurdle with 12.5% of options vesting after four years where the average annual EPS growth over the four year period is at least 10% per annum compounded. If the average annual EPS growth over the four year period is at least 11% per annum compounded, an additional 12.5% of options vest. A further 12.5% of options vest after five years where a growth rate of at least 10% per annum compounded is sustained and an additional 12.5% vest if, over the five year period an EPS growth rate of at least 11% is achieved.

The TSR performance hurdle remains the same as for options granted prior to 30 June 2002. Options become exercisable after a period of five years following the grant date, upon achievement of the specified performance hurdles.

Whilst, under the rules of the Woolworths 1999 LTIP, the Woolworths Board may require payment to be made on grant of options, it has not required any such payments to be made in connection with the grant of options under the Woolworths 1999 LTIP. The table below sets out details of the exercise prices of options granted pursuant to the Woolworths 1999 LTIP.

Options expire on the latest of twelve months after the option holder's death or three months after the option holder ceases to be an employee, or, in any event, at the end of the option period (being 5.5 years from the date of grant).

(c) Options, Performance Rights, Performance Shares and Awards granted under the Woolworths 2004 LTIP

The performance hurdles which will apply in relation to all rights granted under the Woolworths 2004 LTIP will be set out in the specific grant but will be the same, or at least as stringent as, the hurdles previously applied to options granted under the Woolworths 1999 LTIP.

In relation to options granted under the Woolworths 2004 LTIP, the exercise price will be the amount determined by the calculation of the weighted average price of Woolworths Shares traded on the ASX in the five trading days prior to the effective grant date of the relevant options. The Woolworths Board will determine when the relevant options will become exercisable. There is no amount to be paid in respect of the grant of options. Options expire after the earlier of the expiration of the exercise period (as determined by the Woolworths Board), or the expiry of twelve months after the death or three months after the termination of employment of the employee.

In relation to the Performance Rights, Woolworths Shares will be issued or transferred to eligible executives on the exercise of the Performance Rights. Whilst there is no amount to be paid in respect of the grant of Performance Rights, the Woolworths Board may decide from time to time that there will be an exercise price payable by eligible executives. The Woolworths Board will determine when the relevant Performance Rights will become exercisable. Performance Rights expire after the earlier of the expiration of the exercise period (as determined by the Woolworths Board), or the expiry of twelve months after the death or three months after the termination of employment of the employee.

In relation to Performance Shares, Woolworths will give the trustee, for the purposes of the Woolworths 2004 LTIP, sufficient funds to acquire Woolworths Shares on market at the prevailing price on ASX or to subscribe for Woolworths Shares (as determined by the Woolworths Board). After acquiring all Woolworths Shares during a particular acquisition period, the trustee will hold the relevant Woolworths Shares on trust for eligible executives participating in the particular offer in respect of which the relevant Woolworths Shares are acquired. The ability of an eligible executive to withdraw Woolworths Shares from the Performance Share scheme will be subject to performance or other conditions which must be met or the shares may be forfeited. The Woolworths Board may determine that eligible executives be required to make a payment in respect of the acquisition of Performance Shares. Performance Shares will be forfeited on the later of twelve months after the death or three months after the termination of employment of the employee.

In relation to Awards, holders will not be required to pay any amount to acquire the relevant Award. Once vesting and performance conditions for the relevant Award are met, eligible executives will be entitled to be paid an amount in cash calculated in accordance with a formula which will be set out in the invitation to the relevant eligible executive. The payout calculation will be determined by the Woolworths Board, however, it will be based on the market price of Woolworths Shares. Awards will lapse on the later of twelve months after the death or three months after the termination of employment of the employee.

(d) Summary of rights granted under the Woolworths LTIPs

Since the establishment of the Woolworths 1999 LTIP, a total of 67,222,450 options have been granted under it. At 26 June 2005 there were 29,020,082 options outstanding. No options, Performance Rights, Performance Shares or Awards have yet been granted under the Woolworths 2004 LTIP.

Options Over Unissued Woolworths Shares under the 1999 LTIP as at 26 June 2005

| Option Grant Date | Option Expiry Date | Exercise Price (\$) | Balance at the beginning of FY 2005 | Options granted during FY 2005 | Options exercised during FY 2005 | Options lapsed during FY 2005 | Balance at the end of FY 2005 |
|-------------------|--------------------|---------------------|-------------------------------------|--------------------------------|----------------------------------|-------------------------------|-------------------------------|
| 1 Jul 1999 | 1 Jul 2009 | 5.11 | 20,794,375 | - | 19,318,043 | 524,457 | 951,875 |
| 1 Jul 2000 | 1 Jul 2010 | 6.17 | 2,586,250 | - | 328,125 | 6,000 | 2,252,125 |
| 1 Jul 2001 | 1 Jul 2011 | 10.89 | 6,739,000 | - | 360,686 | 270,332 | 6,107,982 |
| 1 Jul 2002 | 31 Dec 2007 | 12.94 | 6,162,000 | - | - | 776,000 | 5,386,000 |
| 1 Jul 2003 | 31 Dec 2008 | 12.60 | 7,331,350 | - | - | 762,000 | 6,569,350 |
| 1 Jul 2004 | 31 Dec 2009 | 11.54 | - | 7,752,750 | - | - | 7,752,750 |
| Total | - | - | 43,612,975 | 7,752,750 | 20,006,854 | 2,338,789 | 29,020,082 |

5.6.5.4 Woolworths Employee Share Plan

The Woolworths ESP has been available to all permanent employees of Woolworths and has provided for the issue of Woolworths Shares to such permanent employees (other than executive officers) with at least one year full-time service, or its part-time or casual equivalent.

No Woolworths Shares have been issued under the Woolworths ESP since 1 May 2003 and the Woolworths Board has suspended the Woolworths ESP. However, this Part 5.6.5.4 sets out a summary of rules which have applied to previous issues of Woolworths Shares under the Woolworths ESP.

The number of shares offered to each eligible employee has ranged from 100 to 7,500 shares depending upon the employee's position within Woolworths, salary and years of service.

Woolworths has made an interest free loan to the trustee of the Woolworths ESP, as agent for each participant, to finance the acquisition of shares. Such loans are limited in recourse to the proceeds of sale of shares acquired. Dividends and other distributions on the shares are applied to repay the loan. Part of each dividend or other distribution is paid to the participant to enable them to fund any tax liability arising from them. The loan may be repaid at any time after three years and in any event must be repaid when the employee ceases employment with Woolworths or after ten years or when a takeover offer is accepted for the shares, whichever is the earlier. If loans are not repaid, the shares will be sold and funds received after payment of costs and expenses will be applied to repay the loan.

Shares have been allotted at the Woolworths Directors' discretion at the weighted average market price of Woolworths Shares traded on the ASX in the five trading days up to and including the date Woolworths ESP shares are allotted, with the total amount payable by each participant reduced by \$1.00 per share. All shares which have been acquired under the Woolworths ESP are held by a wholly owned Subsidiary of Woolworths, Woolworths Custodian Pty Limited, as trustee of the Woolworths ESP. At any time after three years from the date of acquisition, a participant may request the trustee to transfer the shares, but only if the loan made to acquire those shares is repaid in full. Shares may be transferred earlier at the discretion of the Woolworths Directors in certain circumstances if the loan made to acquire the shares is repaid in full. The trustee may exercise the voting rights attached to the shares in the manner directed by the Woolworths Directors until they are transferred to the participant.

At 26 June 2005, there were 24,092 participating employees who held a total of 11,811,971 Woolworths Shares.

The total amount receivable by Woolworths in relation to loans made in connection with the Woolworths ESP was \$74.4 million at 26 June 2005.

5.6.5.5 Woolworths Employee Share Issue Plan

The Woolworths ESIP has provided for the issue of Woolworths Shares to eligible employees for no monetary consideration.

Again, no Woolworths Shares have been issued under the Woolworths ESIP since 14 May 2004. However, this Part 5.6.5.5 sets out a summary of the rules which have applied to previous issues of Woolworths Shares under the Woolworths ESIP.

The Woolworths ESIP complies with the various conditions specified by taxation legislation, to enable permanent employees to obtain a benefit of up to \$1,000 per employee per annum tax free concession on discounts under employee incentive schemes.

The initial offer under the Woolworths ESIP was 75 Woolworths Shares to each eligible staff member with a minimum period of continuous service. Woolworths Shares have been acquired in the employee's name and are non-transferable until the earlier of three years from the date of issue or the employee's cessation of employment.

As there is no monetary consideration for the Woolworths ESIP shares, the arrangement results in Woolworths giving financial assistance for the acquisition of shares. These shares rank equally with all other Woolworths Shares.

5.6.5.6 Woolworths Executive Management Share Plan

The Woolworths EMSP allows executive management, including executive directors, to forego some of their future pre-tax remuneration to acquire Woolworths Shares on-market at prevailing market prices on the ASX.

The Woolworths EMSP provides the opportunity for executive management to sacrifice an amount of their future potential salary or bonus, which Woolworths will contribute to the Woolworths EMSP trustee for the purchase of Woolworths Shares on-market at the prevailing market price on the ASX. After acquisition of all shares during a particular buying period, the shares are allocated to the participating executive managers. The shares are allocated at the average buying price achieved by the Woolworths EMSP trustee during the buying period. Allocation of the shares may be subject to conditions, which must be met, or the shares may be forfeited.

Shares may only be withdrawn from the Woolworths EMSP on the cessation of employment or on application to the trustee. Applications during any non-disposal period will only be allowed in special circumstances.

Woolworths does not provide employees with any loans to assist in the acquisition of the shares under the Woolworths EMSP, as funds advanced to the trustee are funds that would otherwise have been distributed as remuneration.

Shares issued under the Woolworths EMSP rank equally with all other Woolworths Shares. Dividends and all other rights attaching to the shares that have been allocated to a participant, accrue to the participant.

During the financial year ended 26 June 2005, 13,224 Woolworths Shares (financial year ended 27 June 2004: 19,445) were purchased under the Woolworths EMSP.

5.8.5.7 Woolworths Non-Executive Director's Share Plan

The Woolworths NEDSP allows non-executive Woolworths Directors to forego some of their future pre-tax directors' fees to acquire Woolworths Shares on market at prevailing ASX market prices. The rules of the Woolworths NEDSP are materially the same as the rules of the Woolworths EMSP.

During the financial year ended 26 June 2005, 5,177 Woolworths Shares (financial year ended 27 June 2004: 26,488) were purchased under the Woolworths NEDSP.

5.7 Additional information regarding Woolworths

5.7.1 Publicly available information

5.7.1.1 Information disclosed to ASX and documents lodged with ASIC

Woolworths is a "disclosing entity" for the purposes of the Corporations Act and as such is subject to continuous reporting and disclosure obligations. Specifically, as a listed company, Woolworths is subject to the Listing Rules, which require continuous disclosure of any information Woolworths has concerning it that a reasonable person would expect to have a material effect on the price or value of its shares.

In addition to this, Woolworths has adopted a continuous disclosure policy which contains certain best practice guidelines to which Woolworths seeks to adhere.

Woolworths' continuous disclosure policy allocates roles and responsibility for compliance with its terms. The policy is managed by Woolworths' Company Secretarial Department which recommends amendments to this policy from time to time.

ASX maintains files containing publicly disclosed information about all listed companies. This information is available from ASX.

In addition, Woolworths is also required to lodge various documents with ASIC. Copies of documents lodged with ASIC by Woolworths may be obtained from, or inspected at, an ASIC office.

Woolworths will provide, free of charge, to any FAL Shareholder who requests it before the Meetings, a copy of:

- (a) the Woolworths Constitution;
- (b) the annual financial report of Woolworths for the year ended 27 June 2004 (being the annual financial report most recently lodged with ASIC before this Booklet was lodged for registration with ASIC);
- (c) any half year financial report lodged with ASIC by Woolworths after the lodgement of the annual financial report referred to above and before lodgement for registration of this Booklet with ASIC; and
- (d) any continuous disclosure notice given to ASX by Woolworths after the lodgement with ASIC of Woolworths' Annual Report for the financial year ended 27 June 2004 referred to above and before lodgement for registration of this Booklet by ASIC (a list of which is included in Part 5.10 of this Booklet).

Copies of any of the documents referred to above can be obtained by writing to:

The Company Secretary
Woolworths Limited
C/- 540 George Street
Sydney NSW 2000

Woolworths' Annual Report for the financial year ended 27 June 2004 and other information is also available on the Woolworths website at www.woolworthslimited.com.au.

5.7.2 Other material information

5.7.2.1 Disclosure of interests of certain persons

Other than as set out below or elsewhere in this Booklet, no:

- (a) director or proposed director of Woolworths;
- (b) person named in this Booklet as performing a function in a professional, advisory or other capacity for Woolworths in connection with the preparation or distribution of this Booklet;
- (c) promoter of Woolworths; or
- (d) broker or underwriter to the issue of Woolworths Shares,

holds at the date of this Booklet or held at any time during the last two years, any interest in:

- (a) the formation or promotion of Woolworths;
- (b) property acquired or proposed to be acquired by Woolworths in connection with its formation or promotion, or the offer of Woolworths Shares under the Transfer Scheme; or
- (c) the offer of Woolworths Shares under the Transfer Scheme.

5.7.2.2 Disclosure of fees and benefits received by certain persons

Other than as set out below or elsewhere in this Booklet, no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given:

- (a) to a director or proposed director of Woolworths to induce them to become, or to qualify as, a director of Woolworths; or
- (b) for services provided by a person referred to in Part 5.7.2.1 of this Booklet in connection with the formation or promotion of Woolworths or the offer of Woolworths Shares under the Transfer Scheme.

Deloitte Touche Tohmatsu has acted as accountant in relation to the preparation of the Investigating Accountant's Report in Part 5.11 of this Booklet. Woolworths has paid or agreed to pay approximately \$170,000 for these services to the date of this Booklet and Woolworths may pay or agree to pay Deloitte Touche Tohmatsu additional fees for services provided in connection with the Transfer Scheme after the date of this Booklet. Deloitte Touche Tohmatsu has also received other fees for advising Woolworths on other matters and acting as its auditor.

5.7.2.3 Disclosure of interests of directors

(a) Interests in Woolworths Shares

The Woolworths Directors have relevant interests in the following Woolworths securities at the date of this Booklet:

| Directors' Interests in Woolworths Securities | | |
|---|----------------------------------|------------------------------------|
| Woolworths Director | Number of Woolworths Shares held | Number of options and share rights |
| James Alexander Strong | 68,647 | - |
| Roger Campbell Corbett AM | 293,185 | - |
| Professor Adrienne Elizabeth Clarke AC | 39,323 | - |
| Diane Jennifer Grady | 33,801 | - |
| Leon Michael L'Huilier | 119,044 | - |
| Dr Roderick Sheldon Dearie | 40,000 | - |
| John Frederick Astbury | 8,943 | - |

(b) Directors' interests in FAL securities

No Woolworths Director has a relevant interest in FAL Shares at the date of this Booklet.

No Woolworths Director has acquired or disposed of FAL Shares in the four months preceding the date of this Booklet.

(c) *Remuneration*

Woolworths in general meeting has fixed the maximum aggregate remuneration which can be paid to all non-executive directors of Woolworths in any year at \$1.25 million. No directors' fees are paid to executive directors.

The Woolworths Directors have determined that the following annual base fees (before superannuation guarantee contributions) are payable to individual non-executive Woolworths Directors:

- (i) \$110,000, for those appointed prior to January 2004, being Adrienne Clarke AC, Roderick Deane, Diane Grady and Leon L'Huilier; and
- (ii) \$140,000, for those appointed after December 2003, being John Astbury. This fee has been increased in lieu of an entitlement to a retirement allowance as described below and which the Woolworths Board has determined will not apply to Woolworths Board appointments after December 2003.

The Chairman, James Strong, receives \$330,000 per annum, being a multiple of three times the \$110,000 base fee.

Further, an overseas directors' allowance of \$10,000 is also provided to any non-executive directors residing outside Australia. In addition, non-executive directors receive fees in relation to each Woolworths Board committee on which they serve, being \$10,000 per annum for service on a Woolworths Board committee or \$20,000 per annum to chair a Woolworths Board committee.

The total amount of non-executive directors' fees during the financial year to 26 June 2005 was \$1,091,974, excluding superannuation guarantee contributions, retirement allowance accruals and other non-monetary benefits.

Each of Woolworths' non-executive directors appointed prior to January 2004 has entered into a Directors' Retirement Deed. Pursuant to the deeds, each non-executive director (appointed prior to January 2004) is entitled to receive an allowance on retirement as a director. The maximum amount of the allowance is equivalent to five times the average annual emoluments of the non-executive director (excluding superannuation and out of pocket expenses) over the three years prior to their retirement date.

The maximum entitlement accrues after ten years of service as a non-executive director and is reduced, pro rata, for periods of service less than ten years with no entitlement for periods of service less than three years. The amount of the allowance is additional to compulsory contributions made pursuant to the superannuation guarantee legislation.

As at 26 June 2005, a total of \$3,055,738 had been set aside by way of accrual with respect to these allowances.

The Woolworths Executive Director, Roger Corbett AM, accrued emoluments totalling \$5,364,888 in the financial year ended 26 June 2005. This was constituted by:

- \$2,363,166 in fixed remuneration;
- long term incentives of \$3 million; and
- other non-monetary benefits of \$1,722.

In addition, for that financial year, Mr Corbett has an entitlement to receive short term incentives not exceeding 130% of Mr Corbett's current fixed remuneration of \$2.5 million referred to below. The amount of this entitlement is yet to be determined.

The Woolworths Board announced to ASX on 1 September 2005 the terms of Mr Corbett's extended service agreement for the period ending September 2006. Under this Agreement, Mr Corbett is entitled to receive:

- \$2.5 million per annum in fixed remuneration;
- annual short term incentives not exceeding 130% of fixed remuneration; and
- long term incentives for the period to retirement and the transition period immediately following Mr Corbett's retirement not to exceed \$3 million for each of the three years ending June 2005, June 2006 and June 2007. As stated above, the Woolworths Board has determined to grant the maximum amount of \$3 million to Mr Corbett with respect to the period ended June 2005.

Mr Corbett's entitlement to receive both the short term incentives and the long term incentives in each year will be judged against specified criteria set by the Woolworths Board.

In addition, under the extended service agreement:

- Mr Corbett is entitled to receive a retirement benefit of \$3 million upon his retirement (which will be in addition to Mr Corbett's entitlements under the Woolworths superannuation plan); and
- it has been agreed that Mr Corbett will provide consultancy services to Woolworths from his retirement in September 2006 until September 2011 and enter into a restraint that will prevent him from providing services to major competitors of Woolworths in Australasia, for which Mr Corbett will be paid \$600,000 per annum. The terms of this consultancy and restraint are subject to finalising documentation.

(d) *Indemnity, insurance and access*

Woolworths and each Woolworths Director has entered into respective Deeds of Access, Insurance and Indemnity. In summary each deed provides:

- (i) an ongoing indemnity to the director against liability incurred by the director as a director of Woolworths or one of its subsidiaries and covers all legal costs incurred in defending or resisting proceedings in which the director becomes involved because of his or her position with Woolworths. This indemnity does not apply where the director is entitled to indemnity under an insurance policy, where prohibited by statute or where the conduct of the director involves a lack of good faith;
- (ii) that Woolworths will maintain an insurance policy for the benefit of the director which insures the director against liability for acts or omissions of the director in the director's capacity (or former capacity) as a Woolworths Director during the period in which the director holds office as a Woolworths Director. Each director has the benefit of this insurance during their period of service as a director and for seven years thereafter; and
- (iii) the director with a limited right to access, and take copies of, various Woolworths Board papers and other records relating to the period during which the director holds office as a Woolworths Director. Each Director has the benefit of this right during their period of service as a director and for seven years thereafter. Each director is obliged to keep the documents and their contents confidential.

The Woolworths Constitution provides for the entry into these deeds.

(e) *Directors' insurance*

During or since the end of the financial year ended 26 June 2005, Woolworths has paid or agreed to pay a premium in respect of a contract of insurance insuring previous and present directors, company secretaries and executive officers (and any persons who are employed in those capacities in the future) against certain liabilities incurred in those capacities. Disclosure of the total amount of the premiums and the nature of the liabilities in respect of such insurance is prohibited by the contract of insurance.

5.7.2.4 *Consents*

This Booklet contains statements made by, or statements based on statements made by, Woolworths. Woolworths has consented to being named in this Booklet and has consented to the inclusion of:

- (a) each statement it has made; and
- (b) each statement which is said in this Booklet to be based on a statement it has made,

in the form and context in which the statements have been included, and has not withdrawn that consent.

The following firms and companies have given, and have not at the date of this Booklet withdrawn, their written consent to being named in this Booklet and to the inclusion of the following information in the form and context in which it is included. None of the following firms and companies have caused or authorised the issue of this Booklet.

Deloitte Touche Tohmatsu has consented to the inclusion in this Booklet of the Investigating Accountant's Report on the Woolworths Historical Financial Information and the Woolworths Unaudited Pro-Forma Combined Financial Information and all references to that report in the form and context in which those references are included.

S&P has consented to the inclusion of the statements concerning Woolworths' credit rating from S&P in the form and context in which those references are included. S&P ratings and rating estimates are statements of opinion, not statements of fact or recommendations to buy, hold, or sell any securities. Ratings and rating estimates are based on information available to S&P and ratings or rating estimates may change at any time should there be any change in relevant information.

Each person named above in this Part 5.7.2.4:

- (a) has not authorised or caused the issue of this Booklet;
- (b) does not make, or purport to make, any statement in this Booklet other than those referred to above next to their name as consented to by them; and
- (c) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Booklet other than as described in this Part 5.7.2.4, with the consent of the relevant person.

In addition, this Booklet includes statements which are made in, or based on statements made in, documents lodged with ASIC or given to the ASX.

5.7.2.5 Voting power in FAL

As at the date of this Booklet, Woolworths has no voting power in FAL.

5.7.2.6 Dealings in FAL securities

Except as disclosed elsewhere in this Booklet, neither Woolworths nor any associate of Woolworths has provided, or agreed to provide, consideration for any FAL Shares or securities under a purchase or agreement during the four months ended on the day immediately before the date of this Booklet.

Except as disclosed elsewhere in this Booklet, during the period of four months ended on the day immediately before the date of this Booklet, neither Woolworths nor any associate of Woolworths has given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person, or an associate, to:

- (a) vote in favour of the Transfer Scheme; or
- (b) dispose of FAL Shares or PEH Shares or other FAL or PEH securities to Woolworths.

5.7.2.7 Expiry Date

No securities will be issued by Woolworths on the basis of this Booklet after the date which is 13 months after the date of this Booklet.

5.7.2.8 Woolworths' relevant interest in FAL securities

As at the date of this Booklet, FAL has the following securities on issue:

- 117,828,603 ordinary shares.

As at the date of this Booklet, PEH has the following securities on issue:

- one ordinary share.

As at the date of this Booklet, Woolworths has no relevant interest in any FAL securities or PEH securities.

5.7.2.9 Other material information

Except as disclosed in this Booklet, there is no other information that FAL Shareholders and their professional advisors would reasonably require to make an informed assessment of:

- (a) the effect on Woolworths of the offer of Woolworths Shares to FAL Shareholders under the Transfer Scheme; and
- (b) the rights and liabilities attaching to the Woolworths Shares offered to FAL Shareholders under the Transfer Scheme,

which has not previously been disclosed to FAL Shareholders.

5.8 Woolworths' significant accounting policies

As noted in Part 5.2.1 of this Booklet, Woolworths will be required to prepare financial statements using AIFRS as issued by the AASB when it reports in respect of the 2006 financial year.

Woolworths will report for the first time in compliance with AIFRS when the results for the half year ending 1 January 2006 are released. Accordingly, the AIFRS has not impacted upon the accounting policies that have been applied in relation to the Woolworths Historical Financial Information.

The significant accounting policies that have been applied in the preparation of the Woolworths Historical Financial Information are set out in Parts 5.8.1 to 5.8.27 of this Booklet.

5.8.1 Basis of preparation

The Woolworths Historical Financial Information has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the AASB and the Corporations Act.

It has been prepared on the basis of historical cost. The accounting policies adopted are consistent with those of the previous years.

The financial periods of Woolworths end on the last Sunday in June of each year. The financial period of Woolworths ended on 26 June 2005, which comprised 52 weeks and the corresponding financial period to 27 June 2004 comprised 52 weeks.

5.8.2 Principles of consolidation

In the Woolworths Historical Financial Information, "consolidated" financial statements are those of the consolidated entity, comprising Woolworths and its controlled entities.

All balances and the effects of all transactions between controlled entities that are included in the consolidated financial statements have been eliminated.

Outside interests in the equity and results of controlled entities are shown as a separate item in the consolidated financial statements.

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the consolidated entity's share of the post acquisition profits or losses of associates is recognised in the consolidated statement of financial performance, and its share of post acquisition movements in reserves is recognised in consolidated reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are those entities over which the consolidated entity exercises significant influence, but not control.

5.8.3 Revenue recognition

In general, revenue is recognised only when it is probable that the economic benefits comprising the revenue will flow to the entity and that the flow can be reliably measured.

In addition to these general criteria, specific revenue recognition criteria apply as follows:

5.8.3.1 Sales revenue

Sales revenue represents the revenue earned from the provision of products and rendering of services to parties external to the consolidated entity. Sales revenue is only recognised when control of the products has passed to the buyer and for services when a right to be compensated has been attained and the stage of completion of the contract can be reliably measured.

5.8.3.2 Interest, rents and dividends

Interest, rental and dividend revenue is recognised when the consolidated entity has attained control of a right to be compensated for the provision of, or investment of, its assets. With interest and rents, control of the right to be compensated will accrue over time. For dividends, the right to be compensated usually arises upon the approval of the dividend at a meeting of shareholders.

5.8.3.3 Proceeds from sale of assets

The gross proceeds of asset sales are recognised as revenue at the date that an unconditional contract of sale is exchanged with the purchaser.

5.8.3.4 Construction contracts

Contract revenue and expenses are recognised on an individual contract basis using the percentage of completion method when the stage of contract completion can be reliably determined, costs to date can be clearly identified, and total contract revenue and costs to complete can be reliably estimated. Where a loss is expected to occur, this is recognised immediately and is made for both work in progress completed to date and for future work on the contract.

5.8.4 Accounting for acquisitions

Assets and businesses acquired are accounted for using the cost method of accounting, whereby fair values are assigned to all the identifiable underlying assets acquired and the liabilities assumed at the date of acquisition.

Goodwill is brought to account on the basis described in Part 5.8.15.3 of this Booklet.

5.8.5 Income tax

Tax effect accounting is applied using the liability method, whereby the income tax expense for the period is based on the accounting profit after adjustment for permanent differences.

The deferred tax assets and deferred tax liabilities represent the net cumulative effect of items of income and expense that have been brought to account for tax and accounting purposes in different periods.

Deferred tax assets pertaining to timing differences have only been brought to account where the benefits are expected to be realised beyond reasonable doubt.

5.8.5.1 Tax consolidation

Woolworths is the head entity in the tax-consolidated group comprising all of its Australian resident wholly owned subsidiaries. The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intragroup transactions).

5.8.6 Pre-opening expenses

Pre-opening expenses in connection with new stores are charged to the statement of financial performance in the period in which they are incurred.

5.8.7 Stock valuation of finished goods

Short life retail stocks are valued at the lower of average cost or net realisable value.

Long life retail stocks have been valued by the retail inventory method to arrive at cost.

Warehouse stocks are valued at the lower of average cost or net realisable value.

These methods of valuation are considered to achieve a valuation reasonably approximating the lower of cost or net realisable value.

5.8.8 Purchase and promotional incentives

Purchase or promotional incentives are taken into income in the period to which the purchase or promotion relates, provided receipt of the incentive is reasonably assured.

5.8.9 Recoverable amount of non-current assets

The recoverable amount of a non-current asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to its recoverable amount. The decrement in the carrying amount is recognised as an expense in the statement of financial performance in the reporting period in which the recoverable amount write-down occurs. In determining the recoverable amount, expected future cash flows have not been discounted to their present values.

5.8.10 Valuation of non-current assets

Subsequent to initial recognition as assets, all non-current assets are measured at their original cost. This policy was adopted with effect from 28 June 1999.

5.8.11 Freehold land and buildings

Freehold land and buildings and development properties are measured at cost. Borrowing and other holding and development costs on property under development are capitalised until completion of the development.

Annual internal assessments are supplemented by independent assessments, which are performed at least every three years.

Land and buildings held with the intent of sale within the next twelve months are classified as current assets and are valued at the lower of cost or net realisable value.

Construction work in progress is carried at cost plus profit recognised to date based on the value of work completed, less progress billings and less provision for foreseeable losses, allocated between amounts due from customers and amounts due to customers.

5.8.12 Depreciation

5.8.12.1 Buildings, fixtures, fittings and plant

Buildings and plant comprising lifts, air conditioning, fire protection systems and other installations are depreciated on a straight-line basis over the estimated useful life of the asset to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets. The expected useful lives are as follows:

| Expected Useful Lives of Buildings, Fixtures, Fittings and Plant | | |
|--|-------------|-------------|
| | 2005 | 2004 |
| Buildings | 25-40 years | 25-40 years |
| Fixtures, fittings and plant | 3-40 years | 3-40 years |

5.8.12.2 Leasehold improvements

The cost of leasehold improvements is amortised over the remaining period of the individual leases or the estimated useful life of the improvement to the consolidated entity, whichever is the shorter. Leasehold improvements held at the reporting date are being amortised over a maximum period of 20 years.

5.8.12.3 Plant, equipment and shop fittings

Plant, equipment and shop fittings (including application software) are depreciated on a straight-line basis over the estimated useful life of the asset to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets.

The expected useful lives are as follows:

| Expected Useful Lives of Plant, Equipment and Fittings | | |
|--|--------------|--------------|
| | 2005 | 2004 |
| Plant, equipment and fittings | 2.5-40 years | 2.5-40 years |

5.8.13 Foreign exchange

5.8.13.1 Transactions

Transactions in foreign currencies within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction.

Amounts payable to and by the entities within the consolidated entity that are outstanding at period end and are denominated in foreign currencies have been converted to local currency using rates of exchange ruling at the end of the financial period, or where applicable, the contractual exchange rate. The resulting gains or losses are credited or charged to the statement of financial performance.

5.8.13.2 Specific commitments

Exchange gains and losses, and costs, premiums and discounts on transactions intended to hedge the purchase or sale of goods or services are deferred up to the date of, and included in the measurement of the purchase or sale. In the case of hedges of monetary items, exchange gains and losses are brought to account in the period in which the exchange rates change. Gains or costs arising on entry into such hedging transactions are brought to account over the lives of the hedges.

Where a hedging transaction is terminated prior to maturity and the underlying transaction is still expected to occur, any gains or losses occurring prior to termination, continue to be deferred and are brought to account in the measurement of the underlying transaction. Where the underlying transaction is no longer expected to occur, any previously deferred gains and losses are taken to the statement of financial performance at the date of termination.

Where a hedging transaction is redesignated as a hedge of another transaction, gains and losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur. Where the original transaction is no longer expected to occur, any gains or losses relating to the hedge instrument are included in the statement of financial performance for the period.

5.8.13.3 General commitments

Exchange gains and losses on other hedge transactions are not deferred, but brought to account in the statement of financial performance in the period in which the exchange rates change. Gains or costs arising on entry into these transactions are brought to account at the time of entry and amortised over the lives of the hedges.

5.8.13.4 Foreign controlled entities

All foreign controlled entities are self-sustaining, as each is financially independent of Woolworths. The accounts of the foreign controlled entities are translated using the current rate method and any exchange differences are taken to the foreign currency translation reserve.

5.8.14 Receivables

5.8.14.1 Trade and other debtors

Trade and other debtors are carried at nominal amounts due less any provision for doubtful debts. Provision for doubtful debts is made when collection of the full nominal amount is no longer probable.

5.8.14.2 Short term deposits

Short term deposits are stated at the lower of cost and net realisable value. Interest income is brought to account in the period in which it is earned.

5.8.15 Intangibles

5.8.15.1 Liquor licenses

Liquor licenses are valued at cost.

Liquor licenses are considered to have an indefinite useful life. As a consequence, no amortisation has been charged.

5.8.15.2 Gaming licenses

Gaming licenses are valued at cost.

Gaming licenses are considered to have an indefinite useful life. As a consequence, no amortisation has been charged.

5.8.15.3 Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of identifiable net assets acquired at the time of acquisition.

Goodwill is amortised by the straight-line method over the period during which benefits are expected to be received, a period deemed to be five years for GreenGrocer.com.au Pty Limited and 20 years for all other relevant entities.

5.8.16 Investments

Interests in controlled entities are accounted for in the consolidated financial statements as set out in Part 5.8.2 of this Booklet, and at cost in the Woolworths Historical Financial Information.

Interests in listed and unlisted shares are carried at the lower of cost and recoverable amount in the Woolworths Historical Financial Information.

Interests in semi-government securities are carried at amortised cost, calculated after accounting for the discount or premium on acquisition. Interest income is taken to account as revenue on an effective yield basis.

5.8.17 Leases

Operating lease payments, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased items, are charged to the statement of financial performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

The cost of improvements made on or to leasehold properties is accounted for as described in Part 5.8.12 of this Booklet.

5.8.18 Accounts payable and accruals

These amounts represent liabilities for goods and services provided to the consolidated entity which were unpaid at the end of the period. The amounts are unsecured and are usually settled within 45 days of recognition.

5.8.19 Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

5.8.19.1 Dividends

Following the introduction of AASB 1044, Provisions, Contingent Liabilities and Contingent Assets, a provision for dividends is recognised only when they have been declared, determined or publicly recommended by the directors.

5.8.19.2 Onerous contracts

An onerous contract is considered to exist where the consolidated entity has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds unrecognised assets.

5.8.19.3 Restructurings

Provision for restructurings are recognised when the consolidated entity has developed a detailed formal plan for the restructuring and has either:

- (a) entered into firm contracts to carry out the restructuring; or
- (b) raised a valid expectation in those affected by the restructuring that the restructuring will occur.

Where a restructuring arises as a consequence of an acquisition, a provision is recognised when, at or before the date of acquisition, the main features of a plan for restructuring are developed, and within three months of the date of acquisition, or by the time completion of the financial report, the consolidated entity has developed a formal detailed plan for the restructuring and has either:

- (a) entered into firm contracts to carry out the restructuring; or
- (b) raised a valid expectation in those affected by the restructuring that the restructuring will occur.

Such provisions are only made in respect of the restructuring of operations within the acquired entity.

5.8.19.4 Self-insured risks

The consolidated entity provides for self-insured liabilities relating to workers' compensation and public liability claims. The provisions for such liabilities are based on independent actuarial assessments, which consider numbers, amounts and duration of claims, and allow for future inflation and investment return. Allowance is included for injuries which occurred before the balance date, but where the claim is expected to be notified after the balance date.

5.8.20 Interest bearing liabilities

Loans and funds accepted on deposit are carried at their principal amounts, representing the present value of future cash flows associated with servicing of the debt. Interest is recognised as an expense of the period in which it accrues and is recorded as an accrual in the statement of financial position until it is paid. Costs incurred in connection with borrowing are capitalised and amortised over the period of the borrowing.

5.8.21 Employee benefits

5.8.21.1 Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, annual leave, vested sick leave and other employee benefits expected to be settled within twelve months, are recognised, and are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

5.8.21.2 Long service leave

A liability for long service leave, which is not expected to be settled within twelve months, is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to period end. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. The expected future cash flows are discounted, using interest rates attaching to Commonwealth Government guaranteed securities which have terms to maturity matching their estimated timing as closely as possible.

5.8.21.3 Employee share schemes

Shares issued to employees under the Woolworths ESIP and retention shares issued to executives under Executive Service Contracts are not considered to be a cost to Woolworths under current Australian Accounting Standards and, accordingly, are not recognised as an expense in the statement of financial performance.

Options granted to executives to subscribe for fully paid ordinary shares are not considered to be a cost to Woolworths under current Australian Accounting Standards and, accordingly, are not recognised as an expense in the statement of financial performance.

5.8.21.4 Superannuation

Woolworths' superannuation scheme, Woolworths Super, provides accumulation type benefits to all permanent salaried employees and their dependants on retirement or death. Defined benefits have been preserved for former members of some superannuation funds sponsored by Woolworths.

Woolworths' commitment in respect of accumulation benefits under Woolworths Super is limited to making the specified contributions in accordance with the rules of Woolworths Super and/or any statutory obligations. In respect of defined benefits payable under Woolworths Super, Woolworths has committed to fund up to the level of members' vested benefits. For funding purposes, actuarial valuations are carried out every three years to determine Woolworths' liability for the defined benefit and accumulation enhancement portions of Woolworths Super. Annual actuarial reviews are performed to monitor the funding position of Woolworths Super. Woolworths' contributions to Woolworths Super are expensed in the statement of financial performance as incurred.

5.8.22 Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings and lease finance charges.

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are included in the cost of qualifying assets.

Qualifying assets are assets that take more than twelve months to prepare for their intended use or sale.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the consolidated entity's outstanding borrowings during the financial year, in this case 6.6% (2004: 7.5%).

5.8.23 Derivative financial instruments

The consolidated entity enters into forward foreign exchange contracts and interest rate swap agreements.

Accounting for forward exchange contracts is in accordance with Part 5.8.13 of this Booklet. The net amount receivable or payable under interest rate swap agreements is progressively brought to account over the period to settlement.

The amount recognised is adjusted against interest expense during the period.

5.8.24 Cash

For purposes of the statement of cash flows, cash includes cash on hand and deposits at call which are readily convertible to cash on hand and are subject to insignificant risk of changes in value, net of outstanding bank overdrafts.

5.8.25 Earnings per share

Basic EPS is determined by dividing the operating net profit after tax attributable to the members of Woolworths after deducting the WINs distribution, by the weighted average number of Woolworths Shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the period.

Diluted EPS adjusts the amounts used in the determination of basic EPS by taking into account the weighted average number of ordinary shares assumed to have been issued for no consideration in relation to potential dilutive ordinary shares.

5.8.26 Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST, except:

- (a) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the acquisition cost of an asset or as part of an item of expense; or
- (b) for receivables or payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

5.8.27 Financial instruments issued by Woolworths

5.8.27.1 Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

5.8.27.2 Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in the equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

5.8.27.3 Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instruments or component parts of compound instruments.

5.9 Effect of AIFRS on Woolworths

5.9.1 Adoption of AIFRS and transition management

Woolworths will be required to prepare financial statements using AIFRS for the first time in respect of its half year financial report for the 27 weeks ending 1 January 2006 and its annual report for the 52 weeks ending 25 June 2006.

In August 2003, the Woolworths Board established a formal implementation project to monitor and plan for the adoption of AIFRS. An AIFRS implementation team was established which involved representatives from the Woolworths finance team, other departments and third party advisers. The team liaises directly with each of Woolworths' business units and reports to Woolworths' Chief Financial Officer.

The assessment and planning phase generated a high level overview of the impacts of conversion to AIFRS on existing accounting and reporting policies and procedures, systems and processes, business structures and staff. The assessment and planning phase was completed as at 26 June 2005.

The design phase formulated the changes required to Woolworths' existing accounting policies, procedures, systems and processes in order to transition to AIFRS. The design phase incorporated the formulation of revised accounting policies and procedures for compliance with AIFRS requirements, identification of potential financial impacts on adoption of AIFRS, and development of accounting and business processes to support AIFRS reporting obligations. The design phase was complete as at 26 June 2005.

The implementation phase includes implementation of identified changes to Woolworths' accounting and business procedures, processes and systems and operational training for staff and enables Woolworths to comply with the measurement, recognition and disclosure requirements of AIFRS. This phase was substantially complete as at 26 June 2005.

5.9.2 Summary of transitional AIFRS adjustments

Set out below for illustrative purposes are:

- (a) Woolworths' unaudited consolidated pro-forma statement of financial position as at 26 June 2005 including a reconciliation between the recognition and measurement criteria of AIFRS and the recognition and measurement criteria of AGAAP, as they apply to Woolworths; and
- (b) Woolworths' unaudited consolidated pro-forma statement of financial performance for the 52 weeks ended 26 June 2005 including a reconciliation between the recognition and measurement criteria of AIFRS and the recognition and measurement criteria of AGAAP, as they apply to Woolworths.

It should be noted that the alphabetical notes to the financial information set out in this Part 5.9.2 are references to notes contained in the equivalent paragraph in Part 5.9.3 of this Booklet. Part 5.9.3 of this Booklet sets out information in relation to the impact of AIFRS by reference to particular aspects of Woolworths' financial statements.

Woolworths Pro-Forma Statement of Financial Position as at 26 June 2005

| | AGAAP | AIFRS | | AIFRS |
|---|----------------|----------------|------|----------------|
| | \$m | Adjustments | Note | \$m |
| CURRENT ASSETS | | | | |
| Cash | 432.3 | - | | 432.3 |
| Receivables | 490.0 | (88.7) | j | 415.6 |
| | | 14.3 | j | |
| Inventories | 1,977.3 | (11.3) | k | 1,986.0 |
| Property, plant and equipment | 28.2 | 45.3 | a | 73.5 |
| Other receivables | 109.2 | - | | 109.2 |
| Total current assets | 3,037.0 | (40.4) | | 2,996.6 |
| NON-CURRENT ASSETS | | | | |
| Receivables | 79.8 | - | | 79.8 |
| Other financial assets | 1.1 | - | | 1.1 |
| Property, plant and equipment | 3,552.6 | (63.3) | b | 3,423.5 |
| | | 11.4 | b | |
| | | (45.3) | a | |
| | | (31.9) | b | |
| Intangibles | 2,011.4 | 41.8 | e | 2,042.2 |
| | | (11.0) | d | |
| Deferred tax asset-timing difference | 265.1 | 22.9 | g | 288.0 |
| Other | 10.9 | - | | 10.9 |
| Total non-current assets | 5,920.9 | (75.4) | | 5,845.5 |
| Total assets | 8,957.9 | (115.8) | | 8,842.1 |
| CURRENT LIABILITIES | | | | |
| Accounts payable | 2,335.6 | - | | 2,335.6 |
| Accruals | 651.9 | - | | 651.9 |
| Interest-bearing liabilities | 235.5 | - | | 235.5 |
| Current tax liabilities | 105.5 | - | | 105.5 |
| Provisions | 393.5 | 7.0 | l | 400.5 |
| Other | - | 3.6 | j | 3.6 |
| Total current liabilities | 3,722.0 | 10.6 | | 3,732.6 |
| NON-CURRENT LIABILITIES | | | | |
| Interest-bearing liabilities | 2,614.0 | - | | 2,614.0 |
| Deferred tax liabilities | 12.4 | (11.1) | g | 1.3 |
| Provisions | 412.4 | - | | 412.4 |
| Other | - | 32.0 | i | 32.0 |
| | | 10.7 | j | 42.7 |
| Total non-current liabilities | 3,038.8 | 31.6 | | 3,070.4 |
| Total liabilities | 6,760.8 | 42.2 | | 6,803.0 |
| NET ASSETS | 2,197.1 | (158.0) | | 2,039.1 |
| EQUITY | | | | |
| Contributed Equity | 977.9 | - | | 977.9 |
| Shares held in trust | - | (88.7) | j | (88.7) |
| Employee Remuneration Reserve | - | 11.8 | j | 11.8 |
| Reserves | 207.9 | 0.4 | h | 233.3 |
| | | (71.9) | b | |
| | | (46.8) | a | |
| | | (66.3) | a | |
| Retained earnings | 978.0 | 103.5 | 1 | 1,081.5 |
| Equity attributable to the members of Woolworths | 2,163.8 | (158.0) | | 2,005.8 |
| WINS | | | | |
| Outside equity interest in controlled entities | - | - | | - |
| Reserves | 0.9 | - | | 0.9 |
| Retained profits | 32.4 | - | | 32.4 |
| Total outside equity interest | 33.3 | - | | 33.3 |
| TOTAL EQUITY | 2,197.1 | (158.0) | | 2,039.1 |

Reconciliation Transitional Balance Sheet

| Consolidated entity | Note | AIFRS Adjustment \$m | Retained Earnings \$m |
|--|------|-------------------------|--------------------------|
| AGAAP retained earnings | | | 978.0 |
| Transitional Adjustments: | | | |
| Plant, property and equipment - depreciation | b | 10.3 | |
| Plant, property and equipment | b | (21.1) | |
| Reserves | b | 8.8 | |
| Reserves | a | 46.8 | |
| Reserves | a | 86.3 | |
| Income Tax | g | 30.8 | |
| Foreign currency translation reserve | h | (0.4) | |
| Defined Benefit Plan | i | (31.0) | |
| Make Good Provision | i | (7.0) | |
| Options | j | (4.8) | |
| Inventory | k | (11.0) | |
| Total Transitional Adjustments | | | 87.6 |
| FY 2005 Adjustments: | | | |
| Plant, property and equipment, net of depreciation | b | (9.7) | |
| Restructuring Provision - ALH | d | (11.0) | |
| Writeback goodwill amortisation | e | 41.8 | |
| Tax - AIFRS adjustments | g | 3.2 | |
| Defined benefit | i | 82.0 | |
| Defined benefit | i | (73.0) | |
| Option expense | j | (7.0) | |
| Inventory | k | (0.3) | |
| Total 2005 income statement | | 26.0 | |
| Direct to 2005 retained earnings | | | |
| Defined benefit | i | (10.0) | |
| | | (10.0) | |
| Total 2005 Adjustments | | | 16.0 |
| AIFRS retained earnings | | | 1,081.5 |

Woolworths Pro-Forma Statement of Financial Performance for the 52 weeks ended 26 June 2005

| | Woolworths AGAAP \$m | Woolworths 2005 AIFRS Adjustments \$m | Note | Woolworths AIFRS \$m |
|---|----------------------------|--|------------------|----------------------------|
| Revenues from sales of goods | 31,352.5 | - | | 31,352.5 |
| Other operating revenue | 600.9 | (600.9) | k | - |
| Total revenue from operations | 31,953.4 | (600.9) | | 31,352.5 |
| Cost of Sales | (24,150.8) | (0.3) 418.3 | k k | (23,732.8) |
| Gross Profit | 7,802.6 | (182.9) | | 7,619.7 |
| Other revenues from ordinary activities | 365.4 | 146.5 (303.4) | k a | 208.5 |
| Share of net profits of associates and joint venture partnerships accounted for using the equity method | 2.5 | - | | 2.5 |
| Branch expenses | (5,361.5) | (9.7) 41.8 303.4 | b e a | (5,026.0) |
| Administration expenses | (1,526.0) | 36.1 (7.0) 9.0 (11.0) | k i i d | (1,498.9) |
| EBIT | 1,283.0 | 22.8 | | 1,305.8 |
| Interest Expense | (164.1) | - | | (164.1) |
| Interest Income | 10.4 | - | | 10.4 |
| Profit from ordinary activities before income tax expense | 1,129.3 | 22.8 | | 1,152.1 |
| Income Tax Expense | (337.7) | 3.2 | g | (334.5) |
| Net Profit from ordinary activities after income tax expense | 791.6 | 26.0 | | 817.6 |
| Net profit attributable to outside equity interest | (1.1) | - | | (1.1) |
| Operating net profit attributable to the members of Woolworths | 790.5 | 26.0 | | 816.5 |

5.9.3 Note on impact of transition to AIFRS

This Part 5.9.3 sets out a description of the principal impacts of transition to AIFRS on Woolworths' financial statements.

The disclosures in this Part 5.9.3 in respect of the impact of transition to AIFRS, including the transitional adjustments disclosed, are based on the AIFRS standards that Woolworths' management expects to be in place, or where applicable, expects to adopt, when preparing the first complete AIFRS financial report (being the half year financial report for the 27 weeks ending 1 January 2006). Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of Woolworths' financial position, results of operations and cash flows in accordance with AIFRS. This note provides only a summary, and therefore further disclosure and explanations will be required in the first complete AIFRS financial report of Woolworths for a true and fair view to be presented under AIFRS.

There is a significant amount of judgment involved in the preparation of the reconciliations from AGAAP to AIFRS. These reconciliations are Woolworths' best estimates at the date of this Booklet. However further changes could arise for the reasons set out below. Consequently, the final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the reconciliations provided in this Part 5.9.3. Revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

- changes to financial reporting requirements that are relevant to Woolworths' first complete AIFRS financial report arising from new or revised accounting standards or interpretations issued by the AASB subsequent to the preparation of Woolworths' Annual Report for the financial year ended 26 June 2005; or
- additional guidance on the application of AIFRS in a particular industry or to a particular transaction.

The significant changes in accounting policies expected to arise on the adoption of AIFRS by Woolworths and the elections expected to be made by Woolworths under AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards* (AASB 1) are set out below. An estimate of the financial impact of these key differences has been provided where the impact is known and reliably measurable. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 28 June 2004.

5.9.3(a) Reclassifications

The AGAAP definition of revenue requires proceeds on sale of non-current assets to be included as revenue – this has the effect of “grossing up” the income statement. Under AIFRS, the proceeds on disposal will no longer be disclosed as revenue. An amount of \$303.4 million is expected to be reclassified from revenue to other income/expenses for the 52 weeks ended 26 June 2005.

Woolworths plans to utilise the option available in AASB 1 to reclassify the transition date reserve balances relating to capital profits reserve and general reserve to retained earnings. This transfer is expected to result in a decrease in these reserve balances of \$66.3 million and \$46.8 million respectively and an equal increase in retained earnings.

Under AIFRS, non-current assets classified as held for sale, and assets and liabilities of a disposal group classified as held for sale, will be presented separately as current assets and current liabilities on the balance sheet. A non-current asset (or disposal group) is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use, the asset (or disposal group) is available for immediate sale in its current condition, and its sale is highly probable.

This is expected to result in \$45.3 million being reclassified from non-current property, plant and equipment to current assets at 26 June 2005.

5.9.3(b) Property, plant and equipment

On initial adoption of AIFRS, the Woolworths Board has elected that property, plant and equipment will be measured at cost. As permitted by the election available under AASB 1, certain items of property, plant and equipment that were previously revalued will be restated at cost on transition.

Consequently, of the opening balance of the asset revaluation reserve balance of \$71.9 million, \$63.3 million will be adjusted against property, plant and equipment and depreciation of \$10.3 million relating to the revaluations recognised prior to transition will be reversed against retained earnings on transition. The remaining balance in the asset revaluation reserve of \$8.6 million represents revaluations that relate to assets disposed of in prior periods. This balance will be transferred to retained earnings on transition.

AIFRS requires that all research activities in relation to a project be expensed as incurred, including evaluative and feasibility expenditure. Previously this expenditure was capitalised if it was expected, beyond reasonable doubt, to be recoverable. Assets that have previously been capitalised up to the transition date and that will now be expensed amount to \$21.1 million. During the 52 weeks ended 26 June 2005, a further \$14.6 million was capitalised. Depreciation of \$3.8 million was recorded as an expense during the financial year ended 26 June 2005 in respect of assets that have previously been capitalised and will now be expensed.

For the 52 week period ended 26 June 2005, further depreciation of \$1.1 million relating to the previous revalued amounts will not be recognised in the AIFRS income statement.

This results in a net adjustment of \$9.7 million to the value of plant, property and equipment at 26 June 2005.

5.9.3(c) Leased assets

Classification

On transition leases are required to be classified as either operating leases or finance leases on the basis of circumstances existing at inception of the lease. No leases have been identified that are required to be reclassified as a finance lease under AIFRS.

Operating lease expenditure

Under AASB 117 Leases, operating lease expenses should be recognised on a straight-line basis unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis. Fixed rate increases to lease rental payments, excluding contingent or index based rental increases, such as CPI, turnover rental and other similar increases, are recognised on a straight-line basis over the lease term. An asset or liability arises for the difference between the amount paid and the lease expense brought to account on a straight-line basis. Under AGAAP, fixed rental escalations were recognised as an expense in the period that they were incurred.

The effect of this change is not expected to be material at transition nor for the 52 week period ended 26 June 2005.

5.9.3(d) Business combinations

On initial adoption of AIFRS, the Woolworths Board has elected not to restate business combinations that occurred before 28 June 2004. Accordingly, the impacts of the adoption of AIFRS will be limited to the recognition of additional deferred tax assets and deferred tax liabilities and cessation of goodwill amortisation.

Business combinations that occurred on or after 28 June 2004 will be restated to comply with AIFRS. All business combinations will be accounted for by applying the purchase method. The restructuring provision recognised on the acquisition of ALH under AGAAP does not meet the recognition requirements under AIFRS. As a result, goodwill and profit before tax for the 52 weeks ended 26 June 2005 will decrease by \$11.0 million.

5.9.3(e) Intangible assets

Goodwill

Goodwill represents the difference between the cost of a business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. In respect of acquisitions prior to the transition date, goodwill will be included on the basis of its deemed cost, being its written down value recorded under AGAAP as at 28 June 2004. Under AIFRS, goodwill will be stated at cost less any accumulated impairment losses. (See Part 5.9.3(f) of this Booklet for details on impairment testing).

Amortisation

Under AIFRS, goodwill and intangible assets with an indefinite useful life will not be subject to amortisation but instead will be tested for impairment annually and whenever there is an indication of impairment. Changes in useful life on transition to AIFRS will be accounted for prospectively.

The estimated useful lives at 28 June 2004 are expected to be as follows:

| | AIFRS | AGAAP |
|----------------------------|------------|------------|
| Goodwill | indefinite | 20 years |
| Liquor and Gaming Licenses | indefinite | indefinite |

Woolworths' net profit after tax for the 52 weeks ended 26 June 2005 is expected to increase by \$41.8 million as a result of the cessation of goodwill amortisation.

5.9.3(f) Impairment

Under AGAAP, the carrying amounts of non-current assets are reviewed at each reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount exceeds the recoverable amount the asset is written down to the recoverable amount. Where a group of assets working together supports the generation of cash inflows, the recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

Under AIFRS, both current and non-current assets (excluding goodwill and indefinite life intangibles) will be reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset will be tested for impairment by comparing its recoverable amount to its carrying amount. Recoverable amount under AIFRS is the higher of "fair value less costs to sell" and "value in use". In assessing "value in use" AIFRS requires the estimated future cash flows to be discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Goodwill and intangible assets that have an indefinite useful life and intangible assets not yet ready for use will be required to be tested for impairment annually and whenever there is an indication of impairment.

If there is any indication that an asset is impaired, the recoverable amount will be estimated for the individual asset. If it is not possible to estimate the recoverable amount for the individual asset, the recoverable amount of the cash generating unit to which the asset belongs will be determined.

An impairment loss will be recognised whenever the carrying amount of an asset, or its cash generating unit exceeds its recoverable amount. Impairment losses will be recognised in the income statement. Impairment losses recognised in respect of a cash generating unit will be allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to reduce the carrying amount of the other assets in the unit on a pro rata basis to their carrying amounts.

No impairment loss has been identified for Woolworths either on transition to AIFRS or for the 52 weeks ended 26 June 2005.

5.9.3(g) Taxation

Under AIFRS, tax balances are determined using a 'balance sheet' approach, which differs significantly from the current methodology under AGAAP. Under the balance sheet approach, current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities for financial reporting purposes, and the corresponding tax base of those items.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled.

Current and deferred tax will be recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it will be recognised in equity.

The expected impact on Woolworths at 28 June 2004 is an increase in deferred tax assets of \$19.4 million, a decrease in deferred tax liabilities of \$11.4 million and an increase in retained earnings of \$30.8 million mainly arising from the recognition of carried forward tax losses (which were not recognised under AGAAP but can be recognised under AIFRS where it is probable that future taxable profit will be available against which the unused tax losses can be utilised and temporary differences arising from the recognition of the defined benefit plan liability (see Part 5.9.3(i) of this Booklet) and writeback of previously revalued assets for accounting purposes.

The expected impact of the change in basis on the tax expense for the 52 week period ended 26 June 2005 is a decrease in tax expense of \$3.2 million. Deferred tax assets are expected to increase by \$3.5 million and deferred tax liabilities are expected to increase by \$0.3 million as at 26 June 2005.

5.9.3(h) Foreign currency

Financial statements of foreign operations

On initial adoption of AIFRS, as permitted by the elections available under AASB 1, the foreign currency translation reserve will be reset to zero with an offsetting decrease in retained earnings of the consolidated entity of \$0.4 million.

5.9.3(i) Employee benefits

Defined benefit plans

Woolworths is the employer sponsor of a number of defined benefit superannuation funds. Under AIFRS, the employer sponsor is required to recognise a liability (or asset) where the present value of the defined benefit obligation, adjusted for unrecognised past service cost exceeds (or is less than) the fair value of the underlying net assets of the fund (hereinafter referred to as the "defined benefit obligation"). Any resulting liability or asset will be grossed up for any contributions tax as required by AASB 119 *Employee Benefits* (AASB 119) (revised).

The defined benefit obligation recognised in the balance sheet is determined using actuarial valuations carried out at each reporting date as required by AASB 119. Woolworths' defined benefit obligation in respect of defined benefit superannuation plans will be calculated separately for each plan. The discount rate that will be used is the Federal Government bond rate at each reporting date which most closely matches the terms of maturity of the related liabilities.

After initial adoption, further movements in the defined benefit obligation will be recognised in the income statement except for actuarial gains or losses which will be recognised directly in retained earnings (in accordance with the options available under AASB 119).

Under AGAAP, Woolworths recognises contributions to the superannuation funds as an expense when due and payable and does not recognise any liability or asset in relation to fund deficits or surpluses unless there is a current obligation to fund the deficit.

Woolworths' contributions to the defined benefit superannuation funds have been determined on a vested benefits basis. The additional funding that would be required if Woolworths were to have funded the accrued benefits has been disclosed in Woolworths' Annual Report for the 52 weeks ended 27 June 2004. This Annual Report disclosed a shortfall of \$25.0 million as at the date of performance of the latest valuation, being 31 August 2002.

At the date of transition, an amount of \$31.0 million is expected to be recognised as a liability of Woolworths with a corresponding decrease in retained earnings.

For the 52 weeks ended 26 June 2005, an expense relating to the defined benefit plan of \$73.0 million will be recognised under AIFRS with a further \$10.0 million recognised directly in retained earnings (representing the actuarial gains and losses for the period). The previous AGAAP expense for the 52 week period ended 26 June 2005, being the contributions paid by Woolworths to the fund, of \$82.0 million is reversed under AIFRS. This results in a net increase to the AIFRS net profit before tax compared to AGAAP for the 52 week period ended 26 June 2005 of \$9.0 million (being the \$73.0 million expense required by AIFRS less the \$82 million expense determined using AGAAP). The resulting liability at 26 June 2005 is \$32.0 million.

5.9.3(j) Share based payments

Equity settled share based payments form part of the remuneration of employees (including executives) of Woolworths. Under AGAAP, Woolworths does not recognise an expense for any share based remuneration, including equity settled share based payments such as options.

Under AIFRS, Woolworths will recognise the fair value at the grant date of equity settled share based payments (such as options) as an employee benefit expense with a corresponding increase in equity. Fair value will be measured at grant date using a binomial model which takes into account market based performance conditions. The fair value per instrument will be multiplied by the number of instruments expected to vest based on achievement of non-market based performance conditions (e.g. service conditions) to determine the total cost. This total cost will be recognised as an employee benefit expense proportionally over the vesting period during which the employees become unconditionally entitled to the options. On vesting and over the vesting period, the amount recognised as an employee benefit expense will be adjusted to reflect the actual number of options that vest except where forfeiture is due to failure to achieve market based performance conditions.

As permitted by the elections available under AASB 1, Woolworths will not retrospectively recognise the fair value of share based payments that have vested prior to 1 January 2005. Furthermore, no adjustment will be made for share based payments granted before 7 November 2002.

On transition to AIFRS, retained earnings are expected to decrease and reserves are expected to increase by \$4.8 million.

For the financial year ended 26 June 2005, employee benefits expense and reserves are expected to increase by \$7.0 million.

Woolworths ESP

Woolworths operates an employee share plan (the Woolworths ESP) whereby it provides interest free loans to selected employees to purchase shares in Woolworths. All shares acquired under this share plan are held by a wholly owned subsidiary of Woolworths as trustee of the share plan trust. Dividends paid by Woolworths are used to repay the loan (after payment of a portion of the dividend to the employee to cover any tax liabilities). The loans are limited recourse and if the employee elects not to repay the loan, the underlying shares are sold to recover the outstanding loan balance.

Certain employee receivables in respect of the Woolworths ESP were sold in 2002 to a financial institution. Under AIFRS, a liability equal to that part of these receivable balances not yet repaid by the employee will be recognised as a liability as the financial institution has recourse to Woolworths until the share plan vesting conditions have been satisfied. At 26 June 2005, this is expected to give rise to an increase in liabilities of \$14.3 million, with \$3.6 million being disclosed as a current liability and the balance of \$10.7 million being disclosed as a non-current liability.

In addition, under AIFRS, assets and equity of Woolworths will reduce by \$88.7 million.

5.9.3(k) Inventory

Woolworths receives settlement discounts from suppliers for early payment of amounts due. Currently these amounts are recognised as revenue when earned. The Urgent Issues Group have issued proposed UIG Interpretation 1002 *Inventory Rebates and Settlement Discounts* (UIG Interpretation 1002) which requires that settlement discounts and rebates received from vendors are recognised as a reduction of cost of sales (or inventory) unless the rebate represents a reimbursement of a specific, incremental, identifiable cost incurred by the entity in selling the vendors products. Such a rebate is recognised as a reduction of that cost. If the amount of the rebate credited or paid by the supplier exceeds the cost being reimbursed, UIG Interpretation 1002 requires that the excess shall be deducted in determining the cost of inventories.

These requirements are applicable for years ending on or after 30 June 2006, but early adoption is allowed in conjunction with the transition to AIFRS. Woolworths intends to early adopt UIG Interpretation 1002 on transition to AIFRS. This will result in:

- settlement discounts, rebates and other purchase allowances totalling \$600.9 million, currently recognised in Other Operating Revenue, being reclassified as a reduction in Cost of Sales of \$418.3 million, a reduction in Administration Expenses of \$36.1 million and an increase in Other Revenue from Ordinary Activities of \$146.5 million; and
- a reduction in inventory and retained earnings of Woolworths on transition to AIFRS of approximately \$11.0 million. The adjustment relating to the 52 weeks ended 26 June 2005 will be a decrease in inventory and profit before taxation of approximately \$0.3 million.

Woolworths is continuing its review of the impact of adopting UIG Interpretation 1002.

5.9.3(l) Make good provisions

Woolworths has certain operating leases that require the asset to be returned to the lessor in its original condition. The operating lease payments do not include an element for repairs/overhauls.

Under AGAAP, the costs of refurbishment are not recognised until it is probable that the expenditure will be incurred, whereas under AIFRS, a provision for refurbishment costs must be recognised over the period of the lease, measured at the expected cost of refurbishment at each reporting date.

For Woolworths, an amount of \$7.0 million will be recognised, at the date of transition, as a liability with a corresponding decrease in retained earnings.

5.9.3(m) Financial instruments

Woolworths has elected to apply the first-time adoption election available in AASB 1 to defer the date of transition of AASB 132 *Financial instruments: Disclosure and Presentation* (AASB 132) and AASB 139 *Financial Instruments: Recognition and Measurement* (AASB 139) until 27 June 2005. Accordingly, there are no expected adjustments in relation to these standards on transition (28 June 2004) or for the 52 weeks ended 26 June 2005.

5.10 Woolworths announcements to ASX

| Date | Announcement |
|-------------------|---|
| 12 September 2005 | Becoming a substantial holder |
| 8 September 2005 | Appendix 3B |
| 7 September 2005 | Amended Appendix 3Y - Change of Director's Interest Notice |
| 6 September 2005 | Change of Director's Interest Notice x 3 |
| 6 September 2005 | Ceasing to be a substantial holder |
| 2 September 2005 | WOT's ann: Woolworths National Support Office |
| 1 September 2005 | Extended Service Agreement of CEO of Woolworths |
| 1 September 2005 | Appendix 3B |
| 31 August 2005 | Woolworths Acquisition of Action Stores |
| 31 August 2005 | ACCC ann: Statement of Issue re WOW proposed acq |
| 31 August 2005 | ACCC ann: WOW Proposed Acq of 22 FOA supermarkets |
| 31 August 2005 | ACCC ann: WOW/Action proposed acq raises comp concerns |
| 29 August 2005 | Becoming a substantial holder |
| 25 August 2005 | Appendix 3B |
| 25 August 2005 | Ceasing to be a substantial holder |
| 22 August 2005 | Full Year Results Presentation |
| 22 August 2005 | Preliminary Final Report |
| 22 August 2005 | Preliminary Final Report |
| 18 August 2005 | Appendix 3B – Executive Option Plan |
| 17 August 2005 | Preliminary Final Report release date |
| 11 August 2005 | Appendix 3B |
| 5 August 2005 | National Support Office – Norwest Business Park |
| 4 August 2005 | Appendix 3B |
| 29 July 2005 | Full Year Sales Results – 52 weeks to 26/06/05 |
| 28 July 2005 | Appendix 3B – Executive Option Plan |
| 23 July 2005 | Fourth Quarter Sales Results Notification |
| 21 July 2005 | Appendix 3B - Executive Option Plan |
| 18 July 2005 | Executive Option Issue Announcement |
| 14 July 2005 | Appendix 3B: Executive Option Plan |
| 12 July 2005 | Becoming a substantial holder |
| 5 July 2005 | WINs – Payment Advice |
| 4 July 2005 | FOA: Progress on Demerger of FAL & acquisition by WOW & MTS |
| 30 June 2005 | Appendix 3B |
| 23 June 2005 | Appendix 3B – Exercise of Options |
| 15 June 2005 | Woolworths Income Notes Payment Advice |
| 14 June 2005 | TCQ: Mountain Creek Sale |
| 7 June 2005 | Change of Director's Interest Notice x 3 |

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| 1 June 2005 | FAL Presentation to Investors |
| 30 May 2005 | FOA Recommends Acquisition by Woolworths & Metcash |
| 25 May 2005 | Presentation – Acquisition of Foodland NZ/22 Action Stores |
| 25 May 2005 | MTS: Presentation re FAL acquisition |
| 25 May 2005 | MTT: Presentation re FAL acquisition |
| 25 May 2005 | Acquisition of Foodland NZ Business plus 22 Aust stores |
| 25 May 2005 | FOA: Acquisition of FAL by Woolworths & Metcash |
| 25 May 2005 | MTT: Wins Foodland Support for Acquisition of FAL Australia |
| 25 May 2005 | MTS: Wins Foodland support for Acquisition of FAL Australia |
| 24 May 2005 | Request for Trading Halt |
| 24 May 2005 | Trading Halt |
| 16 May 2005 | Woolworths Limited – US\$500 Million Debt Issue |
| 16 May 2005 | Further re: Bruandwo – Takeover Bid for ALH |
| 12 May 2005 | Appendix 3B: DRP |
| 12 May 2005 | Woolworths Income Notes Payment 15 June 2005 |
| 5 May 2005 | Change of Director's Interest Notice x 2 |
| 29 April 2005 | Half Year Summary 28 June 2004 to 2 January 2005 |
| 29 April 2005 | Interim Dividend Payable 29 April 2005 |
| 28 April 2005 | Bruandwo Pty Ltd – Letter to ALH shareholders |
| 26 April 2005 | CML: Settles with ACCC |
| 26 April 2005 | PQB: Olive Oil Distribution with Coles & Woolworths |
| 21 April 2005 | DRP Issue Price |
| 19 April 2005 | Third Quarter Sales Results |
| 13 April 2005 | Appendix 3B – Executive Option Plan |
| 13 April 2005 | 3rd Quarter Sales Results release date |
| 7 April 2005 | Appendix 3B – Executive Option Plan |
| 31 March 2005 | ALH: Advice re: Removal from the Official List of ASX |
| 31 March 2005 | Compulsory Acquisition of Aust. Leisure/Hospitality Group Shares |
| 31 March 2005 | Appendix 3B – Executive Option Plan |
| 24 March 2005 | Appendix 3B – Executive Option Plan |
| 17 March 2005 | Appendix 3B – Executive Option Plan |
| 15 March 2005 | Income Notes interest Rate |
| 10 March 2005 | Appendix 3B – Executive Option Plan |
| 7 March 2005 | Change of Director's Interest Notice x 2 |
| 3 March 2005 | Appendix 3B – Executive Option Plan |
| 2 March 2005 | MTT: Secures Agreement to Supply Former ALH Liquor Outlets in Qld |
| 2 March 2005 | Takeover Offer closes/Compulsory Acquisition |
| 1 March 2005 | Amended Dividend Reinvestment Plan Rules |
| 28 February 2005 | Executive Option Plan |
| 28 February 2005 | Half Year Results/Top 20 |

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| 28 February 2005 | Change in substantial holding for ALH |
| 28 February 2005 | Half Year Presentation |
| 28 February 2005 | Half Yearly Report & Half Year Accounts |
| 24 February 2005 | Appendix 3B – Executive Option Plan |
| 21 February 2005 | Change in substantial holding for ALH |
| 16 February 2005 | Variation of Takeover Bid re T/O for ALH |
| 14 February 2005 | Change in substantial holding for ALH |
| 11 February 2005 | Change in substantial holding for ALH |
| 10 February 2005 | Income Notes (WINs) |
| 9 February 2005 | Change in substantial holding for ALH |
| 7 February 2005 | Change in substantial holding for ALH |
| 4 February 2005 | Change in substantial holding for ALH |
| 3 February 2005 | Change in substantial holding for ALH |
| 2 February 2005 | Change in substantial holding for ALH |
| 1 February 2005 | Change in substantial holding for ALH |
| 31 January 2005 | Change in substantial holding for ALH |
| 28 January 2005 | Change in substantial holding for ALH |
| 27 January 2005 | Woolworths Half Year Sales – ALH |
| 27 January 2005 | First Half Sales Results |
| 27 January 2005 | Change in substantial holding for ALH |
| 25 January 2005 | Change in substantial holding for ALH |
| 24 January 2005 | Change in substantial holding for ALH |
| 23 January 2005 | Change in substantial holding for ALH |
| 20 January 2005 | Change in substantial holding for ALH |
| 19 January 2005 | Change in substantial holding for ALH |
| 18 January 2005 | Change in substantial holding for ALH |
| 17 January 2005 | Release Date of 2nd Quarter Results |
| 17 January 2005 | Change in substantial holding for ALH |
| 14 January 2005 | Bruandwo Notice of Variation: Extending Offer Period |
| 14 January 2005 | Change in substantial holding for ALH |
| 13 January 2005 | Change in substantial holding for ALH |
| 12 January 2005 | Change in substantial holding for ALH |
| 11 January 2005 | Change in substantial holding for ALH |
| 10 January 2005 | Change in substantial holding for ALH |
| 7 January 2005 | Change in substantial holding for ALH |
| 6 January 2005 | Change in substantial holding for ALH |
| 5 January 2005 | Change in substantial holding for ALH |
| 4 January 2005 | Change in substantial holding for ALH |
| 30 December 2004 | Appendix 3B – Executive Option Plan |
| 24 December 2004 | Bruandwo Change of Company Secretary |

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| 24 December 2004 | Change in substantial holding for ALH |
| 24 December 2004 | Appendix 3B – Executive Option Plan |
| 23 December 2004 | Change of Director's Interest Notice |
| 23 December 2004 | Change in substantial holding for ALH |
| 22 December 2004 | Change in substantial holding for ALH |
| 21 December 2004 | Change in substantial holding for ALH |
| 20 December 2004 | Change in substantial holding for ALH |
| 17 December 2004 | Change in substantial holding for ALH |
| 16 December 2004 | Notice of Variation – Extending Offer Period for ALH |
| 16 December 2004 | Change in substantial holding for ALH |
| 15 December 2004 | Appendix 3B – Executive Option Plan |
| 15 December 2004 | Income Notes |
| 15 December 2004 | Change in substantial holding for ALH |
| 14 December 2004 | Change in substantial holding for ALH |
| 13 December 2004 | Change in substantial holding for ALH |
| 10 December 2004 | Change in substantial holding for ALH |
| 9 December 2004 | Appendix 3B – Executive Option Plan |
| 9 December 2004 | Change in substantial holding for ALH |
| 8 December 2004 | Change in substantial holding for ALH |
| 7 December 2004 | Change in substantial holding for ALH |
| 6 December 2004 | Change of Director's Interest Notice x 2 |
| 6 December 2004 | Change in substantial holding for ALH |
| 3 December 2004 | Change in substantial holding for ALH |
| 2 December 2004 | Appendix 3B – Executive Option Plan |
| 2 December 2004 | Change in substantial holding for ALH |
| 1 December 2004 | NFD: Wins Supplier of the Year Accolades from Woolworths |
| 1 December 2004 | Change in substantial holding for ALH |
| 30 November 2004 | Change in substantial holding for ALH |
| 29 November 2004 | Change in substantial holding for ALH |
| 26 November 2004 | Results of AGM |
| 26 November 2004 | AGM CEO Presentation |
| 26 November 2004 | Chairman's & CEO's AGM Address to Shareholders |
| 26 November 2004 | Change in substantial holding for ALH |
| 25 November 2004 | Appendix 3B – Executive Option Plan |
| 25 November 2004 | Change in substantial holding for ALH |
| 24 November 2004 | Appendix 3B – Executive Option Plan |
| 24 November 2004 | Change in substantial holding for ALH |
| 23 November 2004 | Change in substantial holding for ALH |
| 22 November 2004 | Change in substantial holding for ALH |
| 19 November 2004 | Change in substantial holding for ALH |

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| 18 November 2004 | Change in substantial holding for ALH |
| 17 November 2004 | Change in substantial holding for ALH |
| 16 November 2004 | ALH: Change of Directors |
| 16 November 2004 | Notice of Variation Extending Offer Period for ALH |
| 16 November 2004 | Change in substantial holding for ALH |
| 15 November 2004 | Change in substantial holding for ALH |
| 12 November 2004 | Change in substantial holding for ALH |
| 11 November 2004 | Appendix 3B – Executive Option Plan |
| 11 November 2004 | Change in substantial holding for ALH |
| 10 November 2004 | Change in substantial holding for ALH |
| 9 November 2004 | Change in substantial holding for ALH |
| 9 November 2004 | Bruandwo – Letter to ALH Shareholders |
| 8 November 2004 | Change in substantial holding for ALH |
| 5 November 2004 | Change in substantial holding for ALH |
| 4 November 2004 | Change in substantial holding for ALH |
| 3 November 2004 | Change in substantial holding for ALH |
| 2 November 2004 | Change in substantial holding for ALH |
| 1 November 2004 | Change in substantial holding for ALH |
| 29 October 2004 | Change in substantial holding for ALH |
| 28 October 2004 | ALE Notes Removed from CreditWatch Negative/Affirmed at BBB |
| 28 October 2004 | ACCC Ann: ACCC not to oppose proposed Acq of ALH by Bruandwo |
| 28 October 2004 | Change in substantial holding for ALH |
| 27 October 2004 | Third Supplementary Target's Statement re T/O for ALH |
| 27 October 2004 | Supplementary Bidder's Statement |
| 27 October 2004 | Bruandwo Pty Limited – Letter to ALH Shareholders |
| 27 October 2004 | UNW Ann: Re: Dick Smith – Tandy – Dick Smith PowerHouse |
| 27 October 2004 | FGL: Sale of ALH Shares |
| 27 October 2004 | Change in substantial holding for ALH |
| 26 October 2004 | Notice pursuant to Section 650D(1)(c) |
| 26 October 2004 | ALH: Directors Unanimously Recommend Revised Bruandwo Offer |
| 26 October 2004 | MBL: Announcement regarding ALH |
| 26 October 2004 | CML: Notice re: ALH |
| 26 October 2004 | Bruandwo – ALH – Variation of Takeover Bid |
| 25 October 2004 | ALH: Bruandwo Offer for ALH Shares |
| 25 October 2004 | Bruandwo – ALH – Takeover Bid – Extension of Offer Period |
| 22 October 2004 | MBL: CMM Revises Bid for ALH - \$3.75 |
| 22 October 2004 | ALH: Directors Recommend Revised CMM Proposal of \$3.75 Cash |
| 22 October 2004 | CML: CMM Revises bid for ALH - \$3.75 |

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| 22 October 2004 | Clarification of Revised Proposal ann: 19 Oct 2004 |
| 22 October 2004 | Takeover Panel: ALH Panel to Conclude Proceedings |
| 20 October 2004 | Appendix 3B – Under Terms of DRP & ESP |
| 20 October 2004 | TOV: ALH: Panel receives offer of undertakings |
| 20 October 2004 | First Quarter Sales Results – 14 weeks to 3 October 2004 |
| 19 October 2004 | Notice of Annual General Meeting/2004 Annual Report |
| 19 October 2004 | ALH: Revised Bruandwo Offer for ALH Shares |
| 19 October 2004 | Further ann. Bruandwo P/L Takeover Offer for ALH |
| 18 October 2004 | CML: CMM Welcomes Panel Decision |
| 18 October 2004 | TOV: Amended – ALH 03: Panel Makes Interim Orders |
| 18 October 2004 | ALH03: Panel Makes Interim Orders |
| 18 October 2004 | TOV: ALH: Amendment to previous announcement |
| 18 October 2004 | Australian Leisure & Hospitality: Panel receives Application |
| 18 October 2004 | Change of Director's Interest Notice |
| 18 October 2004 | Change of Director's Interest Notice |
| 18 October 2004 | Bruandwo – Update |
| 15 October 2004 | CML: CMM Hotel & Retail Investments P/L |
| 15 October 2004 | ALH Reiterates Director's Unanimous Recommendations - \$3.35 cash |
| 15 October 2004 | Bruandwo Statement re: ALH Takeover Offer |
| 14 October 2004 | Appendix 3B – Executive Option Plan |
| 11 October 2004 | Release date for First Quarter Sales Results |
| 8 October 2004 | Dividend Reinvestment Plan – Price |
| 8 October 2004 | Appendix 3B: Issue Shares under Executive Option Plan |
| 7 October 2004 | ALH's Letter to Shareholders re Revised Offer from Bruandwo |
| 6 October 2004 | Replacement Bruandwo Pty Ltd Letter to ALH Shareholders |
| 5 October 2004 | Bruandwo Completes Mailing to ALH Shareholders |
| 4 October 2004 | ALH's Second Supplementary Target's Statement |
| 30 September 2004 | ALH: Directors recommend revised Bruandwo Offer |
| 30 September 2004 | Appendix 3B – Executive Option Plan |
| 30 September 2004 | Off Market Takeover Offer for ALH – Sec 650F Notice |
| 30 September 2004 | Bruandwo Variation of Takeover Bid |
| 27 September 2004 | Annual Report |



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12 September 2005

The Directors

Woolworths Limited

540 George Street

Sydney, NSW 2000

Dear Directors

1. Introduction

This report has been prepared by Deloitte Touche Tohmatsu in connection with the schemes of arrangement to be proposed by Foodland Associated Limited which are described in the Merger Implementation Agreement to be dated on or about 12 September 2005 between Woolworths Limited, FAL, Metcash Trading Limited and WOW (NZ) Supermarkets Limited. The Schemes include the Transfer Scheme under which, amongst other things, the shares in Progressive Enterprises Holdings Limited are proposed to be transferred to Woolworths. Woolworths will provide cash and Woolworths shares by way of consideration for the shares in PEH.

A number of defined words and terms used in this report have the same defined meaning as set out in the Dictionary at Part 20 of this Booklet in relation to the Schemes.

This report relates in particular to the Woolworths Historical Financial Information and the Woolworths Unaudited Pro Forma Combined Financial Information included in Parts 5.2.2 to 5.2.4 of this Booklet inclusive and Parts 5.3.3.3 and 5.3.3.4 of this Booklet respectively.

2. Scope of Report

We have been requested to prepare this report in respect of the following information included in this Booklet:

2.1. Woolworths Historical Financial Information

The Woolworths Historical Financial Information, as set out in Parts 5.2.2 to 5.2.4 of this Booklet, has been derived from:

- Woolworths audited consolidated statements of financial performance for the financial years ended 24 June 2001 to 27 June 2004 and Woolworths unaudited consolidated statement of financial performance for the financial year ended 26 June 2005;
- Woolworths audited consolidated statements of cash flows for the financial years ended 24 June 2001 to 27 June 2004 and Woolworths unaudited consolidated statement of cash flows for the financial year ended 26 June 2005; and
- Woolworths audited consolidated statements of financial position for the financial years ended 24 June 2001 to 27 June 2004 and Woolworths unaudited consolidated statement of financial position for the financial year ended 26 June 2005.

The Woolworths Historical Financial Information has been prepared in accordance with the recognition and measurement principles prescribed by Australian Accounting Standards and other mandatory professional reporting requirements in Australia as applicable to each financial year.

The Woolworths Directors are responsible for the preparation of the Woolworths Historical Financial Information in Parts 5.2.2 to 5.2.4 of this Booklet.

The Woolworths Historical Financial Information in Parts 5.2.2 to 5.2.4 of this Booklet is presented in an abbreviated form insofar as it does not include all of the disclosures required by Australian Accounting Standards and mandatory professional reporting requirements in Australia and does not comply with all the requirements applicable to annual financial statements prepared in accordance with the Corporations Act.

2.2. Woolworths Unaudited Pro Forma Combined Financial Information

The Woolworths Unaudited Pro Forma Combined Financial Information, as set out in Parts 5.3.3.3 and 5.3.3.4 of this Booklet, has been derived from:

- the unaudited pro forma consolidated statement of financial performance of Woolworths for the 52 weeks ended 26 June 2005 prepared in accordance with the recognition and measurement criteria of AIFRS (extracted from Part 5.9 of this Booklet);
- the unaudited pro forma consolidated statement of financial position of Woolworths as at 26 June 2005 prepared in accordance with the recognition and measurement criteria of AIFRS (extracted from Part 5.9 of this Booklet);
- the unaudited pro forma consolidated statement of financial performance of the PEH Post-Demerger Group for the 52 weeks ended 31 July 2005 (extracted from Part 10.6.3 of this Booklet) (assuming that the WOW Transfer Scheme was effective at the commencement of the current financial year, that is at the beginning of the financial year ended 26 June 2005);
- the unaudited pro forma consolidated statement of financial position of the PEH Post-Demerger Group as at 31 July 2005 (extracted from Part 10.7 of this Booklet) (assuming that the WOW Transfer Scheme was effective as at 26 June 2005);

- an unaudited statement of profit after income tax for the Woolworths Action Stores for the 52 weeks ended 31 July 2005 prepared in accordance with the recognition and measurement criteria of AIFRS and determined based on the assumptions outlined in Note 4 in Part 5.3.3.4 of this Booklet;
- an unaudited statement of assets and liabilities for the Woolworths Action Stores prepared in accordance with the recognition and measurement criteria of AIFRS and determined based on the assumptions outlined in Note 4 in Part 5.3.3.4 of this Booklet; and
- pro forma adjustments which are based on the key assumptions set out in the notes to the Woolworths Unaudited Pro Forma Combined Financial Information and the assumptions set out in Part 5.3.3.2 of this Booklet.

The Woolworths Directors are responsible for the preparation of the Woolworths Unaudited Pro Forma Combined Financial Information, including the determination of the pro forma adjustments.

2.3. Scope of work

In our role as Investigating Accountants, we have:

Woolworths Historical Financial Information

- Reviewed the Woolworths Historical Financial Information in order to state whether, on the basis of the procedures described, anything has come to our attention which would cause us to believe that the Woolworths Historical Financial Information as set out in Parts 5.2.2 to 5.2.4 of this Booklet does not present fairly:
 - the financial performance of Woolworths for the financial years ended 24 June 2001 to 26 June 2005;
 - the cash flows of Woolworths for the financial years ended 24 June 2001 to 26 June 2005; and
 - the financial position of Woolworths for the financial years ended 24 June 2001 to 26 June 2005

in accordance with the recognition and measurement principles (but not all of the disclosure requirements) set out in Australian Accounting Standards, other mandatory professional reporting requirements in Australia and the accounting policies described in Part 5.8 of this Booklet.

Our review of the Woolworths Historical Financial Information has been conducted in accordance with Australian Auditing Standard AUS 902 "Review of Financial Reports" applicable to review engagements. Our review was limited to:

- examination of the audited financial statements of Woolworths for the financial years ended 24 June 2001 to 27 June 2004;
- examination of the unaudited financial statements of Woolworths for the financial year ended 26 June 2005;
- review of relevant audit working papers, historical non-recurring transactions and other supporting documentation;
- analytical procedures applied to the financial data;

- comparison of consistency in application of the recognition and measurement principles (but not all of the disclosure requirements) prescribed in Australian Accounting Standards and other mandatory professional requirements in Australia, and the accounting policies adopted by Woolworths and disclosed in Part 5.8 of this Booklet; and
- enquiries of the Woolworths Directors, management and their advisers.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Woolworths Unaudited Pro Forma Combined Financial Information

- Examined the compilation of the Woolworths Unaudited Pro Forma Combined Financial Information prepared in accordance with the recognition and measurement principles (but not all of the disclosure requirements) prescribed by AIFRS as set out in Parts 5.3.3.3 and 5.3.3.4 of this Booklet to ensure that it is properly extracted from the relevant source documentation and is arithmetically correct. Our work in respect of the Woolworths Unaudited Pro Forma Combined Financial Information has been performed in accordance with Australian Auditing Standard AUS 904 “Engagement to Perform Agreed-upon Procedures” applicable to agreed upon procedure engagements.

Our work was limited to:

- checking that the unaudited pro forma consolidated statement of financial performance of Woolworths for the 52 weeks ended 26 June 2005 prepared in accordance with the recognition and measurement criteria of AIFRS and the unaudited pro forma consolidated statement of financial position of Woolworths as at 26 June 2005 prepared in accordance with the recognition and measurement criteria of AIFRS have been accurately extracted from the equivalent financial information presented in Part 5.9 of this Booklet;
- checking that the unaudited pro forma consolidated statement of financial performance of the PEH Post-Demerger Group for the 52 weeks ended 31 July 2005 and unaudited pro forma consolidated statement of financial position of the PEH Post-Demerger Group as at 31 July 2005 have been accurately extracted from the equivalent financial information presented in Parts 10.6.3 and 10.7 of this Booklet;
- checking that the unaudited statement of profit after income tax for the Woolworths Action Stores for the 52 weeks ended 31 July 2005 and the unaudited statement of assets and liabilities for the Woolworths Action Stores have been determined based on the assumptions outlined in Note 4 in Part 5.3.3.4 of this Booklet;
- determining that the Woolworths Unaudited Pro Forma Combined Financial Information included in Parts 5.3.3.3 and 5.3.3.4 of this Booklet is arithmetically correct; and
- determining that the pro forma adjustments have been based on the key assumptions set out in the notes to the Woolworths Unaudited Pro Forma Combined Financial Information set out in Parts 5.3.3.3 and 5.3.3.4 of this booklet and the assumptions set out in Part 5.3.3.2 of this Booklet.

Because the above procedures do not constitute either an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements, we do not express any assurance on the Woolworths Unaudited Pro Forma Combined Financial Information included in Parts 5.3.3.3 and 5.3.3.4 of this Booklet.

Had we performed additional procedures or had we performed an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements, other matters might have come to our attention that would have been reported.

Effect of AIFRS on Woolworths

- Reviewed the Woolworths AIFRS Adjustments included in Part 5.9 of this Booklet in order to report whether anything has come to our attention which causes us to believe that the Woolworths AIFRS Adjustments are not presented fairly in accordance with the recognition and measurement principles (but not all of the disclosure requirements) prescribed by AIFRS. Our review has been conducted in accordance with Australian Auditing Standard AUS 902 “Review of Financial Reports” applicable to review engagements.

Our review was limited to:

- review of the relevant Woolworths working papers to support the Woolworths AIFRS Adjustments;
- review of relevant audit working papers, and other supporting documentation;
- review of disclosures included in Part 5.9 of this Booklet; and
- enquiries of the Woolworths Directors, management and their advisers.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

3. Review Statements

3.1. Review Statement on the Woolworths Historical Financial Information

Based on our review, which is not an audit, we have not become aware of any matter that causes us to believe that the Woolworths Historical Financial Information as set out in Parts 5.2.2 to 5.2.4 of this Booklet does not present fairly:

- the financial performance of Woolworths for the five financial years ended 24 June 2001 to 26 June 2005;
- the cash flows of Woolworths for the five financial years ended 24 June 2001 to 26 June 2005; and
- the financial position of Woolworths for the five financial years ended 24 June 2001 to 26 June 2005

in accordance with the recognition and measurement principles (but not all the disclosure requirements) set out in Australian Accounting Standards, other mandatory professional reporting requirements in Australia and the accounting policies described in Part 5.8 of this Booklet.

3.2. Review Statement on the Woolworths AIFRS Adjustments

Based on our review, which is not an audit, we have not become aware of any matter that causes us to believe that the Woolworths AIFRS Adjustments included in Part 5.9 of this Booklet are not presented fairly in accordance with the recognition and measurement principles (but not all of the disclosure requirements) prescribed by AIFRS.

4. Agreed-Upon Procedures – Findings

We report as follows:

- the compilation of the Woolworths Unaudited Pro Forma Combined Financial Information prepared in accordance with the recognition and measurement principles prescribed by AIFRS has been properly extracted from the relevant source documentation and is arithmetically correct.

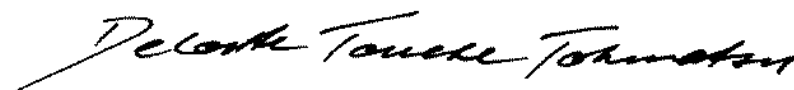
5. Subsequent Events

Subsequent to 26 June 2005 and up to the date of this report, nothing has come to our attention that would cause us to believe material transactions or events outside of the ordinary course of business of Woolworths have occurred, other than the matters dealt with in this report or this Booklet, which would require comment on, or adjustment to, the information contained in this report, or which would cause the information contained in this report to be misleading.

6. Independence

Deloitte Touche Tohmatsu does not have any interest in the outcome of the Schemes, other than in connection with the preparation of this report and participation in the due diligence process for which normal professional fees will be received. Deloitte Touche Tohmatsu is the auditor of Woolworths and from time to time, Deloitte Touche Tohmatsu also provides Woolworths with certain other professional services for which normal professional fees are received.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



G Couttas

Partner

Chartered Accountants

Part 6

Information about Metcash

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6 Information about Metcash

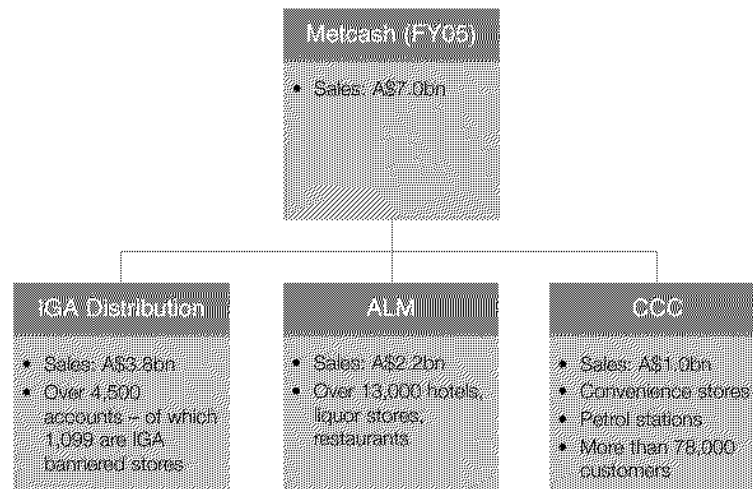
6.1 Profile of Metcash

6.1.1 Introduction

Metcash is a leading marketing and distribution company operating in the grocery and liquor industries in Australia and also in the New Zealand liquor market. Metcash operates through three business pillars:

- (a) IGA Distribution is Australia's largest grocery wholesaler operating on the eastern seaboard of Australia and in South Australia and provides specialist marketing and distribution services to independent grocery retailers;
- (b) Australian Liquor Marketers is the largest broad range liquor wholesaler in Australia and New Zealand, supplying independent licensed liquor retailers, hotels and restaurants; and
- (c) Campbells Cash & Carry is a wholesale distributor of groceries, liquor and confectionery to the convenience retail sector.

In Metcash's selected markets as distributors and marketers of groceries and liquor to independent retailers, the businesses complement each other. IGA and ALM deliver groceries and liquor respectively by pallet loads from major distribution centres, while CCC focuses on the convenience market segments, supplying similar products but in smaller volume orders.



6.1.2 History of Metcash

Metcash Trading, formerly known as Davids Limited, was founded in 1927 by Mr Joe David. In 1998, the South African group Metoz (formerly Metro Cash and Carry Limited) acquired a 76% stake in Davids Limited. The company had incurred a loss in the year prior to acquisition of \$240 million after tax with the write-off of \$266 million of abnormal items. Following the acquisition, new management was appointed and the company implemented a focused restructuring plan to return the company to profitability. As part of the restructuring the company sold to its customers, or closed, its company-owned retail stores to focus on wholesaling, reduced the number of store banners to enable a more focused marketing approach and regained the support of customers and suppliers.

The key "turnaround strategies" included:

- (a) adopting the principle of not competing with its retail customers;
- (b) rebuilding supplier relationships;
- (c) becoming a low cost distributor;
- (d) developing strong retail brands and marketing programs;
- (e) focusing on wholesale distribution and supporting independent retailers;
- (f) building a strong team of competent and motivated people;
- (g) promoting Metcash's image as the "Champion of the Independent Retailer"; and
- (h) building a national network of wholesale warehouses to supply and support independent liquor, grocery and convenience customers.

In April 2001, Metcash Trading managed the acquisition by its customers of 120 Franklins supermarket stores and the conversion of the stores into IGA stores. Metcash Trading also sold its loss making John Lewis Food Service unit to focus on its core wholesaling businesses.

In April 2005, Metcash Trading completed a capital reorganisation involving schemes of arrangement with its shareholders and optionholders, which resulted in the acquisition by a new holding company, Metcash Limited, of all of the issued share capital of Metcash Trading, including that of its majority shareholder, Metoz.

6.1.3 Overview of divisions

6.1.3.1 IGA Distribution

IGA Distribution is the main grocery wholesaler for independent supermarkets in South Australia and on the eastern seaboard of Australia. IGA Distribution operates eight strategically situated distribution centres which carry approximately 21,000 stock keeping units serving the dry grocery, chilled, frozen and general merchandise requirements of over 4,500 independent retailer grocery accounts. These independent retailers' stores have a national market share estimated by Metcash to be approximately 13.2%.

IGA is an internationally recognised supermarket brand currently trading in 38 countries worldwide. Metcash has developed the IGA brand significantly over the last five years. The brand is sublicensed to independent supermarket operators who meet minimum entry criteria and standards. Metcash has exclusive rights to use the IGA brand in the areas in which IGA Distribution operates in Australia.

Metcash provides marketing programs and retail services to build the IGA brand and independent IGA businesses.

The IGA brand has successfully been marketed through three channels of operation to suit the consumer demographic and target market that the stores serve. These are:

| | |
|---|--------------|
| Supa IGA | 279 stores |
| IGA and IGA Everyday | 459 stores |
| IGA X-press and Friendly Grocer IGA/Other | 361 stores |
| Total IGA stores | 1,099 stores |

Metcash's second largest banner customer is Foodworks, which recently merged with another Metcash customer, Australia United Retailers. Foodworks/Australia United Retailers operates 690 stores in Queensland, Victoria, New South Wales, Tasmania and Western Australia (under brand licence).

IGA Distribution has developed strategic relationships with major multi-store customers to secure long term supply contracts and assist them in growing their store networks. Metcash provides a comprehensive range of support services to these independent retailers. These services include retail systems support, in-store training, and a range of specialist personnel. Metcash service teams are an integral part of the growth and future development of independent businesses.

Metcash remains innovative and competitive. Recent initiatives include:

- (a) **(launch of a competitive petrol offer)** consumers can buy petrol at any service station, and receive the equivalent of a four cent per litre discount off their grocery purchases when they spend \$30 or more at selected IGA stores in New South Wales and Queensland. The petrol offer is also being extended into South Australia and Victoria;
- (b) **(expansion of the IGA network)** Metcash assists and supports strong investment by retailers in their businesses with 58 new stores, 45 major refurbishments and 23 extensions completed during the 2005 financial year;
- (c) **(development of corporate brands)** these include:
 - (i) IGA Way of Life – catering to nutritional requirements and life choices;
 - (ii) IGA Deli Shoppe – pre packed self service range; and
 - (iii) IGA Kool – pre packed fresh produce range; and
- (d) **(implementation of voice directed order selection)** Metcash is installing voice directed "picking" at all dry and perishable distribution centres. This best practice technology has driven a productivity improvement of approximately 10.0% across each facility and has reduced customer claims (regarding accuracy of deliveries) by approximately 70.0%.

6.1.3.2 ALM

ALM is the leading liquor wholesaler in Australia (based on turnover), and through its wholly owned Subsidiary, Tasman Liquor Company, is the leading wholesaler in New Zealand (again, based on turnover). ALM operates 24 distribution centres across Australia and New Zealand, carrying more than 10,000 products to meet the wine, beer and spirit requirements of more than 13,000 licensed premises. ALM has invested heavily in improved systems and infrastructure to serve customers and suppliers better, and to become an integral part of an efficient route to market for the independent retailers.

ALM has sought to protect its customers and its own market share by implementing and encouraging banner consolidation and by working closely with both internal and external banner groups to ensure they are competitively positioned in the market. During 2004/2005, Metcash successfully launched Independent Brands Australia, forming a strong force in independent liquor retailing. IBA manages the Cellarbrations, LiquorWise, Cheers and Liquor Force brands. The group has successfully consolidated over 1,385 independent retailers into the following groups:

- (a) "Cellarbrations" – a high compliance, consumer-focused "retail brand" currently with 194 stores;
- (b) "Cheers" – a disciplined marketing banner but with a reduced promotional program, currently with 102 stores;
- (c) "Liquor Force" – a "buying group" with 861 members having access to various promotional programs; and
- (d) the hotel channel comprising "LiquorWise" with 128 outlets and "The Local Liquorwise" with 100 outlets.

6.1.3.3 CCC

CCC operates as a specialist distributor to the convenience store market. The business operates wholesale cash and carry warehouses across New South Wales, Victoria, Queensland, South Australia and the Northern Territory carrying 12,000 liquor, food service, grocery, dairy, frozen, confectionery and tobacco products. CCC operates 42 Cash & Carry branches, four Convenience Store Distribution outlets (C-Store Distribution) and six Specialist Confectionery Wholesale outlets. CCC services over 78,000 customers in the food service, liquor, convenience and confectionery markets.

Key segments are:

- (a) C-Store Distribution - which targets those customers who have larger stores, place orders electronically and require regular scheduled deliveries. C-Store Distribution has forged a reputation as a leader in the "single pick" convenience market and serves the growing corporate and multi-site independent convenience store market;
- (b) Lucky 7 - CCC's banner group of independently owned convenience stores in New South Wales, Victoria, South Australia, Queensland and the Northern Territory. CCC has built this banner for its smaller retail outlets. As at 30 April 2005, there were 131 Lucky 7 stores in operation; and
- (c) The Collective Buying Group - a marketing group operating in all the markets where CCC is represented. It offers independent retailers benefits through reward programs and, specifically, assists milk bars, mixed businesses and convenience stores.

CCC's key competitive advantages are the range of products sold, the depth and location of its distribution network and cost effectiveness of its convenience store distribution system.

6.2 Directors and management

6.2.1 Metcash's directors

Carlos S. dos Santos CA (SA)

Position: Non-Executive Chairman of Metcash.

Date of appointment to Metcash Trading: 4 May 1998.

Date of appointment to Metcash: 18 April 2005

Other positions: Member of the Remuneration and Nomination Committee.

History: Mr Carlos dos Santos is the Chief Executive of Metoz which, until April this year, was the parent company of Metcash Trading. In addition, he is the Chief Executive of Metcash Trading Africa (Proprietary) Limited, a company that was owned by Metoz and that trades in twelve countries across Africa and the Far East. He has 35 years industry experience.

A.E. (Ted) Harris, AC F Inst D, FAIM, FAICD

Position: Non-Executive Deputy Chairman of Metcash.

Date of appointment to Metcash Trading: 28 March 1994.

Date of appointment to Metcash: 18 April 2005.

Other positions: Chairman of the Remuneration and Nomination Committee.

History: Mr Ted Harris served as Managing Director and Chief Executive Officer of the Ampol Group from 1977 to 1987. He was Chairman of Australian Airlines from 1987 to 1992. Currently, Mr Harris is Chairman of Arena Management (Sydney Entertainment Centre), Thakral Holdings, Australian Radio Network and St. Vincent's Clinic Foundation. He is Deputy Chairman of APN News and Media, a member of the International Advisory Board of INP News & Media, Life Governor of the Melanoma Foundation and a Life Member of the Australian Sports Commission. He is a former Commissioner of the ABC and was a member of the executive board of the Sydney Olympics 2000 Bid Company.

Andrew Reitzer B Comm, MBL

Position: Chief Executive Officer of Metcash.

Date of appointment to Metcash Trading: 4 May 1998.

Date of appointment to Metcash: 18 April 2005.

Other positions: N/A.

History: Mr Andrew Reitzer has 27 years experience in the retail/wholesale fast moving consumer goods industry. Previous positions at Metoz include Group Operations Director, head of operations in Russia and Israel, Marketing Director, IT Director and managing positions in various operating divisions.

Peter L. Barnes MBA (Melbourne), B Comm (Hons)

Position: Non-Executive Director.

Date of appointment to Metcash Trading: 12 November 1999.

Date of appointment to Metcash: 18 April 2005.

Other positions: Member of the Audit Risk and Compliance Committee, Member of the Remuneration and Nomination Committee.

History: Mr Peter Barnes is a director of News Corporation and Chairman of Samuel Smith & Sons Pty Ltd - (Yalumba Wines) and Ansell Limited. Mr Barnes was formerly an executive with Philip Morris International Inc. He held several senior management positions in Australia and overseas including the position of Managing Director of Lindeman Holdings Ltd and President, Asia Region, based in Hong Kong.

Bernard J. Hale B Th (SA)

Position: Executive Director.

Date of appointment to Metcash Trading: 8 November 2000.

Date of appointment to Metcash: 18 April 2005.

Other positions: N/A.

History: Mr Bernard Hale was formerly a director of Metoz. Mr Hale has 30 years of IT industry experience, 23 of which have been within the Metoz organisation. Previous positions held in Metoz include Operations Director IT, Group IT Director, Group Operations Director (Domestic) and Corporate Group IT Director. He was appointed Chief Information Officer of Metcash Trading on 1 December 2002. Prior to being appointed to his current role, he served as a non-executive director of Metcash Trading.

Michael Jablonski

Position: Group Merchandise Director.

Date of appointment to Metcash Trading: 4 May 1998.

Date of appointment to Metcash: 18 April 2005.

Other positions: N/A.

History: Mr Michael Jablonski has 33 years experience in the food industry. Previous positions include: Merchandise Executive-Foods of OK Bazaars (1984), Merchandise and Marketing Director of Score Food Holdings Ltd (1987-1991), Deputy Group Merchandise Director of Metoz (1992-1996), Director of Distribution and Retail Development of Metoz (1996-1998). Since 1998, Mr Jablonski has been the Group Merchandise Director of Metcash and he is responsible for the Group's Merchandise, supplier relationships, and the income derived thereof.

Edwin Jankelowitz B Comm, CA (SA)

Position: Finance Director.

Date of appointment to Metcash Trading: 22 May 1998.

Date of appointment to Metcash: 18 April 2005.

Other positions: N/A.

History: Mr Edwin Jankelowitz qualified as a Chartered Accountant in South Africa in 1966. From July 1967 to November 1979 he worked with Adcock Ingram Ltd in the Head Office where he was promoted over time to Group Company Secretary and then Finance Director. From January 1980 to March 1983, he worked as a consultant in business management and tax. From there he moved to Caxton Ltd where he worked as Finance Director, then Managing Director, then Chairman for the period 1983 to 1997, before becoming Metcash Trading's Finance Director in 1998. Mr Jankelowitz has spent over 31 years in corporate offices of listed companies with excellent corporate governance reputations. He was a member of the Income Tax Special Court in South Africa for 20 years (1977-1997).

Lou Jardin

Position: CEO IGA Distribution.

Date of appointment to Metcash Trading: 24 May 2002.

Date of appointment to Metcash: 18 April 2005.

Other positions: N/A.

History: Mr Lou Jardin has extensive industry experience, including owning and operating independent supermarkets and holding senior positions within a chain store environment, as well as warehouse and distribution operations. He held a senior position with Coles Myer Limited for 11 years before joining Metcash in 1997 as the national manager of company owned stores. In 1998, Mr Jardin moved to Queensland as the State General Manager until his current appointment to the role of CEO IGA Distribution.

Richard A. Longes BA (Sydney), LLB (Sydney), MBA (UNSW)

Position: Non-Executive Director, Solicitor (non-practising).

Date of appointment to Metcash Trading: 4 January 2000.

Date of appointment to Metcash: 18 April 2005.

Other positions: Chairman of the Audit Risk and Compliance Committee.

History: Mr Richard Longes has been a director of a number of public companies and a member of various government bodies and enquiries for 20 years. He is currently Deputy Chairman of Lend Lease Corporation Limited. Mr Longes is a director of Boral Limited, the National Institute of Dramatic Art and Bangarra Dance Theatre, and Non-Executive Director of Investec Bank (Australia) Limited. Mr Longes was formerly Chairman of General Property Trust and a co-founder and principal of the corporate advisory and private equity firm, Wentworth Associates and prior to that he was a partner of Freehill Hollingdale & Page solicitors.

V. Dudley Rubin CA (SA), H Dip BDP, MBA

Position: Non-Executive Director.

Date of appointment to Metcash Trading: 4 May 1998.

Date of appointment to Metcash: 18 April 2005.

Other positions: Member of the Audit Committee.

History: Mr Dudley Rubin is a Director of Metoz. In addition, he is a director of Metcash Trading Africa (Proprietary) Limited, a company that was owned by Metoz and that trades in twelve countries across Africa and the Far East. He has had 22 years experience in the industry.

Michael J. Wesslink BSc (Chem. Eng.) Syd, MBA (UNSW)

Position: CEO Australian Liquor Marketers.

Date of appointment to Metcash Trading: 24 May 2002.

Date of appointment to Metcash: 18 April 2005.

Other positions: N/A.

History: Mr Michael Wesslink joined ALM in March 1998. He has worked in the liquor industry for over 31 years having previously held the Chief Executive positions of Tooheys Limited and The Swan Brewery Company Limited. More recently, Mr Wesslink worked as Managing Director of Amcor Containers Packing Asia, in managing and establishing packaging operations throughout Asia, particularly in China and Singapore.

6.2.2 Metcash's management

Andrew Reitzer

Position: CEO of Metcash.

History: See Part 6.2.1 of this Booklet.

Ken Bean MBA, Grad Dip Bus, Dip. ACC.

Position: Chief Executive, Group Logistics and Corporate Development.

History: Mr Ken Bean has over 34 years experience in the retail wholesale industry. Previously, he was General Manager of Coles Myer Logistics Pty Ltd and was also responsible for Coles Myer Asia's buying offices. Mr Bean has held senior roles in corporate development as well as finance and administration. He has significant industrial property development experience and currently is Chairman of the Logistics Association of Australia.

Peter Dubbelman MBA (Melb)

Position: CEO Campbells Cash & Carry.

History: Mr Peter Dubbelman was appointed CEO of Campbells and C-Store Distribution in June 1998. He has over 21 years experience in fast moving consumer goods distribution at wholesale level, primarily in multi-site general management and operations. Mr Dubbelman has successfully initiated major growth of the wholesale business through the establishment of an effective network of Campbells C-Store Distribution warehouses which service the hospitality, liquor and convenience sectors in Australia. Over the last 3 years an effective national network of specialist confectionery wholesale outlets has been established which provides Campbells with a 25% share of the confectionery route trade.

Bernard J. Hale

Position: Executive Director.

History: See Part 6.2.1 of this Booklet.

Michael Jablonski

Position: Group Merchandise Director.

History: See Part 6.2.1 of this Booklet.

Edwin Jankelowitz

Position: Finance Director.

History: See Part 6.2.1 of this Booklet.

Lou Jardin

Position: CEO IGA Distribution.

History: See Part 6.2.1 of this Booklet.

David Johnston M Bus (Employment Law), AFAHRI, JP

Position: Chief Human Resources Officer.

History: Mr David Johnston joined Metcash in December 2001. He has 27 years experience in human resources with some of Australia's leading fast moving consumer goods companies including Cadbury Schweppes and Simplot Australia at a Senior Executive level. He has designed and implemented successful programs in executive development and brought about major culture change initiatives at a national and international level.

John Randall BEc, FCPA, FCIS, MAICD

Position: Company Secretary.

History: Mr John Randall joined Metcash in 1997. He was previously Chief Financial Officer of Metal Manufactures Limited and Overseas Telecommunications Corporation Limited. President of the Accounting Foundation, University of Sydney, a former National President of the Group of 100 and NSW President and National Board member of CPA Australia.

Michael Wesslink

Position: CEO Australian Liquor Marketers.

History: See Part 6.2.1 of this Booklet.

6.3 Historical financial position and performance of Metcash

6.3.1 Basis of preparation of financial information

6.3.1.1 Overview of financial information prepared

In this Part 6, references to financial information relating to "Metcash stand alone", refer to Metcash and its controlled entities on a consolidated basis prior to the acquisition of the Australian Operation.

The following financial information relating to Metcash on a stand alone basis has been prepared on an AGAAP basis:

- (a) historical balance sheet as at 30 April 2005;
- (b) historical income statement and earnings per share for the year ended 30 April 2005 and a comparison to the forecast income statement for the year ended 30 April 2005 (as disclosed in the Bidder's Statement); and
- (c) historical cashflow statement for the year ended 30 April 2005 and a comparison to the forecast cashflow statement for the year ended 30 April 2005 (as disclosed in the Bidder's Statement).

6.3.1.2 Metcash capital reorganisation

Metcash successfully completed its Capital Reorganisation in April 2005, the practical effect of which was the removal of Metz as its majority shareholder. See Part 6.1.2 of this Booklet for further details.

The impact of the Metcash Capital Reorganisation and the majority of the transaction costs related to the Capital Reorganisation are reflected in the Metcash historical 2005 financial information.

6.3.1.3 Treatment of Convertible Unsecured Loan Stock

In February 2005 Metcash undertook a CULS issue which raised approximately \$748 million. The purpose of this pro-rata entitlement offering was to provide certainty in funding the acquisition of Metz and flexibility to allow Metcash management to optimise its capital structure based on the various potential outcomes of the Metcash Capital Reorganisation and its takeover offer for FAL.

Under the terms of the CULS, 50% of the CULS automatically convert into fully paid ordinary Metcash Shares when the Metcash Capital Reorganisation became effective. Following the Metcash Capital Reorganisation becoming effective in April 2005, the first 25% of the CULS converted into fully paid ordinary Metcash Shares on a one-for-one basis on 7 April 2005. The second 25% of the CULS will automatically convert into fully paid ordinary Metcash Shares on a one-for-one basis on 19 September 2005. The remaining CULS will either be converted into ordinary Metcash Shares or redeemed at their issue price of \$2.54 per CULS plus a redemption premium of 7.5% to their issue price, on 19 December 2005. As per Metcash's release to the ASX on 20 August 2005, the CULS maturity date has been extended from 19 September 2005 to 19 December 2005.

6.3.1.4 Treatment of Convertible Undated Preference Shares

In April 2005 Metcash undertook a CUPS issue which raised \$50 million, and these remained outstanding as at 30 April 2005.

6.3.1.5 Rounding

Numbers contained in Part 6.3.2 of this Booklet are rounded to zero decimal places therefore, if a set of numbers do not appear to add together precisely this is a result of rounding.

6.3.2 Metcash stand alone financial information

6.3.2.1 Balance Sheet

The Metcash stand alone historical balance sheet detailed below has been prepared on an AGAAP basis, consistent with the audited 2005 Annual Report Metcash released on 29 July 2005, which was also prepared on an AGAAP basis.

| Year ended | AGAAP ¹ |
|---|-------------------------|
| \$ million | 30 April 2005 Actual |
| Current Assets | |
| Cash | 190 |
| Inventory | 402 |
| Accounts receivable | 648 |
| Other | 10 |
| Total current assets | 1,250 |
| Non-current assets | |
| Accounts receivable | 30 |
| PP&E | 129 |
| Intangibles | 1,772 |
| Other | 26 |
| Total non-current assets | 1,956 |
| Total assets | 3,206 |
| Current liabilities | |
| Debt | 8 |
| Accounts payable | 827 |
| Other | 53 |
| Total current liabilities | 888 |
| Non-current liabilities | |
| Debt | 402 |
| Non-interest bearing liabilities (CULS) | 374 ² |
| Other | 19 |
| Total non-current liabilities | 795 |
| Total liabilities | 1,683 |
| Net assets | 1,523 |

Notes:

1. Refer to Part 6.13 (Note 3) of this Booklet for a reconciliation of the 30 April 2005 Balance Sheet from AGAAP to AIFRS.
2. Under both AGAAP and AIFRS the 50% of the CULS yet to convert, as at 30 April 2005, are classified as debt, while the 50% that have or must mandatorily convert are treated as equity. The CULS remain classified as debt on the statement of financial position until either redeemed or converted, or an event occurs which results in Metcash becoming obliged to mandatorily convert the CULS into a fixed number of ordinary shares.

6.3.2.2 Income Statement

The Metcash stand alone historical income statement detailed below has been prepared on an AGAAP basis, consistent with the audited 2005 Annual Report Metcash released on 29 July 2005, which was also prepared on an AGAAP basis.

Metcash has also detailed below its forecast income statement for year ended 30 April 2005, (as was included in its Bidder's Statement). This comparison shows that Metcash achieved its forecast NPAT.

| Year ended | AGAAP 30 Apr 2005 | |
|-----------------------------------|--------------------------------|----------------------|
| | Bidder's Statement forecast | Actual \$ million |
| \$ million | | |
| Sales | 7,090 | 6,994 |
| EBITDA | 222 | 224 |
| Depreciation | (24) | (24) |
| EBITA ¹ | 198 | 200 |
| EBITA margin | 2.8% | 2.9% |
| Amortisation ² | (29) | (35) |
| EBIT | 170 | 165 |
| Net interest expense ³ | (8) | (1) |
| PBT | 162 | 164 |
| Tax expense | (57) | (59) |
| Reported NPAT | 105 | 105 |

Notes:

1. In accordance with Metcash's current accounting policies, finance lease amortisation (\$8 million for the year ended 30 April 2005) has been classified as amortisation. In the 5 year review contained in Metcash's 2005 Annual Report, finance lease amortisation for these periods has been treated as depreciation.
2. The variance of \$6 million in the actual amortisation amount compared to the forecast reflects approximately one month of Metoz acquisition goodwill amortisation being recognised in the year ended 30 April 2005. The Bidder's Statement forecast assumed that the acquisition of Metoz took place on 1 May 2005 and therefore did not take into account this amortisation charge.
3. The variance of \$7 million in the actual net interest expense was due to funds raised from Metcash's capital raisings earning interest whilst on deposit longer than anticipated.

6.3.2.3 Earnings per share

Set out below are Metcash's historical earnings per share for the year ended 30 April 2005. No comparable earnings per share forecasts for the year ended 30 April 2005 were made in the Bidder's Statement.

| Year ended | AGAAP |
|---|---------------------|
| | 30 Apr 2005 |
| | Actual |
| Reported NPAT (\$million) | 105 |
| Add goodwill amortisation (\$million) | 27 |
| Adjusted NPAT (\$million) | 132 |
| Weighted average shares outstanding (million) | n.a. ¹ |
| Basic EPS (cents) | 20.4 |
| Adjusted basic EPS (cents) | 19.1 ^{2,3} |

Notes:

1. Weighted average shares outstanding is not meaningful in 2005 because EPS is based on 11 months of earnings from Metcash Trading and one month of earnings from Metcash. Basic EPS for 2005 is derived by adding the 11 month EPS of Metcash Trading and the one month EPS of Metcash.
2. Metcash's adjusted basic EPS has been adjusted in accordance with AASB 113 to reflect the impact of approximately \$374 million CULS being converted to Metcash Shares.
3. The adjusted basic EPS has been prepared based on the assumption that the second 50% of the CULS will be redeemed.

6.3.2.4 Cashflow statement

The Metcash stand alone historical cashflow statement detailed below has been prepared on an AGAAP basis, consistent with the audited 2005 Annual Report Metcash released on 29 July 2005, which was also prepared on an AGAAP basis.

Metcash has also detailed below its forecast cashflow statement for the year ended 30 April 2005, as was included in its Bidder's Statement.

| Year ended | AGAAP 30 Apr 2005 | |
|--|------------------------|----------------------|
| | Bidder's Statement | |
| | forecast \$ million | Actual \$ million |
| EBITDA | 222 | 224 |
| Change in working capital ¹ | (22) | (48) |
| Tax paid | (57) | (59) |
| Net interest expense ² | (8) | (1) |
| Operating cashflow | 135 | 116 |
| Less capital expenditure | (28) | (32) |
| Less investments ³ | (27) | (40) |
| Net cashflow pre financing | 80 | 44 |

1. The increased change in working capital between the forecast and actual resulted from a small increase in accounts receivable days and small decrease in accounts payable days.
2. Variance explained in Note 3 in Part 6.3.2.2 of this Booklet.
3. The higher investment between the forecast and actual reflects Metcash's strategic investments in certain major IGA customer groups.

6.3.2.5 Management commentary on historical results

The following brief commentary pertains to the historical financial performance of Metcash for the years ended 30 April 2004 and 2005 on an AGAAP basis:

- (a) EBITDA increased 6% from \$211 million to \$224 million from 30 April 2004 to 30 April 2005.
- (b) Before goodwill on consolidation of the newly acquired Metoz companies, NPAT rose 11% from \$99 million to \$110 million* from 30 April 2004 (52 weeks adjusted) to 30 April 2005. After Metoz goodwill amortisation, NPAT for the year was \$105 million.
- (c) Metcash's strong recent financial performance has been driven by:
 - (i) implementation of major supply chain initiatives including the establishment of centralised distribution centres, installation of new voice picking technology and closer collaboration with suppliers;
 - (ii) continued investment in Metcash corporate brands, such as Black & Gold, IGA and Way of Life, driving annual growth in products sold of 26% in the year ended 30 April 2005;
 - (iii) consolidation of the network of Supa IGA and IGA stores throughout Australia, with 58 new stores being added in the year ended 30 April 2005, with 45 major store refurbishments and 23 store extensions;
 - (iv) continued penetration of the confectionery market, arising from Campbells Cash and Carry's improved product mix and implementation of the division's Put-To-Light technology; and
 - (v) improved operating efficiency, as reflected in a reduction in the cost of doing business as a percent of gross profit from 69% to 68% between 30 April 2004 and 30 April 2005. As a key focus for Metcash, the cost of doing business has now been reduced from 82% since 30 April 2000.

Further commentary relating to the historical financial results for Metcash for the years ended 30 April 2004 and 2005 can be sourced from each respective year's Annual Report.

* This \$110m NPAT is prior the goodwill amortisation related to the newly acquired Metoz companies and therefore does not reconcile with the Metcash Adjusted NPAT: see Part 6.3.2.2 of this Booklet.

6.4 Publicly available information about Metcash

6.4.1 Publicly available information

Metcash, in its different forms, has been listed on ASX since 1994. A substantial amount of information concerning Metcash has previously been notified to ASX.

6.4.2 Regular reporting and disclosure obligations

Metcash is a "disclosing entity" for the purposes of the Corporations Act and it is subject to regular reporting and disclosure obligations under the Corporations Act and Listing Rules. These obligations require Metcash to notify ASX of information about specified events and matters as they arise for the purposes of ASX making that information available to the financial market operated by ASX. In particular, Metcash has an obligation under the Listing Rules (subject to certain exceptions) to notify ASX immediately of any information of which it becomes aware concerning Metcash which a reasonable person would expect to have a material effect on the price or value of Metcash Shares.

6.4.3 Financial reports and company announcements

The annual report for Metcash for the year ended 30 April 2005 was lodged with ASIC on 29 July 2005 and given to ASX on that date. A summary of ASX announcements made by Metcash between 1 July 2004 and the date of this Booklet is set out in Part 6.14 of this Booklet. Copies of announcements made by Metcash including its annual report are available from ASX and also from the Metcash website: www.metcash.com.

6.4.4 Copies of available information

Copies of documents lodged with ASIC in relation to Metcash may be obtained from, or inspected at, an ASIC office.

Metcash will provide free of charge, to any FAL Shareholder who requests it before the Meetings, a copy of:

- (a) the Metcash constitution;
- (b) the annual financial report of Metcash for the year ended 30 April 2005 (being the annual financial report most recently lodged with ASIC before this Booklet was lodged for registration with ASIC); and
- (c) any continuous disclosure notice given to ASX by Metcash after the lodgement with ASIC of Metcash's Annual Report for the financial year ended 30 April 2005 referred to above and before lodgement for registration of this Booklet by ASIC (a list of which is included in Part 6.14 of this Booklet).

Copies of any of the documents referred to above can be obtained by writing to:

The Company Secretary
Metcash Limited
4 Newington Road
Silverwater NSW 2128

6.5 Information about Metcash's securities

6.5.1 Introduction

Metcash's issued capital at 9 September 2005 comprised 430,129,124 fully paid ordinary shares. As at 9 September 2005 Metcash Trading also had on issue 220,795,089 convertible unsecured loan securities called "CULS". (See Part 6.9.6.4 of this Booklet on the treatment of CULS).

Metcash has extended the maturity date of the CULS from 19 September 2005 to 19 December 2005. Any conversion or redemption of the CULS is independent of the proposed Schemes. However, if the Transfer Scheme proceeds and you elect the Metcash Share Consideration, your holding in Metcash Shares may be diluted by any conversion of the CULS which occurs after implementation of the Schemes.

6.5.2 Historical security price performance

Part 3.3.4 of this Booklet includes information on the historical performance of Metcash Shares on the ASX.

6.5.3 Substantial shareholders

Metcash's significant ordinary shareholders as at 21 July 2005 are set out below.

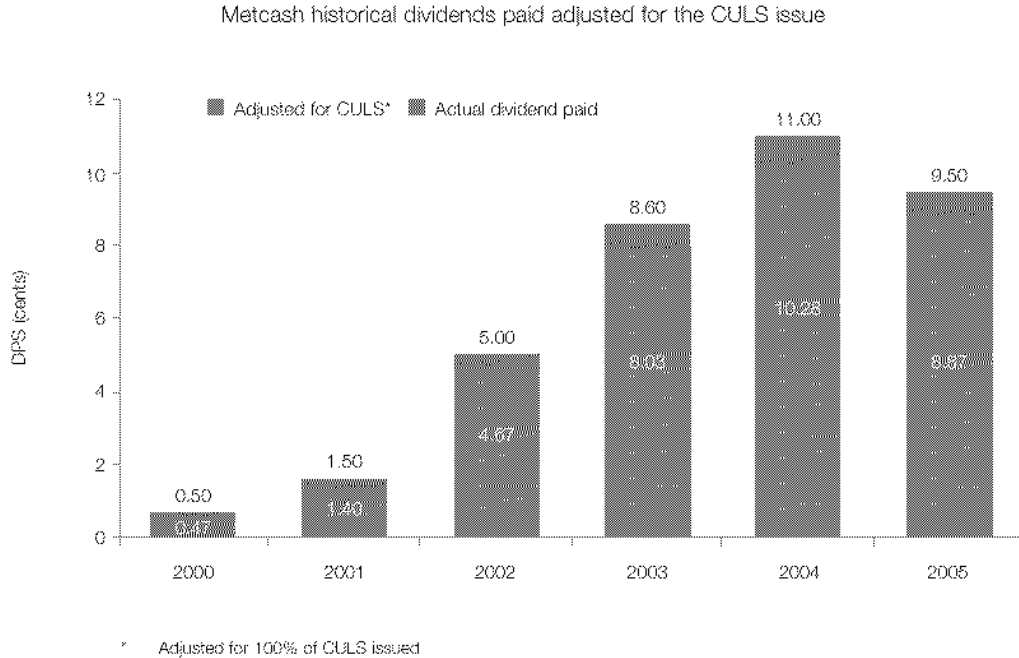
| Name | Number of shares held | % of issued shares held |
|---------------------------------------|-----------------------|-------------------------|
| BT Funds Management | 61,138,169 | 14.25 |
| Lazard Asset Mgt (Group) | 52,915,509 | 12.34 |
| Perennial Group | 44,623,144 | 10.40 |
| Deutsche Asset Mgt (Group) | 31,077,749 | 7.25 |
| ING Investment Mgt (Group) | 28,068,676 | 6.54 |
| Merrill Lynch Investment Mgrs (Group) | 21,446,191 | 5.00 |
| Perpetual Investments | 17,017,092 | 3.97 |
| Barclays Global Investors (Group) | 16,664,738 | 3.89 |
| 452 Capital | 14,950,235 | 3.49 |
| Queensland Investment Corporation | 14,034,582 | 3.27 |
| Other shareholders | 126,974,539 | 29.60 |
| Total | 428,908,624 | 100.00 |

As at 4 August 2005, the number of Metcash Options outstanding was 10,783,210, or 2.5% of issued capital. Details of Metcash Optionholders holding more than 5% of the Metcash Options are set out below.

| Option name | Metcash Options at 4 August 2005 | % of Metcash Options outstanding |
|-----------------|----------------------------------|----------------------------------|
| Bernard Hale | 850,000 | 7.88 |
| Andrew Reitzer | 680,000 | 6.31 |
| Michael Wessink | 540,000 | 5.01 |

6.5.4 Recent dividends

Metcash's dividends paid since 2000 are shown below:



All historical dividends paid by Metcash have been adjusted for the CULS issues in February 2005 and assume that 100% of the CULS have converted into ordinary Metcash Shares.

The Metcash Board will consider declaring a dividend in relation to the six months ending 31 October 2005. It is open to the Metcash Board to declare a dividend of such amount as it considers appropriate of the profits earned to that time.

The Metcash Board believes that Metcash will be able to continue to pay dividends. Due to the discretion of the Metcash Board regarding the appropriate level of dividend from time to time, the impact of the adoption of AIFRS accounting standards, (discussed in Part 6.9.3.6 of this Booklet), as well as the uncertainties involved in preparing a forecast for the 2006 financial year and the changes to Metcash's capital structure, actual dividends paid by Metcash in the future will not necessarily be consistent with historical levels.

6.5.5 Rights and liabilities attached to Metcash securities

Metcash Shares received as Metcash Consideration will rank equally in all respects with existing Metcash Shares. The rights and restrictions attached to the Metcash Shares are set out below:

- (a) Metcash Directors may issue or cancel Metcash Shares (including preference shares), or grant options over unissued Metcash Shares.
- (b) Subject to Metcash's constitution and to the rights or restrictions attached to any shares or class of shares, a member may transfer all or any of their shares by a proper ASTC transfer or an instrument in writing in any usual form or in any other form that the Metcash Directors approve. The transferor remains the holder of the shares transferred until the transfer is effected in accordance with the ASTC Settlement Rules or the name of the transferee is entered in the register of members in respect of the shares. The Metcash Directors may decline to register a transfer where the transfer is not in registrable form or the refusal to register is permitted under the Listing Rules.

- (c) Subject to Metcash's constitution, at a general meeting, each ordinary shareholder entitled to vote may attend and vote in person or by proxy, attorney or (where a member is a body corporate) by representative. A resolution put to the vote of a general meeting must be decided on a show of hands unless a poll is demanded. Subject to the Metcash constitution, on a show of hands, every ordinary shareholder present in person or by proxy, attorney or representative has one vote. Subject to the Metcash constitution, on a poll, every ordinary shareholder voting in person or by proxy, attorney or representative has one vote for each fully paid share held by them.
- (d) Subject to the Corporations Act, the Metcash Directors may pay any interim and final dividends, without confirmation by a general meeting as, in their judgment, the financial position of Metcash justifies. Further information on Metcash's dividend policy is in Part 6.5.4 of this Booklet.
- (e) Subject to any rights or restrictions attached to any shares or class of shares, the Metcash Directors may capitalise any amount and distribute it among such of the members as would be entitled to receive dividends and in the same proportions.
- (f) Subject to the Metcash constitution and to the rights or restrictions attached to any shares or a class of shares, if Metcash is wound up and the property of Metcash is sufficient to pay all debts, liabilities and costs of winding up, the excess must be divided among the ordinary shareholders in proportion to the number of shares held by them. If the company is wound up, the liquidator may, with the sanction of a special resolution, divide the whole or any part of the property of the company among the members and determine how the division is to be carried out as between the members.
- (g) Subject to the Corporations Act, Metcash may, by resolution, alter the company's share capital. The Metcash Directors may determine any distribution paid on a return of capital including a distribution of specific assets. If the company distributes to its members securities in another body corporate, each member agrees to become a member of that other body corporate.

As noted above, Metcash Trading also has CULS on issue. The CULS are convertible, unsecured, redeemable loan notes which are quoted on ASX. No interest is paid on CULS (other than payment of default interest in limited circumstances if Metcash Trading does not pay amounts due and payable on CULS).

CULS are unsecured obligations of Metcash Trading and rank equally without preference among themselves. On a winding up of Metcash Trading, they are to be converted. If this is not possible, the rights of holders of CULS are subordinated to the claims of all other creditors of Metcash Trading.

Generally, all rights in relation to CULS may be enforced only by a trustee, which was appointed under a trust deed on 10 February 2005, in accordance with the Trust Deed. The Trust Deed provides for the obligations of Metcash Trading and the trustee to holders in relation to the CULS.

6.5.6 Metcash Directors' interests in Metcash securities

The Metcash Directors are named below. Each of the Metcash Directors' interests in Metcash Shares, Metcash Options and CULS, as at the date of this Booklet, are set out in the table below.

| Name | Number of Metcash Shares held | Number of CULS held | Number of Metcash Options held |
|---------------------------|-------------------------------|---------------------|--------------------------------|
| Mr. Carlos S. dos Santos | - | - | - |
| Mr. A.E. (Ted) Harris, AC | 374,838 | 89,576 | - |
| Mr. Andrew Reitzer | 1,820,000 | - | 680,000 |
| Mr. Michael R. Jablonski | - | - | 340,000 |
| Mr. Edwin M. Jankelowitz | 760,000 | - | 340,000 |
| Mr. V. Dudley Rubin | - | - | - |
| Mr. Peter L. Barnes | 151,041 | 78,126 | - |
| Mr. Richard A. Longes | 112,500 | 37,500 | - |
| Mr. Bernard J. Hale | - | - | 850,000 |
| Mr. Joao Louis S. Jardim | 140,000 | - | 280,000 |
| Mr. Michael Wessink | 364,374 | 28,126 | 540,000 |

No Metcash Directors as at the date of this Booklet holds a beneficial interest in any other Metcash Shares, Metcash Options or CULS.

6.5.7 Metcash DRP

Metcash is implementing a fully underwritten dividend reinvestment plan, in relation to dividends paid with respect to the years ending 30 April 2006, 30 April 2007 and 30 April 2008.

The Metcash DRP will provide shareholders with a choice of reinvesting dividends paid on Metcash Shares in Metcash Shares rather than receiving such dividends in cash. Participation in the Metcash DRP will be optional and open to all holders of Metcash Shares, with the exception of shareholders having a registered address or being resident in a jurisdiction other than Australia who may not be able to participate in the Metcash DRP because of legal requirements applicable in that jurisdiction. The Metcash Directors may also refuse to permit any shareholder to participate if, amongst other things, the shareholder's participation may breach a provision of Metcash's constitution or may be contrary to any law.

Under the Metcash DRP:

- (a) shareholders will be able to participate in the Metcash DRP in respect of some or all of their Metcash Shares;
- (b) the Metcash Directors will determine, with respect to the Metcash DRP for any dividend, whether to issue new Metcash Shares or to cause a transfer of existing Metcash Shares to participants, or to effect a combination of both;
- (c) for interim and final dividends paid for the period up to 30 April 2008, Metcash Shares issued or transferred to participants under the Metcash DRP will be issued at a discount to the volume weighted average market price of Metcash Shares in a period commencing on or after the record date for any dividend and concluding prior to the dividend payment date. If this discount is less than 2.5%, the underwriter has the right to terminate the underwriting agreement;
- (d) for Metcash Shareholders participating in the Metcash DRP, dividends paid will be credited to a Metcash DRP account (consistent with the level of participation in the Metcash DRP) from which monies will be applied in subscribing for or acquiring additional Metcash Shares; and
- (e) no brokerage will be payable in respect of Metcash Shares acquired under the Metcash DRP.

6.5.8 Metcash Employee Option Plan

Metcash has one employee share plan, the Metcash Limited Employee Option Plan. The predecessor to the MEOP, the Metcash Trading Limited Employee Share Option Plan, was approved by shareholders of Metcash Trading at the 1998 Annual General Meeting. The MEOP replicates the terms and conditions of the Metcash Trading Limited Employee Option Plan except that options granted pursuant to the MEOP will be over shares in Metcash (rather than Metcash Trading) and the MEOP has been updated to reflect current law. Shareholders of Metcash will be asked to approve the MEOP at the annual general meeting of Metcash which is scheduled to take place on 1 September 2005.

Under the terms of the MEOP, there are two types of participants in the plan, "Eligible Employees" and "Hurdle Participants". Eligible Employees may exercise their options in three tranches from the date of grant: 60.0% after three years, a further 20.0% after four years and a final 20.0% after five years. Hurdle Participants may exercise their options over the same time frame, but Metcash must also meet certain performance hurdles before the options can be exercised. The options granted under the MEOP are not transferable and lapse six years after being granted.

As at the date of this Booklet, there are 9,902,160 options on issue pursuant to the MEOP. Metcash also intends to issue a further 17,211,000 options under MEOP.

6.6 Strategy and rationale for merger

The key objective of Metcash is to be the "Champion of the Independent Retailer". It has been a constant focal point for management and adhering to this goal is the cornerstone of the group's ongoing success. The clear intention of Metcash is not to compete with the independently owned retail stores which it supplies.

Metcash's strategy is to continue to improve internal efficiencies, drive costs down and add value to customer services. Continual investment in supply chain management, infrastructure and information technology will enable improvements in productivity, ensure customer needs are met and provide ready access to management information.

The success and prosperity of the independent grocery retailer is the key to Metcash's success. Metcash provides a comprehensive range of services to independent retailers, including retail system support on 24 hour call, in-store training and a range of specialist service personnel such as channel managers, business and fresh food managers. These service teams work with the individual retailers to grow both the brand and the individual businesses. Metcash also provides a retail development and store equipment service to assist in expanding, refurbishing or building new sites.

Metcash plans to expand its IGA distribution business through the acquisition of the Australian Operation. If the Transfer Scheme is implemented, Metcash plans to divest the 60 FAL Action stores which it will acquire in Western Australia, Queensland and northern New South Wales to independent retailers, store managers and employees and become the wholesaler to these stores. The acquisition of the Australian Operation is expected to generate an additional \$1,770 million per annum in wholesale revenue for Metcash.

Metcash has previously announced ambitions of expansion offshore, referred to as the "Fourth Pillar". If the Transfer Scheme is implemented, Metcash plans to defer any offshore acquisition until it has completely integrated the Australian Operation. Any opportunities previously considered have been deferred indefinitely. However, should the Transfer Scheme not be implemented, there are other strategies and growth opportunities that may be pursued.

6.7 Metcash's intentions

This Part 6.7 sets out Metcash's intentions in relation to the following:

- (a) major changes to the Australian Operation and any redeployment of the fixed assets of the Australian Operation;
- (b) the future employment of the present employees of the Australian Operation; and
- (c) the retention of the businesses comprising the Australian Operation.

These intentions are based on the information concerning FAL, its business and the general business environment which is known to Metcash at the time of the preparation of this Booklet.

Final decisions will only be reached by Metcash in light of material information and circumstances at the relevant time. Accordingly, the statements set out in this Part 6.7 are statements of Metcash's current intention only and may change as new information becomes available or circumstances change.

Over the course of the last two years the Metcash Directors and management have been actively reviewing a number of strategic growth initiatives, one of which has been the acquisition of FAL's Australian assets.

The proposed acquisition of the Australian Operation is part of Metcash's strategy to establish a stronger player in Australia's chain-dominated retail markets.

6.7.1 Head office and head office employees

Metcash intends to combine certain common Metcash and FAL Australian corporate head office functions, such as finance and accounting, company secretarial, risk management and in-house legal, as well as those functions involved in setting overall planning and control of the combined operations of Metcash and the businesses of the Australian Operation with a view to eliminating duplication of tasks.

Metcash will seek to allocate alternative responsibilities (including potentially within the proposed Western Australian state office) to any FAL employees whose responsibilities currently include head office activities that are duplicated with Metcash.

6.7.2 General operational review

Following the Demerger, Metcash intends to conduct an immediate, general review of the Australian Operation. The review will apply quantitative and qualitative factors to measure performance and identify areas which may be improved, and should be finalised within three to six months of the implementation of the Transfer Scheme.

6.7.3 Melbourne buying office

If the Transfer Scheme is implemented, Metcash expects that the centralised buying function for the Metcash Group will continue to operate out of Metcash's Sydney office. Metcash currently has buying staff located in each of the States in which Metcash operates. Metcash intends to offer employment in the proposed Western Australian state office to a number of staff currently employed in the Melbourne buying office. Metcash will seek to allocate alternative responsibilities to the employees in the Melbourne buying office who are not offered employment in the Western Australian state office.

6.7.4 Franchise & Supply Australia

Metcash intends to integrate the wholesale business activities of the Australian Operation into its existing activities. It is currently intended that the Dewsons, Supa Valu and Dewsons Express banner groups will be co-branded as IGA stores.

An evaluation will be made of FoodLink, FAL's food service division, to identify what role it would have in the Metcash group.

FAL's four Cash & Carry warehouses in Balcatta, Bunbury, Canning Vale and Kalgoorlie are expected to be integrated into CCC's operations providing CCC with operations in Western Australia.

A detailed review of FAL's Mobil service stations will be undertaken before any decision is made regarding the retention of these businesses. FAL's fuel discount initiative is similar to Metcash's reverse discount plan and it is expected to be retained under Metcash ownership.

6.7.5 Action stores in Queensland, northern New South Wales and Western Australia

Metcash views wholesaling as its core competency and does not intend to enter the retail market in Australia. Metcash intends to sell the 22 Action stores in Western Australia and 38 Action stores in Queensland and northern New South Wales to independent retailers or management and employees of these stores. Metcash believes there is strong interest for these stores from independent store owners and it is expected that these stores will become part of the IGA network with new supply contracts agreed. Where required, Metcash will enter into head leases with owners of Action Supermarket sites.

6.7.6 FAL's property assets

A review of FAL's property assets will be conducted following implementation of the Transfer Scheme. It is Metcash's current intention to dispose of Australian property assets that will be surplus to its needs.

6.7.7 Queensland warehouse

Metcash intends to service the Action stores in Queensland and northern New South Wales from its Brisbane warehouses located at Loganlea and Crestmead. The Loganlea/Crestmead facilities have sufficient capacity to handle this additional demand as a consequence of the relocation of ALM's Queensland distribution from Loganlea to Crestmead. Metcash intends to sub-let FAL's Richlands warehouse which will be excess to Metcash's requirements.

Metcash will seek to allocate alternative responsibilities to the employees in FAL's Richlands Warehouse, which could possibly include being offered positions at either the Loganlea or Crestmead warehouses or CCC outlets. Rocklea Fresh facility will be reviewed to determine its future role within the Metcash group.

6.7.8 Western Australian warehouse

It is Metcash's intention for FAL's Canning Vale (Perth) warehouse to continue to operate in a similar manner to its present operations.

6.7.9 Information Technology Systems

Metcash intends to implement its existing IT systems and voice pick technology within FAL's operations. It is expected that this will eliminate a significant portion of the \$68 million merchandising system capital expenditure which FAL had planned to spend in order to update its systems and adopt common processes across the FAL Group.

6.7.10 Employees

If Metcash considers that it is not feasible to allocate alternative responsibilities to any employees of the head office of the Australian Operation, the Melbourne buying office or the Queensland warehouse, it is expected that the employees would be made redundant.

Metcash Trading will ensure that all employees of the Australian Operation who are made redundant or whose employment is otherwise terminated within twelve months after the Transfer Implementation Date will receive all payments and other benefits in accordance with the policies of, and their contractual arrangements with, the FAL Group as at the date of the Merger Implementation Agreement unless the employees have agreed to other arrangements with Metcash Trading.

Other than as set out in this Part 6.7, it is the present intention of Metcash:

- (a) to continue the businesses of the Australian Operation;
- (b) not to make any major changes to the Australian Operation and not to redeploy any of the fixed assets of the Australian Operation; and
- (c) to maintain the employment of the existing employees of the Australian Operation.

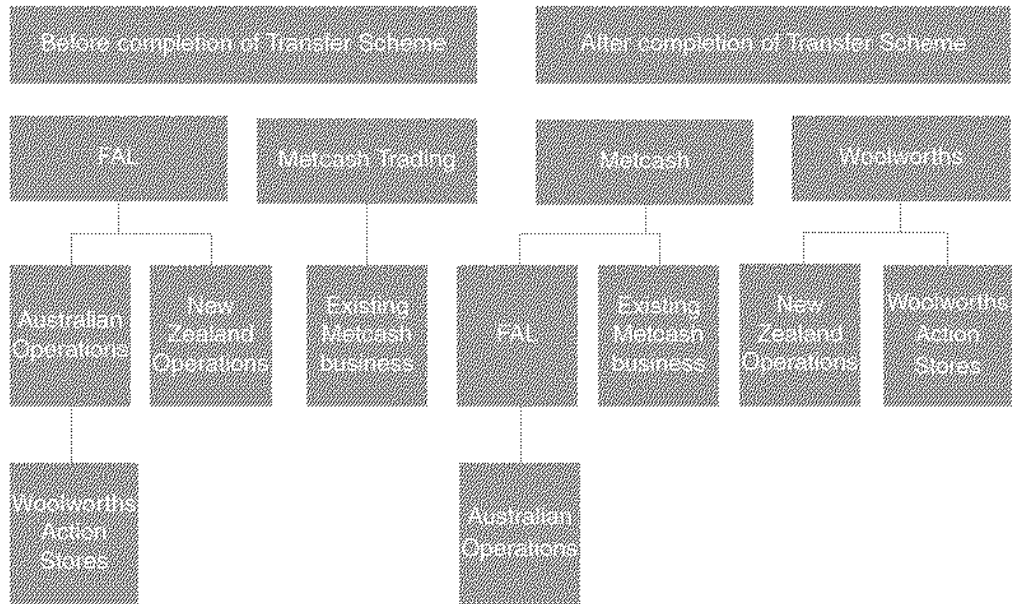
6.8 Metcash after completion of the Transfer Scheme

6.8.1 Overview of Metcash after the completion of the Transfer Scheme

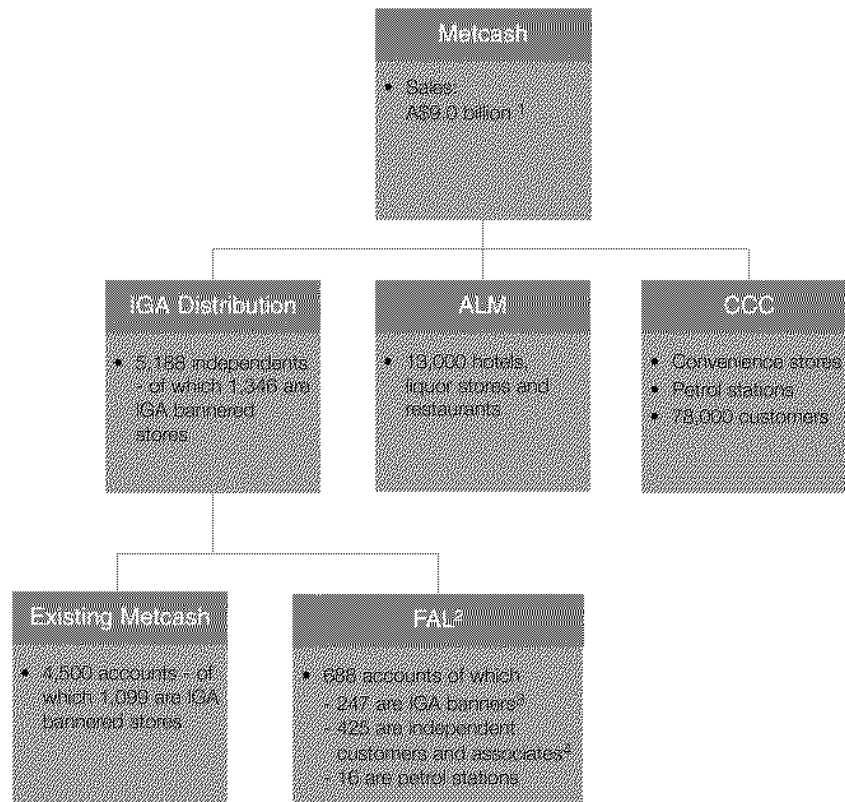
Following the implementation of the Transfer Scheme, Metcash will merge FAL's Australian Operation with Metcash's existing business.

As a result of the merger, Metcash will expand its IGA network. Illustrated in the diagram below is Metcash before and after the completion of the Transfer Scheme.

Metcash before and after completion of Transfer Scheme



Metcash's business after completion of the Transfer Scheme



Notes:

1. Relates to 2006 financial year.
2. Represents the current wholesale operations of the Australian Operation.
3. Includes conversion of 60 Action stores, plus 182 Dewsons and Supa Valu stores to IGA.
4. Includes 379 Independent customers and associates.

It is forecast that, based on the pro-forma consolidation of Metcash's forecast results for the 12 months ending 30 April 2006 and the forecast results for the Australian Operation for the 12 months ending 31 July 2006 Metcash Post Acquisition will show:

- (a) increased sales from A\$7,232 million to A\$9,002 million, representing an increase of 24%;
- (b) the number of independent customers increasing from 4,500 to 5,188; and
- (c) the number of IGA bannered stores increasing from 1,099 to 1,346.

6.8.2 Creating a national IGA distribution network

Metcash and FAL's complementary regional presence will present Metcash with unique synergies and consolidation opportunities. The transaction will enhance the operations of Metcash allowing it to optimise existing operations and rationalise overlapping distribution networks. The combination will strengthen Metcash's position in the highly competitive eastern seaboard market and widen its network to national coverage.

The combination will expand the grocery wholesaling network into Western Australia where IGA currently does not operate. Metcash plans to continue the Australian Operation's supply arrangements with FAL's existing 241 Franchise & Supply customers in Western Australia including 122 Supa Valu, 65 Dewsons, 53 Eziways and 1 Dewsons Express Store.

Metcash intends to sell the 60 FAL Action retail stores which it will acquire in Queensland, northern New South Wales and Western Australia as a result of the Transfer Scheme to independent retailers or management and employees of these stores and the stores are intended to be rebranded IGA following the implementation of the Transfer Scheme. Metcash plans to become the predominant wholesaler to these stores. As a result, Metcash will build on its existing network of customers on the east coast of Australia and expand FAL's wholesale business in Western Australia.

In addition, FAL supplies a further 379 independent customers and associates located in Western Australia.

Metcash will serve 5,188 customers, up from 4,500 customers prior to acquisition. As a consequence of increased scale Metcash expects to benefit from improved buying power from its suppliers.

Metcash after the completion of the Transfer Scheme

| Stores | QLD | NSW | VIC | SA | WA | Total |
|---|------------|------------|------------|------------|------------|--------------|
| SUPA IGA | 86 | 31 | 96 | 104 | 87 | 404 |
| IGA ¹ | 189 | 260 | 266 | 105 | 122 | 942 |
| Foodworks ² | 463 | 34 | 193 | - | 6 | 696 |
| Other non banner customers ³ | | | | | | 3,146 |
| Total | 738 | 325 | 555 | 209 | 215 | 5,188 |

Notes:

1. Includes conversion of 60 Action stores, plus 182 Dewsons and Supa Valu stores to IGA.
2. Non IGA, Foodworks aligned customers.
3. Includes FAL's 379 independent customers and associates and 16 petrol stations.

Metcash will integrate FAL's distribution centres in Western Australia into the current network. Metcash intends to sublet FAL's distribution centre at Richlands in Queensland which will be excess to Metcash's requirements, given that its Loganlea facility has capacity to absorb the volume.

Metcash grocery and liquor distribution warehouses ¹

| | Metcash (pre acquisition) | | | | FAL | | | | Metcash (post acquisition) | | | |
|--------------|---------------------------|--------------------|--------------|-------|--------------|--------------------|--------------|------|----------------------------|--------------------|--------------|-------|
| | Location | Warehouses on Site | Size 000 sqm | Type | Location | Warehouses on Site | Size 000 sqm | Type | Location | Warehouses on Site | Size 000 sqm | Type |
| NSW | Silverwater | 2 | 26 | P,L | | | | | Silverwater | 2 | 26 | P,L |
| | Blacktown | 1 | 44 | G | | | | | Blacktown | 1 | 44 | G |
| VIC | Laverton | 3 | 87 | P,L,G | | | | | Laverton | 3 | 87 | P,L,G |
| QLD | Loganlea | 1 | 45 | G | | | | | Loganlea | 1 | 45 | G |
| | Crestmead | 2 | 34 | L,P | | | | | Crestmead | 2 | 34 | L,P |
| | | | | | Richlands | 1 | 47 | G | | | | |
| | | | | | Rocklea | 1 | 6 | P | Rocklea | 1 | 6 | P |
| SA | Kidman Park | 3 | 60 | P,L,G | | | | | Kidman Park | 3 | 60 | P,L,G |
| WA | Canning Vale | 1 | 10 | L | Canning Vale | 1 | 65 | G,P | Canning Vale | 2 | 75 | P,L,G |
| | | | | | Osborne Park | 1 | 3 | P | Osborne Park | 1 | 3 | P |
| | | | | | Malaga | 1 | 1 | P | Malaga | 1 | 1 | P |
| Total | | 13 | 306 | | | 9 | 122 | | | 17 | 381 | |

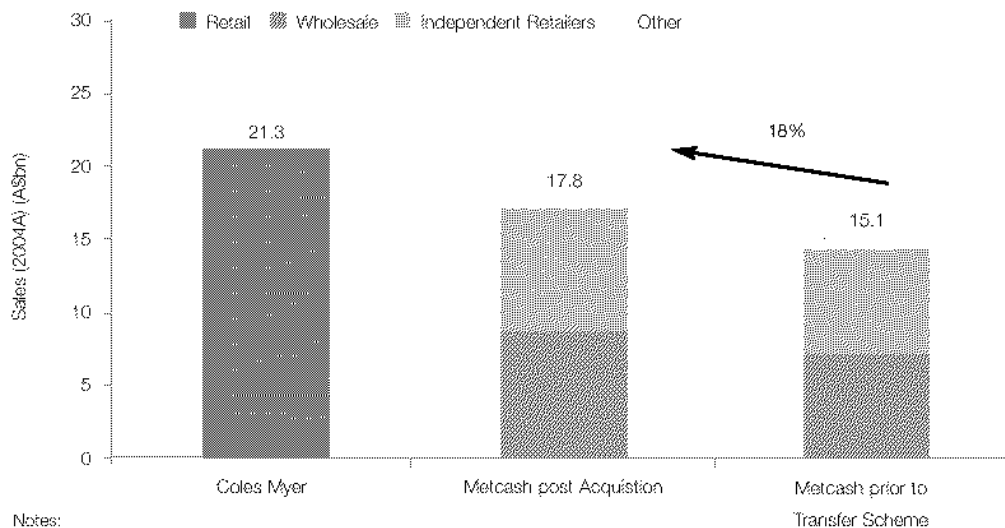
P = Perishable G = Grocery (Dry) L = Liquor

Note:

1. Table excludes all cash and carry and food services warehouses.

The combined company will close the gap between Metcash and the chains owned by Coles Myer and Woolworths. The Transfer Scheme increases Metcash and the independent retailers' combined revenue from \$15,100 million to \$17,800 million, an 18% increase in the combined sales.

Comparison of Retail Sales ^{1,2}



Notes:

- Independent Retailers revenue represents Metcash's estimate of incremental revenue earned by Independent Retailers.
- Coles Myer represents sales from its Food and Liquor division.

6.8.3 Metcash's strategy after completion of the Transfer Scheme

Metcash's core strategy of being the "Champion of the Independent Retailer" will continue following the acquisition of the Australian Operation.

Following the implementation of the Transfer Scheme, Metcash will continue its focus on improving internal efficiencies, driving costs down, adding value to customer services and investing in information technology. The support and comprehensive range of services provided to independent retailers will continue.

6.9 Pro-forma AIFRS financial information on Metcash after completion of the Schemes

6.9.1 Pro-forma 2006 forecast will differ from 2006 result

The pro-forma financial information contained in Part 6.9.2 of this Booklet reflects the combined business assuming the acquisition occurred on 1 May 2005 and only includes the ongoing operations of the combined business. At this time, Metcash is unable to provide a forecast of the actual results of Metcash Post Acquisition in the financial year ending 30 April 2006 due to the uncertainty regarding the timing of the divestment of Action supermarkets and property. Therefore, Metcash has provided its forecasts on a pro-forma basis to assist FAL Shareholders in identifying the likely financial performance of the underlying combined businesses.

The pro-forma 2006 financial results will differ from the actual 2006 result for a number of reasons including, but not limited to:

- (a) the actual acquisition date will be 24 November 2005;
- (b) Action supermarkets will be divested over a period of 12-18 months;
- (c) property will be divested post acquisition;
- (d) transaction costs related to the transaction will be incurred;
- (e) restructuring costs related to the transaction will be incurred; and
- (f) the conversion and, or, redemption of the CULS and associated costs (see Part 6.9.6.4 of this Booklet).

The forecast pro-forma AIFRS financial information and other statements in this document which constitute forward looking statements involve known and unknown risks, uncertainties and other important factors which may materially impact on actual outcomes, many of which are outside the control of Metcash. These factors will cause the actual results, performance or achievements of Metcash, the Australian Operation or Metcash Post Acquisition to differ, perhaps materially, from the results, performance or achievements expressed or implied by those forecasts or forward looking statements. Such risks, uncertainties and other important factors include, among other things, those matters set out in Part 6.11 of this Booklet.

The forecast pro-forma AIFRS financial information and other forward looking statements do not constitute a representation that future profits (or any other matter) will be achieved in the amounts or by the dates indicated and are presented as a guide to assist FAL Shareholders in assessing the Metcash consideration for the Australian Operation. The forecast pro-forma AIFRS financial information and other forward looking statements are based on information available to Metcash at the date of this Booklet and should be read in conjunction with the assumptions underlying their preparation as set out in Part 6.9.4 of this Booklet.

6.9.2 Summary pro-forma AIFRS financial information

Metcash is uncertain what proportion of FAL Shareholders will accept Metcash Cash Consideration and what proportion will accept Metcash Share Consideration. Owing to this uncertainty, EPS and gearing sensitivities have been provided under the scenarios of 100% of FAL Shareholders accepting Metcash Cash Consideration, 50% of FAL Shareholders accepting Metcash Cash Consideration, and 100% of FAL Shareholders accepting Metcash Share Consideration.

The summary information presented below is forecast information for the year ending 30 April 2006.

| Consideration take-up | Metcash Post Acquisition ¹ Pro-forma AIFRS 30 April 2006 | | |
|---|---|--------------------------|---------------------------|
| | 100% cash | 50% Metcash Shares | 100% Metcash Shares |
| Sales (\$ million) | 9,002 | 9,002 | 9,002 |
| EBIT ² A (\$ million) | 287 | 287 | 287 |
| EPS accretion % ³ | 21% | 16% | 9% |
| Pro-forma net debt (2005)/ EBITDA (2006) ⁴ | 2.8x | 2.8x | 1.6x |

Notes:

1. Assumes acquisition of the Australian Operation occurred on 1 May 2005.
2. EPS accretion is measured relative to Metcash stand alone adjusted EPS (which excludes any costs associated with the acquisition of the Australian Operation). Metcash stand alone EPS has been adjusted in accordance with AASB 133 to reflect the conversion of \$374 million of CULS to equity in the scenario assuming 100% of FAL Shareholders elect the Metcash Cash Consideration. In the scenarios where it is assumed FAL Shareholders elect 50% or 100% Metcash Share Consideration, it has been assumed the CULS are redeemed.
3. This sensitivity assumes Metcash will issue 126 million and 252 million Metcash Shares to FAL Shareholders for 50% and 100% Metcash Share consideration take-up respectively, as opposed to under the Cash Alternative under the Offer.
4. Ratio calculated on pro-forma net debt as at 30 April 2005.

Detailed analysis and explanation regarding the financial information is contained in the remainder of this Part 6.9 and Part 6.13 of this Booklet.

6.9.2.1 Overview of pro-forma AIFRS financial information prepared

The Metcash and Metcash Post Acquisition pro-forma AIFRS financial information has been presented in abbreviated form. It does not contain all the disclosures usually provided in an annual report prepared in accordance with the Corporations Act.

6.9.2.2 Pro-forma AIFRS financial information for forecast

The following pro-forma AIFRS financial information has been presented:

- (a) pro-forma balance sheet as at 30 April 2005;
- (b) pro-forma forecast income statement, earnings per share and cashflow statement for the year ending 30 April 2006; and
- (c) sensitivity analysis.

For assumptions relating to the forecast information, please refer to Parts 6.9.4 and 6.13 of this Booklet.

6.9.3 Basis of preparation

6.9.3.1 Metcash Post Acquisition

Metcash stand alone relates to Metcash prior to the acquisition of the Australian Operation occurring. Metcash Post Acquisition relates to Metcash after the acquisition of the Australian Operation is completed.

6.9.3.2 Assumed Metcash Consideration for the Australian Operation

As outlined in Part 3.3 of this Booklet, various adjustments, which relate to the financial position of the FAL Group at the time the Schemes are implemented, will be required to derive the actual Metcash Consideration paid for the Australian Operation.

Based on the transaction announced on 25 May 2005 the Metcash Cash Consideration for the Australian Operation would be \$755 million subject to a series of adjustments.

Based on the information currently available to it, Metcash estimates that there is an upward adjustment in the order of approximately \$18 million. As a result the Metcash Cash Consideration will be approximately \$773 million. Similarly an adjustment of \$18 million is expected under the Metcash Share Consideration, resulting in the exchange ratio increasing to 2.14x. These assumptions are reflected in the financial information that follows in this Part 6.

6.9.3.3 Assumed completion date for the acquisition of the Australian Operation

The pro-forma AIFRS forecast financial information in this Part 6.9 assumes the acquisition of the Australian Operation is completed and all related funding costs are incurred on 1 May 2005. The pro-forma balance sheet has been presented as at 30 April 2005.

The actual date of acquisition of the Australian Operation, if the Schemes are approved, will be 24 November 2005.

The purpose of this assumption is to present a pro-forma financial position which illustrates the impact of the acquisition of the Australian Operation for a full financial year.

6.9.3.4 Assumed cash take-up under the acquisition of the Australian Operation

The pro-forma balance sheet, income statement, cashflow statement and earnings per share assume 100% cash take-up under the acquisition of the Australian Operation. Sensitivities illustrating the impact on EPS and gearing of differing levels of take-up of the Metcash Share Consideration by FAL Shareholders under the Transfer Scheme are also presented below.

6.9.3.5 Assumed Metcash share price and shares outstanding for preparation of pro-forma AIFRS financial information

Where relevant, all financial information presented in this Part 6.9 makes the following assumptions regarding the Metcash share price or shares outstanding:

- (a) a Metcash share price of \$4.06, which is the 1 month volume weighted average price prior to 2 September 2005; and
- (b) the shares outstanding in Metcash as at 2 September 2005.

6.9.3.6 Weighted average shares outstanding

The weighted average shares outstanding assumes the initial 50% of the CULS have been mandatorily converted into Metcash Shares by 1 May 2005. The remaining 50% of the CULS outstanding are assumed to convert into Metcash Shares under a 100% take-up of the Metcash Cash Consideration by FAL Shareholders on 1 May 2005. The purpose of this assumption is to present a pro-forma EPS number which captures the full impact of all shares assumed to be issued to fund the acquisition of the Australian Operation, which, in the case of 100% of FAL Shareholders receiving the Metcash Cash Consideration, is assumed to result in all the remaining \$374 million CULS being converted to Metcash Shares.

6.9.3.7 Pro-forma AIFRS financial information

The pro-forma AIFRS financial information presented in this Booklet that is referred to as being presented on an AIFRS basis reflects the series of standards adopted by the AASB in July 2004.

Metcash has completed a thorough review of the impact of AIFRS upon the financial results for Metcash on a stand alone basis. Under the provisions of AIFRS, Metcash will present actual results for the year ending 30 April 2006 under AIFRS and is required to restate the comparative financial information for the year ended 30 April 2005.

Metcash has not had the opportunity to undertake a thorough review of FAL's AIFRS accounting policies.

FAL Shareholders should be aware that future financial performance presented under AIFRS may be significantly affected by future changes to those standards and their application to the preparation of financial information. In particular, goodwill is no longer amortised, however the carrying value will be assessed annually for impairment. Other intangible assets with finite lives will continue to be amortised over their useful lives and assessed for impairment where there is an indicator. This may introduce considerable volatility into the future reported results of Metcash thereby potentially adversely impacting distributable earnings. This issue is not specific to Metcash and similar issues are likely to apply to other companies reporting under AIFRS.

AIFRS financial information in relation to Metcash in this Booklet

Metcash's historic 2005 financial information, including the financial information contained within its 2005 Annual Report, has been prepared on an AGAAP basis. However, in order to provide a meaningful comparison to Metcash's 2006 AIFRS forecasts provided in this Booklet, Metcash, based on the known or estimated impacts of the adoption of AIFRS, has restated its historic 2005 financial information on an AIFRS basis.

Although the restated 2005 AIFRS financial information is based on Metcash's current understanding of expected standards and interpretations, and current facts and circumstances, these may change. For example, amended or additional standards or interpretations may be issued by the AASB or IASB. Therefore, until Metcash prepares its full AIFRS financial statements for the year ending 30 April 2006, the possibility cannot be excluded that the accompanying AIFRS financial information may have to be adjusted.

Details of the adjustments made to 2005 AGAAP Balance Sheet to arrive at 2005 AIFRS balance sheet are outlined in Part 6.13 of this Booklet.

Details regarding Metcash's 2003 and 2004 financial information under AGAAP are available in its Bidder's Statement.

6.9.3.8 Differing financial year ends for Metcash and FAL

The financial year end adopted by Metcash is 30 April compared to 31 July adopted by FAL. Metcash has not adjusted the forecasts for the differing financial year ends between Metcash and the Australian Operation and has therefore used the 31 July year end of the Australian Operation as a proxy for its 30 April year end. For example, in compiling the 2006 forecast financial information, Metcash has used the financial information for the year ending 30 April 2006 for Metcash and 31 July 2006 for the Australian Operation as a proxy.

6.9.3.9 Merger synergies

Included within the Metcash Post Acquisition forecast financial information is an estimate of the merger synergies that are expected to arise in the event the acquisition of the Australian Operation is successful.

The estimated impact of the synergies is based on Metcash's industry knowledge, as applied to the information available to it at the time of compiling its estimate.

Any final decisions and estimates on these matters will only be reached in light of all the material facts and information once Metcash has had an opportunity to conduct a detailed review of the Australian Operation and all relevant internal information. As a result, the actual merger synergies may differ from those included in the pro-forma AIFRS financial information.

6.9.3.10 FAL property activities

The Australian Operation currently undertakes various property related activities, including ownership of investment properties, developed land and buildings and properties held for development.

It is Metcash's intention following completion of the acquisition of the Australian Operation to undertake a review of its property assets with a view to disposing of these assets.

For the purpose of preparing the pro-forma AIFRS financial information for Metcash Post Acquisition, Metcash has excluded any income from property (including proceeds from disposal of property) from the pro-forma AIFRS income statement, which is valued at \$64.5 million. Despite Metcash's intention to dispose of these property assets, for the purposes of the financial forecasts it has been conservatively assumed that these assets remain on the balance sheet.

In the event that all properties have not been disposed of by the announcement of Metcash's next financial results (year ending 30 April 2006) then the balance sheet at that date and the financial results for that period will be required to consolidate the financial impact of the property ownership. Accordingly, the financial results for year ending 30 April 2006 will differ from those presented in this Part 6.9.

6.9.3.11 Treatment of Action supermarkets

In accordance with one of Metcash's core principles of not competing with its customers, it is Metcash's intention to divest the acquired Action supermarkets to independent retailers.

The stores will be sold over a period, which management expect not to exceed 12-18 months. For this reason, no results from retail operations from the Action supermarkets are included in the forecast pro-forma AIFRS financial information presented in this Part 6.9.

If all the acquired Action supermarkets have not been divested by announcement of Metcash's next financial results (year ending 30 April 2006) then the Metcash balance sheet position at that date will include unsold stores and the income statement will consolidate the financial results of the unsold Action supermarkets for the period owned.

Accordingly, the financial results for Metcash for the year ending 30 April 2006 will differ from those presented in this Part 6.9.

6.9.3.12 Transaction and restructure costs

In connection with the acquisition of the Australian Operation Metcash will incur a number of costs including adviser costs and funding costs. In addition Metcash expects to incur restructuring costs that will arise in the event the acquisition of the Australian Operation is successful.

These costs have been excluded from the AIFRS pro-forma financial information on the basis that they are one-off items.

Metcash estimates the transaction costs to amount to approximately \$19 million and the restructuring costs to total approximately \$22 million on a pre-tax basis.

6.9.3.13 Rounding

Numbers contained in this Part 6.9.3 and Part 6.13 of this Booklet are rounded to zero decimal places; therefore, if a set of numbers do not appear to add together precisely this is a function of rounding.

6.9.4 Assumptions relating to the pro-forma forecast

The assumptions underlying the preparation of the financial information have been allocated into two discrete groups as provided below.

6.9.4.1 Forecast assumptions

The material and best estimate assumptions made by the Metcash Directors in preparing the Metcash stand alone forecast statement of financial performance and statement of cashflow for the year ending 30 April 2006 are as follows:

(a) General assumptions

- (i) There will be no significant change in the economic conditions or in the competitive environment in which Metcash operates.
- (ii) There are no major investments by Metcash in new projects outside the core business of Metcash and no material sales of non-core assets.
- (iii) The company tax rate in Australia remains at 30%.
- (iv) There will be no material adverse change in any other taxes relevant to Metcash.
- (v) There will be no material changes in the terms and conditions with customers and suppliers.
- (vi) There are no changes in applicable accounting standards or other mandatory professional reporting requirements in Australia (other than those pertaining to the application of AIFRS) which would have a material effect on the results of Metcash.
- (vii) Metcash will implement appropriate arrangements to hedge its exposure to interest rate movements.

(b) Major trading assumptions

Metcash's forecast financial performance has been developed taking into account the following events and assumptions:

- (i) Metcash reaching agreement with Bruandwo for ALM to supply Bruandwo's liquor outlets in Queensland in March 2005.

- (ii) Metcash signing a supply contract with 7-Eleven in April 2005. This contract will see Metcash supply 7-Eleven's 350 franchised convenience stores and potentially generate sales of \$200 million per annum.
- (iii) Cessation of the supply agreement between IGA and Franklins in January 2005. The agreement generated annual sales for IGA of approximately \$450 million in the year ended 30 April 2005.
- (iv) Ongoing deterioration of convenience store sales resulting from the discount petrol schemes being offered by Woolworths and Coles Myer.
- (v) Organic sales growth at the current underlying growth rate (after adjusting for above factors) as applicable to each of Metcash's business divisions.
- (vi) Certain targeted revenue growth strategies applicable to each of Metcash's business divisions – these activities are not discussed in detail in view of their commercial and strategic sensitivity.
- (vii) The cost of doing business as a percentage of sales will continue to reduce at a rate consistent with recent historical trends and reflective of Metcash's ongoing drive to improve supply chain efficiency via targeted technological improvements, such as the implementation of voice pick technology into all major distribution facilities.

Other applicable growth strategies assumed in the forecast financial information include the following:

IGA Distribution

- (i) Completion of the IGA channel rebranding and relaunch strategy, further enhancing the market positioning of the IGA brand and its broad, yet distinguishable, retail offerings.
- (ii) Ongoing development of new Supa IGA stores in partnership with customers, targeted to be approximately 45 stores over three years, commencing in the 2005 financial year.
- (iii) Securing an increased share of total grocery customer purchases, by decreasing the proportion of which is currently direct supply from manufacturers and increasing the purchases going through the Metcash warehouse.
- (iv) Expansion of the network of Valu Mart "price impact" stores in partnership with customers.

ALM

- (i) Targeted acquisitions in the liquor wholesale market, replacing volume lost due to competitor acquisitions of customers.
- (ii) Further development and expansion of the IBA network as a focused national grouping of liquor retailers operating under a clearly defined brand strategy.
- (iii) Securing an increased share of suppliers' "direct-to-customer" business.

CCC

- (i) Continued targeted acquisitions in the confectionery wholesale market in line with the strategy of consolidating a significant presence as a national leader of confectionery supply to the convenience market.
- (ii) Targeted confectionery wholesaler acquisitions.

6.9.4.2 Assumptions relating specifically to the acquisition of the Australian Operation

The following assumptions relate specifically to the acquisition of the Australian Operation:

- (a) Metcash acquires the entire Australian Operation.
- (b) Following the completion of the acquisition of the Australian Operation, it is intended that Action supermarkets will be sold to independent retailers within 12-18 months of the completion of the acquisition. Metcash has conservatively assumed it will initially retain an investment (whether by way of loans or equity) of \$100 million in Action supermarkets divested to independent retailers.
 - (i) The pro-forma balance sheet of Metcash has been prepared assuming all Action supermarkets acquired have been divested to independent retailers at the same price paid by Metcash on 1 May 2005. The proceeds from these divestments are assumed to be used to repay debt. It is assumed that Metcash will recoup its initial \$100 million investment in the independent stores over three to five years.
 - (ii) Whilst it is intended that Metcash will divest all acquired Action supermarkets within 12-18 months, the forecast of pro-forma AIFRS income statement, cashflow statement and earnings per share calculations assume Metcash has not recouped any of its \$100 million investment by 30 April 2006 or received any return on its investment.
- (c) No retail earnings from owning the acquired Action supermarkets have been assumed in the pro-forma forecasts.

- (d) Metcash supplies the acquired Action supermarkets whilst owned by Metcash and subsequently when owned by independent retailers following divestment.
- (e) Metcash will supply the wholesale equivalent of approximately 60% of the total retail sales of the acquired Action supermarkets.
- (f) Metcash supplies all independent retailers currently being supplied by the Australian Operation in Western Australia.
- (g) Assumptions have been made in regard to the sales revenue that Metcash will derive if the acquisition is successful. Refer to Part 6.13.4 of this Booklet for a reconciliation of Metcash pro-forma incremental sales post acquisition for the 2006 financial year to FAL wholesale and Action supermarkets store sales for 2006.
- (h) FAL has forecast sales for the year ending 31 July 2006 of \$1,087 million for the Action supermarkets to be acquired by Metcash, implying sales growth of approximately 6%. Metcash has adopted this forecast.
- (i) FAL has forecast wholesale sales from the Franchise & Supply division for the year ending 31 July 2006 of \$1,144 million, implying sales growth of approximately 6%. In addition, FAL has advised that sales of approximately \$26 million will be lost post the Transfer Scheme, reflecting lost sales from Woolworths ceasing supply agreements which currently FAL is supplying to Woolworths former Advantage supermarkets in Western Australia. Metcash has adopted FAL's wholesale sales forecast, adjusted for the lost sales.
- (j) Metcash will service Queensland and northern NSW Action supermarkets with existing Metcash infrastructure and that no significant new infrastructure investment will be required.
- (k) Metcash services independent and Action supermarkets in Western Australia with the Australian Operation's existing FAL distribution centre and that no significant new infrastructure investment will be required.
- (l) No income is assumed from the property assets of the Australian Operation that Metcash will acquire through the acquisition.
- (m) Operational EBITA synergies are assumed to arise as a result of:
 - (i) improved buying power and rebate revenue;
 - (ii) benefits relating to supply chain and logistics, in particular the cessation of the operations of FAL's Richlands warehouse;
 - (iii) the assumed amalgamation of the general administration, information technology and corporate services functions of the Australian Operation with Metcash's existing operations;
 - (iv) the closure of the Melbourne buying office with the relocation of some staff; and
 - (v) the centralisation of the corporate head office function.
- (n) FAL has indicated that the uncertainty created by the current proposed transaction is causing non-recurring specific adverse impacts on supplier income which has caused a reduction in forecast FY2006 EBITA of approximately \$4 million across the combined Australian Operation and Woolworths Action Stores – see Parts 7.6.3 and 8.6.3 of this Booklet. Metcash has assumed that these are of a non-recurring nature and will not have an impact on trading beyond the current period. Therefore, since Metcash's financials are presented on a pro-forma basis this one-off impact has been ignored.

6.9.5 Acquisition of the Australian Operation is successful

This Part 6.9.5 sets out pro-forma AIFRS financial information where the acquisition of the Australian Operation is successful. Parts 6.9.4.1 and 6.9.4.2 of this Booklet set out the major assumptions that have been made in preparing the financial pro-forma AIFRS information.

6.9.5.1 Pro-forma AIFRS forecast balance sheet

Set out below is the historical balance sheet as at 30 April 2005 for Metcash stand alone and Metcash Post Acquisition prepared on an AIFRS basis.

The FAL financial information used to construct this pro-forma AIFRS forecast balance sheet was prepared on an AGAAP basis. Metcash is unaware of any material differences that would arise in the FAL financial information if it was prepared on an AIFRS basis.

| Year ended \$ million | AIFRS | Pro-forma AIFRS |
|--|-----------------------------------|-----------------------------|
| | 30 April 2005 | 30 April 2005 |
| | Historical Metcash stand alone | Metcash Post Acquisition |
| Current Assets | | |
| Cash | 190 | 74 |
| Inventory | 402 | 498 |
| Accounts receivable | 648 | 691 |
| Other | 31 | 41 |
| Total current assets | 1,271 | 1,304 |
| Non-current assets | | |
| Accounts receivable | 30 | 30 |
| PP&E | 129 | 163 |
| Intangibles | 275 | 686 |
| Other | 24 | 134 |
| Total non-current assets | 457 | 1,012 |
| Total assets | 1,728 | 2,316 |
| Current liabilities | | |
| Debt | 8 | 8 |
| Accounts payable | 827 | 927 |
| Other | 81 | 56 |
| Total current liabilities | 916 | 992 |
| Non-current liabilities | | |
| Debt | 402 | 926 |
| Non-interest bearing liabilities – CULS ¹ | 374 | 0 |
| Other | 19 | 22 |
| Total non-current liabilities | 795 | 947 |
| Total liabilities | 1,711 | 1,939 |
| Net assets | 17 | 378 |

Note:

- Under both AGAAP and AIFRS the 50% of the CULS yet to convert, as at 30 April 2005, are classified as debt, while the 50% that have or must mandatorily convert are treated as equity. The CULS remain classified as debt on the statement of financial position until either redeemed or converted, or an event occurs which results in Metcash becoming obliged to mandatorily convert the CULS into a fixed number of ordinary shares.

Part 6.13 of this Booklet contains a detailed reconciliation showing the construction of the balance sheet and the reconciliation of the Metcash stand alone reported AGAAP balance sheet as at 30 April 2005 into AIFRS.

It is assumed that all of the CULS issued are converted on 1 May 2005 and 100% of the CUPS issued are redeemed on 1 May 2005.

6.9.5.2 Forecast pro-forma AIFRS income statement

Set out below is the forecast AIFRS pro-forma income statement for the year ending 30 April 2006 for Metcash Post Acquisition.

| Year ending | Pro-forma AIFRS 30-Apr-06 |
|-----------------------------------|------------------------------|
| \$ million | Metcash Post Acquisition |
| Sales | 9,002 |
| EBITDA | 318 |
| Depreciation | (31) |
| EBITA | 287 |
| EBITA margin | 3.2% |
| Amortisation | (7) |
| EBIT | 280 |
| Net interest expense ¹ | (67) |
| PBT | 213 |
| Tax expense | (64) |
| NPAT | 149 |

Note:

1. The second 50% of the CULS are assumed to have converted and therefore generate no interest expense, while the CUPS are assumed to be redeemed on 1 May 2005. The net interest expense line also includes amortisation of debt financing costs.

6.9.5.3 Forecast pro-forma earnings per share

Set out below is Metcash Post Acquisition AIFRS pro-forma forecast earnings per share for the financial period ending 30 April 2006.

| Year ending | Pro-forma AIFRS 30-Apr-06 |
|---|------------------------------|
| | Metcash Post Acquisition |
| NPAT (\$ million) | 149 |
| Weighted average shares outstanding (million) | 653 |
| Basic EPS (cents) | 22.8 |
| EPS accretion ¹ | 21% |

Note:

1. EPS is relative to adjusted Metcash stand alone EPS (which excludes any costs associated with the acquisition of the Australian Operation).

6.9.5.4 Forecast pro-forma AIFRS forecast cashflow statement

Set out below is Metcash Post Acquisition pro-forma AIFRS forecast cashflow for the year ending 30 April 2006.

| Year ending \$ million | 30-Apr-06 Pro-forma AIFRS Post Acquisition Metcash |
|-----------------------------------|--|
| EBITDA | 318 |
| Change in working capital | (23) |
| Tax paid | (54) |
| Net interest expense ¹ | (53) |
| Operating cashflow | 168 |
| Less capital expenditure | (36) |
| Less investments | (20) |
| Net cashflow² | 112 |

Notes:

1. Excludes amortisation of debt financing costs.
2. Pre financing, transaction and restructure costs (see Part 6.9.3.11 of this Booklet for discussion of transaction and restructure costs).

6.9.5.5 Forecast key ratios

Set out below are key gearing and interest cover ratios for Metcash Post Acquisition.

| | AIFRS Pro-forma Metcash Post Acquisition |
|--|--|
| Pro-forma net debt (2005) / EBITDA (2006) ¹ | 2.8x |
| EBITDA (2006) / net interest (2006) ¹ | 4.64x |
| Pro-forma net debt (2005) / (pro-forma net debt (2005) + market equity) ¹ | 25% |

Note:

1. Pro-forma net debt and pro-forma market value of equity as at 30 April 2005 used in ratios.

6.9.5.6 Sensitivities

The following sensitivity analysis has been undertaken.

Sensitivity 1 – Metcash Share Consideration take-up

Set out below is a sensitivity analysis that illustrates the impact on gearing and EPS based on different levels of acceptance by FAL Shareholders of cash as opposed to Metcash Shares.

| Metcash Consideration take-up | 100% cash | AIFRS | |
|--|-----------|------------------------------------|-------------------------------------|
| | | 50% Metcash Shares ¹ | 100% Metcash Shares ¹ |
| Pro-forma | | | |
| Net debt / (net debt + market equity) ¹ | 25% | 26% | 14% |
| EPS accretion ² | 21% | 16% | 9% |

Notes:

1. Pro-forma net debt and pro-forma market value of equity as at 30 April 2005 used in ratios.
2. EPS is relative to adjusted Metcash stand alone EPS (which excludes any costs associated with the acquisition of the Australian Operation). Metcash stand alone EPS has been adjusted in accordance with AASB 133 to reflect the assumed conversion of \$374 million of CULS to equity under the sensitivity where 100% of FAL Shareholders accept the Metcash Cash Consideration.
3. This sensitivity assumes Metcash will issue 126 million Metcash Shares to FAL Shareholders if 50% of FAL Shareholders elect to receive the Metcash Share Consideration and 252 million Metcash Shares if 100% of FAL Shareholders elect to receive the Metcash Share Consideration as opposed to the Metcash Cash Consideration.

Metcash Post Acquisition has the ability to convert or redeem the remaining \$374 million of CULS. Under the sensitivity above where all FAL Shareholders accept cash it has been assumed that Metcash Post Acquisition converts the remaining 50% of the CULS and redeems 100% of the CUPS. For the purposes of the sensitivity analysis where 50% or 100% of FAL Shareholders elect to receive the Metcash Share Consideration it has been assumed that Metcash Post Acquisition redeems the remaining \$374 million of CULS and 100% of the CUPS. If there is a high level of FAL Shareholders who choose to receive the Metcash Share Consideration, Metcash will consider its capital structure and may undertake capital management initiatives to optimise its capital structure subject to Metcash's lenders' agreement.

Sensitivity 2 - Australian Operation EBITA change

Set out below is the EPS accretion after a plus or minus 5% change in the EBITA Metcash is expected to generate from the acquisition of the Australian Operation.

| | Pro-forma AIFRS | |
|-----------------------------------|-----------------|-----|
| | 30 April 2006 | |
| Australian Operation EBITA change | +5% | -5% |
| EPS accretion ¹ % | 24% | 19% |

Note:

1. EPS is relative to adjusted Metcash stand alone EPS (which excludes any costs associated with the acquisition of the Australian Operation). Metcash stand alone EPS has been adjusted in accordance with AASB 133 to reflect the conversion of \$374 million of CULS into Metcash Shares. EPS accretion measured under the assumption of 100% FAL Shareholders electing to receive Metcash Cash Consideration.

6.9.6 Accounting considerations

Detailed below are the key accounting considerations which arise in connection with Metcash's acquisition of the Australian Operation under the Transfer Scheme.

6.9.6.1 Purchase price allocation in connection with the Australian Operation

AIFRS requires a thorough identification of all intangible assets. In preparing the Balance Sheet, Metcash has not allocated any of the purchase price to separately identifiable intangible assets that the Australian Operation may have (such as brands, customer relationships and contracts) on the basis that it has not had access to detailed information required. To the extent that any intangible assets are identified with a "finite" useful life, these will need to be amortised which will adversely affect forecast earnings.

AIFRS also requires any contingent liabilities of the Australian Operation to be recognised on the opening consolidated balance sheet and eliminated against goodwill on consolidation.

The final allocation of the purchase price to the fair value of the identifiable net assets which have been acquired will not be finalised prior to the issue of this Booklet as access to the detailed accounting and other information of FAL has not been possible. Subsequent to acquisition, any change in the value of the assets and liabilities of the Australian Operation at the date of acquisition will be matched by a corresponding decrease or increase in goodwill and there will be no impact on the cash flows of Metcash.

6.9.6.2 Retained earnings and payment of dividends

Future financial performance presented under AIFRS may be significantly impacted by future changes to those standards and their application to the preparation of financial information. This may introduce considerable volatility into the future reported results of Metcash thereby adversely impacting distributable earnings. This issue is not specific to Metcash and similar issues are likely to apply to other companies reporting under AIFRS.

6.9.6.3 Impact of tax consolidations

The FAL Group became a consolidated group for tax purposes for the financial year ended 1 August 2004. Metcash elected to become a consolidated group for tax purposes for the financial year ended 30 April 2004. Accordingly when the Metcash consolidated group acquires the FAL consolidated group, there should be no de-consolidation event for FAL and thus there should be no adverse tax consequences. FAL will be tax consolidated with Metcash upon acquisition and the tax values of the FAL Post-Demerger Group will be reset to be broadly consistent with the purchase price allocation under AIFRS. However, any tax consolidation impact upon the acquisition of the FAL Post-Demerger Group can only be finalised once Metcash has access to the detailed tax and accounting records and other information of the FAL Post-Demerger Group.

6.9.6.4 Treatment of CULS

(a) Accounting classification

Under AIFRS the remaining 50% of the CULS which do not mandatorily convert have been classified as debt by Metcash. The CULS will remain classified as debt on the balance sheet until redeemed or until they are converted into a fixed number of ordinary shares of Metcash. If converted the CULS will be classified as equity. The pro-forma balance sheet is presented on the basis that the CULS have been converted to equity as envisaged under the scenario assuming that 100% of FAL Shareholders elect to receive the Metcash Cash Consideration under the Transfer Scheme. If 50% to 100% of FAL Shareholders accept the Metcash Share Consideration, a portion or all of the \$374 million remaining CULS may be redeemed.

(b) Transaction costs

On the basis that the remaining 50% of the CULS have been classified as debt under AIFRS, the costs are netted off against the CULS liability and expensed to the statement of financial performance between the date of issue and the maturity date of 19 December 2005.

(c) Redemption premium

A premium is payable on the redemption of CULS. The redemption premium was recorded on the balance sheet under AIFRS and is amortised through the income statements between the issue date and the redemption date. However, for the purposes of the pro-forma financial information presented in this Part 6.9, since it is assumed the CULS are converted, no redemption premium is payable and therefore no liability is recognised.

(d) Forecast pro-forma financial information

The forecast pro-forma financial information has been prepared on the basis that the acquisition was completed on 1 May 2005 and all related funding was in place at that date, whilst the actual redemption or conversion of the CULS will take place on 19 December 2005. In preparing the pro-forma financial information in this Part 6.9, the underwriting costs and redemption fees in connection with the CULS are written off to shareholders equity on the pro-forma 30 April 2005 balance sheet. Therefore, the actual financial results of Metcash for the year ending 30 April 2006 will differ from those presented in this Part 6.9.

6.9.6.5 Treatment of CUPS

(a) Accounting classification

The terms of the CUPS allow for the holder to request conversion, at which time the issuer can choose to convert them into a variable number of shares in Metcash or redeem for cash at a fixed amount. The issuer can also redeem the CUPS at any time prior to conversion.

Under AIFRS, classification of the CUPS will be debt on initial recognition on the basis that the issuer has the option to redeem the CUPS for cash of a fixed amount or to settle for a variable number of shares. In the event they are converted into ordinary shares in Metcash, the CUPS will be classified as equity.

(b) Transaction costs

Under AIFRS, underwriting fees are amortised to the statement of financial performance over the shorter of the expected life of the CUPS or the first reset date. If the CUPS are converted into Metcash Shares, such underwriting fees would be written off to shareholders' equity.

(c) Redemption premium

Under AIFRS these payments are classified as interest expense.

(d) Forecast financial information

The forecast financial information has been prepared on the basis that the acquisition of the Australian Operation was completed on 1 May 2005 and all related funding was in place at that date, whilst the actual redemption or conversion of the CUPS will take place during the year ending 30 April 2006. In preparing the pro-forma financial information in this Part 6.9, the costs related to redeeming the CUPS are written off to shareholders' equity on the pro-forma 30 April 2005 balance sheet. Therefore, the actual financial results of Metcash for the year ending 30 April 2006 will differ from those presented in this Part 6.9.

6.10 Sources of consideration

6.10.1 Maximum cash consideration

The consideration for the acquisition of the Australian Operation to which the Transfer Scheme relates will, to the extent that FAL Shareholders elect to receive the Metcash Cash Consideration, be satisfied by payment of cash. As outlined in Part 6.9.3.2 it has been assumed that the maximum amount of cash which will be payable by Metcash under the Transfer Scheme if the Transfer Scheme is implemented and all FAL Shareholders elect to receive the Metcash Cash Consideration, is approximately \$773 million.

6.10.2 Funding the Transfer Scheme

The Metcash Cash Consideration payable by Metcash under the Transfer Scheme will be financed by:

- (a) a three year senior unsecured syndicated facility which currently has an undrawn commitment of \$730 million as at 30 April 2005. This facility is to be provided to Metcash Trading by a syndicate of lenders and has been fully underwritten by ANZ;
- (b) cash on the Metcash balance sheet.

Further details of these arrangements are set out below.

6.10.3 Sources and uses of funds

| Sources of funds | Metcash Cash Consideration | | Uses of funds | \$ million |
|---------------------|----------------------------|--|---|------------|
| | \$ million | | | |
| Syndicated Facility | 670 | | Acquisition of FAL's Australian Operation | 773 |
| Cash | 144 | | Transaction and restructure costs | 41 |
| Sources of funds | 814 | | Uses of funds | 814 |

This outcome assumes all FAL Shareholders choose to receive Metcash Cash Consideration under the Transfer Scheme. Under this scenario it is assumed that the remaining \$374 million of CULS are converted to Metcash shares and 100% of the CUPS are redeemed. If FAL Shareholders elect to receive Metcash Shares under the Transfer Scheme, Metcash may redeem all or a portion of the remaining CULS. This redemption will be funded by the Metcash Syndicated Facility. In addition, Metcash will consider its capital structure and may undertake capital management initiatives to optimise its capital structure, subject to lender consent in accordance with the facility.

6.10.4 The Metcash finance facilities

6.10.4.1 Documentation

On 17 March 2005, Metcash Trading, Metcash and certain of Metcash's wholly owned subsidiaries entered into a syndicated facility agreement under which ANZ provided Metcash Trading a facility of up to \$825 million. On 9 September 2005 the facility agreement was amended to increase the amount available to \$1,065 million, and to permit drawings to be used to fund the Metcash Cash Consideration (the "Metcash Syndicated Facility Agreement").

The Metcash Syndicated Facility Agreement contains provisions usual for a facility of this nature including provisions dealing with payment of interest and principal, drawdown procedures, representations, warranties, covenants and events of default and various other covenants and clauses.

6.10.4.2 Conditions precedent to availability

The availability of the facility under the Metcash Syndicated Facility Agreement (**Metcash Syndicated Facility**) to fund the Metcash Cash Consideration and the ability to draw down under the Metcash Syndicated Facility for that purpose, is subject to a number of conditions precedent which include (but are not limited to) receipt by ANZ of the following in a form and substance satisfactory to it:

- (a) certified copies of the Merger Implementation Agreement and other documents related to the Demerger Scheme and the Transfer Scheme in a form acceptable to ANZ;
- (b) evidence that there has been no amendment to or waiver of conditions precedent to the Merger Implementation Agreement and certain documents related to the Demerger Scheme and the Transfer Scheme, other than as permitted under the Metcash Syndicated Facility Agreement;
- (c) evidence that the conditions precedent to the Merger Implementation Agreement have been satisfied (or waived as permitted by the Metcash Syndicated Facility Agreement);
- (d) evidence that nothing has occurred or become known which has or could reasonably be expected to have a material adverse effect on the business, financial or trading position, assets or liabilities or profitability or prospects of the FAL Post-Demerger Group;
- (e) evidence that all fees and costs then due and payable under the Metcash Syndicated Facility Agreement and related finance documents have been paid or will be paid;
- (f) evidence that all Financial Indebtedness (as defined in the Metcash Syndicated Facility Agreement) and Encumbrances (as defined in the Metcash Syndicated Facility Agreement) granted by the FAL Post-Demerger Group have, subject to certain exceptions, been paid or discharged on or prior to implementation of the Transfer Scheme;
- (g) confirmation that the financial ratios specified in the Metcash Syndicated Facility Agreement are and will continue to be complied with;
- (h) copies of due diligence reports or opinions that Metcash or Metcash Trading receive in connection with the Demerger or Transfer Scheme if any;
- (i) evidence that the representations and warranties set out in the Metcash Syndicated Facility Agreement are true and correct and will be true and correct immediately after Metcash Trading draws on the Metcash Syndicated Facility;
- (j) evidence that no Event of Default (as defined in the Metcash Syndicated Facility Agreement), no Potential Event of Default (as defined in the Metcash Syndicated Facility Agreement) and no Event of Review (as defined in the Metcash Syndicated Facility Agreement) is subsisting or will result from drawing on the Metcash Syndicated Facility; and
- (k) other procedural conditions precedent which are usual for a facility of this nature.

As at the date of this Booklet, Metcash is not aware of any reason why those conditions precedent will not be satisfied in time to allow the proceeds to be available to Metcash Trading to pay the Metcash Cash Consideration under the Transfer Scheme, as and when required, under the terms of the Transfer Scheme.

6.10.4.3 Events of default

The Metcash Syndicated Facility and the ability of Metcash Trading to use that facility to fund the Metcash Cash Consideration, will be subject to events as are usual for a facility such as the Metcash Syndicated Facility. The events of default in the Metcash Syndicated Facility Agreement include but are not limited to:

- (a) failure of a Metcash Obligor to:
 - (i) pay any document payable under the Metcash Finance Documents when due or within the applicable grace periods;
 - (ii) comply with financial covenants; and
 - (iii) to comply with any other provision in the Metcash Finance Documents and if the default is capable of remedy that default is not remedied within ten business days of notice or awareness of the default;
- (b) any representation or warranty given in a Metcash Finance Document when made or repeated is proved to be untrue in a material respect and if the misrepresentation is capable of remedy it is not remedied within 10 business days of notice or awareness of the default;
- (c) an event of insolvency occurs in respect of a Metcash Obligor;
- (d) cross default in an amount exceeding \$10 million;
- (e) any encumbrance relating to assets of members of the Metcash Group has granted is, or is able to be, enforced in respect of assets with an aggregate value in excess of \$1 million;
- (f) a Metcash Finance Document becomes void or unenforceable, or an obligation that an Obligor must perform under a Metcash Finance Document becomes illegal;
- (g) Metcash's Shares cease to be listed on the ASX or are suspended from trading on the ASX for ten or more business days;
- (h) a Metcash Obligor ceases or threatens to cease carrying on all or a material part of its business;
- (i) an event or series of events (whether or not related) occurs which has or is reasonably likely to have a Metcash Material Adverse Effect;
- (j) any litigation or proceedings are commenced or determined which has or would reasonably be likely to have a Metcash Material Adverse Effect; and
- (k) other events of default which are usual for a facility of this nature.

Metcash is not aware, as at the date of this Booklet, of the occurrence of any event of default or any circumstances that would lead to an event of default.

6.10.4.4 Events of review

An event of review will occur, if, among other things, a person (together with its related bodies corporate) acquires:

- control of the composition of the board of Metcash;
- control of more than half of the voting power of Metcash; or
- more than 50% of the issued shares of Metcash.

6.10.4.5 Undertakings, representations and warranties

Under the Metcash Syndicated Facility Agreement, Metcash, Metcash Trading and the guarantors are required to give undertakings, representations and warranties (including a negative pledge and undertakings not to acquire or dispose of assets, incur financial obligations or make distributions to shareholders, subject to agreed exceptions and other undertakings in connection with the implementation of the Demerger Scheme and the Transfer Scheme) consistent with the nature of the Metcash Syndicated Facility or required by ANZ due to the particular circumstances of the transaction. The undertakings, representations and warranties will apply in relation to the Metcash Group (which, after the Transfer Scheme is implemented, will include FAL and its subsidiaries).

The representations or warranties under the Metcash Syndicated Facility Agreement include but are not limited to:

- (a) power and authority to execute the loan documents and related security documents;
- (b) validity and binding nature of the loan documents and related security documents;
- (c) non-contravention of laws or agreements;
- (d) absence of insolvency events;
- (e) absence of litigation or other proceedings that could have a material adverse effect; and
- (f) disclosure of relevant information to the lenders and accuracy of information disclosed.

Metcash is not aware, as at the date of this Booklet, of any breach of a representation or warranty in the Metcash Syndicated Facility nor any circumstances that would lead to a breach of a representation or warranty.

6.10.4.6 Term

The term of the Metcash Syndicated Facility is three years from 9 September 2005, subject to certain mandatory prepayments required to reflect reductions in the facility limit and prepayments that may be required out of insurance proceeds in certain circumstances.

6.10.4.7 Security arrangements

The Metcash Syndicated Facility will be unsecured, but (subject to limited exceptions) will be guaranteed by each of Metcash's subsidiaries from time to time.

6.10.4.8 Lenders and syndication

As noted above, the Metcash Syndicated Facility has been underwritten by ANZ.

ANZ intends to syndicate the Metcash Syndicated Facility to other lenders and Metcash Trading has given certain undertakings to assist ANZ with the syndication process. Successful syndication is not a condition precedent to funding under the Metcash Syndicated Facility.

6.10.4.9 Hedging arrangements

Metcash Trading will implement appropriate arrangements to hedge its exposure to interest rate movements as required under the terms of the Metcash Syndicated Facility and other funding arrangements and as may otherwise be considered appropriate by the Metcash Directors. The hedging arrangements will be unsecured. To facilitate the entry into the hedging arrangements it is expected that some or all of Metcash's subsidiaries will provide guarantees and indemnities.

6.11 Risk factors

There are many factors that may influence the price of Metcash Shares and future dividends paid on Metcash Shares. These include risks that apply to the general economy and stock market or to the grocery retail and wholesale market. However, there may also be additional risks which:

- (a) arise, or may arise, from the combination of Metcash and the Australian Operation; or
- (b) apply to Metcash after the Transfer Scheme is implemented.

Where possible, Metcash's management and the Metcash Directors will take appropriate action and use safeguards and systems to mitigate these risks. However, some may be beyond their control.

The following represent the Metcash Directors' view of those risks which may be relevant to FAL Shareholders' consideration of the Transfer Scheme. However, this should not be considered an exhaustive list.

There are also general risks associated with any investment.

FAL Shareholders may receive Metcash Shares if they choose the Metcash Share Consideration under the Transfer Scheme. It is therefore important to be aware of risks that may have an adverse impact on the financial performance of Metcash and the value of Metcash Shares.

6.11.1 Risk factors that affect the general economy and the stock market

General economic conditions such as interest rates, inflation, mortgage rates, foreign exchange rates, the labour market environment and oil prices may all have an impact on the businesses of Metcash.

Changes in economic conditions as a result of, but not limited to, war, civil unrest or terrorist activities, anywhere in the world may affect demand for the goods and services sold by, or provided to, Metcash which may in turn have an adverse effect on Metcash's financial performance.

The price at which Metcash Shares trade on ASX may be determined by a range of factors including movements in international and local stock markets, recommendations by brokers, inflation, interest rates, general economic conditions, changes in government, fiscal, monetary and regulatory policies. In the future, these factors may cause Metcash to trade at below current prices and may affect the financial position of Metcash.

6.11.2 Risk factors that affect the grocery retail and wholesale market

6.11.2.1 Competitive risks

The Australian retail grocery market has become increasingly competitive in recent years as Woolworths and Coles Myer have attained a significant combined market share. As competition increases which, for example, may be initiated through aggressive pricing strategies, there is a risk that Metcash's customers' operating and financial performance may be affected. However, Metcash is confident that it has strategies in place to enable its customers to remain competitive against the major chain stores.

Competitive risks that may have a negative impact on Metcash's financial performance include:

(a) *Sale of independent stores to major chains*

A risk exists that independents, currently supplied by either Metcash or FAL, will decide to sell their businesses to the major grocery chains (Woolworths or Coles Myer). Should this occur, Metcash is likely to experience a decline in sales and profits.

Metcash believes that the merger of Metcash's existing businesses with FAL will enable the combined business to obtain better trading terms from suppliers, therefore assisting Metcash customers in remaining competitive with the major grocery chains.

(b) *Loss of key customers*

Key customers currently supplied by either Metcash or FAL may be acquired or may decide to change suppliers resulting in a loss of those customers and their business. A recent example of the loss of a key customer is Franklins which is intending to establish its own distribution operations. Should further customer supply arrangements be terminated, a decline in Metcash's sales and profits is likely to occur.

(c) *Entry of new wholesalers to the market*

The Australian grocery market is very competitive but the possibility exists that a new wholesaler may enter the market. For example, a foreign wholesaler may decide to enter the Australian market or one of the major retailers may decide to establish a wholesaling operation.

Should this occur, Metcash may lose market share to the new entrant(s) and this would negatively impact on Metcash's sales and profits.

It should be noted that barriers to entry differ between the various markets in which Metcash businesses compete. For example, barriers to entry in the confectionery and convenience sector served by CCC are relatively low, whilst barriers to entry to the grocery wholesaling market in which IGA operates are high, with entrants requiring significant scale in order to provide a competitive offering.

6.11.2.2 Other risks

(a) *Health concerns*

A significant proportion of Metcash's sales relates to food products. A real or perceived health risk associated with any type of food group (e.g. meat, seafood) can have an adverse effect on sales of that product and consequently the companies involved in the sale of that product.

(b) *Damage to infrastructure*

Loss or destruction of utilities and infrastructure such as power, warehouses, communications and transportation may prevent Metcash from carrying on its business in the normal manner and may therefore have a negative impact on Metcash's sales.

(c) *Dependence on suppliers*

Metcash's business relies on the ongoing supply of products to it from a wide range of suppliers. Natural disasters such as earthquakes, fire and floods as well as industrial factors can result in interruptions to Metcash's sources of supply and may consequently have an adverse effect on Metcash's business.

(d) Scarcity of supply

Scarcity of certain products may result in higher prices being demanded for those products. In particular, the supply of agriculturally based products can be impacted by factors such as drought, flood and other natural disasters. Consumers may not be willing to pay these higher prices and this may impact upon demand by Metcash customers for these products, hence impacting sales and profits.

(e) Labour relations

Metcash has not experienced any significant labour disputes or work stoppages in recent years and Metcash believes it has satisfactory relationships with relevant unions. However, a work stoppage due to failure to renegotiate an enterprise bargaining agreement or otherwise, could have a material adverse impact on Metcash.

(f) Acquisitions

Metcash has in recent years acquired a number of businesses, and intends to grow its underlying businesses by acquisition where appropriate. If Metcash is unable to integrate businesses successfully and realise anticipated economic, operational and other benefits in a timely manner, its sales and profitability may be impacted. In addition, the failure to integrate acquired businesses successfully may divert management's attention from its existing business operations.

6.11.3 Specific risk factors that affect Metcash

6.11.3.1 Changes in stock market rating of Metcash securities

There is a risk that the stock market rating of shares in Metcash may change relative to other quoted securities. Any such change may result from either the Transfer Scheme or from matters affected by market sentiment either generally or in relation to the retail or wholesale grocery market in Australia. Changes to the stock market rating may affect the demand for, and price of, Metcash shares.

6.11.3.2 Synergies risks

Metcash's ability to realise certain of the synergies and efficiencies described in Part 6.8 of this Booklet will depend on the assumptions made by Metcash in relation to the Australian Operation and Metcash's ability to deliver the synergies in an efficient and cost effective manner. Metcash believes it can do so based on its current knowledge of the Australian Operation and prevailing market conditions.

Furthermore, whilst Metcash intends to rationalise the Queensland warehouse operations of Metcash and the Australian Operation, there is no guarantee that any cost savings will ultimately be realised. The ability to achieve cost savings on the rationalisation of these operations is dependent on a number of factors including the ability to sub-lease warehouse space not required, the demand for warehouse space in Queensland and the ability to operate the Queensland operations of Metcash more efficiently from the Loganlea facility compared with operating from two warehouses (i.e. Loganlea and Richlands).

Metcash has made certain assumptions regarding the costs involved in achieving the estimated synergies. It is likely that the actual costs incurred in achieving the synergies will be higher or lower than the estimated costs, having a consequential impact on the value of shares in Metcash.

A failure to achieve some or all of the synergies or efficiencies may have an adverse effect on the financial performance of Metcash and, therefore, on the value of Metcash Shares.

Possible synergies and efficiencies which may arise if Metcash acquires the Australian Operation under the Transfer Scheme are described in Part 6.8 of this Booklet. Metcash expects that value can be added for shareholders of Metcash by the efficient and timely integration of the Australian Operation with Metcash.

6.11.3.3 Integration risks

The timing and process for the integration of the Australian Operation and Metcash will depend on the results of the general operational review referred to in Part 6.7 of this Booklet. However, a risk exists that any integration may take longer than expected and/or that the quantum of synergies and efficiencies achieved is less than estimated as part of the general operational review. There is also a risk that, if the integration of the Australian Operation with Metcash is not completed efficiently and in a timely manner, it will negatively affect customers, employees and suppliers. Metcash expects to manage this risk by careful planning and the appointment of a dedicated integration team to manage the process and be responsible for achievement of the estimated synergies and efficiencies. If Metcash is not able successfully to achieve the synergies and efficiencies estimated, this may have an adverse impact on Metcash's financial performance and the value of shares in Metcash.

6.11.3.4 Sale of Action stores

Metcash intends to divest the 60 Action stores acquired under the Transfer Scheme which are currently owned and operated by FAL in Queensland, northern New South Wales and Western Australia. There is a risk that the sale of these stores will occur more slowly and at lower prices than expected by Metcash. This risk could eventuate due to factors including potential buyers not having the financial capacity to acquire certain stores and the possibility that Metcash may have overpaid in acquiring these stores. This risk is mitigated to an extent by the funding structure put in place to acquire the stores from FAL (see Part 6.10.4 of this Booklet).

Also, counterparties to contracts that have a change of control clause may not consent to the transfers required to effect the restructure of the 60 Action stores.

6.11.3.5 Government and regulatory

The businesses of Metcash may be affected by changes in laws, taxes and government and regulatory policy. New regulatory requirements may necessitate changes to operating methods and business may be affected by the conduct or outcome of any investigation or inquiry made by a government, regulatory or other body into all or any substantial part of the industry or market.

6.11.3.6 Information technology

Metcash relies on its information technology systems to conduct its business. Any loss, failure or disruption to its IT systems may result in Metcash's businesses being adversely affected. Furthermore, the integrity of the data stored on these systems could be compromised due to computer viruses or any other factor.

6.11.3.7 Loss of key staff

The performance of Metcash is to some extent dependent on the retention of certain key personnel currently employed by both Metcash and the Australian Operation. Metcash has not formed a view as to the identity of the key employees of the Australian Operation, and has only had the opportunity to hold limited discussions with certain FAL employees regarding their ongoing employment with Metcash.

It is possible that there will be some unintended loss of key staff leading up to and following the acquisition by Metcash of the Australian Operation. This is a risk factor until any skills that are lost are adequately replaced.

This is a low risk in Australia as Metcash has management depth and knowledge.

6.11.4 Risk factors that arise from the Transfer Scheme

6.11.4.1 Issue of Metcash Shares

If a significant number of FAL Shareholders who accept the Metcash Share Consideration subsequently sell their Metcash Shares, or if there is a significant number of Ineligible Overseas Shareholders who choose the Metcash Share Consideration (resulting in a significant number of Metcash Shares to which the Ineligible Overseas Shareholders would otherwise be entitled being sold), the price at which Metcash Shares are traded on ASX may be adversely affected.

6.11.4.2 Market fluctuations

FAL Shareholders are being offered consideration pursuant to the Transfer Scheme where they can elect either Metcash Share Consideration or Metcash Cash Consideration. The market value of the Metcash Shares received under the Transfer Scheme will fluctuate depending on the price at which those shares trade on ASX. Accordingly, the market value of Metcash Shares at the time at which they are received by FAL Shareholders who elect to receive the Metcash Share Consideration may vary significantly from their market value at any other time.

6.11.4.3 Gearing of Metcash

Should the Transfer Scheme be implemented, the gearing of Metcash will depend on the proportion of FAL Shareholders who choose to receive the Metcash Cash Consideration as opposed to the Metcash Share Consideration.

Higher levels of leverage may potentially restrict the ability of Metcash to borrow in the future and may also increase the sensitivity of Metcash's earnings to movements in interest rates.

6.12 Additional information

6.12.1 Details of purchases of FAL securities by Metcash

6.12.1.1 Metcash's relevant interest in FAL Shares

As at the date of this Booklet, there are 117,828,603 FAL Shares on issue. Metcash holds direct interests in FAL through two of its wholly owned subsidiaries, Queensland Independent Wholesalers Pty Limited and Composite Buyers Pty Limited. The holdings of each of these entities as at the date of this Booklet are:

| | |
|--|------------------|
| Composite Buyers Pty Limited | 200 FAL Shares |
| Queensland Independent Wholesalers Pty Limited | 1,493 FAL Shares |

Metcash Trading has also received acceptances from FAL Shareholders in respect of the Metcash Takeover Offer. Metcash has advised that FAL Shareholders who have accepted should withdraw their acceptances. However, as at 31 August 2005, Metcash Trading had received acceptances that had not been withdrawn in respect of 338,099 FAL Shares. Metcash and Metcash Trading do not intend to vote on the Schemes.

6.12.1.2 Metcash Directors' interests in FAL Shares

Michael Wesslink is the beneficial owner of 1,000 FAL Shares. No other Metcash Director has a relevant interest in FAL Shares at the date of this Booklet. Mr Wesslink intends to vote in favour of each of the Schemes.

No Metcash Director has acquired or disposed of FAL Shares in the four months preceding the date of this Booklet.

6.12.2 Metcash's voting power in FAL

Metcash's voting power (excluding shares where FAL shareholders have accepted the Metcash Takeover Offer) in FAL as at the date of this Booklet is 0.001%. A director of Metcash has voting power of 0.001% in FAL.

6.12.3 Disclosure of interests and fees of certain persons

Other than as set out below or elsewhere in this Booklet no:

- (a) director or proposed director of Metcash;
- (b) person named in this Booklet as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Booklet;
- (c) promoter of Metcash; or
- (d) broker or underwriter to the issue of Metcash Shares,

holds at the date of this Booklet or held at any time during the last two years, any interest in:

- (a) the formation or promotion of Metcash;
- (b) property acquired or proposed to be acquired by Metcash in connection with its formation or promotion, or the offer of Metcash Shares under the Transfer Scheme; or
- (c) the offer of Metcash Shares under the Transfer Scheme.

6.12.4 Disclosure of payments and benefits

Other than as set out below or elsewhere in this Booklet, no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given:

- (a) to a director or proposed director of Metcash to induce them to become, or to qualify as, a director of Metcash; or
- (b) for services provided by any person listed in Part 6.12.3 of this Booklet in connection with the formation or promotion of Metcash or the offer of Metcash Shares under the Transfer Scheme.

6.12.5 Quotation of securities

Metcash will use all reasonable endeavours and furnish all such documents, information and undertakings as may be reasonably necessary to procure, at its own expense, quotation on ASX of the Metcash Shares issued under the Transfer Scheme. Quotation of these securities is subject to ASX approval. Metcash expects that ASX approval will be granted.

6.12.6 Dealings in FAL securities

Except as disclosed elsewhere in this Booklet or under the terms of the Metcash Takeover Offer, neither Metcash nor any associate of Metcash has provided, or agreed to provide, consideration for any FAL Shares under a purchase or agreement during the four months ended on the day immediately before the date of this Booklet.

Except as disclosed elsewhere in this Booklet or under the terms of the Metcash Takeover Offer, during the period of four months ended on the day immediately before the date of this Booklet, neither Metcash nor any associate of Metcash has given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person, or an associate, to:

- (a) vote in favour of the Transfer Scheme; or
- (b) dispose of FAL Shares or other FAL securities to Metcash.

6.12.7 Other material information

Except as disclosed in this Booklet, there is no other information that FAL Shareholders and their professional advisors would reasonably require to make an informed assessment of:

- (a) the effect on Metcash of the offer of Metcash Shares to FAL Shareholders under the Transfer Scheme; and
- (b) the rights and liabilities attaching to the Metcash Shares offered to FAL Shareholders under the Transfer Scheme,

which has not previously been disclosed to FAL Shareholders.

6.12.8 Consents

Metcash has consented to being named in this Booklet and has consented to the inclusion of the statements prepared by Metcash which are specified at page 39 of this Booklet under the heading "Metcash responsibility for information in this Booklet" on the basis stated under that heading.

PWCS has given, and has not at the date of this Booklet withdrawn, its written consent to being named in this Booklet and to the inclusion of the Independent Accountant's Report and the FSG accompanying the Independent Accountant's Report in the form and context in which they are included in this Part 6. PWCS has not caused or authorised the issue of this Booklet.

PWCS:

- (a) does not make, or purport to make, any statement in this Booklet other than those referred to above next to their name as consented to by them; and
- (b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Booklet other than as described in this Part 6.12, with the consent of the relevant person.

6.13 Additional financial information

This Part 6.13 should be read in conjunction with Parts 6.3 and 6.9 of this Booklet. In particular all disclaimers, notes and detail in those Parts and this Part 6.13 should be given detailed attention.

6.13.1 AIFRS adjustments historical Income Statement

Set out below is a detailed reconciliation of the Metcash stand alone historical Income Statement for 2005, moving from Metcash's reported AGAAP accounts to Metcash's best estimate of the 2005 accounts restated on an AIFRS basis.

| Year ended | 30-Apr-2005 | | |
|----------------------|-------------|---------------------|-----------------------|
| | AGAAP | Goodwill adjustment | CULS related expenses |
| \$ million | | | AIFRS |
| Sales | 6,994 | | 6,994 |
| EBITDA | 224 | | 224 |
| Depreciation | (24) | | (24) |
| EBITA | 200 | | 200 |
| EBITA margin | 2.9% | | 2.9% |
| Amortisation | (35) | 27 | (8) |
| EBIT | 165 | | 192 |
| Net interest expense | (1) | | (9) |
| PBT | 164 | | 182 |
| Tax expense | (59) | | (59) |
| NPAT | 105 | | 123 |

6.13.2 AIFRS adjustments forecast income Statement

Set out below is a detailed reconciliation of the Metcash Post Acquisition forecast Income Statement for 2006, moving from Metcash's reported AIFRS forecast to what the forecast would be on an AGAAP basis.

| Year ended | 30-Apr-2005 | | |
|----------------------|-------------|---------------------|-------|
| | AIFRS | Goodwill adjustment | AGAAP |
| \$ million | | | |
| Sales | 9,002 | | 9,002 |
| EBITDA | 318 | | 318 |
| Depreciation | (31) | | (31) |
| EBITA | 287 | | 287 |
| EBITA margin | 3.2% | | 3.2% |
| Amortisation | (7) | (126) | (133) |
| EBIT | 280 | | 154 |
| Net interest expense | (67) | | (67) |
| PBT | 213 | | 87 |
| Tax expense | (64) | | (64) |
| NPAT | 149 | | 23 |

6.13.3 Detailed reconciliation of balance sheet post acquisition of the Australian Operation

Set out below is a detailed reconciliation of the balance sheet for Metcash Post Acquisition.

The adjusted nominal Metcash stand alone case represents the Metcash stand alone balance sheet adjusted for those acquisition related transactions assumed to occur on 30 April 2005.

| Year ended | 30 April 2005 | | | | |
|---|---------------------|--------------------------------|-------------------------|------------|--------------------------|
| | Metcash stand alone | AIFRS | | | Metcash Post Acquisition |
| Adjusted nominal Metcash stand alone case | | Australian Operation Wholesale | Acquisition adjustments | | |
| \$ million | | | | | |
| Current assets | | | | | |
| Cash | 190 | 46 | 29 | 0 | 74 |
| Inventory | 402 | 402 | 98 | 0 | 498 |
| Accounts receivable | 648 | 648 | 43 | 0 | 691 |
| Other | 31 | 10 | 32 | 0 | 41 |
| Total current assets | 1,271 | 1,106 | 198 | 0 | 1,304 |
| Non-current assets | | | | | |
| Accounts receivable | 30 | 30 | 0 | 0 | 30 |
| PP&E | 129 | 129 | 34 | 0 | 163 |
| Intangibles | 275 | 275 | 9 | 402 | 686 |
| Other | 24 | 27 | 4 | 103 | 134 |
| Total non-current assets | 457 | 461 | 47 | 505 | 1,012 |
| Total assets | 1,728 | 1,566 | 245 | 505 | 2,316 |
| Current liabilities | | | | | |
| Debt | 8 | 8 | 0 | 0 | 8 |
| Accounts payable | 827 | 827 | 100 | 0 | 927 |
| Other | 81 | 53 | 3 | 0 | 56 |
| Total current liabilities | 916 | 888 | 104 | 0 | 992 |
| Non-current liabilities | | | | | |
| Debt | 402 | 666 | 0 | 260 | 926 |
| CULS | 374 | 0 | 0 | 0 | 0 |
| Other | 19 | 19 | 3 | 0 | 22 |
| Total non-current liabilities | 795 | 685 | 3 | 260 | 947 |
| Total liabilities | 1,711 | 1,573 | 106 | 260 | 1,939 |
| Net assets | 17 | (6) | 139 | 245 | 378 |

Note 1:

The assets, liabilities and associated funding relating to the Action supermarkets are assumed to be divested.

Note 2:

The goodwill generated on consolidation in Metcash Post Acquisition is as follows:

| | |
|---|------------|
| Consideration for the Australian Operation | 773 |
| Less fair value of Action supermarkets ^a | (249) |
| Less fair value of net assets of Australian Operation Wholesale acquired ^b | (139) |
| | <u>385</u> |
| Plus existing Australian Operation Wholesale goodwill | 9 |
| Plus transaction costs related to acquisition of the Australian Operation | 16 |
| Existing Metcash goodwill | 275 |
| | <u>685</u> |

Notes:

- The assets, liabilities and associated funding relating to the Action Supermarkets are assumed to be divested.
- Metcash has assumed that the fair value of assets equals the book value.

Note 2:

AIFRS adjustments for historical balance sheet

The Metcash stand alone balance sheet detailed below provides a reconciliation from Metcash's 2005 Annual Report, prepared on an AGAAP basis, to the balance sheet on an AIFRS basis.

| | AGAAP | | Adjustments | | AIFRS |
|---|--------------|-----------------------|------------------|---|--------------|
| | Historical | Goodwill amortisation | CULS adjustments | Reverse acquisition adjustment ¹ | Historical |
| \$ million | 30 Apr 05 | | | | 30 Apr 05 |
| Current assets | | | | | |
| Cash | 190 | | | | 190 |
| Inventory | 402 | | | | 402 |
| Accounts receivable | 648 | | | | 648 |
| Other | 10 | | 21 | | 31 |
| Total current assets | 1,250 | | | | 1,271 |
| Non-current assets | | | | | |
| Accounts receivable | 30 | | | | 30 |
| PP&E | 129 | | | | 129 |
| Intangibles | 1,772 | 7 | | (1,504) | 275 |
| Other | 26 | | (2) | | 24 |
| Total non-current assets | 1,956 | | | | 457 |
| Total assets | 3,206 | | | | 1,728 |
| Current liabilities | | | | | |
| Debt | 8 | | | | 8 |
| Accounts payable | 827 | | | | 827 |
| Other | 53 | | 28 | | 81 |
| Current liabilities | 888 | | | | 916 |
| Non-current liabilities | | | | | |
| Debt | 402 | | | | 402 |
| Non-interest bearing liabilities (CULS) | 374 | | | | 374 |
| Other | 19 | | | | 19 |
| Non-current liabilities | 795 | | | | 795 |
| Total liabilities | 1,683 | | | | 1,711 |
| Net assets | 1,523 | 7 | (9) | (1,504) | 17 |

Note:

- Under AGAAP the Metcash Capital Reorganisation was accounted for as an acquisition with goodwill being created upon completion. Under AIFRS (AASB 3 Business Combinations) the acquisition will be treated as a reverse acquisition since the substance of the transaction is that the existing public shareholders of Metcash Trading, through Metcash, effectively acquired Metoz. Accordingly, in order to move from the historical AGAAP balance sheet to the historical AIFRS balance sheet an adjustment of \$1,504 million is required to cancel out the goodwill that arose under AGAAP, but is not applicable under AIFRS.

6.13.4 Reconciliation of Metcash incremental sales post acquisition

Below is a breakdown of the incremental sales Metcash is forecast to generate as a result of the acquisition of the Australian Operation.

| Metcash incremental sales \$ million | 30-Apr-06 Forecast |
|--|-----------------------|
| Sales | |
| Sales from supplying Action supermarkets | 652 |
| Wholesale external sales | 1,118 |
| Total incremental sales to Metcash from acquiring the Australian Operation | 1,770 |
| Forecast sales of Action supermarkets | 1,087 |
| Assumed Metcash wholesale % of Action supermarkets retail sales | 60% |
| Sales from supplying Action supermarkets | 652 |
| Metcash total sales | |
| Metcash stand alone sales | 7,232 |
| Total incremental sales to Metcash from acquiring the Australian Operation | 1,770 |
| Total Metcash post acquisition sales | 9,002 |

6.14 Metcash announcements to ASX

| Date | Announcement |
|-------------------|---|
| 2 July 2004 | Announcement of exercise of 109,200 employee options and cancellation of 76,800 options (former employees) |
| 14 July 2004 | Notice of initial substantial holder from 452 Capital Pty Limited |
| 29 July 2004 | Lodgement of Annual Report |
| 30 July 2004 | Confirmation that Annual Report, along with Notice of Meeting for the Annual General Meeting to be held 1 September 2004, Explanatory Memorandum and Proxy Form were sent to shareholders on 30 July 2004 |
| 2 August 2004 | Announcement of exercise of 165,740 employee options |
| 10 August 2004 | Announcement of termination of supply agreement between Australian Leisure and Hospitality Group and Metcash subsidiary Australian Liquor Marketers on 13 August 2004 |
| 13 August 2004 | Lodgement of change of director's interest notice following exercise of options for Michael John Wesslink |
| 30 August 2004 | Lodgement of change of director's interest notice following exercise of options for Joao Louis Sardinha Jardim |
| 1 September 2004 | Lodgement of Chairman's Address/Presentation from Annual General Meeting on 1 September 2004 |
| 1 September 2004 | Lodgement of results of Annual General Meeting |
| 7 September 2004 | Announcement of exercise of 866,600 employee options and cancellation of 188,750 options (former employees) |
| 9 September 2004 | Announcement of issue of 850,000 options |
| 9 September 2004 | Lodgement of initial director's interest notice for Bernard John Hale |
| 10 September 2004 | Lodgement of a change of director's interest notice following an on-market trade for Michael John Wesslink |
| 21 September 2004 | Lodgement of a change of director's interest notice following exercise of options for Andrew Reitzer |
| 22 September 2004 | Announcement of mail-out to shareholders of covering letter, summary of questions and answers from the Annual General Meeting, Chairman's address and CEO's presentation |
| 6 October 2004 | Notice of change of interest of substantial holder from 452 Capital Pty Limited |
| 7 October 2004 | Announcement of exercise of 577,000 employee options |
| 7 October 2004 | Notice of change of interest of substantial holder from Lazard Asset Management Pacific Co |
| 26 October 2004 | Metcash announces establishment of American Depositary Receipts Program |
| 3 November 2004 | Announcement of exercise of 221,000 employee options |
| 16 November 2004 | Notice of change of interest of substantial holder from 452 Capital Pty Limited |
| 25 November 2004 | Lodgement of Half Yearly Report |
| 25 November 2004 | Presentation of financial results for 26 weeks ended October 2004 |
| 26 November 2004 | Clarification of record date stated in Half Yearly Report |
| 30 November 2004 | Notice of ceasing to be a substantial holder from 452 Capital Pty Limited |

| | |
|------------------|--|
| 3 December 2004 | Announcement of exercise of 81,100 employee options and cancellation of 225,100 options (former employees) |
| 6 December 2004 | Metcash requests trading halt |
| 6 December 2004 | Announcement of Metcash's request for trading halt |
| 6 December 2004 | Announcement by Metcash of Metcash Takeover Offer and capital reorganisation |
| 6 December 2004 | Presentation by Metcash CEO |
| 6 December 2004 | FAL board advises shareholders to take no action on Metcash proposal |
| 7 December 2004 | Announcement of completion of institutional placement raising almost \$270 million |
| 8 December 2004 | Announcement of issue of 89,850,000 ordinary shares to institutional investors at \$3.00 per share to partly fund the Metcash Takeover Offer |
| 9 December 2004 | Notice of issue of 89,850,000 fully paid ordinary shares to a range of institutional investors without a disclosure document |
| 10 December 2004 | Notice of issue of 89,850,000 fully paid ordinary shares to a range of institutional investors without a disclosure document |
| 13 December 2004 | Lodgement of letter from FAL chairman to shareholders relating to Metcash Takeover Offer |
| 15 December 2004 | Announcement of two mail-outs to shareholders concerning half year results, Metcash Takeover Offer and a share purchase plan |
| 16 December 2004 | Announcement that documentation regarding the share purchase plan was sent to shareholders |
| 16 December 2004 | Announcement of opening and closing date of Metcash's share purchase plan |
| 17 December 2004 | Announcement of exercise of 83,800 employee options |
| 20 December 2004 | Announcement that fully paid ordinary shares to be issued under the share purchase plan will rank equally with Metcash's existing ordinary shares and eligibility criteria for the share purchase plan |
| 20 December 2004 | Announcement of mail-out to shareholders regarding a shareholders meeting to be held on 20 January 2005 |
| 20 December 2004 | Lodgement of independent audit review for half year ended 31 October 2004 |
| 4 January 2005 | Lodgement of change of director's interest notice exercise of options for Andrew Reitzer |
| 10 January 2005 | Announcement of exercise of 1,020,000 employee options |
| 18 January 2005 | Results of share purchase plan |
| 20 January 2005 | Results of general meeting and media release |
| 21 January 2005 | Announcement of issue of up to 287,501,791 A class preference shares |
| 21 January 2005 | Announcement of issue of up to 117,828,603 NZ class preference shares |
| 21 January 2005 | Lodgement of Bidder's Statement |
| 21 January 2005 | Notice of date under section 633(2) |
| 21 January 2005 | Lodgement of Metcash press release relating to lodgement of Bidder's Statement |
| 27 January 2005 | Notice of initial substantial holder for FAL |
| 27 January 2005 | Notice that defeating condition (ACCC approval) of Bidder's Statement fulfilled |

| | |
|------------------|---|
| 28 January 2005 | Announcement of issue of 6,967,370 fully paid ordinary shares under share purchase plan |
| 2 February 2005 | Announcement of exercise of 888,090 employee options |
| 2 February 2005 | Notice of change of interest of substantial holder from Lazard Asset Management Pacific Co |
| 2 February 2005 | Lodgement of amended Metcash constitution |
| 4 February 2005 | Announcement relating to despatch of Bidder's Statement to FAL shareholders and results of polls conducted at general meeting |
| 4 February 2005 | Lodgement of supplementary Bidder's Statement |
| 7 February 2005 | Announcement of completion of sending Bidder's Statement and offer to FAL shareholders |
| 9 February 2005 | Lodgement of change of director's interest notice following participation in share purchase plan for Albert Edward Harris |
| 11 February 2005 | Lodgement of prospectus for CULS |
| 11 February 2005 | Announcement of court approval to post scheme booklet and lodge CULS prospectus |
| 11 February 2005 | Announcement of issue of approximately 293,665,632 CULS |
| 11 February 2005 | Lodgement of transaction overview and scheme booklet for capital reorganisation |
| 11 February 2005 | Lodgement of second supplementary Bidder's Statement |
| 11 February 2005 | Lodgement of third supplementary Bidder's Statement |
| 14 February 2005 | Lodgement of CULS trust deed |
| 15 February 2005 | Lodgement of letter to shareholders providing update of capital reorganisation and CULS offer |
| 16 February 2005 | Announcement of completion of institutional portion of CULS offer |
| 18 February 2005 | Notice of fulfilment of defeating condition (FIRB approval) |
| 18 February 2005 | Lodgement of transaction overview for capital reorganisation and scheme booklet |
| 23 February 2005 | Notice of initial substantial holder for Westpac Banking Corporation |
| 23 February 2005 | Notice of initial substantial holder for Commonwealth Bank of Australia |
| 24 February 2005 | Announcement that CULS prospectus mailed to shareholders |
| 25 February 2005 | Announcement that institutional allotment of CULS complete |
| 25 February 2005 | Announcement of adjustments relating to CULS issue |
| 2 March 2005 | Announcement of agreement with Bruandwo to supply liquor outlets in Queensland |
| 7 March 2005 | Announcement of issue of fully paid ordinary shares under exercise of employee options |
| 10 March 2005 | Lodgement of investment market presentation |
| 11 March 2005 | Notice of change of interest of substantial holder from Westpac Banking Corporation |
| 14 March 2005 | Announcement of second interim dividend |
| 14 March 2005 | Announcement of payment date for second interim dividend |
| 15 March 2005 | Notice of ceasing to be a substantial holder from Commonwealth Bank of Australia |
| 15 March 2005 | Announcement of requisition for Metoz general meeting |

| | |
|---------------|--|
| 16 March 2005 | Notice of initial substantial holder for Commonwealth Bank of Australia |
| 17 March 2005 | Announcement of ATO scrip-for-scrip rollover relief for Metcash schemes |
| 18 March 2005 | Announcement that allotment of CULS under retail offer completed |
| 18 March 2005 | Announcement of issue of fully paid ordinary shares under exercise of employee options |
| 22 March 2005 | Lodgement of valuation report for options |
| 22 March 2005 | Lodgement of results of scheme meetings and extraordinary general meeting |
| 23 March 2005 | Media release relating to shareholder support for capital reorganisation |
| 29 March 2005 | Notice of ceasing to be a substantial holder from Commonwealth Bank of Australia |
| 31 March 2005 | Lodgement of change of directors' interest notice following participation in CULS issue for Michael John Wessink, Albert Edward Harris, Peter Leslie Barnes and Richard Anthony Longes |
| 5 April 2005 | Announcement of issue of fully paid ordinary shares on exercise of employee options |
| 5 April 2005 | Announcement of court approval of schemes of arrangement |
| 6 April 2005 | Announcement of approval of Metcash capital reorganisation |
| 7 April 2005 | Announcement that Metcash schemes effective |
| 7 April 2005 | Announcement of implications of capital reorganisation on Metcash Takeover Offer |
| 7 April 2005 | Announcement confirming compliance with Listing Rule 3.1 |
| 7 April 2005 | Application for admission to the official list |
| 7 April 2005 | Lodgement of Metcash Limited information memorandum |
| 7 April 2005 | Lodgement of Metcash Limited's constitution |
| 7 April 2005 | Statement regarding court order |
| 7 April 2005 | Metcash Limited Indicative shareholder information |
| 7 April 2005 | Metcash Limited terms of employee option plan |
| 7 April 2005 | Metcash Limited terms of dividend reinvestment plan |
| 8 April 2005 | Notice of initial substantial holder from Metcash Trading |
| 8 April 2005 | Lodgement of fourth supplementary Bidder's Statement |
| 12 April 2005 | Metcash Trading letter to CULS holders |
| 13 April 2005 | Notice of initial substantial holder from Perpetual Trustees Australia Limited |
| 14 April 2005 | Extension of Metcash Takeover Offer |
| 15 April 2005 | Option holders notified of new exercise price |
| 18 April 2005 | Announcement of exercise of 2,400 employee options |
| 19 April 2005 | Notice of initial substantial holder from Commonwealth Bank of Australia |
| 19 April 2005 | Implementation of Metcash Schemes |
| 19 April 2005 | Metcash Limited Top 20 |
| 20 April 2005 | Notice of initial substantial holder from Lazard Asset Management Pacific Co |

| | |
|---------------|--|
| 22 April 2005 | Holding Statements Mailed to Shareholders |
| 27 April 2005 | National Supply Contract with 7-Eleven Stores |
| 2 May 2005 | Strategic Stake in Ritchies Stores Pty Ltd |
| 2 May 2005 | Amended Form 603 from Lazard Asset Management Pacific Co |
| 3 May 2005 | Lodgement of fifth supplementary Bidder's Statement |
| 3 May 2005 | Metcash announces Revised Offer for FAL |
| 3 May 2005 | Notice of variation of Metcash Takeover Offer |
| 6 May 2005 | FAL shareholder mailout |
| 10 May 2005 | Notice of initial substantial holder notice from ING Australia Holdings Limited |
| 10 May 2005 | Notice of initial substantial holder notice from Deutsche Bank AG |
| 11 May 2005 | Notice of change of interest of substantial holder from Deutsche Bank AG |
| 13 May 2005 | Extension of Metcash Takeover Offer/Discussions with FAL |
| 16 May 2005 | Notice of initial substantial holder notice from National Australia Bank Limited Group |
| 16 May 2005 | Notice of change of interest of substantial holder from Westpac Banking Corporation |
| 20 May 2005 | Extension of Metcash Takeover Offer period |
| 23 May 2005 | Ceasing to be a substantial holder from National Australia Bank Limited Group |
| 23 May 2005 | Becoming a substantial holder from Macquarie Bank Limited |
| 24 May 2005 | Lodgement of preliminary final report |
| 24 May 2005 | Financial results presentation |
| 25 May 2005 | Wins FAL support for Acquisition of FAL Australia |
| 25 May 2005 | Presentation re FAL acquisition |
| 26 May 2005 | Notice of change of interest of substantial holder from Commonwealth Bank of Australia |
| 27 May 2005 | Extension of Metcash Takeover Offer period |
| 31 May 2005 | Change of director's interest notice following exercise of options and on market sale by Edwin Jankelowitz |
| 8 June 2005 | Notice of initial substantial holder from Merrill Lynch & Co Inc |
| 9 June 2005 | Announcement of exercise of 651,840 employee options and reinstatement of 1,200 options cancelled in error |
| 9 June 2005 | Ceasing to be a substantial holder from Perpetual Trustees Australia Limited |
| 14 June 2005 | Ceasing to be a substantial holder from Macquarie Bank Limited |
| 15 June 2005 | Notice of initial substantial holder from Macquarie Bank Limited |
| 16 June 2005 | Ceasing to be a substantial holder from Macquarie Bank Limited |
| 20 June 2005 | Notice of initial substantial holder from Macquarie Bank Limited |
| 21 June 2005 | Notice of change of interest of substantial holder from Deutsche Bank AG |
| 21 June 2005 | Notice of change of interest of substantial holder from Commonwealth Bank of Australia |
| 1 July 2005 | Change of director's interest notice following exercise of options and sale by Michael Rudolf Jablonski |

| | |
|------------------|--|
| 11 July 2005 | Announcement of exercise of 621,550 employee options |
| 12 July 2005 | Notice of initial substantial holder from Australia and New Zealand Banking Group Limited |
| 13 July 2005 | Notice of change of interest of substantial holder from ING Australia Holdings Limited |
| 14 July 2005 | Acquires strategic stake in an independent Retail Chain |
| 15 July 2005 | Ceasing to be a substantial holder from Australia and New Zealand Banking Group Limited |
| 15 July 2005 | Notice of change in interest of substantial holder from: Merrill Lynch & Co Inc |
| 26 July 2005 | Notice of initial substantial holder from Australia and New Zealand Banking Group Limited |
| 29 July 2005 | Lodgement of annual report |
| 29 July 2005 | Notice of annual general meeting |
| 1 August 2005 | Confirmation of mailing of annual reports and notices of meeting |
| 2 August 2005 | Extension of maturity date for CULS |
| 3 August 2005 | Notice of change of interest of substantial holder from Commonwealth Bank of Australia |
| 3 August 2005 | Change of director's interest notice following exercise of options for Joao Louis Sardinha Jardim |
| 4 August 2005 | Amended change of director's interest notice for Joao Louis Sardinha Jardim |
| 4 August 2005 | Confirmation of mailout to CULS holders |
| 9 August 2005 | Notice of ceasing to be a substantial holder from Macquarie Bank Limited |
| 9 August 2005 | Announcement of exercise of 1,050,250 employee options and cancellation of 70,800 options (former employees) |
| 11 August 2005 | Lodgement of change of director's interest notices following on market purchases by V. Dudley Rubin and Carlos S. dos Santos |
| 22 August 2005 | Extension of Metcash Takeover Offer period |
| 24 August 2005 | Notice of change of interest of substantial holder from Merrill Lynch & Co Inc |
| 25 August 2005 | Lodgement of change of director's interest notice following exercise of options for Michael John Wesslink |
| 26 August 2005 | Lodgement of change of director's interest notice following on market trade for Michael John Wesslink |
| 31 August 2005 | Lodgement of change of director's interest notice following on market trade for Joao Louis Sardinha Jardim |
| 1 September 2005 | Chairman's address and CEO's presentation to the Annual General Meeting |
| 1 September 2005 | Results of Annual General Meeting (Resolutions 1 to 7) |
| 1 September 2005 | Results of Annual General Meeting (Resolution 8) |
| 2 September 2005 | ZSP: September 2005 Quarterly Rebalance to S&P/ASX Indices |
| 5 September 2005 | Mailout of Dividend Reinvestment Plan Booklet |
| 6 September 2005 | MTS - ASX Circular - Partial Conversion of CULS |
| 6 September 2005 | Change in substantial holding from: Westpac Banking Corporation |
| 7 September 2005 | Appendix 3B |
| 7 September 2005 | Appendix 3B CULS - Conversion |

6.15 Independent Accountant's Report on Metcash financial information and Financial Services Guide



The Directors
Metcash Trading Limited
4 Newington Road
SILVERWATER NSW 2128

12 September 2005

PricewaterhouseCoopers
Securities Ltd
ACN 003 311 617
ABN 54 003 311 617
Holder of Australian Financial
Services Licence No 244572

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Dear Sirs

Independent Accountant's Report on Historical and Forecast Financial Information

We have prepared this report on the historical financial information of Metcash Limited and historical and forecast financial information of Metcash Post Acquisition, representing Metcash after the acquisition of the Foodland Associated Limited Australian Operation is completed, for inclusion in this Booklet dated on or about 16 September 2005.

Expressions defined in the Booklet have the same meaning in this Report.

The nature of this Report is such that it should be given by an entity which holds an AFSL under the Corporations Act. PricewaterhouseCoopers Securities Ltd is wholly owned by PricewaterhouseCoopers and holds the appropriate AFSL.

Background

On 6 December 2004, Metcash announced its intention to make an offer to acquire the entire issued share capital of FAL. In May 2005 the FAL Board recommended the acquisition of its businesses by Woolworths and Metcash. Woolworths agreed to acquire FAL's New Zealand Operation along with the Woolworths Action Stores. Metcash agreed it would purchase the FAL Australian Operation representing:

- West Australian Franchise and Supply division ("Foodland Wholesale");
- Action Retail division (excluding Woolworths Action Stores); and
- all other FAL Australian assets.

In April 2005, Metcash Trading completed the Metcash Capital Reorganisation which resulted in the acquisition of the entire issued share capital of Metcash Trading's majority shareholder, Metoz and the acquisition of all the issued share capital of Metcash Trading by a new holding company, Metcash. Reference to Metcash standalone refers to Metcash subsequent to the Metcash Capital Reorganisation and prior to the acquisition of the FAL Australian Operation.

Scope

You have requested PricewaterhouseCoopers Securities Ltd to prepare an Independent Accountant's Report (the "Report") covering the following information contained within Part 6 of this Booklet:

Historical Financial Information

- (a) the historical income statement, earnings per share and cashflow statement of Metcash standalone for the year ended 30 April 2005 set out in Part 6.3 of this Booklet;
- (b) the historical balance sheet of Metcash standalone as at 30 April 2005 set out in Part 6.3 of this Booklet; and
- (c) the pro-forma balance sheet of Metcash Post Acquisition as at 30 April 2005 set out in Part 6.9 of this Booklet;

(collectively the "Historical Financial Information").

Forecast Financial Information

- (a) the pro-forma forecast income statement, earnings per share and cashflow statement of Metcash Post Acquisition for the year ending 30 April 2006 (the "Forecast Financial Information") set out in Part 6.9 of this Booklet.

This Report has been prepared for inclusion in this Booklet. We disclaim any assumption of responsibility for any reliance on this Report or on the Historical Financial Information or the Forecast Financial Information to which it relates for any purposes other than for which it was prepared.

Scope of review of Historical Financial Information

The Historical Financial Information set out in Parts 6.3 and 6.9 of this Booklet has been based on the financial statements of Metcash for the year ended 30 April 2005 audited by Ernst & Young. The Foodland information included in Metcash Post Acquisition has been received from FAL. The Historical Financial Information incorporates such adjustments as the Metcash Board considered necessary to reflect the operations of Metcash and the FAL Australian Operation going forward. The Metcash Board is responsible for the preparation of the Historical Financial Information, including determination of the adjustments.

We have conducted our review of the Historical Financial Information in accordance with Australian Auditing Standard AUS 902 "Review of Financial Reports". We made such inquiries and performed

(2)

such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- an analytical review of the audited financial statements of Metcash for the relevant historical period;
- a review of work papers, accounting records and other documents of Metcash only;
- a review of the adjustments made to the balance sheet of the FAL Australian Operation;
- a review of the assumptions used to compile the pro-forma balance sheet as set out in Part 6.9 of this Booklet (“the pro-forma transactions”);
- a comparison of consistency in application of the recognition and measurement principles in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by Metcash disclosed in their 30 April 2005 financial statements; and
- enquiry of directors, management and others.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Limitation of scope of Historical Financial Information

The historical financial information relating to FAL’s Australian Operation has been provided by FAL. Neither the Metcash Board nor PricewaterhouseCoopers Securities Limited (“PwCS”) have had access to the FAL Directors, FAL management, FAL staff or auditors of FAL or to any FAL detailed budgets, work papers, financial records or other documentation to assess the reliability of the FAL Australian Operation historical financial information. The Metcash Board has made various assumptions in order to present Metcash Post Acquisition which have not been discussed with FAL management or verified to supporting financial records. Accordingly, the standalone Historical Financial Information relating to Metcash Post Acquisition should be reviewed with this limitation in mind.

Review statement on Historical Financial Information

Except for the limitation in scope referred to above, and the effects of such adjustments, if any, that may have been required had the limitation not existed, based on our review, which is not an audit, nothing has come to our attention which causes us to believe that:

- the pro-forma balance sheet has not been properly prepared on the basis of the pro-forma transactions;
- the pro-forma transactions do not form a reasonable basis for the pro-forma balance sheet;

(3)

- the Historical Financial Information, as set out in Parts 6.3 and 6.9 of this Booklet does not present fairly:
 - (a) the historical income statement, earnings per share and cashflow statement of Metcash standalone for the year ended 30 April 2005;
 - (b) the historical balance sheet of Metcash standalone as at 30 April 2005; and
 - (a) the pro-forma balance sheet of Metcash Post Acquisition as at 30 April 2005;

in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and accounting policies adopted by Metcash in its 30 April 2005 financial statements.

Scope of review of Forecast Financial Information

The Metcash Board is responsible for the preparation and presentation of the Forecast Financial Information, including the best estimate assumptions, on which they are based.

Our review of the best estimate assumptions underlying the Forecast Financial Information was conducted in accordance with Australian Auditing Standard AUS 902 "Review of Financial Reports". Our procedures consisted primarily of enquiry and comparison and other such analytical review procedures we considered necessary so as to adequately evaluate whether the best estimate assumptions provide a reasonable basis for the Forecast Financial Information.

These procedures included discussion with the Metcash Board and management of Metcash and have been undertaken to form an opinion whether anything has come to our attention which causes us to believe that the best estimate assumptions do not provide a reasonable basis for the preparation of the Forecast Financial Information and whether, in all material respects, the Forecast Financial Information is properly prepared on the basis of the assumptions and is presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies of the Metcash disclosed in their 30 April 2005 financial statements so as to present a view of Metcash and Metcash Post Acquisition which is consistent with our understanding of the past, current and future operations of the businesses.

The Forecast Financial Information has been prepared by the Metcash Board to provide investors with a guide to the potential future financial performance of Metcash and Metcash Post Acquisition based upon the achievement of certain economic, operating, development and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of Forecast Financial Information. Actual results may vary materially from the Forecast Financial Information and the variation may be materially positive or negative. Accordingly, FAL shareholders should have regard to the investment risks set out in Part 6.11 of this Booklet.

Our review of the Forecast Financial Information is substantially less in scope than an audit examination conducted in accordance with Australian Auditing and Assurance Standards. A review of this nature provides less assurance than an audit. We have not performed an audit and we do not express an audit opinion on the Forecast Financial Information included in this Booklet.

Limitation of scope of Forecast Financial Information

The components of the Metcash Post Acquisition Forecast Financial Information relating to the underlying operations of the FAL Australian Operation together with the impact of the expected merger synergies have been based on limited information made available by FAL and the Metcash Board's industry knowledge.

Neither the Metcash Board nor PwCS have had access to FAL Directors, FAL management, FAL staff or auditors of FAL or to any FAL detailed budgets, work papers, financial records, business plans or other documentation to assess the reliability of the FAL Australian Operation forecast financial information or the reliability of the merger synergy estimates (in particular the extent, timing and cost of delivering such synergies). Accordingly, the Forecast Financial Information should be reviewed with this limitation in mind.

Review statement on the Forecast Financial Information

Except for the limitation in scope referred to above, and the effects, if any that may have been required had the limitation not existed, based on our review of the Forecast Financial Information, which is not an audit, and based on an investigation of the reasonableness of the best estimate assumptions giving rise to the Forecast Financial Information, nothing has come to our attention which causes us to believe that:

- (a) the best estimate assumptions set out in Part 6.9 of this Booklet do not provide a reasonable basis for the preparation of the Forecast Financial Information;
- (b) the Forecast Financial Information is not properly prepared on the basis of the best estimate assumptions presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by Metcash disclosed in its 30 April 2005 financial statements; and
- (c) the Forecast Financial Information is unreasonable.

The underlying assumptions are subject to significant uncertainties including those resulting from the limitation of scope referenced to above and contingencies often outside the control of Metcash and Metcash Post Acquisition. If events do not occur as assumed, actual results achieved by Metcash and/or Metcash Post Acquisition may vary significantly from the Forecast Financial Information. Accordingly, we do not confirm or guarantee the achievement of the Forecast

Financial Information, as future events, by their very nature, are not capable of independent substantiation.

Subsequent events

Apart from the matters dealt with in this Report, and having regard to the scope of our Report, to the best of our knowledge and belief no material transactions or events outside of the ordinary business of Metcash have come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

Independence or Disclosure of Interest

PricewaterhouseCoopers Securities Ltd does not have any interest in the outcome of the Schemes other than the preparation of this Report and participation in due diligence procedures for which normal professional fees will be received.

Yours faithfully



Wim Blom
Authorised Representative
PricewaterhouseCoopers Securities Ltd

PRICEWATERHOUSECOOPERS SECURITIES LTD

FINANCIAL SERVICES GUIDE

This Financial Services Guide is dated 12 September 2005

About us

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) ("PwC Securities") has been engaged by Metcash to provide a report in the form of an Independent Accountant's Report (the "Report") in relation to the proposed acquisition of FAL's Australian Operation by Metcash for inclusion in this Booklet dated on or about 16 September 2005.

You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

This Financial Services Guide

This FSG is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about PwC Securities generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

Expressions defined in this Booklet have the same meaning in this FSG.

Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, managed investment schemes, government debentures, stocks or bonds, and deposit products.

General financial product advice

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an AFSL to assist you in this assessment.

Fees, commissions and other benefits we may receive

PwC Securities charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages PwC Securities to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this Report our fees are being charged on an hourly basis and will be approximately \$230,000.

Directors or employees of PwC Securities, PricewaterhouseCoopers, or other associated entities, may receive partnership distributions, salary or wages from PricewaterhouseCoopers.

Associations with issuers of financial products

PwC Securities and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, PricewaterhouseCoopers may be the auditor of, or provide financial services to, the issuer of a financial product and PwC Securities may provide financial services to the issuer of a financial product in the ordinary course of its business.

Complaints

If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Industry Complaints Service ("FICS"), an external complaints resolution service. You will not be charged for using the FICS service.

Contact Details

PwC Securities can be contacted by sending a letter to the following address:

Wim Blom
PricewaterhouseCoopers Securities Ltd
201 Sussex Street
Sydney NSW 2000

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Part 7

FAL after the Demerger (if the Demerger Scheme proceeds but the Transfer Scheme does *not* proceed)

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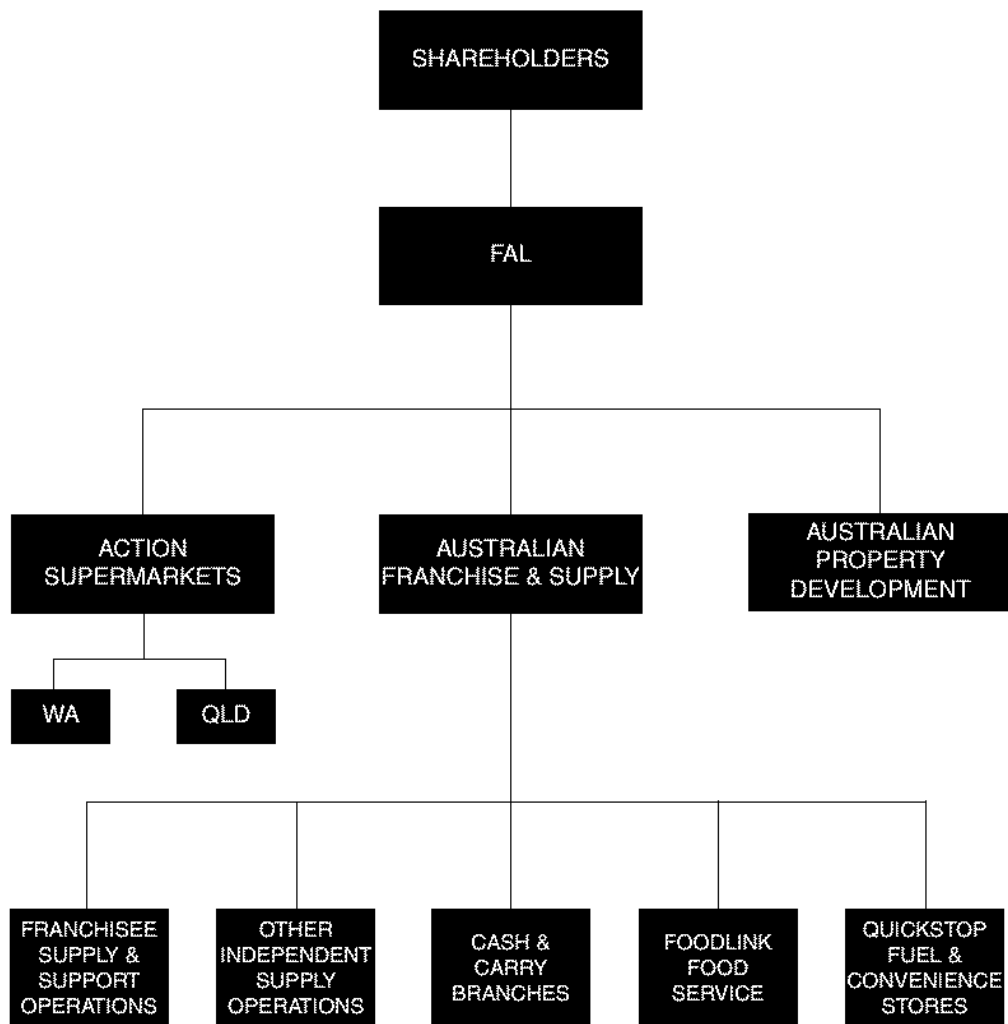
7 FAL after the Demerger (if the Demerger Scheme proceeds but the Transfer Scheme does *not* proceed)

IMPORTANT NOTE: REMEMBER THIS SECTION ONLY APPLIES IF THE ACQUISITIONS BY WOOLWORTHS AND METCASH DO NOT OCCUR

7.1 Introduction

If the Demerger Scheme proceeds but the Transfer Scheme does not proceed, after the Demerger, the Australian Operation will continue to be owned and operated by FAL which will continue to be listed on the ASX.

The Australian Operation after the Demerger



The diagram set out above is designed to show the structure of the major operating divisions of the Australian Operation. The legal entities owning the Australian Operation are not shown.

7.2 Description of the Australian Operation

7.2.1 Overview

The FAL Group is a supermarket operator and grocery wholesaler trading in Western Australia, Queensland and northern New South Wales. FAL also operates four Cash & Carry branches and is a supplier to the food service segment through its FoodLink division. FAL operates a supermarket business through Action Supermarkets and is also a wholesaler to all Western Australian independent supermarket operators including FAL's own franchise banner groups, "Dewsons", "Dewsons Express", "Supa Valu" and "Eziway". In addition, FAL operates the "Quickstop" convenience stores and fuel locations.

7.2.2 Supermarket operation through Action

Action is FAL's Australian supermarket division. Action currently operates 80 supermarkets, 44 in Queensland and northern New South Wales and 36 in Western Australia. These supermarkets have a combined trading area of 161,600 square metres (over 2,000 square metres per store on average). Action serves in excess of 3 million customers every month and employs over 8,500 staff.

FAL believes that Action holds approximately 13% of the Western Australian retail packaged grocery market and just under 6% of the Queensland market.

Action's major competitors are the national chains which FAL believes hold a combined total of 61% of the Western Australian packaged grocery market and over 76% of the Queensland market.

In Western Australia, the majority of Action's packaged grocery ranges are supplied from FAL's Canning Vale distribution complex. Action's produce and meat requirements are distributed from facilities in Osborne Park (3,000 square metres) and Malaga (1,150 square metres) respectively.

Action's Queensland stores are supplied from facilities located in the Brisbane suburbs of Richlands (47,000 square metres) and Rocklea (6,000 square metres). Distribution of frozen and chilled products is outsourced.

Action carries the FAL Group's two house brand grocery ranges. "SR Signature Range" is the premium house brand and "Basics" is the generic house brand range.

The buying of Action's packaged grocery lines is undertaken by the Melbourne buying office. However, each State has retained responsibility for sourcing its own meat, seafood and produce requirements to capitalise on local strengths and to support local, state based producers and growers.

(a) Action Western Australia

The Action brand has been well established in Western Australia for over two decades. Action Supermarkets Pty Ltd has been a wholly owned subsidiary of FAL since June 1993 prior to which FAL had owned 50% of Action, then a listed public company.

Despite strong competition from the national chains, Action has succeeded in maintaining market share. A key element of this success has been the improvements made to Action's fresh departments including the establishment of seafood departments in larger stores and exclusive meat ranges including "Q Lamb", "Action Saver" and "WA Select Pork". In addition, the produce and bakery ranges have been extended. These innovations have been possible because of the direct supply arrangements Action has negotiated with suppliers, bypassing inefficient meat and produce auction arrangements.

In Western Australia, Action has a customer loyalty program which allows customers to accumulate points on the basis of dollars spent. The points are converted into vouchers which can be redeemed for meat, seafood, delicatessen lines and produce. The value of points can be changed if required.

Approximately 600,000 cards have been issued, generating over 220,000 transactions per week. Approximately 60% of all transactions are on Frequent Shopper cards representing over 80% of sales.

Individual items or entire categories can be assigned bonus points enabling the targeting of specific customer groups. The bonus point offers are used by suppliers to access the customer loyalty developed by the program so as to drive sales and encourage consumer trialling of new lines. In these circumstances, bonus points are funded by the supplier, generating income for Action. The rate at which points are awarded can be increased to provide additional incentives for customers during predetermined periods. Further, special offers exclusive to Frequent Shoppers can be made, such as general merchandise or reverse fuel discounts. The potential exists to develop program partnerships with suppliers and other third parties.

FAL's arrangements with its Western Australian franchisees provide FAL with a right of first and last refusal to acquire any store offered for sale. On several occasions, these arrangements have allowed FAL to acquire franchisee stores large enough to accommodate Action's store format which might otherwise have been sold to one of the national chains, as has been the case in other states.

(b) Action Queensland and northern New South Wales

During the second half of 2001, Action progressively acquired 40 former Franklins supermarkets in Queensland and northern New South Wales together with a distribution centre and support office complex in the Brisbane suburb of Richlands and a fresh food handling facility in the Brisbane suburb of Rocklea. The Action brand was launched in March 2002.

Since the launch, Action has continued to expand its east coast store network. A key element of the successful expansion and growth of the network has been the development or refurbishment of Action stores in neighbourhood centres rather than major shopping malls.

As stores are refurbished, store formats have been changed to allow presentation of the extended meat, seafood and produce ranges. Direct sourcing arrangements for fresh lines are being systematically established.

In response to the petrol discount schemes operated by the national chains, in 2004 Action introduced a fuel discount scheme of its own. All Action's east coast stores now issue fuel discount vouchers which, at 15 February 2005, were redeemable at 132 fuel service stations throughout Queensland and northern New South Wales.

7.2.3 Australian Franchise & Supply

The Australian Franchise & Supply division is FAL's original business and trades exclusively in Western Australia.

The operations of the division comprise:

- (a) grocery wholesaling, including ambient, frozen and chilled products;
- (b) franchise operations comprising services to FAL's franchise banner groups; Dewsons, Dewsons Express, Supa Valu and Eziway;
- (c) four Cash & Carry branches;
- (d) FoodLink food service; and
- (e) 16 Quickstop convenience stores.

7.2.3.1 Grocery wholesaling

FAL is a grocery wholesaler to all of Western Australia's independent supermarket operators. The Western Australian independent grocery sector has approximately 26% of the Western Australian packaged grocery market. FAL's wholesaling operations are conducted principally from its distribution centre and support office complex in the Perth suburb of Canning Vale. This site is 20.8 hectares in area, and consists of a main warehouse with an area of 50,000 square metres opened in 1993, a cold store of 7,790 square metres opened in 1988 and extended to 8,920 square metres in 1996, a second dry storage warehouse of 4,300 square metres opened in 1992 and a Cash & Carry branch of about 10,000 square metres which opened in 1988. These facilities are leased.

Over 15,000 different grocery and general merchandise lines are distributed to over 700 customers throughout Western Australia. FAL is Western Australia's largest grocery wholesaler, supplying packaged groceries, refrigerated food, general merchandise and produce to its franchisees in addition to approximately 370 other non-aligned independent grocery retailers.

Initial buying of packaged grocery products is coordinated from the Melbourne buying office. Re-stocking orders are placed by Canning Vale staff.

7.2.3.2 Franchise operations

The Franchise & Supply division is the franchisor, marketing coordinator and supplier of four supermarket franchise banner groups in Western Australia set out in the table below.

| Brand | No. stores | Description | Trading Area m ² |
|-----------------|---|---|-----------------------------|
| Dewsons | 65 (with 46 in metropolitan areas and 19 in regional centres) | Full service high quality supermarkets. The stores carry an extensive range of grocery items, as well as dairy and fresh products and include a delicatessen. | 1,000 - 2,000 |
| Dewsons Express | 1 | Convenience stores with fresh produce and ready made meal solutions | 450 - 500 |
| Supa Valu | 122 | Full service convenience stores | 500 - 900 |
| Eziway | 53 | Limited range convenience stores | 200 - 600 |

7.2.3.3 Cash & Carry branches

FAL also operates four Cash & Carry branches from leased premises in the Perth suburbs of Canning Vale and Balcatta and the regional centres of Bunbury and Kalgoorlie. FAL's Cash & Carry warehouses supply up to 26,500 separate grocery and general merchandise lines to retailers and small business operators seeking to purchase in smaller quantities that can be economically supplied from the main grocery warehouse.

7.2.3.4 FoodLink Food Service

FoodLink is FAL's food service business and operates from leased premises located in the Perth suburb of O'Connor comprising a special purpose distribution centre and support office complex of 10,000 square metres. FoodLink is one of the largest food service businesses in Western Australia and supplies about 5,000 lines to approximately 1,700 customers including caterers, hotels, restaurants, cafes, institutions, schools and mine sites. FoodLink is progressively delivering increased returns following the acquisition of a competing food service business in 2003.

7.2.3.5 Quickstop convenience stores

An FAL subsidiary operates 16 Quickstop service stations and convenience stores located throughout the Perth metropolitan area.

These outlets also honour petrol discount vouchers issued by Dewsons and Supa Valu supermarkets together with 36 other non-aligned outlets.

7.2.4 Australian property development

The FAL Group is actively engaged in locating suitable sites in Australia for new Action supermarkets and for franchisees. Property development activities extend to the planning of store layouts and the supervision of refurbishment work contracted to third parties. Specialist property staff are located at Canning Vale and Richlands in support of operating divisions.

In December 2003, FAL sold a portfolio of Australian properties for \$153 million to a new unlisted property trust that is to own properties where FAL is the tenant or major tenant. An FAL Subsidiary acts as asset manager for the FAL Property Trust, the responsible entity of which is Westpac Funds Management Limited. This subsidiary retains management of industrial sites. Each FAL tenant holds a right of first refusal should the properties be sold. FAL continues to hold a significant property portfolio. As at 30 January 2005, the value of the Australian property portfolio was \$66.8 million.

In Western Australia, new Action stores are currently being constructed in the Perth suburbs of Alexander Heights (expected to open in September 2005) and Forest Lakes by third party developers. FAL owns vacant freehold properties in the regional city of Kalgoorlie and the Perth suburb of Mt Lawley. FAL plans to construct a shopping centre including an Action supermarket on the Kalgoorlie site and a second Dewsons Express store on the Mt Lawley site. The FAL Board has approved involvement in four other supermarket sites in the Perth metropolitan area.

In Queensland, the redevelopment of the Rochedale Shopping Centre which includes a new Action supermarket, opened in late July, is ongoing. The construction of a new Action supermarket in the Brisbane suburb of Daisy Hill by a third party developer has commenced and a site in Surfers Paradise has been secured and this store is expected to commence trading prior to the end of the 2005 calendar year. New or replacement stores are planned for six other sites.

The FAL Board believes that it is not in the interests of FAL Shareholders to hold long term investments in freehold property. Regardless, from time to time, it is necessary to acquire properties in order to achieve control of sites suitable for supermarkets.

7.3 Strengths

7.3.1 Strong market position

FAL estimates that Action holds approximately 13% of the Western Australian retail grocery market and slightly less than 6% of the Queensland market.

FAL is Western Australia's largest grocery wholesaler supplying Action Supermarkets and all of Western Australia's independent supermarket operators including FAL's own franchise banner groups. Together this customer base represents approximately 38% of the Western Australian wholesale grocery market.

7.3.2 Highly recognised brands

The brands owned by FAL include "Action Supermarkets", "Dewsons", "Dewsons Express", "Supa Valu" and "Eziway". The breadth of the franchise network, the strength of its brand names and its geographical spread complement FAL's wholly owned and operated Action stores. Collectively, they represent a significant force in the retail grocery market of Western Australia.

FAL's Group policy is to continue to reinvest in its core brands through a refurbishment and upgrade program in stores across Australia including innovative new concepts wherever possible.

In Western Australia, the acquisition of 16 Mobil petrol stations which operate under the re-branded "Quickstop" banner has provided a significant boost to franchisee brand strength through the introduction of a petrol discount offer. This offer has recently been extended by the inclusion of 36 non-aligned fuel outlets.

FAL also has its own range of branded products. Its "SR Signature Range" and "Basics" brands offer customers a value alternative for common grocery items.

7.3.3 Expanding presence in the market

To date, Action's Queensland stores have not matched the sales and margin performance of Action Western Australia. Despite this, the FAL Board believes that the Queensland market offers attractive growth prospects, both in terms of opportunities for store expansion and for continued improvement and further refinement of store formats and range. The FAL Board expects economic growth in Queensland to continue to be high. However, extensive competition in both the Western Australia and Queensland markets will continue to apply pressure to margins.

Although Action is well established in the Western Australian market, opportunities for expansion still exist in Perth's central business district and suburbs and a number of country towns. Expansion of the network into these locations will provide further growth opportunities for the Action network without taking the sales of existing stores.

7.3.4 Committed and experienced management team

The FAL Board believes that FAL has an experienced and committed workforce. As noted in Part 7.6.6 of this Booklet, Trevor Coates, the current Chief Executive Officer and Group Managing Director of FAL, has advised the Board that he is reviewing his position in light of the material diminution in his responsibilities if the Demerger proceeds and is likely to leave FAL. However, the FAL Board believes that the remaining management team has the core skills and experience to continue to implement FAL's strategy after the Demerger. The FAL Board has not yet determined whether the new Chief Executive Officer would be an internal or external appointment.

7.3.5 Sourcing and technical cooperation arrangements

In the event that the Transfer Scheme does not proceed but the Demerger Scheme does proceed, PEH and FAL have identified opportunities to enter co-operation agreements relating to the joint sourcing and development of information technology applications and joint sourcing of inventory, in particular, SR Signature Range and Basics corporate brand grocery products. If implemented, these arrangements will continue to be of advantage to both FAL and PEH.

7.4 FAL's business strategy - overview

After the Demerger, the success of the Australian Operation will depend on FAL's core strengths and weaknesses and its success in implementing its key strategies in the post Demerger period and beyond. In order to create shareholder value while meeting consumer demand, FAL aims to:

- (a) satisfy ever changing consumer demand by combining innovation and value;
- (b) strive constantly to reduce the cost of doing business through greater efficiency and use of technology;
- (c) identify and dispose of assets which do not or will not contribute returns exceeding the weighted average cost of capital;
- (d) adopt stringent benchmarks for investment in the form of working capital or fixed capital expenditure;
- (e) optimise the weighted average cost of capital while maintaining the ratio of debt to equity in prudent proportions;
- (f) motivate, develop and incentivise all employees; and
- (g) seek out consistently value adding opportunities to strengthen the business portfolio.

The FAL Board will continue to be committed to creating wealth for FAL Shareholders through the investment of capital and management of FAL's core businesses so as to produce returns consistently exceeding the risk weighted average cost of capital.

However, as the size of FAL's business will be reduced significantly after the Demerger, it will be necessary for the FAL Board to undertake a comprehensive review of all aspects of the Australian Operation including, strategic direction, business structure and policies within each operating division. These aims and the business strategy of FAL described in this Part 7 should be read in this context.

7.4.1 Maintain and strengthen brand reputation

In Australia, FAL operates in the retail and wholesale markets. In the retail market two national chains, Woolworths and Coles Myer, hold the most substantial market shares. In the wholesale market, Metcash and FAL hold the most substantial market shares. Therefore, the appeal and scale of FAL's operation needs to be considered in the context of the regional presence and strength of its competitors. In Western Australia, FAL's various brands are well established and well perceived and there remain growth opportunities both for Action and the already extensive portfolio of franchise stores trading under the Dewsons, Dewsons Express, Supa Valu and Eziway banners.

Action's key strength in Western Australia has historically been one of a strong perception for value. In addition, the combined effects of the refurbishment program and upgraded fresh food presence in recent years has substantially enhanced Action as a food shopping destination.

Further specific brand enhancement programs are being undertaken which emphasise quality fresh (and in some cases unique) meat and produce. For example:

- (a) In Western Australia, Action has worked with local producers to develop exclusive meat ranges. "Q Lamb" is supplied by producers in the Williams area and allows customers to buy lamb with full confidence that the product will not vary in quality from season to season. Further, Action's "WA Select Pork" range has been developed in conjunction with local primary producers to give customers access to pork products of superior quality.
- (b) Action's latest store format is the most recent innovation introduced by FAL. Features of the new design include walk-through cross aisles (to allow customers to traverse the store), new gourmet chicken departments and extended general merchandise selling areas.

A key part of FAL's strategy is to increase further the presence of Action Supermarkets in Queensland and to promote the "Action" brand in that market place.

7.4.2 Increase the turnover of the existing store network

FAL seeks to increase sales to existing company owned, franchise and other independent stores by:

- (a) undertaking and supporting marketing activities;
- (b) providing store layout and design support services and encouraging store owners to upgrade and refurbish their stores so as to increase turnover and store profitability; and
- (c) negotiating competitive terms with suppliers for on supply to franchise and other independent stores.

7.4.3 Loyalty and incentive programs

In Western Australia, Action has introduced a variety of innovative programs including the Action Frequent Shopper Program, to promote customer loyalty and offset the impact of fuel discounting introduced by the national chains. The Action loyalty program, launched in 2003, has continued to grow in popularity with approximately 220,000 active cards. This scheme provides, through point accrual, a variety of customer rewards and incentives.

FAL has also reacted to an escalation in fuel discounting activity as the national chains have expanded their fuel discounting schemes to a national scale. FAL has acquired 16 Quickstop service stations and convenience stores located throughout the Perth metropolitan area. These outlets, together with 36 non-aligned service stations, honour petrol discount vouchers issued by Dewsons and Supa Valu supermarkets. All Action's east coast stores now issue fuel discount vouchers which are redeemable at over 132 fuel service stations throughout Queensland and northern New South Wales.

7.4.4 House brands

Some time ago, FAL identified the positive implications of developing house brands and has since been building both premium quality (through the SR Signature Range) and value brands (through the Basics range of products). FAL expects further opportunities for the development and extension of its own brand ranges, with resulting increased presence and scale providing brand exclusivity and enhanced gross profit. Ultimately, the goal is to create customer loyalty by creating superior house brands.

7.4.5 Capital management

The objective of FAL's capital management strategy is to improve returns by only investing in initiatives that provide a greater return than its weighted average cost of capital. All capital expenditure above specified dollar value limits requires FAL Board approval and must be requested through a formal proposal to the FAL Board including forecasts of expected cash flows and the net present value of those cash flows at FAL's weighted average cost of capital. FAL will continue to search actively for opportunities to invest its capital to provide sustained growth in earnings and returns above the weighted average cost of capital.

It is the policy of the FAL Board to review major capital expenditure projects at one and three year intervals after the completion of those projects.

7.4.6 Buying and merchandising

The Melbourne buying office is pivotal in further reducing the cost of goods and its contribution extends far beyond product cost to include more detailed analysis of product performance, improved and more proactive liaison with suppliers together with greater emphasis on product development, including corporate brand and general merchandise ranges. FAL expects that considerable innovation in product sourcing, ranging and cost effective supply techniques will continue.

7.4.7 Improve overall efficiency of operations

FAL aims to utilise significant remaining opportunities to improve efficiency throughout the business network in Australia. These principal opportunities include supply chain efficiencies, more effective and profitable use of store space and increased use of available technologies both at a store and corporate level. The FAL Board believes that the application of technology will help reduce the cost of goods and the cost of doing business and allow FAL to be more competitive and pro-active in catering for changing consumer demands and taste.

7.5 Risks associated with the Australian Operation

After the Demerger, the Australian Operation will continue to be subject to various risk factors. The principal risk factors that could have an impact are listed below. These include general factors affecting the grocery market and other risks associated with competing in and investing in the grocery market.

7.5.1 Risk factors that affect the general economy and the stock market

There are a number of general economic factors which affect the grocery market. These include interest rates, inflation, foreign exchange rates, the labour market environment and oil prices.

The price at which FAL Shares may trade on the ASX is influenced by a range of factors which include movements in international and local stock markets, recommendations by brokers, inflation, interest rates, general economic conditions and changes in government, fiscal, monetary and regulatory policies. As these factors change, so too may FAL's Share price.

7.5.2 Risk factors that affect the grocery and wholesale market

7.5.2.1 General risks

There may be changes in the demand for grocery items which will affect the Australian Operation and its financial performance. Such factors include, but are not limited to, weather and climatic conditions, civil unrest, terrorist activities and agricultural advances.

7.5.2.2 Competitive risks

The Australian grocery market is currently characterised by increasing competition. Increased competition may affect the Australian Operation and its financial performance. For example:

- (a) there is a risk that independent retailers (who may be supplied by FAL) may decide to sell their stores to one of the national chains. This will lead to a decline in FAL's wholesale sales and profits; however, FAL holds rights of first refusal over nearly all of its large franchisee stores;
- (b) key Franchise & Supply customers who are supplied by FAL may also choose to be supplied by another wholesaler, causing a decline in customers and sales. However, apart from the national chains, there are no wholesalers carrying a range of groceries sufficiently large to supply a medium sized supermarket currently conducting operations within Western Australia;
- (c) new wholesalers may enter the market despite the current levels of competition. As a result, FAL may lose market share to new entrants; and
- (d) the opening of new store locations by competitors may reduce the sales of FAL's existing stores and sales to wholesale customers.

7.5.2.3 Other risks

(a) Health risks

Given that a significant proportion of the sales of the Australian Operation relate to food, there are a number of health risks that are associated with various food groups (for example, meat, seafood and dairy) which can have an adverse effect on sales of those particular products and the companies associated with those products.

(b) Damage to utilities or infrastructure

There is a risk that loss or destruction of utilities or infrastructure, such as power, warehouses, transportation and communication may hinder the carrying on of the Australian Operation.

(c) Cuts or reductions in supply

Natural disasters, airline or transport strikes and other factors may prevent FAL from obtaining necessary supplies to run its business. Reductions in the production of certain products (due to problems with production or natural disasters such as flood or drought) may also mean that higher prices are demanded for those products. Consumers may not be willing to pay these higher prices which may impact upon the sales and profit of the Australian Operation.

(d) Labour relations

There is a risk that a potential work stoppage, due to failure to negotiate an enterprise bargaining agreement or otherwise, may have a materially adverse effect on the Australian Operation.

(e) *IT systems and network interruptions*

The ongoing performance of FAL's operations is dependent, in part, on the reliability and availability of its IT systems and associated (data/voice) networks. IT systems and network interruptions due to circumstances beyond FAL's control may result in temporary unavailability of key operating processes. Disaster recovery/backup systems are in place for key IT systems and key network links to mitigate the risk of such disruptions. Furthermore, FAL carries business interruption insurance, which may offset the financial effect of any such disruption.

7.6 Other effects of the Demerger on FAL

7.6.1 Strong economic value as a potential takeover target for third parties

FAL may be more attractive to potential bidders as a company based solely in Australia. For example, for other retailers, FAL may be a unique opportunity to acquire a substantial and profitable complementary business, offering the potential to generate substantial in-market synergies with a business already held by the acquirer. This would increase competition between potential bidders and/or increase the price for which FAL Shares may be sold (providing greater value for FAL Shareholders). However, due to restraints arising from competition laws, there are limited potential grocery industry buyers for the Australian Operation.

7.6.2 Tax appeals

FAL and its subsidiary, Action Holdings Pty Ltd, are currently in dispute with the ATO in relation to assessments made by the ATO in connection with the sale of an FAL subsidiary to Progressive Enterprises Limited in 1993. FAL and Action Holdings Pty Ltd have commenced proceedings in the Court against the ATO in relation to the assessments.

The ATO has withheld input tax credits owed to Australian companies in the FAL Group and set them off against the extra tax and penalty tax. Consequently, the input tax credits are owed to Australian companies in the FAL Group, and the extra tax and penalties are allegedly owed by the Australian companies FAL and Action Holdings Pty Ltd.

After the Demerger, conduct of the Tax Appeals (including rights to refunded extra tax and penalty tax) and the risk of the Tax Appeals will remain with FAL and Action Holdings Pty Ltd.

7.6.3 Potential business dislocation

The uncertainty created by the proposed transactions (being the Demerger and the Demerger Scheme) has and will adversely impact the short term profitability of the Australian Operation. This uncertainty is causing non-recurring specific adverse impacts on supplier income, specifically, reduced amounts of promotional activity, discretionary spending and new line support by suppliers. General business initiatives and the development of new systems intended to reduce the costs of doing business and the cost of goods sold have been slowed or, in some cases, deferred. It is expected these effects will not extend beyond the first half of the 2006 financial year.

7.6.4 Specific risk factors that affect FAL Shares

7.6.4.1 Lower market capitalisation and liquidity

After the Demerger, FAL's market capitalisation will be significantly smaller as the Australian Operation represents only approximately 35% of FAL's existing operations. FAL may not have sufficient capitalisation to be included in the S&P ASX 100 Index, and consequently, FAL may not be as attractive an investment for institutional investors because of potentially lower share liquidity. This may increase the difficulty of raising capital in the future.

7.6.4.2 Access to debt

FAL's reduced size and geographic diversification may cause debt providers to consider FAL to have an increased risk profile which may in turn cause increases in FAL's borrowing costs with consequent reductions in profitability.

7.6.5 Corporate office

Following the Demerger, FAL's corporate office will continue to be located at 218 Bannister Road, Carrington Vale.

FAL will cease to have responsibility for, or any involvement in, the administrative functions of PEH. As a consequence the PEH Board will assume complete responsibility for the following functions which to date have been completely or partially the responsibility of the FAL Board:

- (a) setting the corporate strategy of PEH including reviewing and approving annual budgets and strategic plans;
- (b) setting guidelines for investments and approving all capital expenditure;
- (c) monitoring the ongoing performance of the business;
- (d) approving the appointments of and terms and conditions of employment of senior PEH executives;
- (e) compliance with ASX and NZX listing requirements, including corporate governance; and
- (f) maintaining relationships with suppliers.

In addition, the PEH Board and management will assume complete responsibility for support functions including, IT, finance and administration, human resources, merchandising and promotion, secretariat and public affairs.

7.6.6 Directors, senior management and employees

7.6.6.1 Composition of FAL Board

After the Demerger, the existing FAL Board will meet within three months of the Demerger Implementation Date to determine an appropriate board for FAL. It is likely that some of the existing FAL Board members will continue as directors of FAL. However, it is also likely that some will leave and some new directors will be appointed to ensure the appropriate mix of skills and experience required to best serve the interests of FAL Shareholders.

7.6.6.2 Senior management executives

The FAL Board has not determined whether any changes are required to the composition of the FAL corporate management team that will lead FAL's Australian Operation after the Demerger. This will be a matter for the "new" FAL Board to determine.

However, FAL will be a considerably smaller undertaking than it is now with a more limited range of businesses. Mr Coates, the current Chief Executive Officer and Group Managing Director of FAL, has advised the Board that he is reviewing his position in light of the material diminution in his responsibilities if the Demerger proceeds and is likely to leave FAL. Similarly, James Brown (the current General Manager, Finance) will review his position as a result of a material diminution in his responsibilities and is also likely to leave FAL.

However, the FAL Board expects that most senior management employed in the Australian Operation will continue to be required as executives of the FAL Post-Demerger Group and that FAL will be able to attract a suitably qualified Chief Executive Officer and Chief Financial Officer.

7.6.6.3 Employee matters

It is expected that FAL will continue its present policies relating to employees. In particular, the "new" FAL Board will determine whether FAL will establish a new employee share plan to replace FAL's existing Employee Share Plan. Any such new plan would directly tie the performance of the Australian Operation to the remuneration of employees of the Australian Operation.

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Part 8

Financial information on FAL after the Demerger (if the Demerger Scheme proceeds but the Transfer Scheme does *not* proceed)

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8 Financial information on FAL after the Demerger (if the Demerger Scheme proceeds but the Transfer Scheme does not proceed)

IMPORTANT NOTE: REMEMBER THIS SECTION ONLY APPLIES IF THE ACQUISITIONS BY WOOLWORTHS AND METCASH DO NOT OCCUR

8.1 Introduction

This Part 8 contains the following financial information on the FAL Post-Demerger Group (if the Transfer Scheme does not proceed):

- (a) historical financial information;
- (b) FAL management's discussion and analysis of financial conditions and results; and
- (c) forecast financial information.

8.2 Historical financial information

The pro-forma historical financial information provided on the FAL Post-Demerger Group within this Part 8 includes:

- (a) pro-forma historical financial performance for the financial years ended 4 August 2002, 3 August 2003, 1 August 2004 and 31 July 2005;
- (b) pro-forma historical cash flow statements for the financial years ended 4 August 2002, 3 August 2003, 1 August 2004 and 31 July 2005; and
- (c) a pro-forma statement of financial position as at 31 July 2005.

In this Part 8, unless otherwise indicated, the terms "Sales revenue", "EBITDA", "EBITA" and "Cash flow from operations" have the same meaning as shown in Part 20 of this Booklet.

8.2.1 Basis of preparation and presentation

The pro-forma historical information is derived from the audited financial statements of the FAL Group for the 2002, 2003 and 2004 financial years, the reviewed Preliminary Final Report of the FAL Group for the 2005 financial year and other pro-forma consolidated historical information prepared by FAL.

The Preliminary Final Report of the FAL Group for the financial year ended 31 July 2005, as set out in Appendix 4E to the ASX Listing Rules, was lodged with the ASX on 13 September 2005.

The pro-forma consolidated financial statements include FAL and its existing controlled entities and the entities it will control following the Demerger. The pro-forma consolidated financial statements have been derived from the audited financial statements of the FAL Group for the years ended 4 August 2002, 3 August 2003 and 1 August 2004 and the reviewed Preliminary Final Report for the financial year ended 31 July 2005. The pro-forma consolidated financial statements have been subject to review by the independent accountants, Ernst & Young Transaction Advisory Services Limited. A copy of their report on their review of the pro-forma financial information is included in Part 15.2 of this Booklet.

The pro-forma results of operations and pro-forma cash flows assume that the Demerger occurred on 30 July 2001 and that the Australian Operation comprised the businesses of Action Supermarkets and Franchise & Supply Australia during all of the period presented. The pro-forma statement of financial position assumes that the Demerger occurred on 31 July 2005.

The pro-forma historical financial information provided for the FAL Post-Demerger Group includes:

- (a) pro-forma results of operations for the financial years ended 4 August 2002, 3 August 2003, 1 August 2004 and 31 July 2005 and management discussion and analysis of the financial results as set out in Part 8.3 of this Booklet;
- (b) actual and pro-forma statements of financial position as at 31 July 2005 together with explanations of adjustments as set out in Part 8.4 of this Booklet;
- (c) pro-forma statements of cash flows for the financial years ended 4 August 2002, 3 August 2003, 1 August 2004 and 31 July 2005 and management discussion and analysis of the cash flows as set out in Part 8.5 of this Booklet;
- (d) a pro-forma forecast financial information for the financial years ending 30 July 2006 (AGAAP and AIFRS) together with explanations of the adjustments from AGAAP to AIFRS, the key assumptions to the forecasts and sensitivity analysis as set out in Part 8.6 of this Booklet; and
- (e) pro-forma statement of financial position at 31 July 2005 converted from AGAAP to AIFRS together with explanations of adjustments as set out in Part 8.7 of this Booklet.

The pro-forma financial information does not purport to represent what the results of the operations would have been if the FAL Post-Demerger Group had operated on a stand alone basis during the historical periods, nor to project results of operations for any future period.

The pro-forma results of operations have been provided to EBITA and the pro-forma statements of cash flows to cash flows from operating activities before net borrowing costs and income tax, and cash flows from operating and investment activities. The FAL Post-Demerger Group will comprise different assets and entities than the FAL Group as it is currently constituted and will operate under a different corporate structure with different gearing and tax profiles than was the case during the periods presented. Accordingly, the FAL Board does not believe that the reporting of historic borrowing costs, income tax and net financing cash flows would be meaningful or appropriate. This information has not therefore been included in the pro-forma historical financial information. Details of the pro-forma forecast borrowing costs, income tax expense and profit from ordinary activities after income tax expense attributable to FAL Shareholders for the financial year ending 30 July 2006 are included in Part 8.6 of this Booklet.

8.2.2 Summary of significant accounting policies

The significant accounting policies followed by FAL under AGAAP as set out in its annual report for the financial year ended 1 August 2004 are set out in Part 11 of this Booklet. These AGAAP accounting policies have been consistently applied during the periods covered by the pro-forma historical and forecast financial information included in this Booklet.

8.2.3 Statements of historical financial performance for the FAL Group for the financial years ended 4 August 2002, 3 August 2003, 1 August 2004 and 31 July 2005 prepared on an AGAAP basis

| \$ million | Financial year ended | | | |
|--|----------------------|--------------------|--------------------|--------------------|
| | 4 Aug 02 | 3 Aug 03 | 1 Aug 04 | 31 Jul 05 |
| | Actual 53 weeks | Actual 52 weeks | Actual 52 weeks | Actual 52 weeks |
| Sales revenue – continuing operations | 4,018.2 | 5,741.8 | 5,888.4 | 6,334.8 |
| Sales revenue – discontinued operations | 625.2 | 644.0 | 138.1 | - |
| Total sales revenue | 4,641.4 | 6,385.8 | 6,026.5 | 6,334.8 |
| Other operating revenue - continuing operations | 209.0 | 304.7 | 311.1 | 396.5 |
| Other revenue - discontinued operations | 54.9 | 61.0 | 16.1 | - |
| Total other operating revenue | 263.9 | 365.7 | 327.2 | 396.5 |
| Total operating revenue | 4,905.3 | 6,751.5 | 6,353.7 | 6,731.3 |
| Non operating revenue | - | - | 483.6 | - |
| Total revenue | 4,905.3 | 6,751.5 | 6,837.3 | 6,731.3 |
| EBITA – continuing operations | | | | |
| Australian operations | 90.1 | 97.1 | 89.0 | 86.0 |
| New Zealand operations | 78.7 | 154.3 | 188.9 | 175.5 |
| Corporate costs | (7.5) | (9.8) | (10.1) | (11.0) |
| EBITA – continuing operations | 161.3 | 241.6 | 247.8 | 250.5 |
| Corporate activity costs ¹ | - | - | - | (19.6) |
| Discontinued operations and other significant items | 42.2 | 42.7 | 51.6 | - |
| EBITA including discontinued operations and significant items | 203.5 | 284.3 | 299.4 | 230.9 |
| Goodwill amortisation | (18.6) | (42.4) | (42.9) | (44.7) |
| EBIT | 184.9 | 241.9 | 256.5 | 186.2 |
| Net borrowing costs | (30.9) | (50.5) | (30.6) | (22.5) |
| Operating profit before tax | 154.0 | 191.4 | 225.9 | 163.7 |
| Income tax expense | (51.6) | (71.3) | (83.2) | (68.4) |
| Profit from ordinary activities | 102.4 | 120.1 | 142.7 | 95.3 |

Note:

1. includes costs of responding to Metcash Takeover Offer and Demerger and Transfer Scheme costs.

8.2.4 Reconciliation from actual to pro-forma results

The pro-forma historical financial information has been prepared by FAL and is derived from the audited financial information of the FAL Group for the financial years ended 4 August 2002, 3 August 2003 and 1 August 2004 and the reviewed Preliminary Final Report for the year ended 31 July 2005.

The historical financial information has been adjusted to reflect only the assets and entities that comprise the Australian Operation, to exclude the impact of certain non-recurring items in the results for periods presented, to include the costs necessary for the Australian Operation to operate separately from the New Zealand Operation and to present the results on a basis consistent with the current accounting policies of the FAL Group.

| Pro-forma adjustments (\$ million) | Financial year ended | | | |
|--|----------------------|----------------|----------------|----------------|
| | 4 Aug 02 | 3 Aug 03 | 1 Aug 04 | 31 Jul 05 |
| | Actual | Actual | Actual | Actual |
| | 53 weeks | 52 weeks | 52 weeks | 52 weeks |
| REVENUE ADJUSTMENTS | | | | |
| FAL Group total sales revenue ¹ | 4,641.4 | 6,385.8 | 6,026.5 | 6,334.8 |
| Less discontinued operations | (625.2) | (644.0) | (138.1) | - |
| Less New Zealand Operation sales revenue | (1,987.4) | (3,530.9) | (3,557.0) | (3,884.9) |
| Sales revenue | 2,028.8 | 2,210.9 | 2,330.8 | 2,449.9 |
| FAL Group other operating revenue ² | 263.9 | 365.7 | 327.2 | 396.5 |
| Less discontinued operations ³ | (54.9) | (61.0) | (16.1) | - |
| Less New Zealand Operation other operating revenue | (111.0) | (199.3) | (200.2) | (261.7) |
| Other operating revenue | 98.0 | 105.4 | 110.9 | 134.8 |
| Total operating revenue | 2,126.8 | 2,316.3 | 2,441.7 | 2,584.7 |
| EBITA ADJUSTMENTS | | | | |
| FAL Group profit from ordinary activities before goodwill amortisation, net borrowing costs and income tax expense | 203.5 | 284.3 | 299.4 | 230.9 |
| Add (less) discontinued operations ³ | (42.2) | (42.7) | 2.1 | - |
| Add (less) significant items ⁴ | - | - | (53.7) | 19.6 |
| Profit before discontinued operations, significant items, goodwill amortisation, net borrowing costs and income tax expense (before pro-forma adjustments) | 161.3 | 241.6 | 247.8 | 250.5 |
| Less New Zealand Operation EBITA ⁵ | (78.7) | (154.3) | (168.9) | (175.5) |
| Corporate cost allocation adjustment | - | - | - | 2.1 |
| Pro-forma Australian Operation EBITA from continuing operations | 82.6 | 87.3 | 78.9 | 77.1 |

Notes:

- FAL Group total sales revenue, FAL Group profit from ordinary activities before goodwill amortisation, net borrowing costs, income tax expense and significant items have been extracted from the audited annual financial statements for the 2002, 2003 and 2004 years and the reviewed 2005 Preliminary Final Report.
- Other revenue comprises interest income, rental income, settlement discounts and other forms of income, including proceeds on the sale of fixed assets and investments.
- Discontinued operations consist primarily of Farmers Holdings Limited, the holding company of the New Zealand based department store and general merchandise business which was sold in 2004.
- Significant items include profits on the sale of Farmers Holdings Limited and of property portfolios in Australia and New Zealand and corporate activity costs.
- Excludes corporate cost adjustment.

8.2.5 Pro-forma Australian Operation results by segment

| \$ million | Financial year ended | | | |
|---|----------------------|----------------|----------------|----------------|
| | 4 Aug 02 | 3 Aug 03 | 1 Aug 04 | 31 Jul 05 |
| | Actual | Actual | Actual | Actual |
| | 53 weeks | 52 weeks | 52 weeks | 52 weeks |
| Sales revenue | | | | |
| Supermarkets | 1,078.8 | 1,209.4 | 1,329.9 | 1,364.3 |
| Franchise & Supply | 1,228.4 | 1,287.5 | 1,308.9 | 1,403.7 |
| Franchise & Supply internal sales | (278.4) | (286.0) | (308.0) | (318.1) |
| Pro-forma sales revenue | 2,028.8 | 2,210.9 | 2,330.8 | 2,449.9 |
| Other operating revenue | 98.0 | 105.4 | 110.9 | 134.8 |
| Pro-forma operating revenue | 2,126.8 | 2,316.3 | 2,441.7 | 2,584.7 |
| Pro-forma EBITA from continuing operations | | | | |
| Supermarkets | 32.2 | 36.5 | 39.1 | 35.4 |
| Franchise & Supply | 49.7 | 50.7 | 45.0 | 49.2 |
| Property | 8.2 | 9.9 | 4.9 | 1.4 |
| Less corporate costs | (7.5) | (9.8) | (10.1) | (11.0) |
| Add corporate cost allocation adjustment | - | - | - | 2.1 |
| Pro-forma EBITA | 82.6 | 87.3 | 78.9 | 77.1 |
| Amortisation except goodwill | 0.3 | 0.2 | 0.1 | 0.2 |
| Depreciation | 18.7 | 22.7 | 24.7 | 27.3 |
| Pro-forma EBITDA | 101.6 | 110.2 | 103.7 | 104.6 |

Note:

1. This amount excludes various one-off costs totalling \$19.8 million being corporate activity costs.

8.3 Management's discussion and analysis of the results of operations

8.3.1 Key profit drivers

The FAL Post-Demerger Group will be a supermarket operator in Queensland, northern New South Wales and Western Australia and will conduct Franchise & Supply operations in Western Australia.

Western Australian Franchise & Supply operations encompass the supply of ambient and frozen and chilled groceries, four Cash & Carry branches and the FoodLink food service business.

The Australian Operation's margins are not as susceptible to phases of the economic cycle as are some other industries where sales are dependent on discretionary consumer expenditure. However, the industry is intensely competitive and industry participants are able to observe the business operations of their competitors including changes to store layouts, pricing policies, promotional activity and product range additions or deletions as soon as they occur.

Margins are susceptible to the following influences among others:

- (a) the pricing policies and promotional activities of competitors;
- (b) the sourcing of product in the most cost effective manner;
- (c) the level of food inflation;
- (d) the application of technology to the business systems which are essential to the efficient management of operations, in particular the systems which control:
 - (i) the merchandising function including product sourcing, pricing, optimal order quantities, cooperative advertising arrangements, achieved gross margins, shrinkage; and
 - (ii) the warehouse management functions including the receipt of goods into store, inventory movements with the warehouse and the picking and despatch of goods;

- (e) the availability of adequately skilled labour, as supermarket operations are highly labour intensive, and the changes in wage rates;
- (f) store openings and refurbishments and store closures by the operator and competitors;
- (g) the ability of the Australian Operation to retain existing customers and to cause customers of its competitors to change their shopping preferences;
- (h) changing customer preference for fresh product, general merchandise and house brand ranges which generally have higher margins than branded packaged groceries;
- (i) the willingness of suppliers to absorb increases in manufacturing costs or to pass on increases in costs;
- (j) changes in supermarket rents;
- (k) the availability of fresh and packaged products which are susceptible to seasonal influences including fruit and vegetables and livestock, especially beef and lamb;
- (l) changes in the sales volumes of individual supermarket locations given the significant fixed costs involved in supermarket operations, in particular, rent, utilities and supervisor salaries; and
- (m) the rate of domestic population increase.

8.3.2 Pro-forma results of operations of the Australian Operation by segment

8.3.2.1 Australian Supermarkets

| | Financial year ended | | | |
|-------------------------|--------------------------------|--------------------------------|--------------------------------|---------------------------------|
| | 4 Aug 02 Actual 53 weeks | 3 Aug 03 Actual 52 weeks | 1 Aug 04 Actual 52 weeks | 31 Jul 05 Actual 52 weeks |
| Sales \$ million | 1,078.8 | 1,209.4 | 1,329.9 | 1,364.3 |
| EBITA \$ million | 32.2 | 36.5 | 39.1 | 35.4 |
| EBITA to sales margin % | 2.98 | 3.02 | 2.94 | 2.59 |

(a) *Financial year ended 31 July 2005 compared to the prior financial year*

Sales improved marginally by 2.6%. Sales continued to be influenced by the fuel discount schemes offered by the other supermarket chains. The appeal of these schemes appeared to increase in line with substantially higher fuel prices. Two new stores and one replacement store were opened, six other stores were subject to major refurbishments and three unprofitable stores were closed.

(b) *Financial year ended 1 August 2004 compared to the prior financial year*

Sales improved by 10.0% to \$1,329.9 million, following the acquisition of five former Newmart stores in Western Australia and the opening of a new store in Queensland. Four store refurbishments were completed in Queensland and a replacement store was opened. In Western Australia one refurbishment was completed.

Competitive conditions intensified especially during the second half when the national chains escalated petrol discounting activity and a new discount operator entered the Queensland market.

The EBITA margin fell by 8 basis points to 2.94%. This reflected the initial performance of the Newmart stores which were well below potential and the one off cost of launching the Action frequent shopper reward program. However, the increase in sales lifted EBITA by 7.1% to \$39.1 million.

(c) *Financial year ended 3 August 2003 compared to the prior financial year*

Despite the 2002 financial year having an extra trading week, 2003 sales lifted 12.1%. The improved performance of the Queensland 40 store network acquired in the second half of the 2001 calendar year and re-branded as Action in March 2002, was a significant influence. Other contributing factors to improved profitability included the replacement of the previous operator's house brand ranges which were out of stock for many items and the extension of fresh ranges.

Sales were also boosted by the opening of four new supermarkets and the completion of seven store refurbishments, six of which were in Queensland. The EBITA margin improved slightly by four basis points to 3.02% but the strong improvement in sales saw EBITA increase by 13.4% to \$36.5 million.

8.3.2.2 *Australian Franchise & Supply*

| | Financial year ended | | | |
|-------------------------|--------------------------------|--------------------------------|--------------------------------|---------------------------------|
| | 4 Aug 02 Actual 53 weeks | 3 Aug 03 Actual 52 weeks | 1 Aug 04 Actual 52 weeks | 31 Jul 05 Actual 52 weeks |
| Sales \$ million | 1,228.4 | 1,287.5 | 1,308.9 | 1,403.7 |
| EBITA \$ million | 49.7 | 50.7 | 45.0 | 49.2 |
| EBITA to sales margin % | 4.05 | 3.94 | 3.44 | 3.50 |

(a) *Financial year ended 31 July 2005 compared to the prior financial year*

Sales, including sales to Action, showed strong growth of 7.3% and EBITA rose 9.3% to \$49.2 million including second half EBITA of \$23.7 million up 13.4%. Highlights for the year included the conclusion of the rollout of the Eziway convenience store banner group and the extension of the fuel discount scheme offered by Dewsons and Supa Valu franchisees to locations other than the former 16 Mobil outlets acquired by FAL and rebranded as Quickstop. A fourth Cash & Carry branch was opened in the regional city of Bunbury.

(b) *Financial year ended 1 August 2004 compared to the prior financial year*

Sales, including sales to Action, grew by only 1.7%, reflecting the extremely competitive market conditions prevailing in Western Australia, reduced sales of low margin tobacco products by Cash & Carry outlets and the loss of a large food service customer. Sales to franchisees improved but sales to non-aligned independent supermarkets were significantly lower. Petro discounting activity by the national chains was a significant influence.

EBITA fell 11.2% to \$45.0 million. Reduced margins reflected eroding gross profit margins and reduced supplier support, some of which was attributable to lower sales volumes.

(c) *Financial year ended 3 August 2003 compared to the prior financial year*

Sales, including sales to Action, grew by 4.8% to \$1,287.5 million, up \$59.1 million by comparison with the 53 week 2002 financial year. \$32.1 million of this increase was attributable to growth in food service sales following the acquisition of the FoodLink business in September 2002. Cash & Carry sales fell slightly by \$2.9 million to \$131.6 million.

EBITA margins fell 11 basis points to 3.94% but EBITA lifted 2.0% to \$50.7 million.

8.4 Pro-forma statement of financial position of the FAL Post-Demerger Group as at 31 July 2005

The FAL Post-Demerger Group's pro-forma statement of financial position as at 31 July 2005 is shown below. The pro-forma statement has been derived from the FAL Group's reviewed statement of financial position at 31 July 2005 after excluding assets and liabilities of the FAL Group's New Zealand Operation. Pro-forma adjustments have also been made to reflect:

- (a) the proposed debt structure of the FAL Post-Demerger Group; and
- (b) the Capital Reduction that will occur as a consequence of the Demerger.

| (\$ million) | AGAAP 31 Jul 05 Actual | AGAAP 31 Jul 05 Pro-forma |
|--------------------------------------|------------------------------|---------------------------------|
| CURRENT ASSETS | | |
| Cash assets | 38.3 | 38.3 |
| Receivables | 76.6 | 75.2 |
| Inventories | 201.5 | 201.5 |
| Other | 7.4 | 7.4 |
| Total current assets | 323.8 | 322.4 |
| NON-CURRENT ASSETS | | |
| Receivables | 299.5 | - |
| Other financial assets | 170.4 | - |
| Property, plant and equipment | 236.7 | 236.7 |
| Intangibles and goodwill | 139.7 | 139.7 |
| Deferred tax assets | 7.3 | 7.3 |
| Other | 3.4 | 3.4 |
| Total non-current assets | 857.0 | 387.1 |
| Total assets | 1,180.8 | 709.5 |
| CURRENT LIABILITIES | | |
| Payables | 160.2 | 160.2 |
| Interest-bearing liabilities | - | - |
| Current tax liabilities | 3.9 | 3.9 |
| Provisions | 11.7 | 11.7 |
| Total current liabilities | 175.8 | 175.8 |
| NON-CURRENT LIABILITIES | | |
| Interest-bearing liabilities | 30.0 | 6.8 |
| Provisions | 10.4 | 10.4 |
| Total non-current liabilities | 40.4 | 17.2 |
| Total liabilities | 216.2 | 193.0 |
| Net assets | 964.6 | 516.5 |
| SHAREHOLDERS' EQUITY | | |
| Contributed equity | 688.6 | 203.1 |
| Reserves | 5.5 | 5.5 |
| Retained profits | 270.5 | 307.9 |
| Total shareholders' equity | 964.6 | 516.5 |

8.4.1 Explanation of Pro-forma adjustments

8.4.1.1 Termination of FAL Employee Share Ownership Plan

It is assumed that, prior to the Demerger, the FAL Employee Share Plan trust will be terminated and the resulting non-current receivable of \$23.2 million will be repaid from FAL Share sale proceeds.

8.4.1.2 Simplification of the FAL Group's ownership of its New Zealand entities

The pro-forma statement of financial position reflects the following transactions as part of the proposed Demerger:

(a) Sale of FAL's 33.7% interest in FNZHL to FNZFL

FAL sells its 33.7% investment in FNZHL to FNZFL. The sale results in a capital profit and will give rise to intercompany debt.

(b) Transfer by AHPL of its 50% interest in FNZFL to FAL

Also reflected is the sale by AHPL of its 50% shareholding in FNZFL to FAL. The sale results in a profit to AHPL and an increase in the cost of the FNZFL investment in FAL's separate financial statements.

This is required prior to sale of FNZFL to PEH.

(c) Sale by FAL of its 100% interest in FNZFL to PEH

Also reflected is the proposed sale by FAL of FNZHL and certain New Zealand intellectual property to PEH.

(d) Capitalisation of intercompany loans

Also reflected is the capitalisation of intercompany loans between FAL and PEH.

(e) Capital distribution

The Demerger results from a dividend and capital distribution by FAL.

The combined effect of these pro-forma transactions is shown in the table below.

| \$ million | Current Assets | Non-Current Assets | | Non Current Liabilities | Shareholders' Equity | |
|--|----------------|--------------------|------------------------|-------------------------|----------------------|------------------|
| | Receivables | Receivables | Other Financial Assets | Interest Bearing | Contributed Equity | Retained Profits |
| AGAAP Actual at 31 July 2005 | 76.6 | 299.5 | 170.4 | (30.0) | (688.6) | (270.5) |
| Termination of Employee Share Plan | | (23.2) | | 23.2 | | |
| Transfer of FAL's 33.7% interest in FNZHL to FNZFL | | 536.9 | (38.6) | | | (498.3) |
| Transfer by AHPL of its 50% interest in FNZFL to FAL | | | 777.5 | | | (777.5) |
| Sale by FAL of its 100% interest in FNZFL and intellectual property to PEH | | 1,142.5 | (909.3) | | | (233.2) |
| Capitalisation of intercompany loans | (1.4) | (1,955.7) | 1,957.1 | | | |
| Capital distribution of PEH to FAL shareholders | | | (1,957.1) | | 485.5 | 1,471.6 |
| AGAAP Pro-forma at 31 July 2005 | 75.2 | 0.0 | 0.0 | (6.8) | (203.1) | (307.9) |

8.5 Pro-forma cash flow statements of the Australian Operation

Set out below are pro-forma cash flow statements for the financial years ended 4 August 2002, 3 August 2003, 1 August 2004 and 31 July 2005.

Prior to the Demerger, the FAL Group met its working capital needs and capital expenditure requirements through operating cash flows, issues of equity and the proceeds of the sale of assets and investments.

It is expected that the FAL Post-Demerger Group will set aside its ongoing requirements for working capital and capital expenditure from the cash flow generated from operations together with cash on hand and, where necessary, drawing down on lines of finance which are not expected to exceed \$20 million.

| \$ million | Financial year ended | | | |
|--|----------------------|-----------|-----------|-----------|
| | 4 Aug 02 | 3 Aug 03 | 1 Aug 04 | 31 Jul 05 |
| | Actual | Actual | Actual | Actual |
| | 53 weeks | 52 weeks | 52 weeks | 52 weeks |
| CASH FLOWS FROM OPERATING ACTIVITIES BEFORE BORROWING COSTS AND INCOME TAX | | | | |
| Receipts from customers | 2,118.0 | 2,297.6 | 2,440.3 | 2,580.6 |
| Payments to suppliers and employees | (2,059.3) | (2,239.5) | (2,335.7) | (2,470.3) |
| Cash flows from operating activities before net borrowing costs and income tax | 58.7 | 58.1 | 104.6 | 110.3 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Payments for property, plant and equipment | (35.4) | (60.4) | (63.4) | (86.9) |
| Proceeds from sale of property, plant and equipment | 2.8 | 0.8 | 154.3 | 8.8 |
| Payments for business acquisitions | (197.5) | (22.3) | (24.6) | (1.9) |
| Loans repayments from FAL Share Plan Nominees Pty Ltd | 1.1 | 1.0 | 6.4 | 8.1 |
| Cash (used in) from investing activities | (229.0) | (80.9) | 72.7 | (71.9) |
| Cash flows from operating and investing activities | (170.3) | (22.8) | 177.3 | 38.4 |
| RECONCILIATION OF EBITDA TO CASH FLOW FROM OPERATING ACTIVITIES BEFORE BORROWING COSTS AND INCOME TAX | | | | |
| EBITDA | 101.6 | 110.2 | 103.7 | 104.6 |
| Movements in working capital | (42.9) | (52.1) | 0.9 | 5.7 |
| Cash flows from operating activities | 58.7 | 58.1 | 104.6 | 110.3 |

8.5.1 Management's discussion and analysis of cash flows

8.5.1.1 Financial year ended 31 July 2005 compared to the previous corresponding year

Cash flows from operating activities increased by \$5.7 million following a stronger performance by the combined Australian trading divisions.

Capital expenditure increased following an acceleration of refurbishment activity and FAL acquiring the balance of its Quickstop locations.

8.5.1.2 Financial year ended 1 August 2004 compared to the prior financial year

EBITDA declined by \$6.5 million following a decline in earnings from the Franchise & Supply division of \$5.7 million to \$45.0 million and lower property income following the sale of properties to the FAL Property Trust. 2004 receipts included proceeds from the sale of properties to the Trust of \$153.2 million.

Action Supermarkets Pty Ltd acquired five former Newmart stores.

8.5.1.3 Financial year ended 3 August 2003 compared to the prior financial year

Cash flows from operating activities for the 2003 financial year fell by \$0.6 million to \$58.1 million due to increases in working capital requirements of \$9.2 million which offset improved contributions from trading divisions.

In the prior financial year, Action had acquired 40 supermarkets in Queensland and northern New South Wales and supporting distribution centre and support office complexes at a cost of \$197.5 million. Following this acquisition refurbishment activity was increased involving outgoings of \$60.4 million compared to \$35.4 million in the prior financial year.

8.5.2 Capital resources

Presently the FAL Group's lines of finance are provided on the basis of a negative pledge agreement. The negative pledge agreement includes a guarantee and indemnity by each of the active members of the FAL Group on behalf of the obligations of each other.

If the Demerger is approved and implemented, FAL and PEH will be separate listed entities that will operate independently of one another. Consequently, any debts of the FAL Post-Demerger Group that are guaranteed by PEH Post-Demerger Group will need to be restructured or refinanced prior to or at the time of the Demerger.

8.5.3 New bank debt

FAL has received committed offers for new bank financing facilities of \$40 million from one of its relationship banks. This will be a bridging facility of six months duration provided on a key undertaking of a negative pledge including a limit on further indebtedness.

8.6 Pro-forma forecast financial information of the FAL Post-Demerger Group for the year ending 30 July 2006 (AGAAP and AIFRS)

8.6.1 Transition to AIFRS

FAL will be required to adopt AIFRS for the financial half year ending 29 January 2006 and the full financial year ending 30 July 2006. At these dates FAL will, as a first time adopter of AIFRS, be required to restate its comparative financial statements using all AIFRS, except for AASB132 "Financial Instruments: Disclosure and Presentation" and AASB139 "Financial Instruments: Recognition and Measurement", for which restated comparative information is not required.

In light of the transition to AIFRS, the following financial information has been presented:

- (a) the pro-forma historic statements of financial performance for the financial years ended 1 August 2004 (AGAAP) and 31 July 2005 (AGAAP and AIFRS);
- (b) the pro-forma forecast statement of financial performance of the financial years ending 30 July 2006 (AGAAP and AIFRS); and
- (c) the pro-forma statement of financial position as at 31 July 2005 (AGAAP and AIFRS).

FAL has substantially completed quantifying the impact of adopting AIFRS. This is subject to change due to work still to be completed by the project team, potential amendments to AIFRS and the issuing of any interpretations in respect of AIFRS.

The only aspect of the AIFRS project still to be completed relates to the application of the financial instruments standards, incorporating a review of contracts for embedded derivatives.

Therefore, the financial information disclosed in this Booklet under AIFRS is FAL's current best estimate and could change due to further work being undertaken by the AIFRS project team and any potential amendments to AIFRS and any interpretations in respect of AIFRS.

Subject to the above, the significant areas of accounting policy change are outlined below. The financial impact of those material differences quantified have been disclosed and discussed in this Booklet where that financial information is presented.

For an explanation of the differences between AGAAP and AIFRS, see Part 11 of this Booklet.

8.6.2 Pro-forma forecast statement of financial performance of the FAL Post-Demerger Group for the financial year ending 30 July 2006

The pro-forma forecast financial information for the year ending 30 July 2006 has been prepared in accordance with market practice in Australia and FAL's accounting policies. Subject to the continuous disclosure requirements imposed by the Listing Rules on listed companies, FAL does not intend to update this information or to publish forecast information in the future.

The pro-forma forecast financial information was prepared by existing FAL management in conjunction with the current FAL Board. The pro-forma forecast financial information has been reviewed by Ernst & Young Transaction Advisory Services Limited and a copy of their report which outlines the scope of work and opinion formed by Ernst & Young Transaction Advisory Services Limited is set out in Part 15.2 of this Booklet.

The pro-forma forecast financial information is based on the strategy and business plans and current structure of the relevant operating divisions as managed by FAL. The FAL Directors acknowledge that if the Demerger occurs, and not the Transfer Scheme, there may well be changes to senior corporate executive positions and to the composition of the Board.

The pro-forma forecast financial information was prepared based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions which are expected to take place, including the key assumptions set out below. The pro-forma forecast financial information was also prepared on the basis of currently available estimates as to sales volumes, retail margins and costs during the remainder of the year.

FAL believes that it has used due care and attention in the preparation of this pro-forma forecast financial information and considers the assumptions to be reasonable when viewed as a whole. However, this information is not fact and undue reliance should not be placed on the forecast financial information.

Actual results are likely to vary from the pro-forma forecast financial information and any variation may be materially positive or negative because of the assumptions. The pro-forma forecast financial information, is by its nature subject to significant uncertainties and contingencies, many of which will be outside the control of FAL and not predictable on a reliable basis. Accordingly, neither FAL nor any other person (including the FAL Board) can give any assurance that the forecast financial information will be achieved.

The pro-forma forecast financial information should be read in conjunction with the key assumptions to forecasts and the sensitivity analysis set out below and the risk factors described in Part 7 of this Booklet.

8.6.3 Pro-forma forecast statement of financial performance of the FAL Post-Demerger Group for the financial year ending 30 July 2006

| \$ million | Financial years ended | | | Financial year ending | |
|--|-----------------------|--------------------|--------------------|-----------------------|--------------------|
| | 1 Aug 04 | 31 Jul 05 | 31 Jul 05 | 30 Jul 06 | 30 Jul 06 |
| | Actual | Actual | Actual | Forecast | Forecast |
| | AGAAP | AGAAP | AIFRS | AGAAP | AIFRS |
| Sales revenue | | | | | |
| Supermarkets | 1,329.9 | 1,364.3 | 1,364.3 | 1,521.1 | 1,521.1 |
| Franchise & Supply | 1,308.9 | 1,403.7 | 1,403.7 | 1,485.4 | 1,485.4 |
| Franchise & Supply internals | (308.0) | (318.1) | (318.1) | (341.7) | (341.7) |
| Sales revenue | 2,330.8 | 2,449.9 | 2,449.9 | 2,664.8 | 2,664.8 |
| EBITA before discontinued operations and significant items by segment | | | | | |
| Supermarkets | 39.1 | 35.4 | 36.2 | 43.8 | 43.4 |
| Franchise & Supply | 45.0 | 49.2 | 50.6 | 53.2 | 53.2 |
| Property | 4.9 | 1.5 | 1.5 | 5.0 | 5.0 |
| Less corporate costs | (10.1) | (9.0) ¹ | (7.0) ¹ | (9.0) | (9.0) |
| Less non-recurring adverse impact | - | - | - | (4.0) ² | (4.0) ² |
| Pro-forma EBITA | 78.9 | 77.1 | 81.3 | 89.0 | 88.6 |
| Goodwill amortisation | | (8.7) | - | (9.0) | - |
| Pro-forma EBIT | | 68.4 | 81.3 | 80.0 | 88.6 |
| Net borrowing costs | | (0.3) | (0.3) | (3.8) | (3.8) |
| Profit before income tax expense | | 68.1 | 81.0 | 76.2 | 84.8 |
| Income tax expense | | (23.1) | (24.3) | (25.6) | (25.4) |
| Net profit attributable to members of FAL from continuing operations | | 45.0 | 56.7 | 50.6 | 59.4 |
| Profit from ordinary activities after income tax attributable to FAL shareholders | | 45.0 | 56.7 | 50.6 | 59.4 |

Notes:

1. Excludes unusual corporate activity costs and is after the corporate cost adjustment.
2. The uncertainty created by the proposed transactions (being the Demerger Scheme and the Transfer Scheme) has and will adversely impact the short term profitability of the Australian Operation. This uncertainty is causing non-recurring specific adverse impacts on supplier income, specifically, reduced amounts of promotional activity, discretionary spending and new line support by suppliers. General business initiatives and the development of new systems intended to reduce the costs of doing business and the cost of goods sold have been slowed or, in some cases, deferred. It is expected these effects will not extend beyond the first half of the 2006 financial year.

8.6.4 Nature of adjustments from AGAAP to AIFRS

8.6.4.1 Depreciation of investment properties

Under AIFRS, depreciation of investment properties measured on the cost basis is required.

8.6.4.2 Loyalty schemes

Under AIFRS, deferred loyalty scheme costs are expensed.

8.6.4.3 Pre-opening expenses

Under AIFRS, store pre-opening expenses are expensed as incurred.

8.6.4.4 Employee benefits

Under AIFRS the actuarial gain of \$4.7 million is recognised.

8.6.4.5 Effect of adjustments

The effect of the four adjustments referred to above on the AGAAP actual statement of financial performance for the financial year ended 31 July 2005 and pro-forma forecast statement of financial performance for the financial year ending 30 July 2006 is as follows.

| \$ million | Financial years ending | |
|---------------------------------------|------------------------|-----------|
| | 31 Jul 05 | 30 Jul 06 |
| EBITA | Actual | Forecast |
| AGAAP | 77.1 | 89.0 |
| Depreciation of investment properties | (0.4) | (0.4) |
| Loyalty scheme costs | 0.2 | 0.0 |
| Pre-opening expenses | (0.3) | 0.0 |
| Employee benefits | 4.7 | - |
| AIFRS | 81.3 | 88.6 |

8.6.4.6 Goodwill

Under AIFRS goodwill is not amortised.

8.6.5 Key assumptions to pro-forma forecasts

The assumptions outlined below should be read in conjunction with the risk factors outlined in Part 7 of this Booklet.

The general assumptions in relation to the pro-forma forecast financial information are as follows:

- price inflation of 1.5%, business costs inflation of 2.5% to 3.0% and wages and salaries inflation of up to 4.0%;
- no change of a material nature to FAL's accounting policies or Accounting Standards which could have a material effect on FAL's forecast financial results, except as described in this Part in relation to the impact of the transition to AIFRS;
- no significant changes in Commonwealth or State legislation, regulatory requirements or government policy beyond that already publicly announced;
- no significant changes to the political or economic environment of Australia; and
- no significant changes to the competitive environment in which FAL operates or in the strategy of a major competitor during the forecast period.

The specific assumptions in relation to the pro-forma forecast financial information are as follows:

- (a) no material change in the current business structure, strategy and policies currently in place as outlined in Part 7 of this Booklet;
- (b) for Supermarkets, sales growth of 11.5% for 2006;
- (c) for Franchise & Supply, sales growth including internal sales including a full year contribution from the Mobil Quickstop network of 5.8% for 2006;
- (d) no material changes in any material contracts relating to FAL's business, including supply agreements;
- (e) no change in FAL's capital and borrowing structure;
- (f) no material disposals of any part of the FAL Group during the period covered by the forecasts (other than of the New Zealand Operation as part of the Demerger);
- (g) no material acquisitions during the period covered by the forecast;
- (h) the timing of property acquisitions, development and subsequent disposal included in the forecasts may vary due to the nature of the transactions depending on work completed by third parties and factors that may be outside the control of FAL management;
- (i) all material stand alone derivatives are closed out prior to 31 July 2005;
- (j) no material changes in aggregate, of the fair value of any embedded derivatives that may be identified as part of the AIFRS project over the period covered by the forecast; and
- (k) no material asset impairment issues will arise during the period covered by the forecasts.

8.6.6 Sensitivity analysis

The forecast for the 2006 year is based on a number of economic and business assumptions about future events. To assist in understanding the impact of the key assumptions, the following points set out the sensitivity of EBITA for the 2006 year to variations on sales and retail margins.

Care must be taken when interpreting these sensitivities. The sensitivities assume no management response to the changes even though in practice management would be expected to respond to any adverse changes by taking action to minimise the effect on financial performance. The effect on EBITA for each sensitivity does not represent or predict the minimum or maximum likely to be experienced in practice. Further assumptions, in particular competitor, customer and supplier reactions and impacts, remain constant. In practice this is unlikely to occur.

- (a) Assuming no change in other forecast assumptions, a 2% increase in sales could be expected to affect the forecast EBITA for the 2006 year by \$6.5 million with a 2% decrease affecting the forecast for the 2006 year by \$7.4 million.
- (b) Assuming no change in other forecast assumptions, a 0.5% variation in retail margins could be expected to affect the forecast EBITA for the whole 2006 financial year by \$2.7 million.

8.7 Pro-forma statement of financial position of the FAL Post-Demerger Group as at 31 July 2005 AGAAP to AIFRS

Below is the pro-forma statement of financial position at 31 July 2005 adjusted for those items required for the conversion to AIFRS.

| (\$ million) | AGAAP 31 Jul 05 Pro-forma | AIFRS 31 Jul 05 Pro-forma |
|--------------------------------------|---------------------------------|---------------------------------|
| CURRENT ASSETS | | |
| Cash assets | 38.3 | 38.3 |
| Receivables | 75.2 | 75.2 |
| Inventories | 201.5 | 200.1 |
| Other | 7.4 | 6.6 |
| Total current assets | 322.4 | 320.2 |
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 236.7 | 235.1 |
| Intangibles and goodwill | 139.7 | 148.4 |
| Deferred tax assets | 7.3 | 5.1 |
| Other | 3.4 | 5.7 |
| Total non-current assets | 387.1 | 394.3 |
| Total assets | 709.5 | 714.5 |
| CURRENT LIABILITIES | | |
| Payables | 160.2 | 160.2 |
| Current tax liabilities | 3.9 | 3.9 |
| Provisions | 11.7 | 11.7 |
| Total current liabilities | 175.8 | 175.8 |
| NON-CURRENT LIABILITIES | | |
| Interest-bearing liabilities | 6.8 | 6.8 |
| Provisions | 10.4 | 10.4 |
| Total non-current liabilities | 17.2 | 17.2 |
| Total liabilities | 193.0 | 193.0 |
| Net assets | 516.5 | 521.5 |
| SHAREHOLDERS' EQUITY | | |
| Contributed equity | 203.1 | 203.1 |
| Reserves | 5.5 | - |
| Retained profits | 307.9 | 318.4 |
| Total shareholders' equity | 516.5 | 521.5 |

8.7.1 Nature of adjustments from AGAAP to AIFRS

8.7.1.1 Inventory

Settlement discounts amounting to \$1.4 million (\$1.0 million net of tax) in relation to inventory purchases which were previously recognised in income have been deducted from the cost of inventory.

8.7.1.2 Pre-opening expenses

Unamortised store pre-opening expenses of \$1.1 million (\$0.7 million net of tax), which under AGAAP are deferred and amortised over twelve months from the date of commencement of trading, have been expensed.

8.7.1.3 Loyalty schemes

Unamortised launch costs of a customer loyalty scheme of \$1.7 million (\$1.2 million net of tax), which were deferred and amortised under AGAAP, have been expensed.

8.7.1.4 Depreciation of investment properties

Under AIFRS, accumulated depreciation of \$1.6 million (\$1.1 million net of tax) on investment properties is required.

8.7.1.5 Goodwill amortisation

The goodwill amortisation (under AGAAP) of \$8.7 million charged to profits for the half year ended 31 July 2005 is reversed, as goodwill is no longer amortised under AIFRS.

8.7.1.6 Employee benefits

Under AIFRS, the actuarial gain amounting \$4.3 million (\$3.0 million net of tax) is required to be recognised.

8.7.1.7 Income taxes

Under AIFRS certain deferred tax liabilities, relating principally to land and buildings carried at deemed cost, are recognised that are not recognised under AGAAP.

8.7.1.8 Reserves

As the FAL Group has elected to measure property, plant and equipment at its deemed cost at the date of transition to AIFRS the revaluation reserve amounting to \$5.5 million has been transferred to retained earnings.

8.7.2 Summary of AIFRS adjustments

The effect of the adjustments referred to above on the AGAAP pro-forma statement of financial position at 31 July 2005 is as follows.

| \$ million | Inventories | Other Current Assets | Property, Plant and Equipment | Intangibles and Goodwill | Other Non-Current Assets | Deferred Tax Asset | Asset Revaluation Reserve | Retained Earnings Dr/(Cr) |
|---------------------------------------|-------------|----------------------|-------------------------------|--------------------------|--------------------------|--------------------|---------------------------|---------------------------|
| AGAAP pro-forma | 201.5 | 7.4 | 236.7 | 139.7 | 3.4 | 7.3 | (5.5) | (307.9) |
| Inventory | (1.4) | | | | | 0.4 | | 1.0 |
| Pre-opening expenses | | (0.7) | | | (0.4) | 0.4 | | 0.7 |
| Loyalty schemes | | (0.1) | | | (1.6) | 0.5 | | 1.2 |
| Depreciation of investment properties | | | (1.6) | | | 0.5 | | 1.1 |
| Goodwill amortisation | | | | 8.7 | | | | (8.7) |
| Employee benefits | | | | | 4.3 | (1.3) | | (3.0) |
| Income taxes | | | | | | (2.7) | | 2.7 |
| Reserves | | | | | | | 5.5 | (5.5) |
| | (1.4) | (0.8) | (1.6) | 8.7 | 2.3 | (2.2) | 5.5 | (10.5) |
| AIFRS pro-forma | 200.1 | 6.6 | 235.1 | 148.4 | 5.7 | 5.1 | - | (318.4) |

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Part 9

PEH after the Demerger (if the Demerger Scheme proceeds but the Transfer Scheme does *not* proceed)

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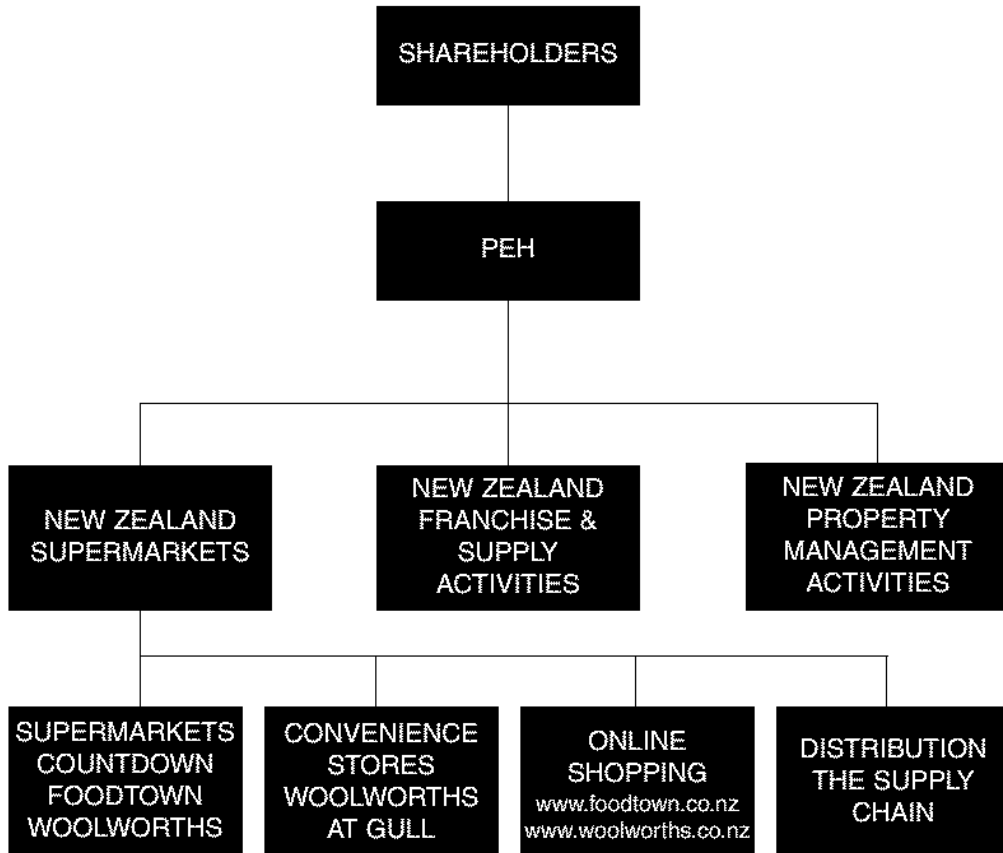
9 PEH after the Demerger (if the Demerger Scheme proceeds but the Transfer Scheme does *not* proceed)

IMPORTANT NOTE: REMEMBER THIS SECTION ONLY APPLIES IF THE ACQUISITIONS BY WOOLWORTHS AND METCASH DO NOT OCCUR

9.1 Introduction

Should the Transfer Scheme not be approved, after the Demerger, FAL's New Zealand Operation will be owned and operated by PEH, an Australian company which, it is intended, will be listed on the ASX with a secondary listing on the NZX.

The New Zealand Operation after the Demerger



The diagram set out above is designed to show the structure of the major operating divisions of the New Zealand Operation. The legal entities owning the New Zealand Operation are not shown.

9.2 Description of the New Zealand Operation

9.2.1 Overview

The New Zealand Operation is a supermarket operator and grocery wholesaler in both the North and South Islands of New Zealand. Unlike FAL, PEH does not participate in the food service and Cash & Carry segments of the market.

The New Zealand Operation holds approximately 44% of the New Zealand supermarket retail grocery market and employs over 18,600 staff.

9.2.2 History of the New Zealand Operation

The store brands currently operated by the New Zealand Operation network were developed by several parties in New Zealand commencing in 1929 with the opening of the first Woolworths store in Cuba Street, Wellington.

In 1958, the first Foodtown store was opened in Otahuhu.

In 1979, the Woolworths brand expanded in the North Island when the then owners of the Super Value chain, L D Nathan, re-branded all their stores to Woolworths.

In May 1981, the first Countdown supermarket was opened in Northlands Christchurch.

The New Zealand Operation, in its present form, can be traced in origin to the merger of the Countdown and Foodtown businesses in 1993 when both supermarket chains came under the control of Progressive Enterprises Limited, then a New Zealand public listed company. Through this transaction, FAL became the majority shareholder of Progressive Enterprises Limited.

In 1999, FAL made a successful take over bid for the shares owned by Progressive's minority shareholders and Progressive became a wholly owned member of the FAL Group.

In 2002, the then owner of the Woolworths, Big Fresh and Price Chopper supermarkets, the Hong Kong based Dairy Farm International, decided to sell its New Zealand interests and these were acquired by Progressive Enterprises Limited.

9.2.3 Supermarket operations

9.2.3.1 Supermarkets and convenience stores

The New Zealand Operation operates 150 supermarkets trading under the Countdown (57 stores), Foodtown (30 stores) and Woolworths (63 stores) banners as well as 22 Woolworths Micro and Quickstop convenience stores. Progressive's supermarkets serve approximately 2,450,000 customers every week and have a combined retail trading area of approximately 289,000 square metres.

FAL believes that the supermarkets division holds approximately 40% of the New Zealand supermarket retail grocery market expressed as a percentage of sales of the two major participants in that market. The main competitor is the alliance of three regional Foodstuffs cooperatives; Foodstuffs Auckland, Foodstuffs Wellington and Foodstuffs South Island. These cooperatives combine expertise in buying, promotional activity and store development. The principal franchise supermarket banners supplied by Foodstuffs are Pak'n Save and New World but Foodstuffs other operations extend to the food service and cash and carry segments of the market.

The other competitors of the New Zealand Operation are chains of specialist meat, produce and seafood retailers.

A profile of the New Zealand Operation's supermarket network is set out in the table below:

| Brand | No. stores | Description | Trading Area (square metres) |
|-----------------------------------|------------|--|---------------------------------|
| Countdown | 57 | Full service discount stores | 650 - 3,800 |
| Foodtown | 30 | Full service high quality supermarkets | 1,200 - 2,900 |
| Woolworths | 63 | Full service high quality supermarkets | 750 - 2,900 |
| Woolworths Micro and Quickstop | 22 | Convenience stores located at Gull service stations | 130 - 200 |

The Countdown supermarket format operates in both the North Island and the South Island. During the past two years, the number of Countdown supermarkets has increased from 32 to 57, as a consequence of new developments and conversions of former Woolworths stores.

Foodtown supermarkets trade exclusively in the North Island, with most of the stores located in metropolitan Auckland, while Woolworths stores trade throughout the North and South Islands.

Woolworths Micro and Quickstop is a chain of convenience stores with petrol station forecourts operated in conjunction with the Western Australian based fuel importer, Gull Petroleum.

9.2.3.2 Online shopping

Foodtown and Woolworths customers wanting to shop from home can do so by using the web site based home shopping facility and delivery service by logging on to: www.foodtown.co.nz or www.woolworths.co.nz. In the 2005 financial year, just under 119,000 online shopping orders were filled, being a 19% increase on the prior year, demonstrating the increasing popularity of this service.

9.2.3.3 The Supply Chain

The New Zealand Operation operates three main distribution centres and support office complexes. All of these properties are leased. The largest of these is located in Favona Road, Mangere, a suburb of Auckland, on a site of 134,000 square metres with buildings having a net lettable area of 65,300 square metres. After the acquisition of Woolworths New Zealand in June 2002, a decision was taken to centralise Auckland area distribution operations at the Favona Road site. Extensions to the Mangere distribution centre were completed in 2003 and that facility now has a floor area of 52,300 square metres.

Another distribution centre with a floor area of 12,100 square metres is located in Palmerston North.

South Island company stores and franchisees are supplied from the Christchurch distribution and support office complex located on a site of 43,300 square metres on which is located a distribution centre having a floor area of 15,700 square metres. This facility is located in the Christchurch suburb of Hornby. Also located in Christchurch is an ancillary warehouse having a floor area of 10,100 square metres.

All chilled and frozen products are stored and distributed by a third party distributor (P&O Logistics) operating from sites in Auckland, Palmerston North and Christchurch.

A state of the art cabinet ready meat preparation facility located in the Auckland suburb of Otahuhu has recently been commissioned. It is expected that all 122 North Island supermarkets will be supplied from this facility by December 2005. This initiative allows the conversion of expensive in-store meat preparation areas to selling space, improving operating efficiency, while making available increased ranges of better quality products in stores, enhancing customer value.

The South Island meat preparation plant is located in the Christchurch suburb of Malvern. This facility also supplies some South Island franchisees.

The New Zealand Operation sources approximately 80% of its fresh produce from grower wholesalers. In the North Island two purpose built produce handling facilities are located in the Auckland suburb of Mt Wellington and in Wellington. A third facility is in Christchurch.

North Island seafood requirements are prepared for distribution in a specialist plant located in the Auckland suburb of Penrose. In the South Island, seafood product is sourced from independent wholesalers.

All of the New Zealand Operation's transport requirements for ambient groceries, frozen and chilled product, meat, seafood and produce are outsourced.

9.2.4 New Zealand Franchise & Supply

The New Zealand Operation is the grocery wholesale supplier and co-ordinator of the "Fresh Choice" and "SuperValue" franchise banner group supermarkets and supplies 12 Fresh Choice and 32 SuperValue supermarkets, 36 of which trade in the South Island. These franchise supermarkets are supplied principally from North and South Island distribution centres. It is estimated that franchise customers hold collectively 4% of the New Zealand supermarket grocery market.

9.2.5 New Zealand property management activities

The New Zealand Operation is actively involved in locating sites suitable for new supermarkets. Property management activities extend to the planning of store layouts and the supervision of refurbishment work contracted to third parties.

FAL believes that it is not in the interests of shareholders to hold long term investments in freehold property. Regardless, from time to time, it is necessary to acquire properties in order to achieve control of sites suitable for supermarkets.

In July 2004, Progressive Enterprises Limited sold a property portfolio comprising six supermarkets and three distribution centre and support office complexes to the Multiplex New Zealand Property Fund for \$131 million.

In July 2005, Progressive Enterprises Limited held a portfolio of property with a value of NZ\$61.4 million.

9.3 Strengths

PEH's key strengths will include:

9.3.1 Strong market position

PEH will be a leading participant in New Zealand's retail grocery market. As mentioned above, PEH will operate 150 supermarkets in New Zealand under the well known brands Foodtown, Woolworths and Countdown as well as 22 convenience stores trading under the Woolworths Micro and Quickstop brands.

PEH will be the grocery wholesale supplier and co-ordinator of the "Fresh Choice" and "SuperValue" franchise banner group supermarkets which hold approximately 4% of the New Zealand supermarket retail grocery market.

Together these brands hold approximately 44% of the New Zealand supermarket retail grocery market.

9.3.2 Highly recognised brands

PEH's brands will continue to be highly recognised and well established in the New Zealand market. Foodtown and Woolworths operate in the full service section of the market, offering a wider product selection and increased service levels. Foodtown has greater representation in the North Island, especially in metropolitan Auckland, while Woolworths are located throughout the North and South Islands. Countdown has a national presence with a strong "value offer" with a price emphasis.

PEH will continue to improve brand presence using a combination of promotional campaigns, innovative store design and high standards of customer service.

All of the "Fresh Choice" and the majority of the "SuperValue" franchise banner group supermarkets trade in the South Island, especially in smaller population centres and are an established component of the New Zealand grocery retail industry.

9.3.3 Committed and experienced management teams

In keeping with FAL's current values, PEH will be committed to providing a highly motivated and skilled workforce (including an experienced management team) working in an environment which encourages innovation and growth.

9.3.4 Sourcing and technical co-operation arrangements

In the event that the Transfer Scheme does not proceed, PEH and FAL have identified opportunities to enter co-operation agreements relating to the joint sourcing and development of information technology applications and joint sourcing of inventory, in particular, SR Signature Range and Basics corporate brand grocery products. If implemented, these arrangements will continue to be of advantage to both the FAL and the PEH Post-Demerger Groups.

9.3.5 New store formats

As part of the ongoing business development process, innovation in store design and format is essential. Thus PEH's most recent store openings feature many new concepts including extended ranges of ready-to-eat meals, take away foods, an in store pharmacy and a greater variety of general merchandise. These changes are proving extremely popular with customers and the opportunity exists to roll out these concepts into other larger stores in appropriate catchment areas.

9.4 PEH's business strategy – overview

PEH's overall strategic objective will be to create shareholder value by generating returns on capital employed that are in excess of its costs of capital.

PEH's strategy in this regard will be to:

- (a) maintain a leading position and achieve further growth in the New Zealand grocery retail and wholesale markets. PEH will aim to achieve this through operational excellence and by building up its well known brands in all sections of the grocery market, particularly regional areas;
- (b) satisfy ever changing consumer demand by combining innovation and value as PEH will offer customers high service levels, range and, above all, better value;
- (c) strive constantly to reduce the cost of doing business through greater commercial efficiency and use of technology;
- (d) motivate, develop and incentivise all employees; and
- (e) seek out value adding opportunities consistently to strengthen the already thriving New Zealand business portfolio.

However, in accordance with current policy the PEH Board will undertake a comprehensive review of all aspects of the New Zealand Operation post-Demerger, to ensure the most appropriate business structure, strategy and policies are in place for the future. The strategy for PEH and the New Zealand Operation after the Demerger which is described in this Part 9 should be read in this context.

9.5 PEH's business strategy – detail

9.5.1 Store network

The strength and appeal of the individual store brands in New Zealand has allowed FAL to maintain market share in an increasingly competitive market. PEH will endeavour to increase its business scale so as to increase the efficiency of its centralised distribution facilities.

9.5.2 Customer loyalty and incentive programs

A variety of customer loyalty programs are in place. The "onecard", exclusive to Woolworths and Foodtown brands, provides instant discounts and points accrual which are redeemed three times a year for cash rewards vouchers. In total, some 1.4 million cards have now been issued. For every \$10 spent, the card holder receives one point and after 200 points are accumulated they qualify for a reward. Additionally, customers receive ongoing discounts on shelf prices.

Also, in New Zealand, fuel-related discounting is used selectively and tactically with the store portfolio. To increase the appeal and draw of the large Countdown stores, the concept of stand alone petrol stations is currently being trialled. The first of these commenced trading in November 2004.

9.5.3 Internet shopping

Foodtown and Woolworths customers wanting the convenience of shopping from home can now do so by using a web site based home shopping facility and delivery service by logging on to: www.foodtown.co.nz and www.woolworths.co.nz. In fiscal 2005, just under 119,000 online shopping orders were filled, being a 19% increase on the prior year, demonstrating the increasing popularity of this service.

9.5.4 House brands

In New Zealand, the SR Signature Range and Basics range of house brand products are market leaders in providing premium quality and value to the customer. PEH expects further opportunities for the development and extension of these brand ranges, with resulting increased presence and scale providing brand exclusivity and enhanced gross profit.

9.5.5 Capital management

The aim of PEH's capital management strategy will be to improve returns by investing only in initiatives that provide a greater return than its weighted average cost of capital.

In 2004, most of the New Zealand property was sold thereby reducing debt and increasing funds available for reinvestment. Post Demerger, PEH will aim to have a balance sheet that has both flexibility and capacity to enhance shareholder value through a variety of strategies, including reinvestment in the capital expenditure program and acquisitions. PEH will continue to look at acquisition opportunities in the market to reinvest such capital.

9.5.6 Buying and merchandising

Auckland will be the "Buying Office" for the New Zealand Operation and will continue to be pivotal in further reducing the costs of goods. The office's contribution will extend beyond product costs to include more detailed analysis of product performance, improved and more proactive liaison with suppliers together with greater emphasis on product development, including corporate brand and general merchandise ranges. The New Zealand Operation will continue to apply considerable innovation in product sourcing, ranging and cost-effective supply techniques.

9.5.7 Improve overall operational efficiency

PEH will aim to exploit the significant opportunities to improve the efficiency of its New Zealand business network.

The principal opportunities include supply chain efficiencies, more effective and profitable use of store space and increased use of available technologies, both at store and corporate level. Advanced technological applications will help reduce the cost of goods and the cost of doing business while also allowing PEH to be proactive in catering for changing consumer demands and taste.

In particular, it is expected that PEH's merchandising system will be replaced to improve its ability to deal with PEH's increasingly extensive buying activities.

9.6 Risks associated with PEH

After the Demerger, PEH will continue to be subject to various risk factors. The principal risk factors that could impact PEH are listed below. These include general risks associated with any investment, the economy and the grocery retail and wholesale market.

9.6.1 Risk factors that affect the general economy and the stock market

General economic conditions such as interest rates, inflation, mortgage rates, foreign exchange rates, the labour market environment and oil prices may all have an impact on PEH's business.

9.6.2 Risk factors that affect the grocery retail and wholesale market

9.6.2.1 General risks

There may be changes in the demand for grocery items which will affect the New Zealand Operation and its financial performance. Such factors include, but are not limited to, weather and climatic conditions, civil unrest, terrorist activities and agricultural advances.

9.8.2.2 Competitive risks

The New Zealand Operation is a key player in the New Zealand grocery industry which continues to be extremely competitive.

Competitive risks that may negatively impact on PEH's financial performance include:

- (a) new entrants to the market – a new entrant to the wholesale or retail market may reduce PEH's sales and profits. For example, the Warehouse Group has recently announced that it is seeking to enter the food retail industry in New Zealand through the establishment of a number of hypermarkets; and
- (b) loss of key customers – a key customer deciding to move away from PEH as their wholesale supplier could lead to a loss of sales and profit for PEH.

9.8.2.3 Other risks

(a) Health risks

The major proportion of the New Zealand Operation's sales relate to food products. A real or perceived health risk associated with any type of food group (e.g. meat, seafood) can have an adverse effect on sales of that product and consequently on companies involved in the sale of that product.

(b) Damage to infrastructure

Loss or destruction of utilities and infrastructure such as power, warehouses, communications and transportation may prevent PEH from carrying on its business in a normal manner and may have a negative impact on its sales.

(c) Earthquake risk in the greater Wellington area

The greater Wellington area is an earthquake prone area. The New Zealand Operation has a number of outlets in the greater Wellington area. It is possible that PEH's financial performance could be adversely affected if there is a major earthquake or other natural disaster affecting either the greater Wellington area or any other area in which there is a concentration of stores or distribution facilities of the New Zealand Operation.

(d) Dependence on suppliers

PEH's business relies on the ongoing supply of products to it from a wide range of suppliers. Natural disasters such as flood, drought, earthquakes as well as industrial factors can interrupt supply and may have an adverse impact on the New Zealand Operation.

(e) Scarcity of supply

Also, scarcity of certain products may result in higher prices being demanded for those products. In particular, the supply of agriculturally based products can be impacted by factors such as drought, flood, and other natural disasters. Consumers may not be willing to pay these prices, which may lead to decreased demand and a negative impact on sales and profits.

(f) Labour relations

A work stoppage due to failure to renegotiate an enterprise bargaining agreement or otherwise could have a material adverse impact on PEH. However, the New Zealand Operation has not had any significant labour disputes and the PEH Board believes that the New Zealand Operation has a strong relationship with its employees.

9.6.3 Specific risk factors that affect PEH shares

9.6.3.1 Inability to frank dividends

Initially, it is intended that PEH will have its primary listing on the ASX. This is because the majority of FAL's existing shareholders are Australian domiciled investors. Because PEH's operations are conducted almost exclusively in New Zealand, there will be very limited opportunities for dividends to be franked for Australian taxation purposes.

These circumstances will continue in the absence of new agreements between the Australian and New Zealand Governments which would result in the Australian Government recognising the "tax paid" nature of dividends paid by Australian companies conducting operations in New Zealand. This aspect may limit the appeal of the investment to some Australian investors, particularly Australian retail investors.

9.6.3.2 PEH dividends

PEH is the Australian incorporated holding company of the PEH Post-Demerger Group. As part of the Demerger, PEH will acquire all of the shares in FNZFL, the current holding company of the group of companies that owns the New Zealand Operation. PEH as the new holding company will treat retained earnings held by FNZFL (and its controlled entities) at the date of acquisition by PEH as pre-acquisition retained earnings. Dividends can only be paid out of profits. Any dividends paid out of pre-acquisition profits by FNZFL to PEH will reduce the carrying amount of the investment by PEH in FNZFL rather than being available for distribution to PEH Shareholders as post acquisition profits.

PEH will record the investment in FNZFL at its fair value at the date of the acquisition. If the New Zealand economy declined markedly over a sustained period then there is the potential that there may be impairment losses to be recognized by PEH in relation to the carrying value of its investment in FNZFL. The recognition of any post acquisition impairment loss on the carrying value of PEH's investment in FNZFL would reduce PEH's ability to pay future dividends in a post Demerger year to the extent the post acquisition profits derived by PEH (received by way of dividends from FNZFL paid out of its post acquisition profits) are eliminated by an impairment loss if one were to arise.

9.6.3.3 Foreign exchange fluctuation risk

Nearly all of PEH's assets, liabilities, revenues and expenses will be denominated in New Zealand dollars. This will expose Australian investors to fluctuations in the prevailing rate of exchange between the Australian and New Zealand dollars. This aspect may limit the appeal of the investment to some Australian investors, particularly Australian retail investors.

9.6.3.4 Lower market capitalisation and liquidity

After the Demerger, PEH's market capitalisation will be smaller than FAL's market capitalisation before the Demerger as the New Zealand Operation only represents approximately 65% of the share of FAL's existing operations. Consequently, PEH may not be as attractive an investment for institutional investors as FAL prior to the Demerger because of potentially lower share liquidity. This may increase the difficulty of raising capital in the future.

9.6.3.5 IT systems and network interruptions

The ongoing performance of PEH's operations is dependent, in part, on the reliability and availability of its IT systems and associated (data/voice) networks. IT systems and network interruptions due to circumstances beyond PEH's control may result in temporary unavailability of key operating processes. Disaster recovery/backup systems are in place for key IT systems and key network links to mitigate the risk of such disruptions. Furthermore, PEH carries business interruption insurance, which may offset the financial effect of any such disruption.

9.7 Other effects of the Demerger on PEH

9.7.1 Corporate office

Following the Demerger, PEH's corporate office will be located at 80 Favona Road, Mangere.

FAL will cease to have responsibility for any involvement in the administrative functions of the New Zealand Operation. As a consequence the PEH Board and management team will assume complete responsibility for the following functions, which to date, have been completely or partially the responsibility of the FAL Board and management team:

- (a) advising on the corporate strategy of the PEH Post-Demerger Group including reviewing and determining annual budgets and strategic plans;
- (b) setting guidelines for investments and approving all capital expenditure;
- (c) monitoring the ongoing performance of the business;
- (d) approving the appointments of and terms and conditions of employment of senior executives;
- (e) compliance with ASX and NZX listing requirements, including corporate governance; and
- (f) maintaining relationships with suppliers.

In addition, the PEH Board and management will assume complete responsibility for support functions, including information technology, finance and administration, human resources, merchandising and promotion, secretariat and public affairs.

9.7.2 Directors, senior management and employees

9.7.2.1 Composition of PEH Board

The initial PEH Board is comprised of the same directors as the existing FAL Board. These directors are named in Part 14.2 of this Booklet. Within three months of the Demerger Implementation Date, the PEH Board (comprised of those directors) will meet to determine an appropriate board for PEH. It is likely that some of the existing PEH Board members will continue as directors of PEH. However, it is also likely that some will leave and some new directors will be appointed to ensure the appropriate mix of skills and experience required to best serve the interests of PEH Shareholders.

9.7.2.2 Senior management executives

The PEH Board has not determined whether any changes are required to the composition of the senior management team of PEH that will lead the operation of the New Zealand Operation after the Demerger. This will be a matter for the "new" PEH Board to determine. However, as noted in Part 7.6.6 of this Booklet, Trevor Coates, the current Chief Executive Officer and Group Managing Director of FAL, and James Brown, the current General Manager, Finance, who currently have responsibility for both the Australian Operation and the New Zealand Operation, will review their positions in light of the diminution of responsibilities after the Demerger and are likely to leave FAL.

However, the PEH Board expects that most senior management employed in the New Zealand Operation will continue to be required as executives of the PEH Post-Demerger Group and that PEH will have available to it or be able to attract the necessary range of skills for its senior management team.

9.7.2.3 Employee matters

It is expected that employees of the New Zealand Operation will be able to continue their employment with the PEH Post-Demerger Group. It is also expected that PEH will continue the present policies of FAL relating to employees. In particular, the "new" PEH Board will determine whether PEH will establish an employee share plan. Any such new plan would directly tie the performance of the New Zealand Operation to the remuneration of employees of the New Zealand Operation.

9.7.3 Strong economic value as a potential target for third parties

Should the Transfer Scheme not be approved, PEH is likely to be an attractive acquisition target for third parties.

For other retailers, PEH may be a unique opportunity to acquire a substantial and profitable complementary business, offering the potential to generate substantial in-market synergies with a business already held by the acquirer and, over time, considerable growth in New Zealand market share.

Part 10

Financial Information on PEH after the Demerger (if the Demerger Scheme proceeds but the Transfer Scheme does *not* proceed)

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10 Financial Information on PEH after the Demerger (if the Demerger Scheme proceeds but the Transfer Scheme does *not* proceed)

**IMPORTANT NOTE: REMEMBER THIS SECTION ONLY APPLIES IF THE
ACQUISITIONS BY WOOLWORTHS AND METCASH DO NOT OCCUR**

10.1 Introduction

After the proposed demerger, PEH will be the ultimate holding company of the New Zealand Operation. This Part 10 contains the following financial information on the PEH Post-Demerger Group:

- (a) historical pro-forma financial information on the New Zealand Operation;
- (b) management's discussion and analysis of financial conditions and results; and
- (c) forecast financial information for the PEH Post-Demerger Group.

10.2 Historical financial information

The pro-forma historical financial information provided on the PEH Post-Demerger Group within this Part 10 includes:

- (a) pro-forma historical financial performance for the financial years ended 4 August 2002, 3 August 2003, 1 August 2004 and 31 July 2005;
- (b) pro-forma historical cash flow statements for the financial years ended 4 August 2002, 3 August 2003, 1 August 2004 and 31 July 2005; and
- (c) a pro-forma statement of financial position as at 31 July 2005.

In this Part 10, unless otherwise indicated, the terms "Sales revenue", "EBITDA", "EBITA" and "cash flow from operations" have the meanings given to those terms in Part 20 of this Booklet.

10.2.1 Basis of preparation and presentation

The pro-forma historical information is derived from the audited financial statements of the FAL Group for the 2002, 2003 and 2004 financial years and the reviewed Preliminary Final Report of the FAL Group for the 2005 financial year and other pro-forma consolidated historical information prepared by FAL.

The Preliminary Final Report of the FAL Group for the financial year ended 31 July 2005, as set out in Appendix 4E to the ASX Listing Rules, was lodged with the ASX on 13 September 2005.

The pro-forma consolidated financial statements include PEH and the entities it will control following the Demerger. The pro-forma consolidated financial statements have been derived from the audited financial statements of the FAL Group for the years ended 4 August 2002, 3 August 2003 and 1 August 2004 and the reviewed Preliminary Final Report for the year ended 31 July 2005. The pro-forma consolidated financial statements have been subject to review by the investigating accountants, Ernst & Young Transaction Advisory Services Limited. A copy of their report on their review of the pro-forma financial information is included in Part 15.2 of this Booklet.

The pro-forma results of operations and pro-forma cash flows assume that the Demerger occurred on 30 July 2001 and that the PEH Post-Demerger Group comprised the businesses of New Zealand Supermarkets and convenience stores and Franchise & Supply New Zealand during all of the periods presented. The pro-forma statement of financial position assumes that the Demerger occurred on 31 July 2005.

The pro-forma historical financial information provided for the PEH Post-Demerger Group includes:

- (a) pro-forma results of operations for the financial years ended 4 August 2002, 3 August 2003, 1 August 2004 and 31 July 2005 and management discussion and analysis of the financial results as set out in Part 10.3 of this Booklet;
- (b) pro-forma statement of financial position as at 31 July 2005 assuming the entities in the PEH Post-Demerger Group had owned the New Zealand Operation at that time together with explanations of pro-forma adjustments as set out in Part 10.4 of this Booklet;
- (c) pro-forma statements of cash flows for the financial years ended 4 August 2002, 3 August 2003, 1 August 2004 and 31 July 2005 and management discussion and analysis of the cash flows as set out in Part 10.5 of this Booklet; and

- (d) pro-forma forecast financial information for the financial year ending ending 30 July 2006 (AGAAP and AIFRS) together with explanations of the adjustments from AGAAP to AIFRS, the key assumptions to forecasts and sensitivity analysis as set out in Part 10.6 of this Booklet.

A pro-forma statement of financial position at 31 July 2005 converted from AGAAP to AIFRS together with explanations of adjustments as set out in Part 10.7 of this Booklet.

The pro-forma financial information does not purport to represent what the results of operations would have been if the PEH Post-Demerger Group had operated on a stand alone basis during the historical periods, nor to project results of operation for any future period.

The pro-forma results of operations have been provided to EBITA and the pro-forma statements of cash flows to cash flows from operating activities before net borrowing costs and income tax, and cash flows from operating and investment activities. The PEH Post-Demerger Group will comprise different assets and entities other than the Progressive Enterprises Group as it is currently constituted and will operate under a different corporate structure with different gearing and tax profiles than was the case during the periods presented. Accordingly, FAL does not believe that the reporting of historic borrowing costs, income tax and net financing cash flows would be meaningful or appropriate. This information has not therefore been included in the pro-forma historical financial information. Details of the pro-forma forecast net borrowing costs, income tax expense and profit from ordinary activities after income tax expense attributable to PEH Shareholders for the financial years ending 30 July 2006 are included in Part 10.5 of this Booklet.

10.2.2 Summary of significant accounting policies

The significant accounting policies followed by FAL under AGAAP as set out in their financial report for the financial year ended 1 August 2004 are set out in Part 11 of this Booklet. These AGAAP accounting policies have been consistently applied during the periods covered by the pro-forma historical and forecast financial information included in this Booklet.

10.2.3 Foreign currency convenience translation rates – historic transactions

Where appropriate, the dollar value amounts expressed in this Part 10 have been translated from New Zealand dollars at the following convenience translation rates.

| | Financial year ended | | | |
|---|----------------------|--------------------|--------------------|---------------------|
| | 4 Aug 02 Actual | 3 Aug 03 Actual | 1 Aug 04 Actual | 31 Jul 05 Actual |
| One Australian dollar is equal to | 53 weeks | 52 weeks | 52 weeks | 52 weeks |
| Amounts at financial period end ¹ | NZ\$1.1881 | NZ\$1.1191 | NZ\$1.1053 | NZ\$1.1123 |
| Transactions occurring during financial period ² | NZ\$1.2103 | NZ\$1.1217 | NZ\$1.1346 | NZ\$1.0874 |

Notes:

- This rate applies to amounts shown in statements of financial position.
- This rate applies to amounts shown in statements of financial performance and cash flow statements.

10.2.4 Foreign currency convenience translation rates – forecast transactions

The following convenience translation rate has been used to translate the forecast statement of financial performance for the 2006 financial year: A\$1,000 = NZ\$1,1000.

10.2.5 Statements of historical financial performance for the FAL Group for the financial years ended 4 August 2002, 3 August 2003, 1 August 2004 and 31 July 2005 prepared on an AGAAP basis

| \$ million | Financial year ended | | | |
|--|----------------------|----------------|----------------|---------------------|
| | 4 Aug 02 | 3 Aug 03 | 1 Aug 04 | 31 Jul 05 |
| | Actual | Actual | Actual | Actual |
| | 53 weeks | 52 weeks | 52 weeks | 52 weeks |
| Sales revenue – continuing operations | 4,016.2 | 5,741.8 | 5,888.4 | 6,334.8 |
| Sales revenue – discontinued operations | 625.2 | 644.0 | 138.1 | - |
| Total sales revenue | 4,641.4 | 6,385.8 | 6,026.5 | 6,334.8 |
| Other operating revenue – continuing operations | 209.0 | 304.7 | 311.1 | 396.5 |
| Other revenue – discontinued operations | 54.9 | 61.0 | 16.1 | - |
| Total other operating revenue | 263.9 | 365.7 | 327.2 | 396.5 |
| Total operating revenue | 4,905.3 | 6,751.5 | 6,353.7 | 6,731.3 |
| Non operating revenue | - | - | 483.6 | - |
| Total revenue | 4,905.3 | 6,751.5 | 6,837.3 | 6,731.3 |
| EBITA – continuing operations | | | | |
| Australian operations | 90.1 | 97.1 | 89.0 | 86.0 |
| New Zealand operations | 78.7 | 154.3 | 168.9 | 175.5 |
| Corporate costs | (7.5) | (9.8) | (10.1) | (11.0) |
| EBITA – continuing operations | 161.3 | 241.6 | 247.8 | 250.5 |
| Corporate activity costs | - | - | - | (19.6) ¹ |
| Discontinued operations and other significant items | 42.2 | 42.7 | 51.6 | - |
| EBITA including discontinued operations and significant items | 203.5 | 284.3 | 299.4 | 230.9 |
| Goodwill amortisation | (18.6) | (42.4) | (42.9) | (44.7) |
| EBIT | 184.9 | 241.9 | 256.5 | 186.2 |
| Net borrowing costs | (30.9) | (50.5) | (30.6) | (22.5) |
| Operating profit before tax | 154.0 | 191.4 | 225.9 | 163.7 |
| Income tax expense | (51.6) | (71.3) | (83.2) | (68.4) |
| Profit from ordinary activities | 102.4 | 120.1 | 142.7 | 95.3 |

Note:

1. Includes costs of responding to Metcash Takeover Offer and Demerger and Transfer Scheme costs.

10.2.6 Reconciliation from actual to pro-forma results

The pro-forma historical financial information has been prepared by FAL and is derived from the audited financial information of the FAL Group for the financial years ended 4 August 2002, 3 August 2003 and 1 August 2004 and the reviewed Preliminary Final Report for the financial year ended 31 July 2005.

The historical financial information has been adjusted to reflect only the assets and entities that comprise the New Zealand Operation, to exclude the impact of certain non-recurring items in the results for periods presented, to include the costs necessary for the New Zealand Operation to operate separately from the Australian Operation and to present the results on a basis consistent with the current accounting policies of the FAL Group.

| Pro-forma adjustments (\$ million) | Financial year ended | | | |
|--|----------------------|----------------|----------------|----------------|
| | 4 Aug 02 | 3 Aug 03 | 1 Aug 04 | 31 Jul 05 |
| | Actual | Actual | Actual | Actual |
| | 53 weeks | 52 weeks | 52 weeks | 52 weeks |
| REVENUE ADJUSTMENTS | | | | |
| FAL Group total sales revenue ¹ | 4,641.4 | 6,385.8 | 6,028.5 | 6,334.8 |
| Less discontinued operations | (625.2) | (644.0) | (138.1) | - |
| Less Australian Operation sales revenue | (2,028.8) | (2,210.9) | (2,330.8) | (2,449.9) |
| Sales revenue | 1,987.4 | 3,530.9 | 3,557.6 | 3,884.9 |
| FAL Group other operating revenue ² | 263.9 | 385.7 | 327.2 | 396.5 |
| Less discontinued operations ³ | (54.9) | (61.0) | (16.1) | - |
| Less Australian Operation other operating revenue | (98.0) | (105.4) | (110.9) | (134.8) |
| Other operating revenue | 111.0 | 199.3 | 200.2 | 261.7 |
| Total operating revenue | 2,098.4 | 3,730.2 | 3,757.8 | 4,146.6 |
| EBITA ADJUSTMENTS | | | | |
| FAL Group profit from ordinary activities before goodwill amortisation, net borrowing costs and income tax expense | 203.5 | 284.3 | 299.4 | 230.9 |
| Add (less) discontinued operations ³ | (42.2) | (42.7) | 2.1 | - |
| Add (less) significant items ⁴ | - | - | (53.7) | 19.6 |
| Profit before discontinued operations, significant items, goodwill amortisation, net borrowing costs and income tax expense (before pro-forma adjustments) | 161.3 | 241.6 | 247.8 | 250.5 |
| Less Australian Operation EBITA ⁵ | (82.6) | (87.3) | (78.9) | (75.0) |
| Corporate cost allocation adjustment ⁶ | (3.2) | (3.4) | (3.6) | (3.6) |
| Pro-forma New Zealand Operation EBITA from continuing operations | 75.5 | 150.9 | 165.3 | 171.9 |

Notes:

- FAL Group total sales revenue, Group profit from ordinary activities before goodwill amortisation, net borrowing costs, income tax expense and significant items have been extracted from the audited annual financial statements for the 2002, 2003 and 2004 years and the reviewed 2005 Preliminary Final Report.
- Other revenue comprises interest income, rental income, settlement discounts and other forms of income, including proceeds on the sale of fixed assets and investments.
- Discontinued operations consist primarily of Farmers Holdings Limited, the holding company of the New Zealand based department store and general merchandise business which was sold in 2004.
- Significant items include profits on the sale of Farmers Holdings Limited and of property portfolios in Australia and New Zealand.
- Excludes corporate cost allocation adjustment.
- Corporate costs represent the allocation of corporate costs that would have been incurred by the New Zealand Operation as if the Demerger had occurred with effect from the start of the 2002 financial year.

10.2.7 Pro-forma New Zealand Operation results by segment

| \$ million | Financial year ended | | | |
|---|----------------------|----------------|----------------|----------------|
| | 4 Aug 02 | 3 Aug 03 | 1 Aug 04 | 31 Jul 05 |
| | Actual | Actual | Actual | Actual |
| | 53 weeks | 52 weeks | 52 weeks | 52 weeks |
| SALES REVENUE | | | | |
| Supermarkets | 1,688.8 | 3,222.5 | 3,324.2 | 3,607.3 |
| Franchise & Supply | 298.6 | 308.4 | 233.4 | 277.6 |
| Pro-forma sales revenue | 1,987.4 | 3,530.9 | 3,557.6 | 3,884.9 |
| Other operating revenue | 111.0 | 199.3 | 200.2 | 261.7 |
| Pro-forma operating revenue | 2,098.4 | 3,730.2 | 3,757.8 | 4,146.6 |
| PRO-FORMA EBITA FROM CONTINUING OPERATIONS | | | | |
| Supermarkets | 65.7 | 136.6 | 149.0 | 159.3 |
| Franchise & Supply | 9.8 | 11.8 | 10.1 | 11.8 |
| Property | 3.2 | 5.9 | 9.8 | 4.3 |
| Less corporate cost allocation adjustment | (3.2) | (3.4) | (3.6) | (3.6) |
| Pro-forma EBITA | 75.5 | 150.9 | 165.3 | 171.8 |
| Depreciation | 31.2 | 62.0 | 60.1 | 62.4 |
| Pro-forma EBITDA | 106.7 | 212.9 | 225.4 | 234.2 |

10.3 Management's discussion and analysis of the results of operations

10.3.1 Key profit drivers

The PEH Post-Demerger Group will be a supermarket operator in the North and South Islands of New Zealand and will conduct Franchise & Supply operations primarily in the South Island of New Zealand.

Supermarket operations encompass the operation of three supermarket banner groups, Countdown, Foodtown and Woolworths, the Woolworths at Gull convenience stores and micro markets and online shopping services through www.foodtown.co.nz and www.woolworths.co.nz.

The New Zealand Operation's margins are not as susceptible to phases of the economic cycle as are some other industries where sales are dependent on discretionary consumer expenditure. However, the industry is intensely competitive and industry participants are able to observe the business operations of their competitors including changes to store layouts, pricing policies, promotional activity and product range additions or deletions as soon as they occur.

Margins are susceptible to the following influences among others:

- (a) the pricing policies and promotional activities of competitors;
- (b) the sourcing of product in the most cost effective manner;
- (c) the level of food inflation;
- (d) the application of technology to the business systems which are essential to the efficient management of operations, in particular the systems which control:
 - (i) the merchandising function including product sourcing, pricing, optimal order quantities, cooperative advertising arrangements, achieved gross margins, shrinkage, etc; and
 - (ii) the warehouse management functions including the receipt of goods into store, inventory movements within the warehouse and the picking and despatch of goods;
- (e) the availability of adequately skilled labour, as supermarket operations are highly labour intensive, and the changes in wage rates;

- (f) store openings and closures by the operator and competitors;
- (g) the ability of the New Zealand Operation to retain existing customers and to cause customers of its competitors to change their shopping preferences;
- (h) changing customer preference for fresh product, general merchandise and house brand ranges which generally have higher margins than branded packaged groceries;
- (i) the willingness of suppliers to absorb increases in manufacturing costs or to pass on increases in costs;
- (j) changes in supermarket rents;
- (k) the availability of fresh and packaged products which are susceptible to seasonal influences including fruit and vegetables and livestock, especially beef and lamb;
- (l) changes in the sales volumes of individual supermarket locations given the significant fixed costs involved in supermarket operations, in particular, rent, utilities and supervisor salaries; and
- (m) the rate of domestic population increase.

10.3.2 Pro-forma results of operations of the New Zealand Operation by segment

10.3.2.1 New Zealand Supermarkets

| | Financial year ended | | | |
|-------------------------|----------------------|--------------------|--------------------|---------------------|
| | 4 Aug 02 Actual | 3 Aug 03 Actual | 1 Aug 04 Actual | 31 Jul 05 Actual |
| | 53 weeks | 52 weeks | 52 weeks | 52 weeks |
| Sales \$ million | 1,888.8 | 3,222.5 | 3,324.2 | 3,607.3 |
| EBITA \$ million | 65.7 | 136.6 | 149.0 | 159.3 |
| EBITA to sales margin % | 3.89 | 4.24 | 4.48 | 4.42 |

(a) Financial year ended 31 July 2005 compared to the prior financial year

Sales rose 8.5% expressed in Australian dollars and 3.9% expressed in local currency. Sales increases attributable to new store openings including Foodtown Auckland City, which opened in June 2004, and the replacement Foodtown Howick store, which commenced trading in late December 2004, were partially offset by increased levels of competitive activity in other catchments.

The Auckland City store included New Zealand's first in-store pharmacy and in November 2004, the first on site petrol station was opened at Countdown Hamilton.

The key EBITA to sales margin declined slightly by 6 basis points reflecting the heightened level of competitor activity and redundancy costs of \$0.9 million incurred in connection with the commissioning of the North Island cabinet ready meat plant located in the Auckland suburb of Otahuhu. The plant, which commenced operations prior to Christmas 2004, is expected to improve divisional profitability by \$3.7 million during the 2006 financial year.

Supermarket trading area increased to 284,500 square metres from 283,400 square metres at the end of the previous corresponding half year.

(b) Financial year ended 1 August 2004 compared to the prior financial year

Despite a low inflation environment, the sale of two stores and the closure of three others, sales increased by 3.2% expressed in Australian dollars, (4.5% in New Zealand dollars).

Supermarket brands were reduced to three (Countdown, Foodtown and Woolworths) from the six existing immediately after the acquisition of Woolworths New Zealand. Two new stores were opened (Countdown Bethlehem and Foodtown Auckland City), two replacement stores (Countdown Cambridge and Countdown Northlands) recommenced trading and twelve other stores were refurbished. Two loss making stores (Foodtown Henderson and Woolworths Sydenham) were closed.

The key EBITA to sales margin was a record 4.48% reflecting the continuing success of the synergy extraction program commenced after the acquisition of Woolworths New Zealand.

During the year supermarket trading area increased to 283,400 square metres from 282,600 square metres at the end of the previous corresponding half year.

(c) *Financial year ended 3 August 2003 compared to the prior financial year*

Sales reflected the acquisition of the 85 supermarkets in the Woolworths New Zealand group which were acquired in June 2002. Sales grew by 90.8% to \$3,222.5 million compared to the 2002 financial year. Significantly, the key EBITA to sales ratio rose from 3.89% in fiscal 2002 to 4.24% as the synergy extraction program, developed prior to the acquisition, was implemented. This result was achieved despite increased supply chain costs associated with consolidation of Auckland based distribution arrangements at the newly extended Favona Road distribution centre.

10.3.2.2 New Zealand Franchise & Supply

| | Financial year ended | | | |
|-------------------------|--------------------------------|--------------------------------|--------------------------------|---------------------------------|
| | 4 Aug 02 Actual 53 weeks | 3 Aug 03 Actual 52 weeks | 1 Aug 04 Actual 52 weeks | 31 Jul 05 Actual 52 weeks |
| Sales \$ million | 298.6 | 308.4 | 233.4 | 277.6 |
| EBITA \$ million | 9.8 | 11.8 | 10.1 | 11.8 |
| EBITA to sales margin % | 3.28 | 3.83 | 4.33 | 4.25 |

(a) *Financial year ended 31 July 2005 compared to the prior financial year*

Sales rose 18.9% to \$277.6 million expressed in Australian dollars or, when expressed in New Zealand dollars, 3.9% to NZ\$301.8 million. This was attributable to a combination of new store openings, extended trading hours and favourable economic conditions in New Zealand's South Island where most of the New Zealand Operation's franchisee stores are located.

The EBITA to sales ratio was almost constant at 4.25%.

(b) *Financial year ended 1 August 2004 compared to the prior financial year*

Sales fell to \$233.4 million following the sale of the low margin Red Arrow tobacco van fleet. The 2003 result included the sales, contribution to profit and profit on sale of Red Arrow which was sold in the fourth quarter of the 2003 financial year.

Following the sale of Red Arrow, EBITA fell by \$1.7 million to \$10.1 million, but the EBITA to sales margin improved by 50 basis points.

(c) *Financial year ended 3 August 2003 compared to the prior financial year*

Sales were \$308.4 million, up slightly on the prior financial year sales figure of \$298.6 million, which contained an extra trading week.

EBITA was \$11.8 million, up 20.4% on the prior year contribution of \$9.8 million and included the profit on the sale of Red Arrow.

10.4 Pro-forma statement of financial position of the PEH Post-Demerger Group as at 31 July 2005

The pro-forma statement of financial position of the PEH Post-Demerger Group as at 31 July 2005 is shown below. The pro-forma statement PEH Post-Demerger Group has been derived from the FAL Group's reviewed statement of financial position at 31 July 2005 after excluding assets and liabilities of the FAL Group's Australian Operation. Pro-forma adjustments have also been made to reflect:

- (a) the acquisition of the New Zealand Operation by PEH as if it had occurred at 31 July 2005; and
- (b) the proposed capital and debt structure of the PEH Post-Demerger Group.

| \$ million | AGAAP 31 Jul 05 Actual | AGAAP 31 Jul 05 Pro-forma |
|--------------------------------------|------------------------------|---------------------------------|
| CURRENT ASSETS | | |
| Cash assets | 35.2 | 35.2 |
| Receivables | 24.9 | 24.9 |
| Inventories | 218.4 | 218.4 |
| Other | 4.4 | 4.4 |
| Total current assets | 282.9 | 282.9 |
| NON-CURRENT ASSETS | | |
| Receivables | 1.7 | 1.7 |
| Other financial assets | 0.5 | 0.5 |
| Property, plant and equipment | 318.5 | 318.5 |
| Intangibles and goodwill | 458.4 | 2,004.3 |
| Deferred tax assets | 25.9 | 25.9 |
| Other | 1.3 | 1.3 |
| Total non-current assets | 806.3 | 2,352.2 |
| Total assets | 1,089.2 | 2,635.1 |
| CURRENT LIABILITIES | | |
| Payables | 269.7 | 268.2 |
| Interest-bearing liabilities | 1.4 | 1.4 |
| Provisions | 31.0 | 31.0 |
| Total current liabilities | 302.1 | 300.6 |
| NON-CURRENT LIABILITIES | | |
| Payables | 276.3 | 372.3 |
| Interest-bearing liabilities | 372.3 | - |
| Provisions | 5.1 | 5.1 |
| Total non-current liabilities | 653.7 | 377.4 |
| Total liabilities | 955.8 | 678.0 |
| Net assets | 133.4 | 1,957.1 |
| SHAREHOLDERS' EQUITY | | |
| Total shareholders' equity | 133.4 | 1,957.1 |

10.4.1 Explanation of pro-forma adjustments

The pro-forma statement of financial position reflects the following transactions as part of the proposed Demerger.

10.4.1.1 Purchase by PEH of 100% interest in FNZFL

Following the sale by FAL of its 33.7% interest in FNZHL to FNZFL, PEH acquires 100% of FNZFL and certain intellectual property used by the New Zealand Operation from FAL. PEH allocates the cost of the business combination over the fair values of the net assets acquired.

10.4.1.2 Transfer of intercompany loans

All intercompany loans between the Australian members of the FAL Group and the New Zealand members of the FAL Group are transferred to and consolidated within PEH.

10.4.1.3 Capitalisation of intercompany loans

All intercompany loans are repaid by the issue of shares in PEH to FAL in full consideration of the loans.

The combined effect of these pro-forma transactions is shown in the table below.

| \$ million | Purchase of interest in FNZFL | Transfer of intercompany Creditors | Capitalisation of intercompany loans | Pro-forma PEH AGAAP |
|--------------------------------------|-------------------------------|------------------------------------|--------------------------------------|---------------------|
| CURRENT ASSETS | | | | |
| Cash assets | 35.2 | | | 35.2 |
| Receivables | 24.9 | | | 24.9 |
| Inventories | 218.4 | | | 218.4 |
| Other | 4.4 | | | 4.4 |
| Total current assets | 282.9 | | | 282.9 |
| NON-CURRENT ASSETS | | | | |
| Receivables | 1.7 | | | 1.7 |
| Other financial assets | 0.5 | | | 0.5 |
| Property, plant and equipment | 318.5 | | | 318.5 |
| Intangibles | 2,004.3 | | | 2,004.3 |
| Deferred tax assets | 25.9 | | | 25.9 |
| Other | 1.3 | | | 1.3 |
| Total non-current assets | 2,352.2 | | | 2,352.2 |
| TOTAL ASSETS | 2,635.1 | | | 2,635.1 |
| CURRENT LIABILITIES | | | | |
| Payables | 1,949.0 | 276.3 | (1,957.1) | 268.2 |
| Interest-bearing liabilities | 1.4 | | | 1.4 |
| Provisions | 31.0 | | | 31.0 |
| Total current liabilities | 1,981.4 | 276.3 | (1,957.1) | 300.6 |
| NON-CURRENT LIABILITIES | | | | |
| Payables | 276.3 | (276.3) | | - |
| Interest-bearing liabilities | 372.3 | | | 372.3 |
| Provisions | 5.1 | | | 5.1 |
| Total non-current liabilities | 653.7 | (276.3) | | 377.4 |
| Total liabilities | 2,635.1 | - | 1,957.1 | 678.0 |
| Net assets | - | - | 1,957.1 | 1,957.1 |
| SHAREHOLDERS' EQUITY | | | | |
| Contributed equity | - | | 1,957.1 | 1,957.1 |
| Total shareholders' equity | - | | 1,957.1 | 1,957.1 |

10.5 Pro-forma cash flow statements of the New Zealand Operation

Set out below are pro-forma cash flow statements for the financial years ended 4 August 2002, 3 August 2003, 1 August 2004 and 31 July 2005.

It is expected that the PEH Post-Demerger Group will meet its ongoing requirements for working capital and capital expenditure from the cash flow generated from operations together with cash on hand and, where necessary, drawing down on lines of finance which are not expected to exceed A\$330 million.

| \$ million | Financial year ended | | | |
|--|----------------------|-----------|-----------|-----------|
| | 4 Aug 02 | 3 Aug 03 | 1 Aug 04 | 31 Jul 05 |
| | Actual | Actual | Actual | Actual |
| | 53 weeks | 52 weeks | 52 weeks | 52 weeks |
| CASH FLOWS FROM OPERATING ACTIVITIES BEFORE BORROWING COSTS AND INCOME TAX | | | | |
| Receipts from customers | 2,238.4 | 4,002.0 | 4,034.9 | 4,438.1 |
| Payments to suppliers and employees | (2,154.7) | (3,777.0) | (3,833.7) | (4,237.5) |
| Cash flows from operating activities before net borrowing costs and income tax | 83.7 | 225.0 | 201.2 | 200.6 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Payments for property, plant and equipment | (40.5) | (84.6) | (85.4) | (155.7) |
| Proceeds from sale of property, plant and equipment | 12.5 | 16.9 | 7.6 | 193.9 |
| Payments for business acquisitions | (498.2) | - | - | - |
| Cash (used in) from investing activities | (526.2) | (67.7) | (77.8) | 38.2 |
| Cash flows from operating and investing activities | (442.5) | 157.3 | 123.4 | 238.8 |
| RECONCILIATION OF EBITDA TO CASH FLOW FROM OPERATING ACTIVITIES BEFORE BORROWING COSTS AND INCOME TAX | | | | |
| EBITDA | 106.7 | 212.9 | 225.4 | 234.2 |
| Movements in working capital | (23.0) | 12.1 | (24.2) | (33.6) |
| Cash flows from operating activities | 83.7 | 225.0 | 201.2 | 200.6 |

10.5.1 Management's discussion and analysis of cash flows

10.5.1.1 Financial year ended 31 July 2005 compared to the prior financial year

EBITDA of \$234.2 million was above the prior year EBITDA of \$225.4 million. PEH's trading divisions produced EBITA of \$175.4 million in 2005 compared to \$168.9 million in the prior financial year.

Proceeds from sale of property, plant and equipment of \$193.9 million resulted mainly from the sale of a substantial property portfolio after it was acquired earlier in the year.

10.5.1.2 Financial year ended 1 August 2004 compared to the prior financial year

EBITDA rose \$12.5 million to \$225.4 million following a stronger performance by trading divisions which increased EBITA to \$159.1 million compared to \$148.4 million in the prior financial year.

Working capital increased by \$24.2 million, reflecting the increased scale of the New Zealand Operation.

10.5.1.3 Financial year ended 3 August 2003 compared to the prior financial year

EBITDA climbed \$106.2 million to \$212.9 million following the acquisition of Woolworths New Zealand in June 2002 at a cost of \$498.2 million.

Capital expenditure on greenfields sites, new stores and store refurbishments rose to \$84.6 million compared to \$40.5 million in the prior financial year reflecting the increased scale of the business.

10.5.2 Capital resources

Presently the FAL Group's lines of finance are provided on the basis of a negative pledge agreement. The negative pledge agreement includes a guarantee and indemnity by each of the active members of the FAL Group on behalf of the obligations of each other.

If the Demerger is approved and implemented, FAL and PEH will be separate listed entities that will operate independently of one another. Consequently, any debts of the PEH Post-Demerger Group that are guaranteed by the FAL Post-Demerger Group will need to be restructured or refinanced prior to or at the time of the Demerger.

10.5.2.1 New bank debt

PEH has received committed offers for new bank financing facilities of NZ\$407 million (A\$370 million) from one of its relationship banks. This will be a bridging facility of six months duration provided on a key undertaking of a negative pledge including a limit on further indebtedness.

10.6 Pro-forma forecast financial information of the PEH Post-Demerger Group for the year ending 30 July 2006 (AGAAP and AIFRS)

10.6.1 Transition to AIFRS

Provided the Demerger is approved by FAL Shareholders, PEH will be required to adopt AIFRS for the financial half year ending 29 January 2006 and the full financial year ending 30 July 2006. At these dates PEH will, as a first time adopter of AIFRS, be required to restate its comparative financial statements using all AIFRS, except for AASB132 "Financial Instruments: Disclosure and Presentation" and AASB139 "Financial Instruments: Recognition and Measurement", for which restated comparative information is not required.

In light of the transition to AIFRS, the following financial information has been presented:

- (a) the pro-forma historic statements of financial performance for the financial years ended 1 August 2004 (AGAAP) and 31 July 2005 (AGAAP and AIFRS);
- (b) the pro-forma forecast statement of financial performance for the financial year ending 30 July 2006 (AGAAP and AIFRS); and
- (c) the pro-forma statement of financial position as at 31 July 2005 (AGAAP and AIFRS).

FAL has substantially completed quantifying the impact of adopting AIFRS for PEH. This is subject to change due to work still to be completed by the project team, potential amendments to AIFRS and the issuing of any interpretations in respect of AIFRS.

An aspect of the AIFRS project still to be completed relates to the application of the financial instruments standards, incorporating a review of contracts for embedded derivatives.

Therefore, the financial information disclosed in the Booklet under AIFRS is FAL's best estimate and could change due to further work being undertaken by the AIFRS project team and any potential amendments to AIFRS and interpretations thereof.

Subject to the above, the significant areas of accounting policy change are outlined below. The financial impact of those material differences quantified have been disclosed and discussed in this Booklet where that financial information is presented.

For an explanation of the differences between AGAAP and AIFRS, see Part 11 of this Booklet.

10.6.2 Pro-forma forecast statements of financial performance of the PEH Post-Demerger Group for the financial year ending 30 July 2006

The pro-forma forecast financial information for the year ending 30 July 2006 has been prepared in accordance with market practice in Australia and FAL's accounting policies. Subject to the continuous disclosure requirements imposed by the Listing Rules on listed companies, PEH does not intend to update this information or to publish pro-forma forecast information in the future.

The pro-forma forecast financial information was prepared by FAL management in conjunction with the FAL Board. The pro-forma forecast financial information has been reviewed by Ernst & Young Transaction Advisory Services Limited and a copy of their report which outlines the scope of work and opinion formed by Ernst & Young Transaction Advisory Services Limited is set out in Part 15.2 of this Booklet.

The pro-forma forecast financial information is based on the strategy and business plans and current structure of the relevant operating divisions as managed by PEH. The FAL Directors acknowledge that if the Demerger occurs, and not the Transfer Scheme, there may well be changes to senior corporate executive positions and to the composition of the FAL Board.

The pro-forma forecast financial information was prepared based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions which are expected to take place, including the key assumptions set out below. The pro-forma forecast financial information was also prepared on the basis of currently available estimates as to sales volumes, retail margins and costs during the remainder of the year.

FAL believes that it has used due care and attention in the preparation of this pro-forma forecast financial information and considers the assumptions to be reasonable when viewed as a whole. However, this information is not fact and undue reliance should not be placed on the forecast financial information.

Actual results are likely to vary from the pro-forma forecast financial information and any variation may be materially positive or negative because the assumptions, and therefore the forecast financial information, are by their nature subject to significant uncertainties and contingencies, many of which will be outside the control of PEH and not predictable on a reliable basis. Accordingly, neither FAL nor any other person (including the FAL or PEH Boards) can give any assurance that the forecast financial information will be achieved.

The pro-forma forecast financial information should be read in conjunction with the key assumptions to forecasts and the sensitivity analysis set out below and the risk factors described in Part 9 of this Booklet.

10.6.3 Pro-forma forecast statements of financial performance of the PEH Post-Demerger Group for the financial year ending 30 July 2006

| \$ million | Financial years ended | | | Financial year ending | |
|---|-----------------------|----------------|----------------|-----------------------|----------------|
| | 1 Aug 04 | 31 Jul 05 | 31 Jul 05 | 30 Jul 06 | 30 Jul 06 |
| | Actual | Actual | Actual | Forecast | Forecast |
| | AGAAP | AGAAP | AIFRS | AGAAP | AIFRS |
| Sales revenue | | | | | |
| Supermarkets | 3,324.2 | 3,607.3 | 3,607.3 | 3,717.6 | 3,717.6 |
| Franchise & Supply | 233.4 | 277.6 | 277.6 | 289.1 | 289.1 |
| Sales revenue | 3,557.6 | 3,884.9 | 3,884.9 | 4,006.7 | 4,006.7 |
| EBITA before discontinued operations and significant items by segment | | | | | |
| Supermarkets | 149.0 | 159.3 | 162.2 | 163.3 | 163.3 |
| Franchise & Supply | 10.1 | 11.8 | 11.8 | 12.3 | 12.3 |
| Property | 9.8 | 4.3 | 4.3 | - | - |
| Less corporate costs | (3.6) | (3.6) | (3.6) | (3.7) | (3.7) |
| Pro-forma EBITA | 165.3 | 171.8 | 174.7 | 171.9 | 171.9 |
| Goodwill amortisation | | (100.2) | - | (100.2) | - |
| Pro-forma EBIT | | 71.6 | 174.7 | 71.7 | 171.9 |
| Net borrowing costs | | (22.2) | (22.2) | (24.9) | (24.9) |
| Profit before tax expense | | 49.4 | 152.5 | 46.8 | 147.0 |
| Income tax expense | | (49.4) | (50.3) | (48.5) | (48.5) |
| Net profit attributable to members of PEH from continuing operations | | - | 102.2 | (1.7) | 98.5 |
| Profit from ordinary activities after income tax attributable to PEH shareholders | | - | 102.2 | (1.7) | 98.5 |

10.6.4 Nature of adjustments from AGAAP to AIFRS

10.6.4.1 Loyalty schemes

Under AIFRS, deferred loyalty scheme costs are expensed.

10.6.4.2 Pre-opening expenses

Under AIFRS, store pre-opening expenses are expensed as incurred.

10.6.4.3 Effect of adjustments

The effect of the two adjustments referred to above on the AGAAP pro-forma statement of financial performance for the financial year ended 31 July 2005 is as follows.

| \$ million | Financial year ended |
|---------------------------|----------------------|
| Segment EBITA | 31 Jul 05 |
| | Actual |
| Supermarkets AGAAP | 159.3 |
| Loyalty scheme costs | 0.8 |
| Pre-opening expenses | 2.1 |
| Supermarkets AIFRS | 162.2 |

10.6.4.4 Goodwill

Under AIFRS goodwill is not amortised.

10.6.5 Key assumptions to pro-forma forecast

The assumptions outlined below should be read in conjunction with the risk factors outlined in Part 9 of this Booklet.

The general assumptions in relation to the forecast financial information are as follows:

- (a) price inflation of 2.0%, wages and salaries inflation of up to 5%;
- (b) no change of a material nature to PEH's accounting policies or Accounting Standards which could have a material effect on PEH's forecast financial results, except as described in this Part in relation to the impact of the transition to AIFRS;
- (c) no significant changes in legislation, regulatory requirements or government policy beyond that already publicly announced;
- (d) no significant changes to the political or economic environment of New Zealand; and
- (e) no significant changes to the competitive environment in which PEH operates or in the strategy of a major competitor during the forecast periods.

The specific assumptions in relation to the pro-forma forecast financial information are as follows:

- (a) no material change in the current business structure, strategy and policies currently in place as outlined in Part 9 of this Booklet;
- (b) annual revenue growth across PEH's supermarket divisions and franchise and supply divisions resulting in total revenue growth of 3.1% in 2006;
- (c) no material changes in any material contracts relating to PEH's business, including supply agreements;
- (d) no change in PEH's capital and borrowing structure;
- (e) no material disposals of any part of the New Zealand Operation during the period covered by the forecasts;
- (f) no material acquisitions during the period covered by the forecasts;
- (g) all material stand alone derivatives are closed out by 31 July 2005;
- (h) no material changes in aggregate, of the fair value of any embedded derivatives that may be identified as part of the AIFRS project over the period covered by the forecasts; and
- (i) no material asset impairment issues will arise during the period covered by the forecasts.

10.6.6 Sensitivity analysis

The forecast for the 2006 financial year is based on a number of economic and business assumptions about future events. To assist in understanding the impact of the key assumptions, the following points set out the sensitivity of EBITA 2006 financial year to variations on sales and retail margins.

Care must be taken when interpreting these sensitivities. The sensitivities assume no management response to the changes even though in practice PEH's management would be expected to respond to any adverse changes by taking action to minimise the effect on financial performance. The effect on EBITA for each sensitivity does not represent or predict the minimum or maximum likely to be experienced in practice. Further assumptions, in particular competitor, customer and supplier reactions and impacts, remain constant. In practice this is unlikely to occur.

- (a) Assuming no change in other forecast assumptions, a 2% increase in sales could be expected to affect PEH's forecast EBITA for 2006 by \$11.3 million with a 2% decrease affecting the forecast for the 2006 financial year by \$12.1 million.
- (b) Assuming no change in other forecast assumptions, a 0.5% variation in retail margins could be expected to affect PEH's forecast EBITA by \$4.5 million for the year ending 30 July 2006.

10.7 Pro-forma statement of financial position of the PEH Post-Demerger Group as at 31 July 2005 (AGAAP to AIFRS)

Below is the pro-forma statement of financial position at 31 July 2005 adjusted for those items required for the conversion to the Australian equivalent of International Financial Reporting Standards (AIFRS).

| (\$ million) | AGAAP 31 Jul 05 Pro-forma | AIFRS 31 Jul 05 Pro-forma |
|--------------------------------------|---------------------------------|---------------------------------|
| CURRENT ASSETS | | |
| Cash assets | 35.2 | 35.2 |
| Receivables | 24.9 | 24.9 |
| Inventories | 218.4 | 214.1 |
| Other | 4.4 | 2.2 |
| Total current assets | 282.9 | 276.4 |
| NON-CURRENT ASSETS | | |
| Receivables | 1.7 | 1.7 |
| Other financial assets | 0.5 | 0.5 |
| Property, plant and equipment | 318.5 | 318.5 |
| Intangibles and goodwill | 2,004.3 | 578.2 |
| Deferred tax assets | 25.9 | 28.5 |
| Other | 1.3 | 0.3 |
| Total non-current assets | 2,352.2 | 927.7 |
| Total assets | 2,635.1 | 1,204.1 |
| CURRENT LIABILITIES | | |
| Payables | 268.2 | 268.2 |
| Interest-bearing liabilities | 1.4 | 1.4 |
| Provisions | 31.0 | 31.0 |
| Total current liabilities | 300.6 | 300.6 |
| NON-CURRENT LIABILITIES | | |
| Interest-bearing liabilities | 372.3 | 372.3 |
| Provisions | 5.1 | 5.1 |
| Total non-current liabilities | 377.4 | 377.4 |
| Total liabilities | 678.0 | 678.0 |
| Net assets | 1,957.1 | 526.1 |
| SHAREHOLDERS' EQUITY | | |
| Contributed equity | 1,957.1 | 903.1 |
| Reserves | - | (488.6) ¹ |
| Retained profits | - | 109.6 |
| Total shareholders' equity | 1,957.1 | 526.1 |

Note:

1. includes premium paid on acquisition of additional ownership interest in FNZHL by FNZFL and foreign currency translation reserve.

10.7.1 Nature of adjustments from AGAAP to AIFRS

10.7.1.1 Settlement discounts

Settlement discounts amounting to \$4.3 million (\$2.9 million net of tax) in relation to inventory purchases which were previously recognised in income have been deducted from the cost of inventory.

10.7.1.2 Pre-opening expenses

Unamortised store pre-opening expenses of \$1.7 million (\$1.1 million net of tax) which under AGAAP are deferred and amortised over twelve months from the date of commencement of trading have been expensed.

10.7.1.3 Loyalty Schemes

Unamortised launch costs of a customer loyalty scheme of \$1.5 million (\$0.9 million net of tax) which were deferred and amortised under AGAAP have been expensed.

10.7.1.4 Goodwill amortisation

The goodwill amortisation (under AGAAP) of \$28.1 million charged to profits for the full year ended 31 July 2005 is reversed, as goodwill is no longer amortised under AIFRS.

10.7.1.5 Acquisition of additional ownership interest in FNZHL

The transfer to FNZFL of FAL's 33.7% ownership interest in FNZHL is treated as an equity transaction under AIFRS. The excess of the cost of acquisition over the minority interest acquired, after adjusting goodwill by \$5.8 million, is recognised in equity.

10.7.1.6 Acquisition of 100% interest in FNZFL by PEH

For the purposes of applying the purchase method of accounting to this transaction under AIFRS, FNZFL has been identified as the "in-substance" acquirer.

Accordingly, the cost of acquisition has been recalculated and only the assets and liabilities of PEH are subject to fair value accounting. This results in the elimination of goodwill of \$1,460.0 million.

10.7.2 Summary of AIFRS adjustments

The effect of the adjustments referred to above on the AGAAP pro-forma statement of financial position of the PEH Post-Demerger Group at 31 July 2005 is as follows:

| \$ million | Inventories | Other Current Assets | Intangibles and Goodwill | Other Non-Current Assets | Deferred Tax Asset | Equity |
|--|-------------|----------------------|--------------------------|--------------------------|--------------------|-----------|
| AGAAP pro-forma | 218.4 | 4.4 | 2,004.3 | 1.3 | 25.9 | (1,957.1) |
| Inventory | (4.3) | | | | 1.4 | 2.9 |
| Pre-opening expenses | | (1.7) | | | 0.6 | 1.1 |
| Loyalty schemes | | (0.5) | | (1.0) | 0.6 | 0.9 |
| Goodwill amortisation | | | 28.1 | | | (28.1) |
| Transfer of ownership interest in FNZHL | | | 5.8 | | | (5.8) |
| Acquisition of 100% interest in FNZFL by PEH | | | (1,460.0) | | | 1,460.0 |
| | (4.3) | (2.2) | (1,426.1) | (1.0) | 2.6 | 1,431.0 |
| AIFRS pro-forma | 214.1 | 2.2 | 578.2 | 0.3 | 28.5 | (526.1) |

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Part 11

Summary of FAL Group's significant accounting policies and differences between AGAAP and AIFRS

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11 Summary of FAL Group's significant accounting policies and differences between AGAAP and AIFRS

11.1 Summary of FAL Group's significant accounting policies

11.1.1 Introduction

The principal accounting policies followed by FAL under AGAAP as set out in their financial report for the year ended 1 August 2004 are set out below. These AGAAP accounting policies have been consistently applied during the periods covered by the pro-forma historical and forecast financial information included in this Booklet.

Certain policies as shown, will be applicable only to the FAL Post-Demerger Group or the PEH Post-Demerger Group.

11.1.2 Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of identifiable net assets acquired at the time of acquisition of a business or shares in a controlled entity, and is amortised by the straight line method over the period during which the benefits are expected to be received. This is usually taken as being 20 years.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

11.1.3 Recoverable amount

Where the carrying value of non-current assets exceeds the recoverable amount, the assets are written down. In determining the recoverable amount, the expected risk adjusted net cash flows have been discounted to their present value using the risk free discount rate prevailing in the country in which the asset is situated.

11.1.4 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

11.1.4.1 Sales revenue

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of goods to customers outside the economic entity. Sales revenue is recognised when control of the goods has passed to the buyer.

11.1.4.2 Dividends

Dividends receivable are recognised when declared.

11.1.4.3 Interest

Interest income is recognised as it accrues.

11.1.4.4 Settlement discounts receivable

Settlement discounts receivable from suppliers are recognised when the corresponding liability for goods purchased from the supplier is taken up, at rates agreed with each supplier.

11.1.5 Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings, gains or losses on interest rate hedges and imputed interest arising from maturity of liabilities previously discounted to net present values.

Ancillary costs for the arrangement of borrowings are capitalised and amortised over the life of the borrowings.

Borrowing costs are accounted for and expensed on an accrual basis, except for borrowing costs capitalised to qualifying assets. Qualifying assets are assets which necessarily take a substantial time to get ready for their intended use or sale.

11.1.6 Foreign currencies

11.1.6.1 Translation of foreign currency transactions

Transactions in foreign currencies of entities within the economic entity are translated to local currency at the rate of exchange ruling at the date of the transaction. Amounts payable to and by the entities within the economic entity that are outstanding at the balance date and are denominated in foreign currencies have been translated to local currency using rates of exchange ruling at the end of the financial period.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change, except where hedging specific transactions.

11.1.6.2 Specific hedges

Where a purchase or sale is specifically hedged, exchange gains or losses on the hedging transaction arising up to the date of purchase or sale, and costs, premiums and discounts relative to the hedging transaction, are included in the purchase or sale. Exchange gains or losses arising on the hedge transaction after that date are taken to the statement of financial performance.

11.1.7 Derivatives

11.1.7.1 Forward exchange contracts

The economic entity enters into forward exchange contracts where it agrees to purchase specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contracts against confirmed purchase orders for inventory or for other confirmed foreign currency transactions to protect the economic entity against the possibility of loss from future exchange rate fluctuations.

The net receivable or payable on foreign currency hedge contracts is recognised in the statement of financial position at the date the contract is entered into. The net receivable or payable is restated at the reporting date using the exchange rates current at that date. Exchange gains or losses are deferred and included in the measurement of the sale or purchase.

11.1.7.2 Interest rate hedges

The economic entity enters into interest rate hedge instruments that are used to protect the economic entity from the adverse effects of variable interest rate movements on its bank borrowings. The hedges are entered into with the objective of reducing the risk of rising interest rates.

It is the economic entity's policy not to recognise interest rate hedges in the financial statements. Net receipts and payments are recognised as an adjustment to interest expense.

11.1.8 Taxation

The consolidated entity adopts the liability method of tax effect accounting whereby income tax expense is calculated on accounting profit adjusted for permanent differences between taxable and accounting income.

The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a deferred tax asset or liability.

Deferred tax assets are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Capital losses are not brought to account until the period in which they are utilised.

No provision for withholding tax is required in respect of dividends proposed by controlled entities incorporated in New Zealand, or on the balance of their unremitted profits, as the full amount of New Zealand dividend withholding tax is recoverable against income tax paid in New Zealand.

The following accounting policy is applicable only to the FAL Post-Demerger Group.

Where assets are included at amounts in excess of historic cost, no provision for potential capital gains tax has been made.

The following accounting policy is applicable only to the FAL Post-Demerger Group.

11.1.8.1 Tax consolidation - parent entity

The Australian companies in the FAL Group elected to form a tax consolidation group for income tax purposes with effect from the 2003 financial year. FAL has entered into a tax funding agreement with the members of the tax consolidation group, effective from that financial year. The agreement is aimed at achieving an allocation of the Australian group's income tax expense to subsidiaries within the tax-consolidated group as if they were operating on a stand alone basis. The subsidiaries party to the agreement will reimburse FAL for an amount calculated as if they were on a stand alone basis. Similarly, FAL will reimburse subsidiaries for losses when they are utilised to reduce Australian group tax payable.

11.1.9 Cash

For the purposes of the statements of cash flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash, net of overdrafts.

11.1.10 Receivables

Receivables are carried at nominal amounts due less any provision for doubtful debts. A provision for doubtful debts is recognised when collection of the full nominal amount is no longer probable.

11.1.10.1 Trade debtors

Credit sales are on varying terms ranging from 7 to 45 days.

11.1.10.2 Other receivables

Other receivables are received in accordance with contracted settlement dates. When appropriate, they are discounted to their present value.

11.1.11 Inventories

11.1.11.1 Finished goods

Finished goods inventories are valued at the lower of cost and net realisable value using landed cost, on a first-in first-out basis.

11.1.11.2 Land held for resale

Freehold property held for development and resale is valued at the lower of cost and net realisable value. Interest and other holding charges are capitalised until the properties are brought to marketable condition.

11.1.12 Other financial assets

11.1.12.1 Controlled entities

Investments in controlled entities are carried in the chief entity's financial statements at the lower of cost and recoverable amount. Dividends and distributions are brought to account in the statement of financial performance when they are declared by the controlled entities.

11.1.12.2 Other

The economic entity's interest in companies, other than controlled entities, is included in the financial statements as "investments in non-related entities". Non-related entity investments are carried at the lower of cost and recoverable amount. The economic entity has no investments in shares listed on prescribed stock exchanges.

11.1.13 Property, plant and equipment

11.1.13.1 Cost

Property, plant and equipment is initially recorded at cost.

11.1.13.2 Depreciation

Depreciation is provided on a straight line basis on all property, plant and equipment, other than freehold land and investment properties, at rates calculated to allocate their cost against revenue over their estimated useful lives.

Major depreciation periods are:

- (a) Buildings 25-50 years
- (b) Plant and equipment 3-40 years

Investment properties comprise shopping centres owned by the economic entity in which an FAL Group store occupies less than 50% of the total retail square metres available.

11.1.14 Leases

Leases are classified at their inception as either operating or finance leases, based on the economic substance of the agreement, so as to reflect the risks and benefits incidental to ownership.

11.1.14.1 Operating leases

The minimum lease payments of operating leases, where the lessor retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

The lease incentive liabilities in relation to non-cancellable operating leases are being reduced on an imputed interest basis over the lease term at the rates implicit in the leases. Contingent rentals are recognised as an expense in the financial year in which they are incurred.

11.1.15 Accounts payable

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the economic entity. Trade liabilities are normally settled by terms ranging from seven to 30 days.

11.1.16 Interest-bearing liabilities

11.1.16.1 Bank overdrafts

Bank overdrafts are carried at the principal amount. Interest is charged periodically at the prime lending rate plus a margin and is charged as an expense as it accrues.

11.1.16.2 Bank borrowings

Bank loans are carried at the principal amount. The facilities are renegotiated periodically at least twelve months prior to maturity and the principal amounts are accordingly classified as non-current. Interest is charged at bank bill rates plus a margin and is charged as an expense as it accrues.

11.1.17 Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation as a result of a past event, for which a reliable estimate of the amount of the obligation can be made, and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing of which is uncertain.

If the effect is material, provisions are determined by discounting the expected future cash flows to net present value.

11.1.17.1 Dividends

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

11.1.17.2 Lease impairment

Where the forecast future maintainable discounted cash receipts of an acquired store do not cover all forecast future discounted cash payments, including payments pursuant to the operating lease, an impairment provision is raised to the extent that the forecast future cash receipts do not cover the forecast future fixed and variable outgoings associated with the operating lease. Lease impairment provisions are also raised in respect of non-cancellable operating leases on stores or operations that have ceased trading.

11.1.17.3 Restructuring

A provision for restructuring arising from an acquisition is only recognised at the date of acquisition where there is a demonstrable commitment and a detailed plan, such that there is little or no discretion to avoid payments. The provision relates only to costs associated with the acquired entity.

11.1.18 Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by companies in the FAL Group.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

11.1.19 Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months from the reporting date are measured at their nominal amounts based on the remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. In determining the present values of future cash outflows, the interest rates attaching to government guaranteed securities which have terms to maturity approximating the terms of the related liability are used.

Employee benefits arising in respect of the following categories:

- (a) wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave benefits; and
- (b) other types of employee benefits,

are charged against profits on a net basis in their respective categories.

Employee-contributory superannuation funds exist to provide benefits for certain of the economic entity's employees and their dependents on retirement, disability or death. The contributions made to these funds by entities within the economic entity are charged against profits when due.

The FAL Group has an employee share plan, the value of which is not being charged as an employee benefit expense.

11.1.20 Goods and Services Tax

Revenues, expenses and assets are recognised net of GST, except where the GST incurred is not recoverable from the ATO or the NZIRD. In these circumstances the GST is recognised as part of the acquisition cost of the asset or as part of an item of expense.

Receivables and payables are stated inclusive of GST. The net amounts of GST recoverable from, or payable to, the ATO or the NZIRD are included as current assets or liabilities in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO or the NZIRD are classified as operating cash flows.

11.2 Differences between AGAAP and AIFRS

11.2.1 Introduction

As explained in Parts 8 and 10 of this Booklet, FAL will be required to adopt Australian equivalents to International Financial Reporting Standards for the financial half year ending 29 January 2006 and the full financial year ending 30 July 2006. At those dates, FAL will, as a first time adopter of AIFRS, be required to restate its comparative financial statements using all AIFRS, except for AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement", for which restated comparative information is not required.

11.2.2 Difference between AGAAP and AIFRS

The differences between AGAAP and AIFRS identified by FAL to date as potentially having significant effect on the financial position and financial performance of the FAL Group and which are reflected in the pro-forma historical and forecast financial information are summarised below. The summary should not be taken as an exhaustive list of all the differences between AGAAP and AIFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

FAL has substantially completed quantifying the impact of adopting AIFRS. This is subject to change due to work still to be completed by the project team, potential amendments to AIFRS and the issuing of any interpretations in respect of AIFRS.

Therefore, the financial information disclosed in this Booklet under AIFRS is FAL's current best estimate and could change due to further work being undertaken by the AIFRS project team and any potential amendments to AIFRS and interpretations thereof.

11.2.2.1 Business combinations

(a) Goodwill

Under AGAAP, goodwill is amortised using the straight line method over the period during which the benefits are expected to be received. This is usually taken to be 20 years. Under AIFRS AASB 3 "Business Combinations", goodwill will no longer be amortised but instead will be subject to annual impairment testing. Goodwill will be written down to the extent that it is impaired.

(b) Restructuring costs

Under AGAAP, provided certain conditions are met, restructure costs can be included as part of the cost of acquisition and thus effectively applied against the goodwill of businesses acquired.

Under AIFRS, a provision for restructure will only be recognised if there is an existing provision in the books of the acquiree at the date of acquisition. In practice it is unlikely that a provision for restructure will be raised in these circumstances requiring such costs to be expensed as incurred.

(c) Identifying the acquirer in a business combination

Under AIFRS, there is a fundamental requirement that an acquirer be identified for all business combinations. However, unlike the practice under AGAAP, the acquirer for the purpose of AIFRS may not necessarily be the same as the acquirer from a legal perspective. Furthermore, when a new entity is formed to issue equity instruments to affect a business combination, AIFRS requires that one of the combining entities that existed before the combination be identified as the acquirer. As AIFRS only requires the assets, liabilities and contingent liabilities of the acquired entity to be fair valued, this may result in lower fair value uplifts being recognised in certain types of business combinations compared to AGAAP.

(d) Additional ownership interest in a controlled entity

Under AGAAP, the acquisition of an additional ownership interest in a controlled entity is accounted for separately from previous acquisitions by applying the step acquisition method. In accordance with AIFRS the acquisition by a parent of an additional ownership interest in a subsidiary, subsequent to the parent obtaining control of that subsidiary, represents an equity transaction. Furthermore, under the purchased goodwill regime, it is appropriate to adjust the carrying value of goodwill to recognise that portion of goodwill attributable to a minority interest at the acquisition date that is now attributable to the parent.

11.2.2.2 Impairment of assets

Under AGAAP, non-current assets are carried on the Statement of Financial Position at an amount not greater than their recoverable amount. Recoverable amount of an asset may be determined as the amount that is expected to be recovered through cash inflows and outflows from the continued use and subsequent disposal of the assets, on the basis of discounted or undiscounted future cash flows. It has been the practice of the FAL Group to determine the recoverable amount of an asset on the basis of discounted cash flows. If the carrying amount exceeds the recoverable amount the asset is written down.

Under AIFRS, AASB 136 requires the recoverable amount of an asset to be determined as the higher of fair value less costs to sell and value in use. Fair value less costs to sell is the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable willing parties, less the costs of disposals. Value in use is calculated using a discounted cash flow model. The level at which impairment testing is conducted is at the individual cash generating asset level, or the lowest level of a group of assets to which independent cash flows can be ascribed (which in the case of FAL will generally represent individual supermarkets). These groups of assets are called Cash Generating Units.

11.2.2.3 Pre-opening expenses

Under FAL's AGAAP accounting policies, costs incurred in the start-up phase of a newly acquired, constructed or refurbished store, commonly termed pre-opening expenses, are capitalised and expensed on a straight line basis over the twelve months following the commencement of trading of the store concerned.

Under AIFRS, AASB 138 "Intangible Assets", such costs will be immediately expensed.

11.2.2.4 Employee benefits

Under AGAAP, the net surplus or deficit in an employer sponsored defined benefit superannuation fund is not required to be recognised as an asset or liability other than ensuring that the net market value of investments in the fund is sufficient to cover the vested benefits of participating employees.

Under AIFRS, AASB 119 "Employee Benefits", employer sponsors are required to recognise the net surplus or deficit in their employer sponsored defined benefit superannuation funds as an asset or liability, respectively. Under AIFRS, FAL will be required to recognise an asset for the net surplus based on an actuarial calculation of the position of the fund or accrue a liability in the case of a net deficit of the fund. The FAL Group has elected to recognise actuarial gains and losses as income or expense in the Statement of Financial Performance.

11.2.2.5 Share based payments

Under AGAAP, employee loans issued under the FAL Employee Share Plan are recognised at full nominal value as a receivable and there is no charge to the Statement of Financial Performance, other than loan write-offs arising when employees leave the FAL Group's employment and there is a shortfall between the balance of the loan and the market value of the related shares.

Under AIFRS, the present interpretation of AASB 2, "Share Based Payments", requires that the issue of shares under the FAL Employee Share Plan be treated as an "in-substance grant" of options. This will necessitate determining the fair value of the equity instrument issued at grant date and the recognition of an expense in the Statement of Financial Performance over the vesting period, where applicable. The standard applies to all share-based payments issued after 7 November 2002 which had not vested at 1 January 2005. All existing awards under the FAL scheme are considered to have vested by 1 January 2005.

11.2.2.6 Income taxes

Under AGAAP, tax effect accounting is applied using the liability method, taking into account timing and permanent differences between accounting profit and taxable income.

Under AIFRS, AASB 112 "Income Taxes" requires the use of the full liability balance sheet approach, which focuses on the tax affects of transactions and other events that affect amounts recognised in either the statement of financial position or a tax-based balance sheet.

11.2.2.7 Settlement discounts on inventory purchases

In accordance with the existing accounting policy of the FAL Group, settlement discounts received from suppliers are recognised in income when the corresponding liability for goods purchased from the supplier is taken up, at rates agreed with the supplier.

Under AIFRS, rebates and settlement discounts received from a supplier of inventory are presumed to be a reduction of the prices of the supplier's product and are deducted in determining the costs of purchase of inventory.

11.2.2.8 Financial instruments: recognition and measurement

Under AGAAP, the measurement of financial instruments is at cost, with certain derivative financial instruments (including embedded derivatives) not being recognised on the Statement of Financial Position.

Under AIFRS, AASB 139 "Financial Instruments: Recognition and Measurement" financial assets are required to be classified into one of four categories, which will in turn determine the accounting treatment of the item. The classifications are:

- (a) loans and receivables - measured at amortised cost;
- (b) held to maturity - measured at amortised cost;
- (c) held for trading - measured at fair value with fair value changes reflected in the Statement of Financial Performance; and
- (d) available for sale - measured at fair value with fair value changes taken to equity.

This will result in a change in the AGAAP accounting policy that does not classify financial instruments. Hedging activities will also be affected by AIFRS. In order to achieve hedge accounting for its derivative financial instruments under AASB 139 the FAL Group will be required to meet the following criteria:

- (a) identify the type of hedge – fair value or cash flow;
- (b) identify the hedged item or transaction;
- (c) identify the nature of the risk being hedged;
- (d) demonstrate that the hedge has and will continue to be highly effective; and
- (e) document the hedging relationship, including the risk management objectives and strategy for undertaking the hedge and how effectiveness will be tested.

Where effective cash flow hedges exist, fair value adjustments will be made at each balance sheet date, with the effective portion of the hedge going to a hedge reserve in equity, and any ineffective portion adjusted against profit in the Statement of Financial Performance. On settlement of the hedge the accumulated balance in the hedge reserve will be recognised through the Statement of Financial Performance.

Embedded derivatives in host contracts in certain circumstances are required to be separately identified and measured at fair value through profit and loss.

Due to the delayed application of AASB 139, this standard will not apply to AIFRS comparative information for the year ended 31 July 2005.

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Part 12

Taxation implications for FAL Shareholders

12 September 2005

The Directors
Foodland Associated Limited
218 Bannister Road
Canning Vale WA 6155

Dear Sirs

FAL Demerger and Acquisition Taxation Treatment of FAL Shareholders

This letter has been prepared at the request of the FAL Directors for inclusion in this Booklet.

Unless otherwise defined in this letter, capitalised terms used in this letter have the meaning given in the Dictionary in Part 20 of this Booklet.

1. Introduction

The following provides a general statement of the taxation implications for FAL Shareholders of the Demerger Scheme and Transfer Scheme.

The commentary and views in this letter are limited solely to the Australian income tax implications of the Schemes for Australian resident FAL Shareholders who hold their shares on capital account and to the New Zealand income tax implications of the Schemes for FAL Shareholders resident in New Zealand who hold their shares on capital account. FAL Shareholders who actively trade FAL Shares or otherwise hold them on revenue account, or who are not residents of Australia for taxation purposes (including FAL shareholders resident in New Zealand), should seek separate advice in relation to the Australian taxation implications of the Schemes.

The comments contained in this letter are based on the information contained in the Booklet and represent our opinion of how the taxation laws will apply in those circumstances. The opinions expressed in this letter are based on the taxation legislation and ATO rulings and determinations applicable as at the date of this letter.

It is recommended that all holders of FAL Shares consult their own independent tax advisers regarding the income tax and capital gains tax (“CGT”) consequences of voting for the Schemes, having regard to their particular circumstances.

2. Summary of Transactions

FAL Shareholders are being asked to approve the following two proposals:

- The first proposal is to separate FAL into two parts, being FAL’s New Zealand businesses and FAL’s Australian businesses. The separation will occur through a Demerger Scheme; and

- The second proposal is for Woolworths and Metcash to acquire all of FAL. This acquisition will occur by way of the Transfer Scheme.

A summary of the Demerger Scheme and the Transfer Scheme is contained at Section 5 of this letter.

3. ATO Class Rulings

On behalf of FAL, Ernst & Young has lodged applications for Class Rulings in relation to the Australian taxation implications of the Schemes. We understand the ATO will publish class rulings confirming the taxation treatment of Australian resident FAL Shareholders as discussed in this letter.

4. Overview of Taxation Implications for FAL Shareholders

The following is an overview of the Australian taxation implications of the Schemes for FAL Shareholders resident in Australia who have held their shares on capital account and of the New Zealand tax implications for FAL Shareholders resident in New Zealand who have held their shares on capital account.

| | Demerger Scheme | Transfer Scheme | |
|--|--|---|--|
| | | Metcash Component | Woolworths Component |
| <p>Australian taxation implications for Australian Resident FAL Shareholders</p> <p>(Refer to Section 6 of this letter for further details)</p> | <p>No tax will be payable where roll-over relief is chosen by FAL Shareholders.</p> <p>The CGT cost base of FAL Shares will be apportioned between the new PEH Shares and the original FAL Shares.</p> | <p>Metcash Cash Consideration</p> <p>A capital gain may arise and tax may be payable.</p> <p>Metcash Share Consideration</p> <p>No tax will be payable where roll-over relief is chosen.</p> <p>The cost base of the replacement Metcash Shares will be equal to the cost base of FAL Shares, as adjusted under the Demerger.</p> <p>Where a right to participate in any recovery from the ATO is provided to FAL Shareholders, the value of the right will be subject to CGT even where the Metcash Share Consideration is chosen.</p> | <p>Woolworths Cash Consideration</p> <p>A capital gain may arise and tax may be payable.</p> <p>Woolworths Share Consideration</p> <p>No tax will be payable where roll-over relief is chosen.</p> <p>The cost base of the replacement Woolworths Shares will be equal to the cost base of the PEH Shares, as adjusted under the Demerger.</p> |
| <p>New Zealand taxation implications for New Zealand Resident FAL Shareholders</p> <p>(Refer to Section 8 of this letter for further details)</p> | <p>The demerger distribution (equal to the value of the PEH Shares) to FAL Shareholders resident in New Zealand will be treated as a dividend for New Zealand tax purposes.</p> <p>Non-corporate FAL Shareholders will be taxed on the demerger distribution at marginal tax rates.</p> <p>Corporate FAL Shareholders will be subject to New Zealand's foreign dividend withholding payment liability at 33% of the demerger distribution.</p> | <p>Provided the FAL Shares have been held on capital account, no New Zealand tax should be payable on receipt of either the Metcash Cash Consideration or the Metcash Share Consideration.</p> | <p>Provided the FAL Shares have been held on capital account, no New Zealand tax should be payable on receipt of either the Woolworths Cash Consideration or the Woolworths Share Consideration.</p> <p>This position is based on a non-binding New Zealand Inland Revenue practice statement relating to other demerger transactions.</p> |

Note:

Woolworths Scheme Consideration

Where a combination of cash and shares is received, for Australian taxation purposes FAL shareholders will be required to apportion the value of cash and shares received to determine the capital gain or capital loss. Any capital gain arising on the Woolworths Cash Consideration will not be eligible for roll-over relief. In all cases, only the capital gain arising from the Woolworths Share Consideration will be eligible for roll-over relief.

Metcash Scheme Consideration

Where a Tax Receivable Right is acquired by FAL Shareholders, any capital gain arising on the receipt of the Right will not be eligible for roll-over relief. FAL Shareholders who choose Metcash Share Consideration will be required to apportion the value of the Rights and Metcash Shares received to determine the amount of the capital gain or capital loss.

5. Summary of the Schemes

5.1 The Demerger Scheme

The Demerger Scheme will be implemented by way of a demerger distribution consisting of a payment of share capital and payment of a dividend. This will involve FAL making a notional cash distribution to FAL Shareholders, with those funds being compulsorily applied to purchase from FAL one PEH Share for each FAL Share they own.

The Demerger Scheme will proceed regardless of whether the Transfer Scheme (discussed below) is approved.

5.2 The Transfer Scheme

It is proposed that immediately following the Demerger, subject only to the Transfer Scheme being approved, all FAL Shareholders will automatically make the following share transfers:

- All FAL Shares will be transferred to Metcash Trading Limited (“the Metcash Part”). In consideration for the transfer of their FAL shares, FAL shareholders will receive either cash or shares in Metcash; and
- All PEH Shares will be immediately transferred to a subsidiary of Woolworths (“the Woolworths Part”). In consideration for the transfer of the PEH shares, FAL shareholders will receive either cash or shares in Woolworths or a combination thereof.

The amount of consideration received under both the Metcash Part and Woolworths Part will be determined at the time of the Transfer Scheme in accordance with Part 3 of this Scheme Booklet.

6. Australian Tax Implications for Australian Resident FAL Shareholders

6.1 Demerger Scheme

Where an FAL Shareholder chooses to obtain roll-over relief in relation to the Demerger Scheme, the tax implications may be summarised as follows:

- FAL Shareholders will not be taxable on the receipt of PEH Shares;
- Any capital gain that may otherwise arise will be disregarded;
- The cost base of the FAL Shareholder’s FAL Shares just before the Demerger will be apportioned over their FAL Shares and PEH Shares after the Demerger. This will result in an adjustment to the cost base of their FAL Shares; and
- The CGT status of the FAL Shareholder’s PEH Shares will be the same as the CGT status of their FAL Shares just prior to the Demerger (that is, whether they are treated as having been acquired pre-CGT or post-CGT).

These implications are discussed in further detail below.

6.1.1 Demerger Allocation and Demerger Dividend

For Australian taxation purposes, the acquisition of PEH Shares by FAL Shareholders under the Demerger Scheme will consist of both a return of share capital and a 'demerger dividend'. The 'demerger dividend' is that part of the 'demerger allocation' (i.e. the value of the PEH shares received) that exceeds the amount debited to FAL's share capital account. On the basis that the Demerger Scheme is a genuine demerger, the 'demerger dividend' will not be treated as assessable income for FAL Shareholders. We understand the ATO will confirm this treatment in a Class Ruling to be issued prior to the Court approving the Demerger Scheme.

6.1.2 CGT

A CGT event will occur for FAL Shareholders under the Demerger Scheme. FAL Shareholders who are Australian residents and who hold their FAL Shares on capital account for taxation purposes will be eligible for roll-over relief under the Demerger provisions in Division 125 of the *Income Tax Assessment Act 1997* ("the 1997 Act").

(a) Where roll-over relief is chosen

For FAL Shareholders who choose to obtain roll-over relief, the capital gain that may otherwise arise from the demerger distribution under the Demerger Scheme will be disregarded.

Cost Bases of FAL Shares and PEH Shares

The sum of the cost bases of the FAL Shares and PEH Shares held by an FAL Shareholder after the Demerger will equal the cost base of the FAL Shares held by the FAL Shareholder just before the Demerger.

FAL Shareholders will need to apportion the cost base of their original FAL Shares over the cost bases of their FAL Shares and new PEH Shares in accordance with the market values of the FAL Shares and PEH Shares just after the Demerger. The apportionment must be based on the actual market values of FAL Shares and PEH Shares or an anticipated reasonable approximation of those market values.

For example, an anticipated reasonable approximation of the market values of FAL and PEH just after the demerger might be done using a one month VWAP to 14 July 2005 for the Woolworths shares and the Metcash shares expected to be received by FAL Shareholders. If this were done, it is expected that it would indicate that PEH makes up approximately 70% of the combined value of PEH and FAL, and FAL approximately 30%.

The examples set out in this letter are based on shareholders using such an anticipated reasonable approximation of the values of FAL and PEH for the purposes of apportioning the cost base of their FAL Shares between the PEH Shares they receive and the FAL Shares following demerger (i.e. the examples assume the cost base of their FAL Shares is apportioned as to 70% to the PEH Shares and 30% to the FAL Shares). FAL Shareholders may prefer to base the apportionment on the actual values of the PEH shares they receive and their FAL Shares just after the demerger. In this case, they should use the value of the actual consideration received for their FAL and PEH Shares (if the Transfer Scheme proceeds) or the market price of the FAL and PEH Shares after the demerger (if the Transfer Scheme does not proceed).

If the Transfer Scheme proceeds, we understand that Metcash will advise FAL Shareholders of the appropriate basis for apportionment, by letter or by publication on a website. If the Transfer scheme does not proceed, FAL will advise FAL Shareholders of the appropriate basis.

Example A:

An FAL Shareholder owns 300 post-CGT FAL Shares. Just before the Demerger, the FAL Shares have a cost base of \$15 per FAL Share. The FAL Shareholder chooses to obtain roll-over relief in relation to all of their FAL Shares in respect of the Demerger. The FAL Shareholder receives 300 PEH Shares as a result of the Demerger.

The FAL Shareholder uses the anticipated approximation of market values of FAL Shares and PEH Shares as calculated to determine the cost base of the FAL Shares and PEH Shares.

Therefore, the cost base of the each FAL Share following the Demerger will be \$4.50 (i.e. $\$15 \times 0.3$). The cost base of each PEH Share following the Demerger will be \$10.50 (i.e. $\$15 \times 0.7$).

Time of acquisition of PEH Shares

For FAL Shareholders who choose roll-over, their PEH Shares will have the same CGT characteristics as the underlying FAL Shares. Their PEH Shares will be taken to have been acquired at the time their FAL Shares were acquired. To the extent that FAL Shareholders acquired their FAL Shares prior to 20 September 1985, their PEH Shares will be taken to have been acquired prior to 20 September 1985 (i.e. pre-CGT).

Example B:

Just before the Demerger, an FAL Shareholder owns 100 FAL Shares, 15 of which were acquired before 20 September 1985. Under the Demerger, the FAL Shareholder acquires 100 PEH Shares. Where the FAL Shareholder elects to obtain roll-over relief for all of their FAL Shares, 15 of the 100 PEH Shares acquired will be taken to have been acquired before 20 September 1985.

(b) Where roll-over relief is not chosen

Whilst it is expected that FAL Shareholders will choose roll-over relief, for FAL Shareholders who do not choose to obtain roll-over relief, those FAL Shareholders will need to determine whether the amount debited to FAL's share capital (i.e. \$4.12 per FAL Share) exceeds the cost base of their FAL Shares (see the discussion below in relation to cost base). Where this occurs, FAL Shareholders will make a capital gain to the extent of the excess. FAL Shareholders may be entitled to discounted CGT treatment as discussed in Section 7 of this letter.

As noted in 6.1.1 above, the difference between the value of the PEH Shares received and the amount debited to FAL's share capital (\$4.12 per FAL Share) will be a demerger dividend. This demerger dividend will not be treated as assessable income of FAL Shareholders.

Cost bases of FAL Shares and PEH Shares

For FAL Shareholders who do not choose to obtain roll-over relief, the cost bases of their FAL Shares and PEH Shares will be worked out in the same way as for FAL Shareholders who choose to obtain roll-over (refer to Section 6.1.2(a) of this letter).

Time of acquisition of PEH Shares

Where roll-over relief is not chosen, all of the PEH Shares transferred to FAL Shareholders will be treated as having been acquired at the time they are transferred (regardless of whether the original FAL Shares were acquired pre-CGT).

6.1.3 Australian anti-avoidance provisions

The Australian income tax law contains provisions which provide a mechanism for the Commissioner of Taxation (the “Commissioner”) to deem certain payments, referred to as ‘capital benefits’ and ‘demerger benefits’, that are paid to shareholders in substitution for taxable dividends, to be treated as taxable dividends for taxation purposes.

The requirements for the provisions to apply are complex and require a consideration of all the relevant circumstances, including the general anti-avoidance provisions. One of the requirements for the provisions to apply is that, having regard to the relevant circumstances, it would be concluded that one of the persons who entered into the scheme or carried out the scheme did so for the purpose of obtaining a tax benefit.

Having considered the relevant circumstances and the matters set out in the relevant anti-avoidance provisions, in our view it should not be concluded that the Demerger Scheme is being carried out for the purposes of enabling a taxpayer to obtain a tax benefit. Therefore, in our view, the Commissioner should not exercise his discretion to apply the anti-avoidance provisions to any part of the ‘demerger allocation’ (i.e. the value of PEH Shares provided to FAL Shareholders via the Demerger).

It is expected that the Commissioner will confirm this position for FAL Shareholders in a Class Ruling to be issued prior to the Court approving the Demerger.

6.2 Transfer Scheme: Summary of Metcash Component

The tax implications of the Metcash component of the Transfer Scheme may be summarised as follows:

Metcash Cash Consideration

- For FAL Shareholders who receive Metcash Cash Consideration, a taxable capital gain or loss may arise.

Metcash Share Consideration.

- For FAL Shareholders who receive Metcash Share Consideration, and choose to obtain scrip for scrip roll-over relief, any capital gain that may otherwise arise will be disregarded.
- The cost base of their Metcash Shares will be the same as their FAL Shares just prior to the Transfer Scheme (as adjusted under the Demerger Scheme).
- Their Metcash Shares will be taken to have been acquired at the same time as their FAL Shares.
- The above does not apply where FAL Shares were acquired prior to 20 September 1985. Please refer to section 6.4 of this letter.

Tax receivable

The amount of the Metcash Cash Consideration and the Metcash Share Consideration will depend on whether the Tax Appeals are resolved prior to the Transfer Scheme. If the Tax Appeals are resolved prior to the Transfer Scheme, the amount which FAL receives as a result of resolving the Tax Appeals, net of costs, will be added to the total Metcash Consideration. The relevant date for determining whether this amount will be included in the Metcash Consideration is the Consideration Determination Date.

If the Tax Appeals are not resolved prior to the Consideration Determination Date, FAL Shareholders will instead acquire a right (“the Tax Receivable Right”) to receive a share of any amount finally received if the Tax Appeals are subsequently settled. In that case, the Metcash Cash Consideration will be reduced by an amount of \$1 million, being the amount up to which Metcash may be required to incur to pursue the Tax Appeals, and the Metcash Share Consideration will also be reduced to reflect this.

Please refer to section 6.2.2 of this letter which discusses the Australian taxation implications for FAL Shareholders of receiving the Tax Receivable Right.

6.2.1 CGT

Upon transfer of their FAL Shares to Metcash, a CGT event will occur for FAL Shareholders. The CGT consequences for Australian resident FAL Shareholders depend on whether an FAL Shareholder chooses the Metcash Share Consideration or the Metcash Cash Consideration, and whether FAL Shareholders receive the Tax Receivable Right.

FAL Shareholders who choose the Metcash Cash Consideration

FAL Shareholders who acquired their FAL Shares on or after 20 September 1985 and who choose the Metcash Cash consideration will make a capital gain if the amount of the Metcash Cash Consideration received exceeds the cost base of their FAL Shares. FAL Shareholders may be entitled to discounted CGT treatment as discussed in Section 7 of this letter.

Where the Metcash Cash Consideration received is less than the reduced cost base of their FAL Shares for CGT purposes, the FAL Shareholder will incur a capital loss, which may be available for offset against capital gains. In most instances, it is expected that the reduced cost base of FAL Shares will be the same as the cost base of the FAL Shares.

Where FAL Shareholders receive the Tax Receivable Right, the value of the Tax Receivable Right will be taken into account in determining the above capital gain or loss as discussed in Section 6.2.2 of this letter

FAL Shareholders who acquired their FAL Shares prior to 20 September 1985 should refer to Section 6.4 of this letter.

FAL Shareholders who choose the Metcash Share Consideration

The taxation implications for FAL Shareholders who choose the Metcash Share Consideration depend on whether an FAL Shareholder chooses to obtain scrip for scrip roll-over relief under Subdivision 124-M of the 1997 Act in relation to the disposal of their FAL Shares. Broadly, an FAL Shareholder may choose to obtain scrip for scrip roll-over relief where they:

- hold their FAL Shares as capital assets;
- are an Australian resident;
- acquired their FAL Shares on or after 20 September 1985; and
- make a capital gain from the disposal of their FAL Shares.

(a) Where scrip for scrip roll-over relief is chosen

Where the above conditions are met, FAL Shareholders who wish to obtain scrip for scrip roll-over relief must choose to obtain roll-over relief.

Where scrip for scrip roll-over relief is chosen, any capital gain arising from the disposal of FAL Shares by FAL Shareholders will be disregarded. Where a capital loss arises (i.e. where the value of the Metcash Share Consideration is less than the cost base of their FAL Shares), an FAL Shareholder will not be eligible to obtain scrip for scrip roll-over. Rather, the capital loss will be realised and may be available for offset against capital gains.

Where FAL Shareholders receive the Tax Receivable Right, FAL Shareholders will need to apportion the cost base of their FAL Shares based on the value of the Tax Receivable Right and the value of the Metcash Shares received. Where the value of the Tax Receivable Right exceeds the apportioned cost base, the excess will be a capital gain that does not qualify for roll-over relief as discussed in Section 6.2.2 of this letter.

Cost base of Metcash Shares

For FAL Shareholders who choose the Metcash Share Consideration, the cost base and reduced cost base of each Metcash Share received will be determined by apportioning, on a reasonable basis, the cost bases of each FAL Share exchanged for the Metcash Share.

Example C:

An FAL Shareholder holds 300 FAL Shares and chooses the Metcash Share Consideration. The FAL Shareholder chooses to obtain scrip-for scrip roll-over relief in relation to all of their FAL Shares disposed of. The cost base of each of their FAL Shares (ignoring any apportioning of cost base to the Tax Receivable Right) is \$4.50 as a result of the Demerger Scheme (refer to Example A of this letter) resulting in a total cost base of \$1,350. Under the Metcash Transfer Scheme, the FAL Shareholder receives 2.07 Metcash Shares for each FAL Share they own, which amounts to 621 Metcash Shares.

As a result of the scrip for scrip roll-over, the cost base of the FAL shares of \$1,350 will be apportioned over the 621 Metcash Shares, resulting in a cost base of approximately \$2.17 per Metcash Share ($\$1,350/621$).

Time of acquisition of Metcash Shares

For FAL Shareholders who choose scrip for scrip roll-over, their Metcash Shares will be taken to have been acquired at the time their FAL Shares were acquired for the purposes of applying the CGT discount.

(b) Where scrip for scrip roll-over relief is not chosen

FAL Shareholders who choose the Metcash Share Consideration and do not choose scrip for scrip roll-over will make a capital gain equal to the market value of the Metcash Shares received less the cost base of their FAL Shares. FAL Shareholders may be entitled to discounted CGT treatment as discussed in Section 7 of this letter.

For FAL Shareholders whose reduced cost base is greater than the market value of the Metcash Shares received, the FAL Shareholder may incur a capital loss, which may be available for offset against capital gains.

The value of the Metcash Shares received should be determined using the market value of those shares on the Transfer Implementation Date. We understand that Metcash will advise FAL Shareholders of the appropriate market value of the Metcash Shares by way of letter or publication on a website.

Cost base of Metcash Shares

Where scrip for scrip roll-over relief is not chosen, the cost base of the Metcash Shares will be equal to the market value of their FAL shares at the Transfer Implementation Date. This is the same value that FAL Shareholders should use to calculate any gain on disposal of their FAL Shares as above.

Time of acquisition of Metcash Shares

Where scrip for scrip roll-over relief is not chosen, the acquisition date of the Metcash Shares for CGT purposes will be the date on which the Metcash Shares are issued to FAL Shareholders.

6.2.2 Tax Receivable Right

As outlined above, if the Tax Appeals are not resolved before completion of the Transfer Scheme, no amount will be added to the total Metcash Consideration. Instead, FAL Shareholders will receive the Tax Receivable Right, being a right to a proportion of any amount that is received in the future in respect of the Tax Appeals.

Therefore, FAL Shareholders will potentially receive a 'right' to a contingent and unascertainable amount in the future in addition to the Metcash Cash Consideration or Metcash Share Consideration.

If FAL Shareholders receive the Tax Receivable Right as part of the consideration for their FAL Shares, the Tax Receivable Right will constitute 'ineligible proceeds.' This is because the Tax Receivable Right will be considered 'something other than' a replacement interest under section 124-790(1) of the 1997 Act. Thus there will be no roll-over in relation to the Tax Receivable Right where it is received as part of the consideration for the disposal of FAL Shares.

For FAL Shareholders who accept Metcash Cash Consideration in respect of their FAL Shares, no roll-over will be available and their capital proceeds will include the cash received plus the value of the Tax Receivable Right.

Where the Tax Receivable Right is received in addition to Metcash Shares, FAL Shareholders will need to apportion the cost base of their FAL Shares based on the value of the Tax Receivable Right and the value of the Metcash Shares received. Where the value of the Tax Receivable Right exceeds the apportioned cost base, the excess will be a capital gain that does not qualify for roll-over relief.

Where the Tax Receivable Right is received by FAL Shareholders, we understand they will be advised by Metcash of the valuation of the Tax Receivable Right to enable calculation of the appropriate capital gain or loss for inclusion in their income tax returns. Metcash will also advise FAL Shareholders of the value of the Metcash Shares they receive so that the apportionment referred to above may be undertaken.

Example D:

Assume the same facts as per example C, but assume also that:

- The Tax Receivable Right has a value of \$0.10 per FAL Share; and
- The value of the Metcash Shares is \$8.28 per FAL Share (i.e. 2.07 shares x \$4.00).

The total cost base of the FAL Shares of \$1,350 (i.e. \$4.50 x 300 FAL Shares) would be pro-rated on the basis of these values, so that the cost base applicable to the Right would be \$16.11 (i.e. \$1,350 x \$0.10 / \$8.38) and the cost base applicable to the Metcash Shares would be \$1,333.89 (i.e. \$1,350 x \$8.28 / \$8.38).

The capital gain which will arise in relation to the Tax Receivable Right will be equal to the value of the Right less the cost base of the FAL Shares applicable to it as calculated above, i.e. \$30 (\$0.10 x 300) less \$16.11 (refer above), resulting in a capital gain of \$13.89, before any CGT discount.

The cost base of each Metcash Share received would be \$2.15 (i.e. \$1,333.89/621).

The value of the Tax Receivable Right used by FAL Shareholders to calculate the capital gain or loss will represent the cost base of the Tax Receivable Right for the purposes of any future CGT event in relation to the Tax Receivable Right. If a payment is subsequently received in relation to the Tax Receivable Right, FAL Shareholders will make a capital gain or loss equal to the difference between the amount subsequently received and the value of the Tax Receivable Right as determined at the time of its acquisition. If the Tax Receivable Right is held for more than 12 months before any payment is received, FAL Shareholders may be entitled to discounted CGT treatment as discussed in Section 7 of this letter.

If the Tax Receivable Right is extinguished without any recovery (e.g., if the action against the ATO is unsuccessful), FAL Shareholders will realise a capital loss at the time of extinguishment equal to the cost base of the Tax Receivable Right.

6.3 Transfer Scheme: Summary of Woolworths Component

The tax implications of the Woolworths component of the Transfer Scheme may be summarised as follows:

- FAL Shareholders may make a capital gain or capital loss in respect of the Woolworths Cash Consideration.
- Where an FAL Shareholder chooses to obtain roll-over relief in respect of the Woolworths Shares received, any capital gain that may otherwise arise in relation to the receipt of the Woolworths Shares will be disregarded.
- Where a combination of cash and Woolworths Shares is received, the capital gain that will be taxable and the amount that will be disregarded will need to be worked out by apportioning the cost base of the PEH Shares (as determined under the Demerger Scheme) over the cash and Woolworths Shares received.
- The cost base of the Woolworths Shares will also need to be worked out as outlined below.
- The above does not apply to FAL Shareholders who acquired their FAL Shares before 20 September 1985. Please refer to Section 6.4 of this letter.

6.3.1 CGT

Upon transfer to Woolworths of their PEH Shares received as a result of the Demerger Scheme, a CGT event will occur for FAL Shareholders. FAL Shareholders can choose to receive the Woolworths Maximum Cash Consideration, the Woolworths Maximum Share Consideration or the Woolworths Standard Consideration.

FAL Shareholders who choose the Woolworths Maximum Cash Consideration or the Woolworths Maximum Share Consideration may receive only cash in exchange for their PEH Shares or only Woolworths Shares in exchange for their PEH Shares respectively. However, depending on the choices of all FAL Shareholders, due to the Woolworths Cash Consideration Cap, FAL Shareholders who choose the Woolworths Maximum Cash Consideration or the Woolworths Maximum Share Consideration may receive a combination of Woolworths Shares and cash in exchange for their PEH Shares.

FAL Shareholders who choose the Woolworths Standard Consideration will receive a combination of Woolworths Shares and cash in exchange for their PEH Shares.

FAL Shareholders who receive only Woolworths Cash Consideration

FAL Shareholders who are taken to have acquired their PEH Shares on or after 20 September 1985 and who receive only Woolworths Cash Consideration in return for their PEH Shares will make a capital gain if the amount of the Woolworths Cash Consideration received exceeds the cost base of their PEH Shares. FAL Shareholders may be entitled to discounted CGT treatment as discussed in Section 7 of this letter.

Where the Woolworths Cash Consideration received is less than the reduced cost base of their PEH Shares for CGT purposes, the FAL Shareholder will incur a capital loss, which may be available for offset against capital gains.

FAL Shareholders who are taken to have acquired their PEH Shares prior to 20 September 1985 should refer to Section 6.4 of this letter.

FAL Shareholders who receive only Woolworths Shares or a combination of Woolworths Shares and Woolworths Cash

The taxation implications for FAL Shareholders who receive only Woolworths Shares or a combination of cash and Woolworths Shares will depend on whether a Shareholder chooses to obtain scrip for scrip roll-over relief under Subdivision 124-M of the 1997 Act in relation to the Woolworths Shares received in exchange for the disposal of their FAL Shares. An FAL Shareholder may choose to obtain scrip for scrip roll-over relief for Woolworths Shares received in return for their PEH Shares where they:

- hold their FAL Shares and PEH Shares on capital account;
- are an Australian resident;
- acquired their FAL Shares on or after 20 September 1985; and
- make a capital gain from the disposal of their PEH Shares.

(a) Where scrip for scrip roll-over relief is chosen

Where the above conditions are met, FAL Shareholders who wish to obtain scrip for scrip roll-over relief must choose to obtain roll-over relief.

Where scrip for scrip roll-over relief is chosen, any capital gain arising from the disposal of PEH Shares in return for Woolworths Shares by FAL Shareholders will be disregarded. For FAL

Shareholders who receive only Woolworths Shares and no cash, the whole amount of the capital gain will be disregarded.

Where a combination of Woolworths Shares and cash is received, FAL Shareholders will make a capital gain to the extent that the amount of cash received exceeds the applicable part of the cost base of the PEH Shares which are disposed of in return for cash.

This will require an apportionment of the cost base of the PEH shares (as determined under the Demerger Scheme) over the total Woolworths Scheme Consideration received by an FAL Shareholder in order to work out how much of the gain will be disregarded under the scrip for scrip roll-over, and how much will be a taxable capital gain. FAL Shareholders may be entitled to discounted CGT treatment as discussed in Section 7 of this letter.

Example E:

An FAL Shareholder holds 300 PEH Shares as a result of the Demerger, with a cost base worked out as a result of the Demerger of \$10.50 per PEH Share (giving a total cost base of \$3,150). The FAL Shareholder elects to receive the Woolworths Standard Consideration and receives \$7.93 cash and 0.6925 Woolworths Shares in return for each of their PEH Shares, i.e. \$2,379 cash and 208 Woolworths Shares in total. Assuming the market value of Woolworths Shares advised to the FAL Shareholder just after the Transfer Scheme is \$16.30, then the total value of the Woolworths Scheme Consideration received will be \$5,769 consisting of \$3,390 (i.e. 208 x \$16.30) in Woolworths Shares and \$2,379 cash.

The portion of the capital gain which is taxable and not eligible for scrip roll-over relief needs to be determined. The cost base of the PEH Shares not eligible for scrip for scrip roll-over relief will be worked out as:

Cash consideration/ total value of consideration x Cost base of FAL Shares

$$\text{i.e. } \$2,379 / \$5,769 \times \$3,150 = \$1,298.99$$

The amount of capital proceeds which are not eligible for scrip for scrip roll-over is \$2,379. Therefore, the FAL Shareholder will have a taxable capital gain of \$1,080.02 (i.e. \$2,379 less \$1,298.99).

The remaining capital gain will be disregarded because of the scrip for scrip roll-over.

For FAL Shareholders whose cost base of their PEH Shares (as determined under the Demerger Scheme) is greater than the market value of the Woolworths Scheme Consideration received, the FAL Shareholder will incur a capital loss, which may be available for offset against capital gains. Where a capital loss arises an FAL Shareholder will not be eligible to obtain scrip for scrip roll-over.

Cost base of Woolworths Shares

Where FAL Shareholders receive only Woolworths Shares, the cost base of their Woolworths Shares will be equal to the cost base of their PEH Shares. Where a combination of cash and Woolworths Shares is received, this will require an apportionment of the cost base of the PEH shares (as determined under the Demerger Scheme) over the cash and Woolworths Shares received.

Example F:

Using the same facts as Example E of this letter, the FAL Shareholder works out the cost base of their Woolworths Shares as follows:

Woolworths Share Consideration/total value of Woolworths Scheme Consideration x cost base of FAL Shares

$$\text{i.e. } \$3,390 / \$5,769 \times \$3,150 = \$1,851.01$$

The cost base of each Woolworths Share is \$8.90 (i.e. \$1,851.01/208 Woolworths Shares).

Time of acquisition of Woolworths Shares

The Woolworths Shares will have the same acquisition date for CGT purposes as the PEH Shares (determined under the Demerger Scheme) which were disposed of in return for Woolworths Shares. This date will depend on the date of the acquisition of the original FAL shares.

Example G:

Using the same facts as Example F of this letter, the FAL Shareholder acquired all of their FAL Shares on 1 January 2002 and chooses to obtain roll-over relief in relation to the Demerger. As a result, their PEH Shares are taken to have been acquired on 1 January 2002 (refer to Section 6.1.2(a)). Therefore, the Woolworths Shares will also be treated as having been acquired on 1 January 2002. This means the FAL Shareholder will be eligible to claim the CGT discount if they sell their Woolworths Shares immediately after the Transfer Scheme, as they will be taken to have held their Woolworths Shares for longer than 12 months.

(b) Where scrip for scrip roll-over relief is not chosen

FAL Shareholders who do not choose scrip for scrip roll-over relief will make a capital gain equal to the market value of the Woolworths Scheme Consideration received less the cost base of their PEH Shares (as determined under the Demerger Scheme). FAL Shareholders may be entitled to discounted CGT treatment as discussed in Section 7 of this letter.

For FAL Shareholders whose PEH Shares' reduced cost base (as determined under the Demerger Scheme) is greater than the market value of the Woolworths Scheme Consideration received, the FAL Shareholder will incur a capital loss, which may be available for offset against capital gains.

We understand that Woolworths will advise FAL Shareholders of the market value of Woolworths Shares at the Transfer Implementation Date to enable FAL Shareholders to undertake the necessary calculations.

Cost base of Woolworths Shares

Where scrip for scrip roll-over relief is not chosen, the cost base of the Woolworths Shares will be equal to the market value of the PEH Shares at the time of the Transfer Scheme. In practice, this will be the same value as advised to FAL Shareholders by Woolworths as above.

Time of acquisition of Woolworths Shares

Where scrip for scrip roll-over relief is not chosen, the acquisition date of the Woolworths Shares for CGT purposes will be the date on which the Woolworths Shares are issued to FAL Shareholders.

6.4 Transfer Scheme: Where FAL Shares were acquired prior to 20 September 1985

FAL Shareholders who acquired their FAL Shares prior to 20 September 1985 will not be eligible to choose scrip for scrip roll-over relief for the disposal of their FAL Shares (or their PEH Shares if demerger roll-over is chosen). Broadly, the disposal will not be subject to CGT on the basis that the FAL Shares were acquired pre-CGT.

The cost base of the replacement Metcash Shares and Woolworths Shares will be equal to the market value of the Metcash Shares and Woolworths Shares at the time they are issued to FAL Shareholders. The acquisition date for CGT purposes will be the date on which the Metcash Shares and Woolworths Shares are issued to FAL Shareholders.

For completeness, CGT event K6 (regarding pre-CGT Shares where at least 75% of the underlying assets are post-CGT) should not arise for FAL Shares as FAL has been listed on the ASX for at least five years. Where PEH Shares are treated as having been acquired prior to 20 September 1985 under the Demerger Scheme, CGT event K6 will not arise on the basis that scrip for scrip roll-over relief would have been available if the PEH Shares were acquired on or after 20 September 1985. In addition, if the Transfer Scheme does not proceed and PEH is listed on a Stock Exchange, CGT event K6 should not apply.

7. CGT Discount

An individual, trustee of a trust or complying superannuation fund may choose to apply a CGT discount if the FAL Shareholder has held their FAL Shares for more than 12 months. In that case, FAL Shareholders will also be taken to have held their PEH Shares for more than 12 months if they choose roll-over relief in relation to the acquisition of the PEH Shares.

The CGT discount for individuals and trusts is 50% and for complying superannuation funds is 33.3%.

The CGT discount is not available where FAL Shareholders choose to apply indexation to the cost base of their Shares. A company, individual, trustee of a trust or complying superannuation may choose to apply indexation to the cost base of FAL Shares which were acquired before 21 September 1999.

8. New Zealand Tax Implications for New Zealand Residents

The New Zealand tax implications for New Zealand resident FAL Shareholders who hold their FAL Shares on capital account are set out below. The comments below do not apply to New Zealand resident FAL Shareholders who hold their shares on revenue account (e.g., who acquired their shares for the purpose of resale, who hold their shares as part of carrying on business as a share dealer, or who hold their shares as part of a profit-making scheme).

It is important that New Zealand resident FAL Shareholders seek independent advice in relation to the taxation implications for their specific circumstances.

8.1 Demerger Scheme

Under New Zealand tax law, the demerger distribution received will be treated as a dividend in the hands of New Zealand resident FAL Shareholders.

The dividend will be derived by the New Zealand resident FAL Shareholders on the date the Demerger is effected. The value of the dividend will be the New Zealand dollar equivalent of the Demerger distribution received. If the Transfer Scheme proceeds, in practice this is expected to be the New Zealand dollar equivalent of the cash received from Woolworths for their PEH shares and/or the value of the Woolworths shares received, as the case may be.

As noted earlier, we understand that Woolworths will advise FAL Shareholders of the market value of Woolworths Shares at the Demerger Implementation Date to enable them to calculate the amount of the dividend for New Zealand tax purposes.

8.1.1 New Zealand resident non-corporate FAL Shareholders (including individuals and trusts but excluding unit trusts, and superannuation funds)

The demerger distribution received will be fully taxable to New Zealand resident non-corporate FAL Shareholders at their marginal tax rates.

No Australian non-resident withholding tax will apply to the demerger distribution. Consequently, no foreign tax credits will be available to offset the New Zealand tax liability.

8.1.2 New Zealand resident corporate FAL Shareholders (including unit trusts)

Dividends received by a New Zealand resident company (including unit trusts) from a non-resident company are exempt income to the company. However, companies incur a foreign dividend withholding payment liability on receiving overseas dividends.

Consequently, a foreign dividend withholding payment amount equal to 33% of the demerger distribution received will be due and payable to the New Zealand Inland Revenue.

Again, no foreign tax credits will be available to offset the New Zealand foreign dividend withholding payment liability.

A credit for underlying foreign tax would only be available if any New Zealand corporate FAL Shareholder held more than 10% of the total issued share capital of FAL.

8.2 Transfer Scheme

On the basis the Transfer Scheme is approved, New Zealand resident FAL Shareholders will dispose of their FAL Shares and PEH Shares.

Any capital gains arising from the disposal of the FAL Shares and PEH Shares should not be taxable in the hands of the FAL Shareholders provided the Shares have been held on capital account.

The gains arising from the disposal of the FAL Shares and PEH Shares will be taxable for New Zealand tax purposes where the shares have been held on revenue account (e.g., where the shares were acquired for the purpose of resale, or are held as part of a share dealing business, or are held as part of a profit-making scheme).

8.2.1 Transfer of FAL Shares to Metcash

Provided the FAL Shares have been held on capital account, no adverse New Zealand tax consequences should arise on the disposal of the FAL Shares by the New Zealand resident shareholders (see section 8.2 of this letter).

The receipt of any payment in the future in relation to the right to receive further sale consideration concerning the Tax Appeals should not be taxable provided the FAL Shares have been held on capital account (see section 6 of this letter).

8.2.2 Transfer of PEH Shares to Woolworths

New Zealand tax legislation does not specifically deal with share disposals arising from a demerger scheme. Therefore, the normal tax rules regarding the share disposals should apply to New Zealand resident Shareholders in respect of the sale of their PEH Shares (see section 8.2 of this letter).

On the basis the FAL Shares have been held on capital account, the PEH Shares received by the New Zealand resident FAL Shareholders should also be held on capital account. The commentary provided by New Zealand Inland Revenue in Tax Information Bulletin Fifteen, No 6, June 2003 relating to other Australian demergers supports this position. Accordingly, the sale of the PEH Shares to Woolworths should not give rise to any adverse New Zealand tax consequences for a capital account New Zealand resident FAL Shareholder. However, it is recommended that the New Zealand resident FAL Shareholders should obtain their own advice on the issue for their specific circumstances.

For tax purposes the cost base of the PEH Shares should be equal to the New Zealand dollar equivalent of the value of the demerger distribution.

8.2.3 New Zealand tax implications if Transfer Scheme does not proceed

The cost base of the FAL Shares will be the original cost prior to the Demerger Scheme and the cost base of the PEH Shares should be equal to the New Zealand dollar equivalent of the demerger distribution.

8.2.4 Proposed changes to Taxation of Foreign Equities

The New Zealand Government issued a discussion document in June 2005 concerning certain proposed changes to the taxation of offshore equity investment. The proposal is to remove the “grey-list” concession and tax all realised and unrealised gains on offshore portfolio investment with effect from 1 April 2007. A de-minimis exemption has been proposed for individual investors who hold less than NZ\$50,000 of shares in companies listed in tax treaty countries (eg, Australia). The legislation has yet to be formulated and passed through the consultative process.

New Zealand resident shareholders should seek specific advice in respect of the future tax implications on their investment arising from the proposals.

9. Australian tax implications for non-Australian resident FAL Shareholders

The Australian tax implications of the Demerger Scheme and Transfer Scheme for FAL Shareholders who are not residents of Australia for tax purposes will generally be as follows:

- FAL Shareholders will not be subject to Australian withholding tax in respect of the Demerger Dividend; and
- FAL Shareholders and PEH Shareholders who hold their shares on capital account should not be subject to Australian Capital Gains Tax unless they have held (together with their associates) at least 10% by value of FAL Shares or PEH Shares at any time in the five years preceding the Transfer Implementation Date.

FAL Shareholders and PEH Shareholders who are not residents of Australia for taxation purposes should seek their own professional advice in relation to the Demerger Scheme and Transfer Scheme.

10. Goods & Services Tax (“GST”) – Australia and New Zealand

No GST will be payable in respect of the disposal of the FAL Shares and the acquisition of the PEH Shares, Woolworths Shares and Metcash Shares pursuant to the Demerger Scheme and, if applicable, the Transfer Scheme. As these all involve dealings with securities, the various supplies will be input taxed (i.e. not subject to GST).

There may be an indirect GST cost for shareholders in relation to GST charged on supplies related to the transactions outlined above (e.g. legal and other advisor fees paid to obtain advice on whether to accept the proposal). The ultimate GST cost will be dependant upon the circumstances of the FAL Shareholder and the FAL Shareholder’s GST registration status.

11. Disclaimer and Other Matters

Tax laws are complicated and there could be implications for FAL Shareholders in addition to those described above. Our advice is general in nature and the individual circumstances of each FAL shareholder may affect the taxation implications of the investment of that shareholder. FAL Shareholders should seek appropriate independent professional advice that considers the taxation implications in respect of their own specific circumstances. We disclaim all liability to any FAL Shareholder or other party for all costs, loss, damage and liability that the FAL Shareholder or other party may suffer or incur arising from or relating to or in any way connected with the

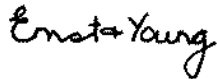
contents of our opinion or the provision of our opinion to the FAL Shareholder or other party or the reliance on our opinion by the FAL Shareholder or other party.

The taxation information is being provided by Ernst & Young, which is not required to hold an Australian Financial Services Licence (AFSL) under the *Corporations Act 2001* to provide that information. The information is confined to taxation issues and is only one of the matters that must be considered by all FAL Shareholders when making a decision as to what consideration they should choose under the Transfer Scheme. Before making a decision FAL Shareholders should consider taking advice from the holder of an AFSL

This letter does not constitute an endorsement of this Booklet or a recommendation as to whether FAL Shareholders should vote in favour of the Demerger Scheme and the Transfer Scheme. Ernst & Young expresses no opinion and gives no assurance or guarantee in respect of this Booklet.

We consent to the inclusion of this letter in this Booklet. This consent has not been withdrawn at the date of this letter.

Yours faithfully



Ernst & Young

Part 13

Implications for overseas FAL Shareholders

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13 Implications for overseas FAL Shareholders

13.1 New Zealand FAL Shareholders - share consideration

New Zealand FAL Shareholders will be treated in the same way as Australian FAL Shareholders and will be entitled to receive:

- (a) Woolworths Shares and/or Metcash Shares, if the Transfer Scheme and the Demerger Scheme proceed; and
- (b) PEH Shares if the Demerger Scheme proceeds but the Transfer Scheme does not proceed.

The taxation implications for New Zealand FAL Shareholders are discussed in Part 12 of this Booklet.

13.2 Other overseas FAL Shareholders - share consideration

All other overseas FAL Shareholders will be Ineligible Overseas Shareholders (unless FAL determines otherwise - see Part 13.4 of this Booklet) and their entitlements to the Woolworths Share Consideration and/or Metcash Share Consideration (if chosen) will be dealt with as described in Parts 13.5 and 13.6 of this Booklet.

13.3 Overseas FAL Shareholders - cash consideration

Ineligible Overseas Shareholders will receive cash consideration in Australian dollars paid in the same manner as all other FAL Shareholders.

13.4 Entitlement to PEH Shares

Unless FAL otherwise determines after being satisfied in discussions with Metcash Trading and Woolworths that it is not unlawful, not unduly onerous and not unduly impractical to transfer PEH Shares to an overseas FAL Shareholder, they will be classified as an Ineligible Overseas Shareholder and FAL or its nominee will retain the PEH Shares that would otherwise be transferred to that overseas FAL Shareholder.

If the Transfer Scheme proceeds, the PEH Shares will be transferred by FAL in accordance with the terms of the Transfer Scheme. If the Transfer Scheme does not proceed, FAL (or the nominee of FAL, as the case may be) will sell those PEH Shares as soon as reasonably practicable and in any event within 20 Business Days after the Demerger Implementation Date and pay the overseas FAL Shareholder an amount equal to the average net proceeds of sale, after deduction of any applicable brokerage, taxes and charges, of all PEH Shares sold in this way.

13.5 Ineligible Overseas Shareholders - Woolworths Consideration

If PEH Shares are retained as described in Part 13.4 of this Booklet and the Transfer Scheme proceeds, the Ineligible Overseas Shareholder who would otherwise have been entitled to the PEH Shares may still make an Election in relation to the Woolworths Consideration as described in Part 3 of this Booklet. If an Ineligible Overseas Shareholder does not make an Election, they will be deemed to have elected to receive Woolworths Standard Consideration. To the extent the Election results in the payment of cash as part of the Woolworths Maximum Cash Consideration, the Woolworths Standard Consideration (in the case of a deemed election) or the Woolworths Maximum Share Consideration, the cash will be paid to the Ineligible Overseas Shareholder in the same way as all other FAL Shareholders are paid the cash component of the Woolworths Consideration. To the extent the Election or deemed Election results in the issue of Woolworths Shares, the Woolworths Shares will be pooled with all the other Woolworths Shares that would otherwise be issued to Ineligible Overseas Shareholders and sold on the ASX. Each Ineligible Overseas Shareholder will be paid an amount equal to the average net proceeds of sale, after deduction of any applicable brokerage, taxes and charges, of all Woolworths Shares sold in this way multiplied by the number of Woolworths Shares issued as a result of the actual or deemed Election. This amount will be paid within 20 Business Days after the Consideration Date.

13.6 Ineligible Overseas Shareholders - Metcash Consideration

If an FAL Shareholder is determined to be an Ineligible Overseas Shareholder for the purpose of determining an entitlement to PEH Shares as described in Part 13.4 of this Booklet and therefore an entitlement to Woolworths Shares as described in Part 13.5 of this Booklet, the FAL Shareholder will also be classified as an Ineligible Overseas Shareholder for the purpose of determining an entitlement to Metcash Shares. In these circumstances, if the Ineligible Overseas Shareholder elects to receive Metcash Shares, those Metcash Shares will be pooled with all the other Metcash Shares that would otherwise be issued to all Ineligible Overseas Shareholders and the Metcash shares will be sold on the ASX. Each Ineligible Overseas Shareholder will be paid an amount equal to the average net proceeds of sale, after deduction of any applicable brokerage, taxes and charges, of all Metcash Shares sold in this way multiplied by the number of Metcash Shares issued as a result of their Election.

Ineligible Overseas Shareholders who do not make an Election will be deemed to have elected to receive Metcash Cash Consideration.

Metcash Cash Consideration will be paid to Ineligible Overseas Shareholders in the same way as all other FAL Shareholders are paid.

13.7 Method of payment

Payment of all amounts payable to Ineligible Overseas Shareholders will be sent by cheque in Australian dollars drawn on an Australian bank. Cheques will be sent within 25 Business Days after the Consideration Date. Payment will be sent by post.

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Part 14

Additional information

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14 Additional information

14.1 Introduction

This Part 14 sets out additional information required pursuant to section 412(1)(a)(i) and (ii) of the Corporations Act and Part 3 of Schedule 8 of the Corporations Regulations and additional information on the Schemes, FAL, PEH, Woolworths and Metcash that may be of interest to FAL Shareholders and persons who become PEH Shareholders, Woolworths Shareholders or Metcash Shareholders (as the case may be).

14.2 FAL Directors

The FAL Directors at the date of lodgement of this Booklet for registration by ASIC are listed below:

| Name | Position |
|------------------|---|
| Len Bleasel AM | Non-Executive Chairman |
| Trevor Coates | Chief Executive Officer and Group Managing Director |
| Steve Crane | Non-Executive Director |
| John Fletcher | Non-Executive Director |
| Norman Geary CBE | Non-Executive Director |
| Sir Colin Maiden | Non-Executive Director |
| Peter Mansell | Non-Executive Director |

14.3 FAL Directors' recommendations

The FAL Directors believe that, taking into account all relevant matters, the Transfer Scheme is in the best interests of FAL Shareholders.

The FAL Directors believe that, taking into account all relevant matters, the Demerger Scheme and the Capital Reduction are in the best interests of FAL Shareholders and will not have a material adverse impact on the interests of FAL's creditors.

Each FAL Director recommends that you vote FOR the Transfer Scheme and intends to vote all FAL Shares controlled* by the Director (if any) FOR the Transfer Scheme.

Each FAL Director recommends that you vote FOR the Demerger Scheme (including the Capital Reduction), and intends to vote all FAL Shares controlled* by the Director (if any) FOR the Demerger Scheme.

14.4 Payments or other benefits to directors, secretaries or executive officers

No payment or other benefit is proposed to be made or given to any director, secretary or executive officer of FAL, or of any related body corporate of FAL, as compensation for loss of, or as consideration for or in connection with his or her retirement from office in FAL or in a related body corporate of FAL as a result of the Demerger Scheme or the Transfer Scheme (as the case may be) other than as set out below or otherwise disclosed in this Booklet.

14.4.1 Chief Executive Officer and Group Managing Director

If the Demerger Scheme becomes Effective (regardless of whether the Transfer Scheme also becomes Effective), as indicated in Part 7.3.4 of this Booklet, Trevor Coates, the current Chief Executive Officer and Group Managing Director of FAL, is likely to resign from those positions on or before the Transfer Implementation Date.

* Due to New Zealand taxation consequences, Mr Norman Geary and Sir Colin Maiden, FAL Directors who are New Zealand residents, intend to sell their FAL Shares prior to the Transfer Implementation Date. However they intend to vote in favour of the Transfer Scheme and the Demerger Scheme at the Meetings.

In addition to his remuneration for work done as an employee, assuming his employment were to come to an end on 28 October 2005, on that date, Mr Coates would be entitled to receive an amount of approximately \$3.5 million* (comprising 12 months' salary, annual leave entitlements, superannuation, performance bonus entitlements and other amounts or benefits due on termination of his employment) in accordance with his existing employment contracts.

14.4.2 Non-executive directors

The six existing non-executive FAL Directors (Len Bleasel AM, Steve Crane, John Fletcher, Norman Geary CBE, Sir Colin Maiden, Peter Mansell) will retire from office if the Transfer Scheme becomes Effective. If only the Demerger Scheme becomes Effective, some directors may remain in office, however, it is likely that the FAL Board will be reconstituted as indicated in Part 7.6.6 of this Booklet.

The FAL Directors Retirement Scheme which provided benefits to retiring non-executive directors was discontinued from 1 January 2004, following shareholder approval of alternative retirement benefits for non-executive directors at the December 2003 FAL annual general meeting. Under that shareholder approval of alternative retirement benefits for non-executive directors:

- (a) as directors who had completed the three year qualifying period under the FAL Directors Retirement Scheme as at 1 January 2004, Mr Geary and Sir Colin Maiden's accrued benefits under the FAL Directors Retirement Scheme were preserved. Assuming a retirement date of 28 October 2005 Mr Geary will be entitled to receive an amount on retirement of \$138,155 and Sir Colin Maiden will be entitled to receive an amount on retirement of \$138,155;
- (b) as a director who had completed part of the three year qualifying period under the FAL Directors Retirement Scheme, as at 1 January 2004, Mr Bleasel's prospective benefits under the FAL Directors Retirement Scheme were preserved. Mr Bleasel will be entitled to receive an amount on retirement of \$67,608; and
- (c) Mr Crane, Mr Fletcher and Mr Mansell will not be entitled to specific payments on retirement.

14.4.3 Other directors, secretaries and executive officers

It is intended that the following payments or benefits will be made by FAL to persons who are currently directors, secretaries or executive officers of FAL or of any related body corporate of FAL (other than FAL Directors), as compensation for loss of, or as consideration for or in connection with his or her retirement from, office as a result of the Transfer Scheme or the Demerger Scheme:

| Amount of payment or benefit | Number of persons |
|-------------------------------|-------------------|
| Between \$340,000 – \$350,000 | 1 |

14.5 Marketable securities held by or on behalf of FAL Directors

14.5.1 Interests in FAL securities

The marketable securities of FAL held by or on behalf of FAL Directors, or to which such persons are otherwise entitled, as at the date of lodgement of this Booklet for registration by ASIC are as listed below.

| FAL Director | Number of FAL Shares and nature of interest |
|------------------|--|
| Len Bleasel | 11,000 FAL Shares held directly 5,000 FAL Shares of which Mr Bleasel's spouse is the beneficial owner |
| Trevor Coates | 79,398 FAL Shares held directly Mr Coates' spouse also holds 108,000 FAL Shares |
| Steve Crane | 7,000 FAL Shares held directly |
| John Fletcher | Mr Fletcher's spouse holds 1,000 FAL Shares |
| Norman Geary | 16,500 FAL Shares held directly |
| Sir Colin Maiden | 17,629 FAL Shares held directly 5,500 FAL Shares of which Sir Colin Maiden and his spouse are the beneficial owners |
| Peter Mansell | 3,000 FAL Shares held in a superannuation fund in which Mr Mansell has a beneficial interest |

* This amount is a best estimate. The actual amount cannot be finally determined until Mr Coates' retirement date due to the performance bonus element of the entitlement.

No marketable securities of PEH are held by or on behalf of FAL Directors as at the date of lodgement of this Booklet with ASIC. However, as PEH is a wholly owned Subsidiary of FAL with one share on issue (the Subscriber Share), all of the FAL Directors collectively control the Subscriber Share.

FAL Directors who are FAL Shareholders will be entitled to receive PEH Shares under the terms of the Demerger Scheme.

14.5.2 Interests in Woolworths securities

No FAL Director has any interest in any securities of Woolworths or members of the Woolworths Group.

In the four months immediately preceding the date of this Booklet, no FAL Director has provided or agreed to provide, or received or agreed to receive, consideration for any securities of Woolworths or a member of the Woolworths Group under a sale, purchase or agreement for sale or purchase of such securities.

14.5.3 Interests in Metcash securities

Except as set out below, none of the FAL Directors has any interest in any securities of Metcash or members of the Metcash Group.

| FAL Director | Number of Metcash Shares and nature of interest |
|---------------|---|
| Peter Mansell | 2,700 Metcash Shares held as bare trustee |

In the four months immediately preceding the date of this Booklet, no FAL Director has provided or agreed to provide, or received or agreed to receive, consideration for any securities of Metcash or a member of the Metcash Group under a sale, purchase or agreement for sale or purchase of such securities.

14.6 No agreements or arrangements with FAL Directors in connection with the Demerger Scheme and the Transfer Scheme

Other than as set out in Part 14.4 of this Booklet, there are no agreements or arrangements made between any FAL Director and any other person in connection with or conditional upon the outcome of the Demerger Scheme or the Transfer Scheme.

14.7 Disclosure of interests of certain persons

Except as disclosed elsewhere in this Booklet, no:

- (a) director or proposed director of PEH;
- (b) person named in this Booklet as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Booklet; or
- (c) promoter of PEH;

holds at the date of this Booklet or held at any time during the last two years, any interest in:

- (a) the formation or promotion of PEH;
- (b) property acquired or proposed to be acquired by PEH in connection with its formation or promotion, or the offer of PEH Shares under the Demerger Scheme; or
- (c) the offer of PEH Shares under the Demerger Scheme.

14.8 Disclosure of fees and benefits received by certain persons

Other than as set out below or elsewhere in this Booklet, no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given:

- (a) to a director or proposed director of PEH to induce them to become, or to qualify as, a director of PEH; or
- (b) for services provided by any person referred to in Part 14.7 of this Booklet in connection with the formation or promotion of PEH or the offer of PEH Shares under the Demerger Scheme.

John Fletcher and Peter Mansell are directors of PEH in addition to being directors of FAL. John Fletcher and Peter Mansell will each be paid \$10,000 in addition to their normal directors' fees for additional duties in relation to the Schemes.

The persons named in this Booklet as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Booklet are ABN AMRO (as financial advisers to FAL), Ernst & Young (as the auditor of FAL and FAL's taxation adviser), Ernst & Young TAS (as the independent accountant), Mallesons Stephen Jaques (as legal adviser to FAL and PEH) and Computershare Investor Services Pty Ltd (as PEH's and FAL's share registry). Each of them will be entitled to receive professional fees charged in accordance with their normal basis of charging. These fees (incurred as at the date of this Booklet) are among the items which comprise the "Corporate activity costs" referred to in Part 8.2.3 of this Booklet.

14.9 Intention of FAL Directors concerning the businesses of FAL

The FAL Directors intend that, if the Demerger is approved but the Transfer Scheme is not approved, they will, following the implementation of the Demerger:

- (a) continue the businesses of FAL in the manner set out in Parts 7 and 8 of this Booklet;
- (b) not make any fundamental changes to the businesses of FAL, except as contemplated in Parts 7 and 8 of this Booklet; and
- (c) to continue the present policies of FAL relating to the employment of its employees as set out in Part 7.6.6 of this Booklet.

14.10 Intention of PEH Directors concerning the businesses of PEH

It is the intention of the PEH Directors if the Demerger is approved but the Transfer Scheme is not approved:

- (a) to continue the businesses of PEH Post-Demerger Group in the manner set out in Parts 9 and 10 of this Booklet;
- (b) not to make any fundamental changes to the businesses of PEH, except as contemplated in Parts 9 and 10 of this Booklet;
- (c) to continue policies analogous to the policies of FAL relating to the employment of its employees as set out in Part 9.7.2 of this Booklet; and
- (d) to adopt standards of corporate governance consistent with Australian Stock Exchange Guidance Note 9A and industry practice.

14.11 Material changes in the financial position of FAL

Within the knowledge of the FAL Directors and other than as disclosed in this Booklet or announced to the ASX, the financial position of FAL has not materially changed since 30 January 2005, being the date of the balance sheets which were included in the 2005 Half Year Report of FAL.

The Preliminary Final Report of the FAL Group for the year ended 31 July 2005 was lodged with the ASX and ASIC on 13 September 2005. FAL will provide a copy of this report and/or the 2005 Half Year Report of FAL free of charge to anyone who requests a copy before the Schemes are approved by the Court.

14.12 Official quotation of PEH Shares

The PEH Shares are not currently granted official quotation on a securities exchange. Application has been made for admission of PEH to the ASX official list and for official quotation of all PEH Shares on the ASX (and on NZX as an "overseas listed issuer"). No securities of PEH have been sold or issued in the six months immediately before the date of lodgement of this Booklet for registration by ASIC except for the Subscriber Share.

If the Transfer Scheme becomes Effective, the applications for official quotation of PEH Shares on the ASX and quotation on the NZX will be withdrawn.

14.13 Other information material to the making of a decision in relation to the Demerger Scheme or the Transfer Scheme

Except as set out in this Booklet, there is no other information material to the making of a decision in relation to the Demerger Scheme or the Transfer Scheme being information that is within the knowledge of any FAL Director, or any director of any related body corporate of FAL, which has not been previously disclosed to FAL Shareholders.

14.14 ASIC relief and ASX waivers

14.14.1 ASIC relief

- (a) Clause 8302(d) of Part 3 of Schedule 8 to the Corporations Regulations requires an Explanatory Statement to disclose particulars of any payment or other benefit that is proposed to be made or given to any director, secretary or executive officer of FAL or a related body corporate of FAL as compensation for loss of, or as consideration for or in connection with his or her retirement from, office.

ASIC has allowed FAL to depart from complying with the requirements of clause 8302(d) of Part 3 of Schedule 8 to the Corporations Regulations. The effect of this relief is that:

- (i) this Booklet is not required to state particulars of payments or benefits which may be made to a director, secretary or executive officer of FAL or a related body corporate of FAL in relation to their loss of office or retirement from office, unless:
- (A) the director, secretary or executive officer of FAL or a related body corporate of FAL will lose office as a consequence of, or in connection with, the Schemes; or
 - (B) the amount of any payment or benefit which may be made to the director, secretary or executive officer of FAL or a related body corporate of FAL upon their loss of, or retirement from, office may be materially affected by the Schemes;
- (ii) this Booklet is not required to state the identity of any director, executive officer or secretary of FAL or a related body corporate of FAL who will lose office or retire from office in connection with the Schemes, unless that person is an FAL Director; and
- (iii) this Booklet is not required to state particulars of any payments or benefits to any director, secretary or executive officer of FAL or a related body corporate of FAL other than FAL Directors, that would otherwise be required to be disclosed under paragraph (i) provided:
- (A) such payments or benefits are disclosed on an aggregate basis; and
 - (B) this Booklet discloses the number of persons who will receive a payment or benefit that is required to be disclosed under paragraph (i) and which falls within each successive \$10,000 band commencing at nil, where the number of persons is no less than one.
- (b) Clause 8302(h) of Part 3 of Schedule 8 to the Corporations Regulations requires an Explanatory Statement to set out whether, within the knowledge of the FAL Directors, the financial position of FAL has materially changed since the date of the last balance sheet laid before FAL Shareholders in general meeting or sent to FAL Shareholders in accordance with section 314 or 317 of the Corporations Act and, if so, full particulars of any change.

ASIC has allowed FAL to depart from complying with the requirements of clause 8302(h) of Part 3 of Schedule 8 of the Corporations Regulations on the basis that:

- (i) FAL complies with Division 2 of Part 2M.3 of the Corporations Act in respect of the half-year ended 30 January 2005;
 - (ii) this Booklet states that FAL will give a copy of the documents referred to in section 302 of the Corporations Act for the half-year ended 30 January 2005 free of charge to anyone who asks for them before the Schemes are approved by the Court;
 - (iii) any material change in FAL's financial position occurring after the balance date of FAL's financial report for the period ended 30 January 2005 but prior to the date of this Booklet is disclosed in this Booklet; and
 - (iv) this Booklet is substantially in the form given to ASIC on 15 September 2005.
- (c) Section 1071H(3) of the Corporations Act requires a company, within one month after the date on which the transfer of a security is lodged with a company, to:
- (i) complete and have ready for delivery to the transferee all appropriate transfer and title documents in connection with the transfer; and
 - (ii) unless otherwise instructed by the transferee, send or deliver the completed documents to the transferee (or a person nominated by the transferee).

ASIC has allowed PEH to depart from complying with the requirements of section 1071H(3) in relation to PEH Shares transferred to FAL Shareholders.

- (d) Section 601ED(1) of the Corporations Act requires that in certain circumstances a managed investment scheme must be registered. Part 7.9 of the Corporations Act requires a Product Disclosure Statement to be issued in certain circumstances.

ASIC has granted to FAL, PEH, Woolworths, Metcash and the brokers appointed to sell the entitlements of Ineligible Overseas Shareholders:

- (i) an exemption under section 601QA(1) of the Corporations Act so that the arrangement under which shares held by Ineligible Overseas Shareholders (being either PEH Shares, if the Transfer Scheme does not become Effective, or Woolworths Shares or Metcash Shares if the Transfer Scheme does become Effective) will be sold on behalf of each Ineligible Overseas Shareholder and the proceeds of the sale paid to that shareholder, is not required to be registered under section 601ED(1) of the Corporations Act; and
 - (ii) an exemption under section 1020F(1)(a) of the Corporations Act so that the requirements of Divisions 2 to 5 of Part 7.9 of the Corporations Act do not apply to the arrangement referred to in (i).
- (e) Section 707(3) of the Corporations Act provides that an offer of a body's securities for sale within 12 months after their issue needs disclosure to investors under Part 6D of the Corporations Act if:
- (i) the body issued the securities without disclosure to investors under Part 6D of the Corporations Act; and
 - (ii) either:
 - (A) the body issued the securities with the purpose of the person to whom they were issued selling or transferring the securities, or granting, issuing or transferring interests in, or options over, them; or
 - (B) the person to whom the securities were issued acquired them with the purpose of selling or transferring the securities, or granting, issuing or transferring interests in, or options over, them,

and section 708 or 708A does not say otherwise.

ASIC Class Order 04/671 provides certain relief from the on-sale restrictions contained in section 707(3), the effect of which is that the purpose of the acquirer of the relevant securities ceases to be relevant. However CO 04/671 does not extend to the situation where an issuer issues shares with the intention that they be on-transferred (as will occur under the Demerger Scheme).

Under section 741(1)(a) of the Corporations Act, ASIC has exempted from section 707(3) of the Corporations Act any person who makes an offer for sale of PEH Shares within 12 months of their issue where those PEH Shares were issued pursuant to the Demerger Scheme.

14.14.2 ASX waivers

ASX has:

- (a) agreed that, under Listing Rule 1.1 condition 3, PEH may issue an information memorandum rather than a prospectus on listing (where the Demerger Scheme proceeds and the Transfer Scheme does not proceed);
- (b) confirmed that PEH is not required to comply with Listing Rule 10.1 so that PEH is not required to seek shareholder approval for the issue or transfer of PEH Shares under the Demerger Scheme to any of FAL's substantial shareholders;
- (c) confirmed that PEH is not required to comply with Listing Rule 10.11 so that PEH is not required to seek shareholder approval for the issue of PEH Shares to any related parties of PEH (including its directors) pursuant to the Demerger Scheme;
- (d) confirmed that it does not consider that the Demerger Scheme requires shareholder approval for the purpose of Listing Rule 11.1.2 as a change to the nature or scale of activities;
- (e) confirmed that it does not consider that the Demerger Scheme requires shareholder approval for the purpose of Listing Rule 11.2 as a disposal of FAL's main undertaking; and
- (f) approved the conduct of the Demerger in accordance with the timetable for the Demerger Scheme under Listing Rule 7.40.

14.15 Restructuring of FAL's businesses

14.15.1 Restructuring

If the Transfer Scheme and the Demerger Scheme proceed, PEH and FAL will be acquired by Woolworths NZ and Metcash Trading respectively.

To create a separately identifiable groups of entities constituting the PEH Post-Demerger Group and the FAL Post-Demerger Group and facilitate the acquisitions by Woolworths NZ and Metcash Trading, a series of structural changes will be implemented within the FAL Group on or before the Demerger Implementation Date.

The structural changes required to implement the Demerger include:

- (a) corporate restructure: shareholdings in certain companies will be transferred to establish the PEH Post-Demerger Group as a separately identifiable group of entities;
- (b) debt restructure: existing intercompany debt will be restructured so that a single debt is owed to FAL by PEH; and
- (c) asset restructure: certain trade marks will be transferred to the PEH Post-Demerger Group. The Woolworths Action Stores will also be transferred to the PEH Post-Demerger Group.

The steps contemplated by (a), (b) and (c) will result in intercompany debt obligations owed to FAL by PEH. Any outstanding intercompany debt owed to FAL by PEH will be set off against the debt owed by FAL to PEH for the issue of PEH Shares to FAL.

14.15.2 Contractual arrangements

FAL and PEH have entered into a number of contractual arrangements to facilitate their formal separation. Many of the key arrangements are contained in the Demerger Implementation Deed (which, sets out and commits FAL and PEH to undertake the steps required to effect the Demerger and to execute various related documents) and the Demerger Deed (which sets out the key separation and liability principles governing the ongoing relationship between FAL and PEH).

In addition, other contractual arrangements have been or will be entered into to cover specific matters between FAL and PEH. Details of the arrangements that are material are set out in Part 14.16.2 of this Booklet.

Further, in addition to the debt restructure referred to in Part 14.15.1 of this Booklet, the current financing arrangements of the FAL Post-Demerger Group and the PEH Post-Demerger Group have been renegotiated with financiers as part of the Demerger process if the Transfer Scheme does not proceed.

Part 14.16.3 of this Booklet contains further details of these arrangements.

14.16 Significant contracts

14.16.1 Categories of contracts

Significant contracts or arrangements (or groups of contracts or arrangements) entered into, or to be entered into are divided below into two categories:

- (a) the following contracts and arrangements between members of the FAL Post-Demerger Group and PEH Post-Demerger Group:
 - (i) Demerger Implementation Deed (see Part 14.16.2.1 of this Booklet);
 - (ii) Demerger Deed (see Part 14.16.2.2 of this Booklet);
 - (iii) Transitional Technology Services Agreement (see Part 14.16.2.3 of this Booklet);
 - (iv) Trade Mark Assignment (see Part 14.16.2.4 of this Booklet);
 - (v) WOW Action Agreement (see Part 14.16.2.5 of this Booklet);
 - (vi) WOW Drumstar Agreements (see Part 14.16.2.6 of this Booklet);
 - (vii) Escrow Agreement (see Part 14.16.2.7 of this Booklet); and
- (b) the financing arrangements for PEH summarised in Part 14.16.3 of this Booklet.

In addition, FAL, Woolworths and Metcash have entered into a Merger Implementation Agreement dated 12 September 2005 in relation to the Demerger Scheme and the Transfer Scheme which is set out in full in Part 16 of this Booklet.

14.16.2 Contracts and arrangements between FAL and PEH

FAL Post-Demerger Group companies and PEH Post-Demerger Group companies have entered into or will enter into a number of new contracts to facilitate the Demerger, each of which will be effective on or before the Demerger Implementation Date.

14.16.2.1 Demerger Implementation Deed

Nature of deed

The Demerger Implementation Deed sets out and commits FAL and PEH to undertake the steps required to effect the Demerger Scheme, the Demerger Dividend, the Capital Reduction and all steps contemplated to implement the Demerger Scheme, pay the Demerger Dividend and implement the Capital Reduction to bring about the Demerger including the execution of the various related restructure and transaction documents.

Key terms

(a) *Acknowledgement*

The parties acknowledge that their objectives in entering into the Demerger Implementation Deed are to facilitate the implementation of the Capital Reduction, the payment of the Demerger Dividend and the implementation of the Demerger Scheme to give effect to the Demerger.

(b) *Obligations before the Demerger Implementation Date*

The Demerger Implementation Deed provides for the following things, among others, to occur at various times prior to the Demerger Implementation Date:

- (i) FAL and PEH will execute (to the extent not already executed), and procure their relevant Subsidiaries (as necessary) to execute (to the extent not already executed), various restructure documents including the Demerger Implementation Deed, the Demerger Deed, the Trade Mark Assignment, the Transitional Technology Services Agreement, the WOW Action Agreements and the Escrow Agreement;

- (ii) FAL will apply to the Court for orders convening the Demerger Scheme Meeting and the despatch of notices of meeting to the relevant FAL Shareholders;
- (iii) if the Court makes the order referred to in paragraph (ii) above, FAL will convene a General Meeting of FAL Shareholders to be held on the same day as the Demerger Scheme Meeting for the purpose of considering, and if thought fit, passing the Capital Reduction Resolution;
- (iv) if the Capital Reduction Resolution is duly passed, FAL will apply to the Court for approval of the Demerger Scheme and if the Demerger Scheme is approved, lodge the office copy of the Court order approving the Demerger Scheme with ASIC;
- (v) FAL will resolve to reduce the capital of each Scheme Share by the Capital Reduction Amount on the Demerger Implementation Date in accordance with the Capital Reduction Resolution and resolve to pay the Demerger Dividend in accordance with the requirements of the Demerger Scheme;
- (vi) FAL and PEH will work together to procure admission of PEH to the ASX official list and official quotation of all PEH Shares on ASX and procure the listing of PEH on NZX as an "overseas listed issuer" (if the Transfer Scheme does not become Effective);
- (vii) FNZFL will borrow from external financiers an amount equal to the amount owing by FAL to its external financiers. FNZFL will loan that amount to PEH which will, in turn loan it to FAL. FAL will use those funds to repay its external debt;
- (viii) FAL will comply with various obligations regarding FAL's negative pledge deed, deed of cross indemnity and security trust deed which are necessary to implement the Demerger; and
- (ix) PEH will capitalise debts owed to it by certain of its Subsidiaries.

(c) *Obligations on the Demerger Implementation Date*

The Demerger Implementation Deed provides for the following things, among others, to occur on the Demerger Implementation Date:

- (i) FAL will subscribe for, and PEH will issue to FAL, such number of PEH Shares, being the number of FAL Shares on issue on the Demerger Record Date (less the Subscriber Share previously issued to FAL);
- (ii) FAL will set off intercompany debt payable by PEH to FAL against the debt owed by FAL to PEH for the issue of the PEH Shares to FAL;
- (iii) FAL will reduce the capital of each FAL Share on issue at the Demerger Record Date by an amount equal to the Capital Reduction Amount and will pay the Demerger Dividend; and
- (iv) FAL will transfer to FAL Shareholders who are not Ineligible Overseas Shareholders (and to the Sale Agent in respect of Ineligible Overseas Shareholders) one PEH Share for every FAL Share held by those FAL Shareholders and PEH will register those transfers.

(d) *Post-Completion obligations*

The Demerger Implementation Deed provides for the following things, among others, to occur after the Demerger Implementation Date:

- (i) FAL and PEH will procure, as contemplated by the Demerger Scheme, that the Sale Agent will effect the sale of the PEH Shares referable to Ineligible Overseas Shareholders and the payment of the net proceeds of sale to Ineligible Overseas Shareholders (if the Transfer Scheme does not become Effective); and
- (ii) if the Transfer Scheme is not approved by the requisite majority of FAL Shareholders, as soon as practicable after the later of the Listing Date or the Demerger Implementation Date, PEH will, in accordance with the Listing Rules, forward to the holders of Scheme Shares, other than Ineligible Overseas Shareholders, holding statements for the PEH Shares to which they are entitled.

Nature of deed

The Demerger Deed deals with transitional and miscellaneous commercial and legal issues arising in connection with the legal and economic separation of the PEH Post-Demerger Group from the FAL Pre-Demerger Group.

Key terms

(a) *Fundamental Demerger principle*

The fundamental Demerger principle of the separation of the PEH Post-Demerger Group from the FAL Pre-Demerger Group is that, following the Demerger, as between the FAL Post-Demerger Group on the one hand and the PEH Post-Demerger Group on the other, on and from the Consideration Determination Date:

- (i) the PEH Post-Demerger Group will have the entire economic benefit and risk of the New Zealand Operation (as if the PEH Post-Demerger Group had owned and operated the New Zealand Operation at all times) and none of the economic benefit or risk of the Australian Operation; and
- (ii) the FAL Post-Demerger Group will have the entire economic benefit and risk of the Australian Operation (as if the FAL Post-Demerger Group had owned and operated the Australian Operation at all times) and none of the economic benefit or risk of the New Zealand Operation.

(b) *No claims against the other*

Consistent with the fundamental Demerger principle, FAL and PEH acknowledge that once the Demerger is complete, PEH will not have any rights against FAL, and FAL will not have any rights against PEH, except in specified circumstances.

Neither FAL nor PEH will have any right to make a claim for liability or loss arising directly or indirectly in relation to the Demerger (including the restructure of the businesses described in Part 14.15 of this Booklet), the Demerger Scheme, the Capital Reduction, or the New Zealand Operation (in the case of PEH) or the Australian Operation (in the case of FAL) unless expressly permitted by the Demerger Deed, the Transitional Technology Services Agreement, the Escrow Agreement, the Merger Implementation Agreement, the deeds poll executed by Woolworths and Metcash, the WOW Action Agreements, the Deeds of Assignment of the WOW Action Store leases, certain clauses of the Trade Mark Assignment, certain paragraphs of the Termination of Informal Trade Mark Licence, the Deed of Release – FAL Insurance Limited, or any other agreement entered into between a PEH Post-Demerger Group company and a FAL Post-Demerger Group company after the Demerger Implementation Date.

(c) *Post-Demerger transfers*

The Demerger Deed sets out agreed mechanisms for the future transfer between the FAL Post-Demerger Group and the PEH Post-Demerger Group of, or other access to, any asset, contract, licence or intellectual property rights and any related liability which either of them owns or holds after the Demerger Implementation Date but which forms part of, or is required for the conduct of:

- (i) the Australian Operation (in the case of FAL Post-Demerger Group companies); or
- (ii) the New Zealand Operation (in the case of PEH Post-Demerger Group companies),

but which was incorrectly transferred as part of the internal restructuring or the owning or holding of which is inconsistent with the fundamental Demerger principle outlined above.

(d) *Litigation management*

From the Consideration Determination Date, PEH and FAL will have sole responsibility for some existing litigation matters related to the New Zealand Operation and the Australian Operation respectively.

FAL and PEH will assist each other in relation to the management of current and new litigation matters, other than those for which PEH or FAL has sole responsibility. Each of FAL and PEH indemnifies the other in respect of liability or loss suffered in connection with a claim arising from such matters where that liability relates to the business of the other.

(e) *Employees and superannuation*

After the Consideration Determination Date:

- (i) PEH and the PEH Post-Demerger Group will be responsible for and will indemnify FAL and each FAL Post-Demerger Group company against liability or loss arising out of any aspect of the employment of any PEH employee;
- (ii) FAL and the FAL Post-Demerger Group will be responsible for and will indemnify PEH and each PEH Post-Demerger Group company against liability or loss arising out of any aspect of the employment of any FAL employee;
- (iii) prior to Completion, FAL will terminate its Employee Share Ownership Plan; and
- (iv) if, immediately following Completion, there is any PEH Employee who is a member of the FAL Superannuation Fund, then PEH must procure an offer to the PEH Employee membership of a superannuation fund nominated by PEH and, if that offer is accepted, FAL and PEH must bring about a transfer of the PEH Employee's accrued superannuation benefits in the FAL Superannuation Fund to the PEH Superannuation Fund in a manner that complies with superannuation law.

(f) *Insurance*

From the Demerger Implementation Date, PEH is to maintain insurance in respect of the New Zealand Operation, covering such risks and for such amounts as is usual business practice in a similar business. However, FAL will use its reasonable endeavours to ensure that the PEH Post-Demerger Group has access to benefits attaching to FAL Post-Demerger Group insurance policies in respect of which insurance costs have been allocated to a member of the PEH Post-Demerger Group or premia have or will be paid by the PEH Post-Demerger Group.

(g) *Access to records*

The Demerger Deed requires FAL to deliver all records that relate exclusively to the New Zealand Operation to PEH and provide PEH with copies of all records that are connected with or relevant to the New Zealand Operation. PEH is to deliver all records that relate exclusively to the Australian Operation to FAL and to provide FAL with copies of records that are connected or relevant to the Australian Operation. Neither PEH nor FAL is to destroy records connected with the other's business without first allowing the other to access and take copies of or retrieve such records. Both PEH and FAL must maintain the records transferred to them for a period of seven years after the Demerger Implementation Date.

(h) *Financial and tax assistance*

PEH and FAL will assist each other in relation to the preparation of financial statements for the financial period during which the Demerger Implementation Date occurs and any uncompleted financial statements for any earlier relevant financial periods.

FAL and PEH will also assist each other, and other members of the group, to prepare their respective tax returns and in the event of any tax audit by a relevant authority.

(i) *Indemnities*

FAL and PEH each give certain indemnities to the other, including tax indemnities, to ensure that the intended economic effect of the Demerger is achieved.

(j) *Confidentiality*

PEH and FAL must not use the other's confidential information for any purposes other than permitted purposes, must store the other's confidential information securely and must not allow any person access to the other's confidential information except to the extent that that disclosure is strictly necessary and is permitted under the Demerger Deed.

14.16.2.3 *Transitional Technology Services Agreement*

Nature of agreement

FAL's Australian and New Zealand operations currently share certain information technology systems, software and services. Following the Demerger it is intended that there will be a continuation of the current situation for a transitional period until the New Zealand Operation migrates to a stand alone system. Accordingly, FAL and PEH will enter into the Transitional Technology Services Agreement which provides as follows.

Key terms

(a) Access to IT systems

Under the terms of the Transitional Technology Services Agreement, FAL agrees to provide the PEH Post-Demerger Group with access to specified capacity on FAL's mainframe together with associated software and services with effect from the Demerger Implementation Date. In return for such access, PEH is obliged to pay FAL a percentage of FAL's budgeted total information technology operating costs each month. The budgeted total information technology operating costs represent the costs directly related to the provision of the transitional services and include mainframe and staff costs. The Transitional Technology Services Agreement contains an itemised budget of these costs for the 2006 financial year and a mechanism for determining the budget for subsequent financial years.

The agreement contains a range of provisions (including service level standards and staffing requirements) which are intended to ensure that the support provided to the PEH Post-Demerger Group is of substantially the same standard as that which is currently provided to the New Zealand Operation.

(b) Termination

The Transitional Technology Services Agreement contains a number of different termination rights.

PEH has the right to terminate the Transitional Technology Services Agreement:

- (i) by giving FAL not less than one month's written notice, where FAL fails to meet certain service level standards set out in the agreement;
- (ii) by giving FAL not less than 90 days written notice, where FAL commits a material breach of the agreement and fails to remedy that breach within 14 days of notification of the breach by PEH; and
- (iii) for any or no reason on giving two months written notice to FAL.

FAL has the right to terminate the Transitional Technology Services Agreement:

- (i) by giving PEH not less than 90 days written notice, where PEH commits a material breach of the agreement and fails to remedy that breach within 14 days of notification of the breach by FAL; and
- (ii) for any or no reason on giving six months written notice to PEH.

The agreement continues until one of these rights is exercised. On termination of the agreement, the parties are obliged to use their reasonable endeavours to complete migration to stand alone systems within the termination notice period. Depending on the particular termination right exercised, PEH may be required to pay a termination fee reflecting certain redundancy, software licence and other costs arising from or referable to such termination in circumstances where the technology services continue to be provided after 28 February 2006.

(c) Confidentiality

The Transitional Technology Services Agreement also imposes confidentiality obligations on the parties and requires FAL to maintain the segregation of the data of the PEH Post-Demerger Group from data relating to the FAL Group and to protect the confidentiality, security and integrity of such data.

(d) FAL's maximum liability

Where FAL's liability has not been otherwise limited or excluded, FAL's maximum liability in respect of the Transitional Technology Services Agreement is capped at \$2,000,000, and FAL's maximum liability in respect of a failure to meet service levels is capped at 5% of the amount payable for the services in the relevant month.

14.16.2.4 Trade Mark Assignment

Nature of assignment

The Trade Mark Assignment deals with the assignment to PEH (NZ IP) Pty Ltd of certain New Zealand trade marks owned by FAL relating to the New Zealand Operation.

Key terms

Under the terms of the Trade Mark Assignment, FAL will assign to PEH (NZ IP) Pty Ltd all of its right, title and interest in certain trade marks in New Zealand with effect from the Consideration Determination Date. The relevant trade marks are registered in New Zealand and relate to the New Zealand Operation.

14.16.2.5 WOW Action Agreements

Nature of agreements

The WOW Action Agreements provide for the sale and transfer by the various FAL Group owners to Drumstar of the Woolworths Action Stores which are to be indirectly acquired by Woolworths if the Transfer Scheme is implemented.

Key terms

(a) Conditions precedent

The sale of each Woolworths Action Store is subject to the following conditions precedent:

- (i) where the Woolworths Action Store is held under a lease: any required consent of the landlord and any superior title holder being obtained to assignment of the lease to Drumstar and/or to the change of control of Drumstar resulting from the implementation of the Demerger Scheme and/or the Transfer Scheme;
- (ii) where the Woolworths Action Store has a liquor licence under the Western Australian Liquor Licensing Act 1988: the approval of the licensing authority under that Act being given to the transfer of the licence from the FAL Group licensee to Drumstar and to the change of control of Drumstar resulting from the implementation of the Demerger Scheme and/or the Transfer Scheme; and
- (iii) the transfer of the Woolworths Action Store not being prevented from occurring by any restraining or other order issued by a court or any action taken by a Government Agency.

In respect of the Woolworths Action Stores other than the Kalgoorlie development site and the Woodvale Centre, the conditions set out above must be satisfied on or prior to 2 October 2005.

The sales of the Kalgoorlie development site and the Woodvale Centre, are conditional upon the matters set out in paragraph (ii) above and are also conditional upon the Transfer Scheme being approved.

(b) *Sale terms*

The key sale terms are:

- (i) the proposed date for completion of the sales and handover of the Woolworths Action Stores other than the Kalgoorlie development site and the Woodvale Centre is the Consideration Determination Date. Completion of the sale and handover of the Kalgoorlie development site and the Woodvale Centre will take place after the approval of the Transfer Scheme;
- (ii) there will be no adjustment of the purchase price on account of the value of inventory, the amount of cash or the assumption of liability for employee entitlements under the WOW Action Agreements, or for any other matter. Any other adjustments which will be made (in respect of inventory, cash, apportionments of rental, expenses and outgoings and employee entitlements) are to be effected by adjusting the consideration payable by Woolworths under the Transfer Scheme;
- (iii) the Woolworths Action Stores are sold with all relevant fixtures and fittings, and in the case of the supermarkets and liquor stores, with all inventory and cash at the Woolworths Action Store at completion;
- (iv) Drumstar will assume liability for employee entitlements of employees who agree to transfer their employment to it; and
- (v) no warranties or representations are made by the FAL Group sellers to Drumstar.

14.16.2.8 *WOW Drumstar Agreement*

Nature of agreement

The WOW Drumstar Agreement provides for the sale and transfer by PEH to FAL of all the issued shares in Drumstar if the Demerger Scheme becomes Effective but the Transfer Scheme does not.

Key terms

(a) *Conditions precedent*

The sale of the shares in Drumstar is subject to the following conditions precedent:

- (i) the Demerger Scheme becoming Effective;
- (ii) the Transfer Scheme not becoming Effective; and
- (iii) the licensing authority under the Western Australian Liquor Licensing Act approving the transfer of shares in Drumstar to FAL.

(b) *Sale terms*

The key sales terms are:

- (i) PEH sells all the shares in Drumstar to FAL for the sale price of \$1.00;
- (ii) at completion, FAL is to provide Drumstar with a loan equal to the aggregate purchase consideration paid by Drumstar under the WOW Action Agreements so as to enable Drumstar to repay a loan for that amount made to it by PEH;
- (iii) completion and transfer of the shares takes place on the business day immediately following the date on which the conditions are satisfied or as otherwise agreed; and
- (iv) neither party makes any warranties or representations to the other.

14.16.2.7 *Escrow Agreement*

Nature of agreement

The Escrow Agreement provides an arrangement with Brambles Australia Limited (the escrow agent) for the deposit, storage and release of FAL's historical computer back-up tapes, containing the FAL Group's corporate data excluding FAL's historical data which had been stored on its general mainframe server.

Key terms

(a) Deposit and storage of tapes

FAL must, within seven days from the Demerger Effective Date, deposit with an escrow agent two sets of the tapes and two copies of a register of the data contained on the tapes, one set each to be deposited at two separate locations.

The escrow agent is to hold the tapes on behalf of FAL and PEH, must take all reasonable steps to protect the tapes and data from loss or damage and must maintain the confidentiality of the tapes and data, except where otherwise required by law.

The tapes are to be destroyed once seven years has expired from the date the relevant data was backed-up.

(b) Release of data

Either FAL or PEH may request the escrow agent to release data which relates to the requesting party's business. After receiving a request, the escrow agent must (unless a court orders otherwise or the relevant tapes have been destroyed) deliver the relevant tapes to an independent third party with instructions to extract the relevant data from the tapes.

The third party is only to extract the data that relates to the request and will deliver that data to the escrow agent. The escrow agent must then pass the information to the requesting party against payment of a transaction fee and the costs incurred in connection with the extraction of the data.

No other release of data is permitted, except by court order.

(c) Use of data

Any data released under the agreement must only be used for the requesting party's business purposes, must be stored in a secure place and must not be misused. The requesting party must limit access to persons needing the information for business purposes and must implement strict access security measures in order to prevent unauthorised disclosure, use or removal of the data. The requesting party must return any requested data once it is no longer required for the business purposes for which it was requested.

(d) Termination

The agreement may be terminated by the escrow agent, or by FAL and PEH jointly, on 90 days notice. In addition, FAL and PEH may jointly terminate on the escrow agent's insolvency or material breach. Prior to any termination taking effect, FAL and PEH must enter into an agreement with a new escrow agent on terms substantially similar to the Escrow Agreement and, upon termination, the original escrow agent must provide the tapes and register to the replacement escrow agent.

14.16.3 Financing arrangements for PEH

If the Demerger Scheme proceeds and the Transfer Scheme does not proceed, the PEH Post-Demerger Group's financiers (excluding Rabo Bank) have consented to the PEH Post-Demerger Group continuing their existing financing arrangements for a period of 60 days from the date the Demerger Scheme becomes Effective, on the condition that the PEH Post-Demerger Group enters into a new negative pledge deed on the same terms as the negative pledge deed entered into by the FAL Group for that 60 day period. The 60 day period is intended to allow PEH time to arrange refinancing of the PEH Post-Demerger Group borrowings.

PEH has received committed offers for new bank financing facilities of NZ\$407 million from one of its relationship banks. This will be a bridging facility of six months duration provided on a key undertaking of a negative pledge including a limit on further indebtedness.

14.16.4 Merger Implementation Agreement

Nature of agreement

FAL, Metcash Trading, Woolworths and Woolworths NZ have entered into a Merger Implementation Agreement which sets out and commits the parties to undertake the steps required to implement the Demerger Scheme and the Transfer Scheme. The Merger Implementation Agreement is set out in full in Part 16 of this Booklet.

14.16.5 Indemnities for PEH Directors

14.16.5.1 Deeds of access, insurance and indemnity for PEH Directors

PEH will enter into a Deed of Access, Insurance and Indemnity with each PEH Director if the Demerger Scheme becomes Effective but the Transfer Scheme does not. In broad terms, the deeds will:

- (a) provide an ongoing indemnity to the fullest extent permitted by law against liability arising as a result of acting as a PEH Director or as an officer of a PEH Subsidiary. An indemnity is also provided for related legal costs;
- (b) require PEH to use its best endeavours to maintain an insurance policy insuring against liability incurred by the PEH Director in the PEH Director's capacity as an officer of PEH during the director's term of office and for seven years after that; and
- (c) confirm the PEH Director's statutory right of access both while in office and after ceasing to be a PEH Director to PEH Board papers and other PEH documents relating to the PEH Director's period of office for the purposes of legal proceedings in which the PEH Director may become involved.

PEH's constitution authorises PEH to indemnify and insure the PEH Directors and to enter into these deeds with the PEH Directors. These deeds will be entered into with each PEH Director prior to the Demerger Implementation Date (if the Demerger Scheme becomes Effective but the Transfer Scheme does not).

14.16.5.2 Indemnification under the PEH constitution

The indemnification of the PEH Directors by PEH is summarised in Part 14.17.1.9 of this Booklet.

14.17 Overview of PEH

14.17.1 Constitution

The PEH constitution is in a form appropriate for the listing of PEH if the Demerger Scheme proceeds but the Transfer Scheme does not proceed.

14.17.1.1 Rights attaching to PEH Shares

The rights attaching to the ownership of PEH Shares are set out in the PEH constitution, a copy of which may be obtained by calling the toll free FAL Shareholder Information Line on 1800 068 729 (within Australia) or +61 3 9415 4125 (outside of Australia). The Shareholder Information Line is available Monday to Friday between 9.00am and 7.00pm AEST.

PEH's constitution describes many rights attaching to PEH Shares and the following is a summary of the principal rights. The summary does not contain all the information included in PEH's constitution, which should be read for a more complete description of PEH Shareholders' rights.

Some important rights attaching to PEH Shares include:

- (a) PEH may only modify or vary the rights attaching to PEH Shares with the written consent of the holders of at least three-quarters of all PEH Shares or with the sanction of a special resolution passed at a meeting of the PEH Shareholders; and
- (b) each PEH Shareholder is entitled to receive notice of and to attend and vote at general meetings of PEH.

14.17.1.2 Issue of further PEH Shares

Subject to the Corporations Act and the Listing Rules, the PEH Directors may:

- (a) issue and cancel PEH Shares;
- (b) grant options over unissued PEH Shares; and
- (c) settle the manner in which fractions of a share, however arising, are to be dealt with.

There is no limit on the number of PEH Shares that can be issued.

14.17.1.3 Transfer of PEH Shares

A PEH Shareholder may transfer all or any PEH Shares:

- (a) in accordance with the relevant ASTC rules; or
- (b) by any other method of transfer which is required or permitted by the Corporations Act and ASX.

The PEH Directors may, if permitted to do so by the Listing Rules:

- (a) request the ASTC to apply a holding lock to prevent a transfer of PEH Shares from being registered on the CHESSE subregister; or
- (b) refuse to register a transfer of any other PEH Shares.

The PEH Directors must:

- (a) request the ASTC to apply a holding lock to prevent a transfer of PEH Shares from being registered on the CHESSE subregister; or
 - (b) refuse to register any transfer of any other PEH Shares,
- if:
- (c) the Listing Rules require PEH to do so; or
 - (d) the transfer is in breach of the Listing Rules or a restriction agreement.

14.17.1.4 General meetings and notice

Each PEH Shareholder is entitled to receive notice of, to attend and to vote at general meetings of PEH and to receive all notices, accounts, reports and other documents required to be sent to PEH Shareholders under the PEH constitution, the Corporations Act or the Listing Rules.

PEH may serve a notice on a PEH Shareholder:

- (a) personally;
- (b) by sending it by post to their registered address or an alternative address nominated by the PEH Shareholder;
- (c) by sending it to a fax number or electronic address nominated by the PEH Shareholder; or
- (d) by sending it to a PEH Shareholder by other electronic means nominated by the PEH Shareholder.

14.17.1.5 Voting

At any general meeting a resolution put to the vote of the meeting must be decided on a show of hands, unless a poll is effectively demanded and the demand is not withdrawn.

For a vote on a show of hands, every PEH Shareholder present and each other person present as a proxy, attorney or representative of a shareholder has one vote.

On a poll, each PEH Shareholder present has one vote for each fully paid PEH Share held by the PEH Shareholder and each person as proxy, attorney or representative of a PEH Shareholder has one vote for each fully paid PEH Share held by the PEH Shareholder that the person represents. If there is an equality of votes at a poll then the chairman of the meeting is entitled to a casting vote in addition to any votes to which the chairman is entitled.

14.17.1.6 Directors

Unless otherwise determined by PEH Shareholders in general meeting, the number of PEH Directors is to be not less than three nor more than ten.

The PEH Directors are subject to retirement by rotation and re-election by PEH Shareholders in a general meeting. At each annual general meeting each director who has held office without re-election:

- (a) beyond the third annual general meeting following the director's appointment or last election; or
- (b) for at least three years,

whichever is the longer period, must retire from office. A retiring PEH Director is eligible for re-election. The managing director of PEH is exempt from retirement by rotation.

A PEH Director appointed by the PEH Directors (for example to fill a casual vacancy) will hold office only until the conclusion of the next annual general meeting of PEH but is eligible for election at that meeting.

14.17.1.7 Dividends

The profits of PEH may, at the discretion of the PEH Directors, be distributed by way of dividend. The PEH Directors may determine that a dividend is payable, fix the amount and the time for payment and authorise that payment.

Before paying any dividend, the PEH Directors may set aside out of the profits of PEH such sums they think proper as reserves, to be applied, at the discretion of the PEH Directors, for any purpose for which the profits of PEH may be properly applied.

Dividends are payable to PEH Shareholders in proportion to the number of PEH Shares held by them respectively. If at any time there are PEH Shares on issue that are not fully paid (at present there are none), any dividends payable to holders of those shares are payable to those holders according to the amounts paid or credited as paid during any portion of the relevant dividend period.

The PEH Directors may deduct from any dividend payable to a PEH Shareholder all sums of money (if any) presently payable by the PEH Shareholder to PEH on account of calls or otherwise in relation to PEH Shares.

14.17.1.8 Winding up

If PEH is wound up, then the liquidator may, with the sanction of a special resolution of PEH, divide among the PEH Shareholders in kind the whole or any part of the property of PEH. The liquidator may set such value as it considers fair on any property to be so divided and may determine how the division is to be carried out.

The liquidator may, with the sanction of a special resolution of PEH, vest the whole or any part of any such property in trustees to hold on trust for the benefit of the contributories as the liquidator thinks fit, but so that no PEH Shareholder is compelled to accept any shares or other securities in respect of which there is any liability.

14.17.1.9 Indemnification

To the extent permitted by law, PEH may indemnify any current or former director, secretary or executive officer of PEH against:

- (a) every liability incurred by them in their capacity (except a liability for legal costs); and
- (b) all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings in which they become involved because of that capacity.

14.17.1.10 Small Holdings

Subject to the Listing Rules, the PEH Directors may in certain circumstances sell the PEH Shares of a PEH Shareholder if they hold a parcel of PEH Shares that is less than a marketable parcel as defined in the Listing Rules.

14.17.2 Listing

Application has been made to the ASX for the admission of PEH to the ASX official list and for official quotation of all PEH Shares on ASX. Application has also been made to NZX for the listing of PEH on NZX as an "overseas listed issuer". If the Transfer Scheme becomes Effective, the applications will be withdrawn.

14.17.3 CHESS and issuer sponsorship

PEH will apply to participate in CHESS, pursuant to the Listing Rules. If the Demerger Scheme becomes Effective but the Transfer Scheme does not, following the Demerger, PEH will provide PEH Shareholders with a holding statement which sets out the number of PEH Shares transferred to each PEH Shareholder under the Demerger. This notice will also advise PEH Shareholders of either their holder identification number ("HIN") in the case of a holding on the CHESS sub register or security holder reference number ("SRN") in the case of a holding on the issuer sponsored sub register.

Thereafter, if a PEH shareholding changes during a month, PEH Shareholders will receive a statement at the end of that month. PEH Shareholders may also request statements at any other time (although PEH may charge an administration fee).

14.17.4 Auditor

Ernst & Young will act as PEH's auditor.

14.17.5 PEH Directors' fees

The PEH constitution provides that PEH Directors may be paid such remuneration as determined by the PEH Shareholders in general meeting. The PEH constitution also provides that the remuneration may be provided in a non-cash form, including the issue or purchase of shares in PEH. PEH Directors are also entitled to be reimbursed for other incidental costs and expenses incurred as a PEH Director. Prior to the Demerger Implementation Date, FAL as the sole shareholder of PEH, will approve remuneration up to the amount currently payable to FAL Directors.

14.18 Consents and disclaimers of responsibility

14.18.1 Consent to be named

The following parties have given and have not, before the time of registration of this Booklet by ASIC, withdrawn their written consent to be named in this Booklet in the form and context in which they are named:

- (a) ABN AMRO as financial adviser to FAL;
- (b) Mallesons Stephen Jaques as legal advisers; and
- (c) Computershare Investor Services Pty Ltd as FAL and PEH's share registry.

14.18.2 Consent to be named and to the inclusion of information

The following parties have given and have not, before the time of registration of this Booklet by ASIC, withdrawn their written consent to the issue of this Booklet with the inclusion of the following information in the form and context in which it is included:

- (a) Ernst & Young - to be named as the auditors of FAL and PEH and, as taxation adviser and to the inclusion of the opinion letter contained in Part 12 of this Booklet and other statements based on statements made in that opinion letter; and
- (b) Ernst & Young Transaction Advisory Services Limited - to be named as independent accountant in relation to, and to the inclusion of, the independent accountant's report contained in Part 15.2 of this Booklet and other statements based on statements or figures included in that report.

Other consents are contained in Part 5.7.2 and Part 6.12.8 of this Booklet.

14.18.3 Disclaimers of responsibility

Each person named in Parts 14.18.1 and 14.18.2 of this Booklet:

- (a) does not make, or purport to make, any statement in this Booklet or any statement on which a statement in this Booklet is based other than, in the case of a person referred to in Part 14.18.2 of this Booklet, a statement included in this Booklet with the consent of that party; and
- (b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Booklet, other than a reference to its name and, in the case of a person referred to in Part 14.18.2 of this Booklet, any statement or report which has been included in this Booklet with the consent of that party.

14.19 Interests of Independent Expert

Grant Samuel has prepared the Independent Expert's Report set out in Part 15.1 of this Booklet advising as to whether the Demerger Scheme and the Transfer Scheme are in the best interests of FAL Shareholders. Grant Samuel will be paid a total fee of approximately \$450,000 plus out of pocket expenses for the preparation of this report. Grant Samuel warrants that it has not withdrawn its consent to the inclusion in Part 15.1 of this Booklet of the Independent Expert's Report in the form and context in which it is included and to the reproduction of the summary and conclusions of the Independent Expert's Report in this Booklet.

14.20 Capital raising by PEH

PEH has not raised any capital for the three months before the date of lodgement of this Booklet for registration by ASIC (other than the issue of the Subscriber Share for the purpose of incorporating PEH) and other than in connection with the implementation of the Demerger Scheme as described in this Booklet, PEH will not need to raise any capital for three months after the date of lodgement of this Booklet for registration by ASIC.

14.21 Sale of PEH Shares

No PEH Shares have been sold in the six months prior to the date of this Booklet.

14.22 Directors' interests in certain contracts

None of the FAL Directors or the PEH Directors are party to, or have any interest in, a contract with Woolworths, Woolworths NZ, Metcash or Metcash Trading.

14.23 Explanation of the Capital Reduction and the Demerger Dividend

If the Demerger Scheme becomes Effective, FAL will pay a Capital Reduction and a Demerger Dividend to FAL Shareholders. The amount will be immediately applied for the payment of PEH Shares which will be transferred from FAL to FAL Shareholders and, in the case of Ineligible Overseas Shareholders, a nominee. FAL Shareholders cannot receive cash or other consideration in place of the PEH Shares under the Demerger. If the Transfer Scheme becomes Effective, those PEH Shares will be transferred to Woolworths in consideration for the Woolworths Scheme Consideration.

The Capital Reduction is equal to \$4.12 per FAL Share. This is equal to approximately \$485.5 million. As at 31 July 2005, FAL had contributed capital of approximately \$688.6 million.

The Demerger Dividend is equal to the New Zealand Operation Value less the Capital Reduction. The New Zealand Operation Value is \$2.2 billion or such other amount determined by FAL as the fair market value of the New Zealand Operation. However, if only the Demerger occurs and the Transfer Scheme does not, then the Woolworths Action Stores will remain in the FAL Post Demerger Group and will not be transferred to the PEH Group. In that circumstance, the New Zealand Operation Value of \$2.2 billion will be reduced by an amount determined by FAL and the Demerger Dividend will also be reduced. However, a company may only pay dividends out of profits. Therefore, if for any reason the amount of the New Zealand Operation Value less the Capital Reduction is more than FAL is permitted to pay as a dividend under section 254T of the Corporations Act, then the Demerger Dividend will be the maximum amount that can be paid.

If the Transfer Scheme becomes Effective, it is estimated that the Demerger Dividend will be approximately \$1,714.8 million. This amount is approximately equal to the estimated retained earnings of FAL immediately before the payment of the Demerger Dividend. Retained earnings of FAL as at 31 July 2005 were approximately \$141.3 million. In addition, FAL will earn profits on the sale of its interest in FNZHL and FNZFL and receive a dividend from AHPL, a wholly owned subsidiary, which will earn a profit on the sale of its interest in FNZFL. If the Transfer Scheme does not become Effective but the Demerger is implemented, then the New Zealand Operation Value will be reduced to approximately \$2 billion and the Demerger Dividend in that circumstance is estimated to be approximately \$1,471.6 million. The main reason for this reduction of the New Zealand Operation Value, and consequently the Demerger Dividend, is that the Woolworths Action Stores will not be transferred to PEH if the Transfer Scheme does not proceed.

14.24 Supplementary information

FAL will issue a supplementary document to this Booklet if it becomes aware of any of the following between the date of lodgement of this Booklet for registration by ASIC and the Meeting Date:

- (a) a material statement in this Booklet is false or misleading;
- (b) a material omission from this Booklet;
- (c) a significant change affecting a matter included in this Booklet; or
- (d) a significant new matter has arisen and it would have been required to be included in this Booklet if it had arisen before the date of lodgement of this Booklet for registration by ASIC.

Depending on the nature and timing of the changed circumstances and subject to obtaining any relevant approvals, FAL may circulate and publish any supplementary document by:

- (a) placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia;
- (b) posting the supplementary document on FAL's website at www.fal.com.au; and
- (c) making an announcement to the ASX.

Part 15

Reports

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12 September 2005

The Directors
Foodland Associated Limited
218 Bannister Road
Canning Vale WA 6155

Dear Directors

Acquisition of Foodland by Woolworths and Metcash

1 Introduction

Foodland Associated Limited ("Foodland") is a major participant in the Australasian grocery sector. It operates the Progressive supermarket business in New Zealand, the Action supermarket chain in Western Australia, Queensland and northern New South Wales, and the market leading grocery wholesaling business in Western Australia.

On 6 December 2004 Metcash Limited ("Metcash") announced its intention to make takeover offers for all the shares in Foodland. Metcash is the leading grocery wholesaler in the eastern States of Australia. The Metcash offer was, effectively, to acquire Foodland's Australian business, while Foodland's New Zealand business would be transferred to a new company that would continue to be held by Foodland shareholders. In response, the Foodland directors announced that they were investigating a range of alternatives to maximise the value of the company, including the sale of Foodland, in whole or in part, and a demerger of the Australian and New Zealand businesses of Foodland.

On 25 May 2005, Foodland announced a proposed transaction ("Proposal") with Woolworths Limited ("Woolworths") and Metcash. Subject to Foodland shareholder approval, Woolworths will acquire the Progressive supermarket business in New Zealand and 20 Action stores and two development sites in Australia. Metcash will acquire Foodland's Western Australian grocery wholesaling business and the remainder of the Action supermarket chain.

The consideration offered to Foodland shareholders under the Proposal is a combination of cash, Woolworths shares and Metcash shares ("Offer"). The Offer for each Foodland share is:

- approximately 2.07 Metcash shares ("Metcash Share Consideration") or approximately \$6.33 cash ("Metcash Cash Consideration") in respect of the businesses to be acquired by Metcash. Shareholders who do not make an election will receive cash; and
- a combination of cash and Woolworths shares in respect of the businesses and net debt to be transferred to Woolworths. Unless shareholders choose otherwise, they will receive 0.6925 Woolworths shares and approximately \$7.93 in cash for each Foodland share (the "Woolworths Standard Consideration").

Shareholders can apply to receive a greater proportion of Woolworths shares and less cash ("Woolworths Maximum Share Consideration"), or a greater proportion of cash and fewer Woolworths shares ("Woolworths Maximum Cash Consideration"). However, the total consideration to be paid by Woolworths is 81.6 million shares and approximately \$934 million of cash. The final composition of the Woolworths Maximum Share Consideration and the Woolworths Maximum Cash Consideration will be determined subject to these maximums and the proportions of shareholders who elect to receive each of the Woolworths Standard Consideration, Woolworths Maximum Share Consideration and Woolworths Maximum Cash Consideration.

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The exact amount of consideration to be paid to Foodland shareholders, in respect of the transfer of the businesses to both Metcash and Woolworths, will only be determined nearer the time of transfer. The consideration may be adjusted depending on the precise levels of cash, debt and working capital of Foodland on 2 October 2005, as well as other factors set out in the Scheme Booklet.

The Proposal is to be given effect by way of two schemes of arrangement. The Demerger Scheme, if approved by shareholders, will result in the transfer of Foodland's New Zealand business and associated net debt to a new company, Progressive Enterprises Holdings Limited ("Progressive Enterprises"). Foodland will continue to hold its Australian businesses. The Transfer Scheme, if approved by shareholders, will result in the transfer of Progressive Enterprises and the 20 Action stores and two development sites to Woolworths, and the transfer of Foodland to Metcash. The Transfer Scheme is conditional on Woolworths acquiring control of all of the 20 Action stores and two development sites, and obtaining all necessary consents for a change of control required under the leases of the New Zealand supermarkets which are currently in Foodland's New Zealand business.

The Transfer Scheme can only proceed if Foodland shareholders approve the Demerger Scheme. However, if Foodland shareholders voted in favour of the Demerger Scheme but did not approve the Transfer Scheme, the Demerger Scheme would still proceed. The result would be that Foodland shareholders would hold shares in two separate companies: Foodland, which would own and operate its current Australian businesses, and Progressive Enterprises, which would own and operate the Progressive supermarket business in New Zealand. It is intended that applications would be made to list the shares in Progressive Enterprises on both the Australian and New Zealand stock exchanges.

There is no statutory requirement for Foodland to commission an independent expert's report in relation to the Proposal. However, the directors of Foodland have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report on the Proposal. The report is to set out Grant Samuel's opinion as to whether the Demerger Scheme and the Transfer Scheme are in the best interests of Foodland shareholders and the reasons for forming that opinion, and as to whether the Demerger Scheme is materially prejudicial to creditors.

Grant Samuel is independent of Foodland and Metcash. Grant Samuel has no involvement with, or interest in the outcome of, the Proposal other than the preparation of this report. A copy of this report is to be despatched to shareholders with the Scheme Booklet prepared by Foodland.

This report has been prepared to assist the directors of Foodland in making their recommendations to shareholders in relation to the Demerger Scheme and Transfer Scheme and to assist the shareholders of Foodland to assess the merits of the Demerger Scheme and Transfer Scheme. The sole purpose of this report is an expression of Grant Samuel's opinion as to whether the Demerger Scheme and Transfer Scheme are in the best interests of Foodland shareholders, and as to whether the Demerger Scheme is materially prejudicial to creditors. This report should not be used for any other purpose or by any other party.

2 Summary of Opinion

Grant Samuel has valued Foodland in the range \$24.92-27.29 per share. In Grant Samuel's view it is reasonable to attribute value in the range \$25.34- 27.60 per share to the Offer. On this basis, the Offer is fair.

The Offer represents a substantial premium to the price at which Foodland shares were trading prior to the announcement of the initial Metcash offer. Effectively, the Proposal allows Foodland shareholders to participate in the significant synergies that should be available to Woolworths and Metcash as the natural owners of the Foodland businesses they are to acquire. In the absence of the Proposal or some similar transaction, Foodland shareholders would have no way to access this value.

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Foodland has undertaken an extensive process to seek bidders for its businesses. Given that more than eight months have elapsed since the initial Metcash offer was announced, it appears unlikely that greater value will be realised through an alternative to the Proposal.

In Grant Samuel's view, shareholders are likely to be better off if both the Demerger Scheme and the Transfer Scheme proceed than if they do not. Accordingly, Grant Samuel has concluded that both the Demerger Scheme and the Transfer Scheme are in shareholders' best interests. Further, in Grant Samuel's opinion, the creditors of Foodland would not be materially prejudiced by the Demerger Scheme. The Foodland directors would be justified in recommending that shareholders vote in favour of both the Demerger Scheme and the Transfer Scheme.

3 Key Conclusions

- Grant Samuel has valued Foodland in the range \$24.92-27.29 per share:

| Foodland – Valuation Summary | | | | |
|--|------------------------------|--------------|-----------------------------|----------------|
| | Valuation (NZ\$ millions) | | Valuation (A\$ millions) | |
| | Low | High | Low | High |
| Action Supermarkets | | | 390 | 430 |
| Franchise & Supply | | | 530 | 580 |
| Corporate costs | | | (20) | (17) |
| Other assets/liabilities | | | 95 | 95 |
| Cash | | | 26 | 26 |
| Net value of Australian interests | | | 1,021 | 1,114 |
| Progressive Supermarkets and Franchise & Supply (NZ) | 2,400 | 2,600 | 2,182 | 2,364 |
| Corporate costs | (40) | (35) | (36) | (32) |
| Other assets/liabilities | 61 | 61 | 55 | 55 |
| Debt | (314) | (314) | (285) | (285) |
| Net value of New Zealand interests | 2,107 | 2,312 | 1,916 | 2,102 |
| Value of net assets | | | 2,937 | 3,216 |
| Shares on issue (millions) | | | 117.83 | 117.83 |
| Net value per share | | | \$24.92 | \$27.29 |

Foodland has been valued by aggregating the estimated fair market value of Foodland's businesses and other assets and deducting net borrowings. Net borrowings are based on Foodland's actual debt as at 3 July 2005. The valuation represents the full underlying value of Foodland and is appropriate for the acquisition of Foodland as a whole. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Foodland shares to trade on the stock exchange in the absence of the Proposal or some other corporate transaction.

Foodland's operating businesses have been valued on the basis of both capitalisation of earnings and discounted cash flow analysis. Foodland's New Zealand businesses and other New Zealand assets and liabilities have been valued in NZ\$ terms and converted to A\$ equivalents at a spot exchange rate of A\$1.00=NZ\$1.10.

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- **Grant Samuel has attributed value of \$25.34-27.60 per Foodland share to the Offer.**

In Grant Samuel's view it is reasonable to attribute value to the Offer as follows:

- for those shareholders who accept the Metcash Cash Consideration and the Woolworths Standard Consideration, the Offer will have a value of approximately \$25.34-25.55 per Foodland share; and
- for those shareholders who accept the Metcash Share Consideration and the Woolworths Standard Consideration, the Offer will have a value of approximately \$27.19-27.60 per Foodland share.

These values are based on values for Metcash shares in the range \$3.95-4.05, and values for Woolworths shares in the range \$16.00-16.30, consistent with the trading in Metcash and Woolworths shares since the announcement of the Proposal on 25 May 2005.

The exact cash amount and the exact number of Woolworths shares available under the Woolworths Maximum Cash Consideration and the Woolworths Maximum Share Consideration options will vary according to the elections of all Foodland shareholders. Accordingly, it is not possible to accurately ascribe a value to these consideration alternatives. However, Grant Samuel does not expect that the value of these consideration alternatives would be materially different from the range of values attributed to the Offer.

- **The Offer is fair.**

The range of values attributed to the Offer generally falls within the range of values estimated for Foodland. The top end of the range of values attributed to the Offer marginally exceeds the top end of the range of values estimated for Foodland. Accordingly, the Offer reflects the full underlying value of Foodland and is fair.

- **The value attributed to the Offer represents a substantial premium to Foodland's share price prior to the initial Metcash offer.**

The value attributed to the Offer represents a substantial premium to Foodland's share price prior to the announcement of the initial Metcash offer on 6 December 2004:

| | | Implied Offer Premium | |
|--|--------|---|--|
| | | Premium Relative to | |
| | | Volume Weighted Average Foodland Share Price | |
| | | for 3 months to 3 December 2004 | Foodland Share Price at 3 December 2004 |
| Metcash Cash Consideration & Woolworths Standard Consideration | - Low | 36.5% | 31.9% |
| | - High | 37.6% | 33.0% |
| Metcash Share Consideration & Woolworths Standard Consideration | - Low | 46.4% | 41.5% |
| | - High | 48.6% | 43.7% |

- **The Proposal allows Foodland shareholders to share in the synergies that should be available to Metcash and Woolworths as the natural owners of Foodland's Australian and New Zealand businesses.**

As the largest grocery wholesaler in Australia, Metcash is the natural owner of Foodland's Western Australian wholesale business. Metcash should be able to achieve substantial synergies through merging Foodland's wholesaling operations into its own business. These synergies could include savings in relation to buying costs, warehouse and logistics costs, and finance, information technology

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and other support costs. Similarly, as the leading supermarket operator in Australia, Woolworths should be able to achieve significant synergies between its own operations and Foodland's New Zealand supermarket business, including savings in relation to buying costs and support costs such as information technology. The synergies available to Metcash and Woolworths would not be achievable by Foodland on a standalone basis.

Grant Samuel's valuation of Foodland reflects the strategic value to Metcash and Woolworths of the Foodland businesses each is to acquire, and explicitly incorporates significant value for the synergies that should be available to Metcash and Woolworths. The Proposal allows Foodland shareholders to share in the strategic value and synergies available to Metcash and Woolworths, either on a crystallised basis (to the extent that shareholders accept cash) or by participating in the future performance of the merged businesses (to the extent that shareholders accept shares).

- **There appear to be limited prospects of realising greater value through an alternative transaction.**

Since the initial Metcash takeover offer was announced, Foodland has undertaken a comprehensive process seeking acquirers for the company as a whole and on a break-up basis. A number of parties were given the opportunity to undertake due diligence and to submit offers. The Proposal represents the most attractive outcome for Foodland shareholders. More than eight months have elapsed since the initial Metcash offer was announced. In Grant Samuel's view a superior offer for Foodland is unlikely.

- **It is in the best interests of Foodland shareholders to vote in favour of both the Demerger Scheme and the Transfer Scheme.**

The Transfer Scheme has the effect of transferring the Foodland businesses to Metcash and Woolworths, in exchange for the consideration to be paid by Metcash and Woolworths. In Grant Samuel's view Foodland shareholders will be better off if the Transfer Scheme proceeds than if it does not. The Offer is fair and reflects the full underlying value of Foodland. The prospects of realising greater value through an alternative transaction are remote. In the absence of the Transfer Scheme, the market value of Foodland (or the demerged Foodland and Progressive Enterprises) could be expected to fall. On this basis, Grant Samuel has concluded that the Transfer Scheme is in the best interests of Foodland shareholders.

The Transfer Scheme can only proceed if the Demerger Scheme is approved. Given that it is in shareholders' best interests for the Transfer Scheme to proceed, it is in the best interests of Foodland shareholders to approve the Demerger Scheme.

Accordingly, in Grant Samuel's opinion both the Demerger Scheme and the Transfer Scheme are in the best interests of Foodland shareholders.

- **The Demerger Scheme could proceed without the Transfer Scheme. However, this is a less attractive outcome for Foodland shareholders than to proceed with both the Demerger Scheme and the Transfer Scheme.**

It is possible for the Demerger Scheme to proceed without the Transfer Scheme. The result would be that shareholders would hold separate investments in Foodland (which would own only its current Australian businesses) and Progressive Enterprises. In Grant Samuel's view this would be a superior position relative to the maintenance of the status quo (whereby shareholders rejected both the Demerger Scheme and Transfer Scheme and continued to hold their investments in Foodland in its current structure). It would increase the prospects of a change of control transaction delivering full value (relative to maintenance of the current structure).

However, in Grant Samuel's view this outcome would be less attractive for Foodland shareholders than to proceed with both the Demerger Scheme and the Transfer Scheme. The current Proposal,

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through the Demerger Scheme and the Transfer Scheme, already delivers full value for Foodland's businesses. In Grant Samuel's view there is no reason to believe that shareholders would derive superior value, at least in the short to medium term, through some unspecified transaction subsequent to a demerger. In Grant Samuel's view there would be a real risk, if the Demerger Scheme was approved but the Transfer Scheme did not proceed, that any subsequent acquisition of the demerged businesses would be on less attractive terms than those offered under the Proposal.

4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual shareholders in Foodland. Because of that, before acting in relation to their shareholdings, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Scheme Booklet issued by Foodland, of which this report forms part.

It is a matter for individual shareholders as to:

- whether to vote in favour of or against the Demerger Scheme and Transfer Scheme;
- whether to accept the Metcash Cash or Share Consideration;
- which of the Woolworths Standard Consideration, Maximum Share Consideration or Maximum Cash Consideration to accept; and
- whether to continue to hold any Metcash or Woolworths shares received under the Offer. This is an investment decision independent of decisions as to whether to vote in favour of the Proposal and which form of consideration to accept.

Voting for or against the Demerger Scheme and Transfer Scheme, the choice between the various forms of consideration offered by Metcash and Woolworths, and a decision to continue to invest in any Metcash or Woolworths shares received under the Offer, are matters for individual shareholders, based on their own views as to value and future market conditions, risk profile, liquidity preference, portfolio strategy and tax position. Shareholders who are in doubt as to the action that they should take in relation to the Proposal should consult their own professional adviser.

The exact amount of the consideration payable by Metcash and Woolworths will vary, depending on various specifically defined adjustments based on changes in the financial position of Foodland and Progressive Enterprises as set out in Part 3 of the Scheme Booklet. An example of the sort of factor affecting financial position is the level of external debt. Foodland has advised Grant Samuel that it expects that the aggregate effect of these adjustments will not materially vary the value of the consideration payable by Metcash and Woolworths. Grant Samuel's opinion has been prepared on this basis. The final amount of this adjustment to the consideration will be determined on 2 October 2005 (the "Consideration Determination Date").

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

GRANT SAMUEL



The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully

Grant Samuel & Associates

GRANT SAMUEL & ASSOCIATES PTY LIMITED

Foodland Associated Limited

FAL

Foodland Associated Limited

**FINANCIAL SERVICES GUIDE AND
INDEPENDENT EXPERT'S REPORT**

IN RELATION TO

**THE PROPOSED DEMERGER OF
FOODLAND ASSOCIATED LIMITED**

AND

THE ACQUISITION OF ITS BUSINESSES

**BY METCASH LIMITED AND
WOOLWORTHS LIMITED**

Grant Samuel & Associates Pty Limited

(ACN 050 036 372)

September 2005



Financial Services Guide

Grant Samuel & Associates Pty Limited ("Grant Samuel") carries on business at Level 6, Collins Street, Melbourne VIC 3000. Grant Samuel holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an Independent Expert's Report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for Foodland Associated Limited ("Foodland") in relation to the proposed demerger and sale of its businesses to Metcash Limited and Woolworths Limited ("the Proposal") (the "Foodland Report"), Grant Samuel will receive a fixed fee plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 11.3 of the Foodland Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Practice Note 42 issued by the Australian Securities Commission (the predecessor to the Australian Securities & Investments Commission) on 8 December 1993. The following information in relation to the independence of Grant Samuel is stated in Section 11.3 of the Foodland Report:

"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with Foodland that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposal. Grant Samuel advises that:

- *a number of Grant Samuel executives hold small parcels of Woolworths Limited shares;*
- *in June 2005, a related Australian entity, Grant Samuel Property Pty Limited, advised Woolworths Limited on the sale of certain properties in its portfolio;*
- *in February 2005, Grant Samuel prepared an independent expert's report for Foodland in relation to the takeover offer by Metcash Trading Limited;*
- *a related New Zealand entity, Grant Samuel & Associates Limited, undertook preliminary fieldwork based on public information for an independent valuation of Foodland's New Zealand businesses in late 2003;*
- *a related New Zealand entity, Grant Samuel & Associates Limited, prepared an independent report for Foodland dated 15 September 1999 for the purposes of the compulsory acquisition of the remaining shares in Progressive Enterprises Limited; and*
- *Louise Watson, Managing Director of Symbol Strategic Communications (which is Foodland's communications adviser), is a member of the Grant Samuel Corporate Finance Advisory Board and has offices located within Grant Samuel's Sydney office.*

Grant Samuel had no involvement with, or interest in the outcome of, the Proposal other than the preparation of this report.

Grant Samuel will receive a fee estimated at \$450,000 for the preparation of this report. This fee is not contingent on the outcome of the Proposal. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Practice Note 42 issued by the ASIC (previously known as Australian Securities Commission) on 8 December 1993."

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Industry Complaints Services' Complaints Handling Tribunal, No. F 4197.

Grant Samuel is only responsible for the Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.



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Appendix – Market Evidence



1 Details of the Proposal

1.1 The Proposal

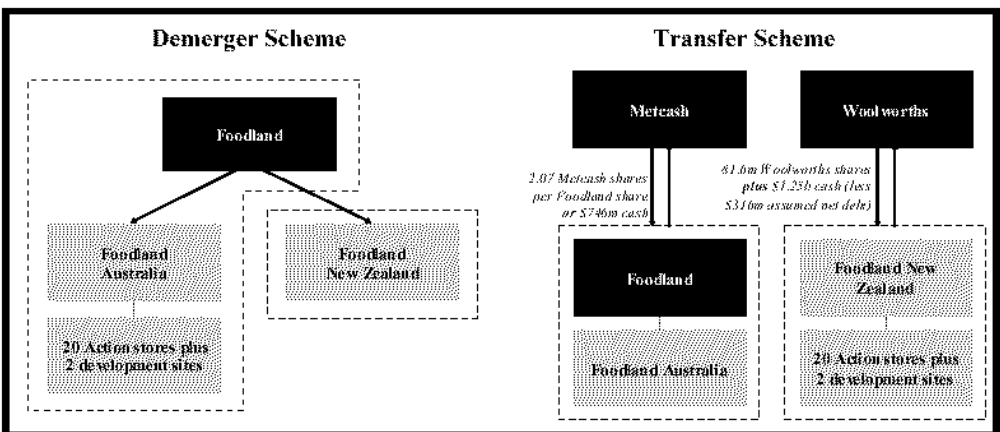
On 25 May 2005, the Board of Foodland Associated Limited (“Foodland”) announced that it had unanimously agreed to recommend the acquisition of its businesses by Metcash Limited (“Metcash”) and Woolworths Limited (“Woolworths”) (the “Proposal”). The transaction will be structured via a demerger of Foodland by way of a scheme of arrangement (“Demerger Scheme”), followed immediately by a sale of the resulting separated parts of Foodland to Metcash and Woolworths through a separate scheme of arrangement (“the Transfer Scheme”). In consideration for the sale, Foodland shareholders are being offered a combination of cash, Metcash shares and Woolworths shares (“Offer”).

Metcash has offered to acquire Foodland’s Australian business, with the exception of 20 Action stores and two development sites, for a cash consideration of approximately \$6.33 cash or 2.07 Metcash shares per Foodland share. The cash consideration is based on an estimated total cash amount to be paid by Metcash of \$746 million. The total cash and scrip to be paid by Metcash will vary depending on Foodland’s working capital and cash at 2 October 2005, as well as other factors set out in the Scheme Booklet. Foodland shareholders can elect to receive cash or Metcash shares.

Woolworths has offered to acquire Foodland’s New Zealand business, together with 20 Action stores and two development sites in Western Australia, Queensland and New South Wales, for a consideration of approximately \$934 million cash plus 81.6 million Woolworths shares. The cash consideration will be calculated on the basis of a gross cash amount to be paid of \$1.25 billion less Foodland’s net debt, which Woolworths will assume. The net debt is estimated at \$316 million, resulting in a net cash payment of \$934 million. However, the actual cash payment will vary depending on actual Foodland net debt at 2 October 2005 and other adjustments set out in the Scheme Booklet.

Foodland shareholders can elect to receive fixed proportions of cash and Woolworths shares (“Woolworths Standard Consideration”). Based on the estimated total cash payment of \$934 million, the Woolworths Standard Consideration will be 0.6925 Woolworths shares and \$7.93 cash per Foodland share. Alternatively, Foodland shareholders can elect to receive more cash and fewer Woolworths shares (“Woolworths Maximum Cash Consideration”) or less cash and more Woolworths shares (“Woolworths Maximum Share Consideration”). The final composition of the Woolworths Maximum Cash Consideration and the Woolworths Maximum Share Consideration will be dependent on the elections of Foodland shareholders and may be subject to scale-back.

The effect of the Demerger Scheme and Transfer Scheme is depicted below:





If the Demerger Scheme is approved, the Foodland group will be separated into two discrete entities. Foodland will continue to hold the Australian businesses. The New Zealand business will be held by a new company, Progressive Enterprises Holdings Limited (“Progressive Enterprises”). The Demerger Scheme will be implemented by way of a return of capital on Foodland shares which will be applied as consideration for the transfer to shareholders of shares in Progressive Enterprises.

If the Demerger Scheme and the Transfer Scheme are both approved, Woolworths will acquire Progressive Enterprises and the 20 Action stores and two development sites. Metcash will acquire Foodland’s remaining Australian businesses.

Australian resident Foodland shareholders who accept Metcash and/or Woolworths scrip under the Transfer Scheme will be eligible for roll-over relief and will therefore defer any capital gains tax on acceptance of these shares.

If the Demerger Scheme was approved and the Transfer Scheme was not approved, Foodland and Progressive Enterprises would operate as two separately listed companies. Foodland shareholders would receive one Progressive Enterprises share for every Foodland share. The 20 Woolworths Action stores and two development sites would remain part of Foodland’s demerged Australian business. Foodland would continue to be listed on the Australian Stock Exchange (“ASX”) and Progressive Enterprises would apply to be listed on the ASX and to the New Zealand Exchange (“NZX”) as an overseas listed issuer.

Capital gains tax roll-over relief will be available to Australian resident Foodland shareholders in respect of Progressive Enterprises shares received pursuant to the Demerger Scheme, and also in respect of Metcash shares and/or Woolworths shares received pursuant to the Transfer Scheme.

1.2 Approvals

The Demerger Scheme requires the approval of Foodland shareholders in relation to:

- the capital return; and
- the scheme of arrangement.

The Demerger Scheme is not conditional on the Transfer Scheme becoming effective. However, the Transfer Scheme can only proceed if the Demerger Scheme has been approved.

The Transfer Scheme requires the approval of Foodland shareholders. It is also conditional on Woolworths acquiring control of all of the 20 Action stores and two supermarket development sites, and obtaining all necessary consents for a change of control required under the leases of the New Zealand supermarkets which are currently in Foodland’s New Zealand business. In the event Woolworths does not obtain control of all Woolworths stores or the necessary consents for a change of control are not obtained for the leases of the New Zealand supermarkets, Woolworths may elect to terminate the Merger Implementation Agreement. In this event, the Transfer Scheme may not proceed.

Alternatively, Woolworths, Metcash and Foodland could endeavour to agree to some modifications to the Transfer Scheme to deal with these matters and allow the Transfer Scheme to proceed. These amendments would need to include a modification or waiver of the unfulfilled conditions and a change to the Woolworths consideration and the Metcash consideration. Woolworths, Metcash and Foodland would need to seek the approval of ASIC and the court to any modifications to the Transfer Scheme. Foodland shareholders would be provided with sufficient notice of any modifications to the Transfer Scheme to enable them to properly consider these matters before they vote on the schemes.



2 Scope of the Report

2.1 Purpose of the Report

The Proposal is subject to the Corporations Act 2001 and the ASX Listing Rules. In particular, certain aspects of the Demerger Scheme and Transfer Scheme are subject to approval in general meeting by Foodland shareholders pursuant to:

- Section 411 of the Corporations Act 2001 (“Section 411”); and
- Section 256B and 256C of the Corporations Act 2001 (“Sections 256B and 256C”).

Section 411 and Sections 256B and 256C govern schemes of arrangement and reductions of share capital respectively. They require the prior approval of shareholders before a scheme of arrangement or capital reduction can be effected. Sections 256B and 256C do not require an independent expert’s report to be prepared. Part 3 of Schedule 8 to the Corporations Regulations prescribes the information to be sent to shareholders in relation to schemes of arrangement pursuant to Section 411. Schedule 8 of the Corporations Regulations requires an independent expert’s report in relation to a scheme of arrangement pursuant to Section 411 to state whether a scheme of arrangement is in the best interests of shareholders and to state reasons for that opinion. The information provided to shareholders under Part 3 of Schedule 8 must include an independent expert’s report when a party to the scheme of arrangement has a prescribed shareholding or where any of its directors are also directors of the scheme company. Although an independent expert’s report is not required to be prepared for Foodland shareholders pursuant to Section 411 or the ASX Listing Rules, the directors of Foodland have decided to obtain a report for shareholders, prepared as if it were required.

The directors of Foodland have engaged Grant Samuel & Associates Pty Limited (“Grant Samuel”) to prepare an independent expert’s report stating whether, in its opinion, the Demerger Scheme and the Transfer Scheme are in the best interests of Foodland shareholders. Grant Samuel has also been requested to give its opinion as to whether the Demerger Scheme is materially prejudicial to creditors.

This report has been prepared by Grant Samuel for the benefit of Foodland shareholders to assist them in considering the resolutions to approve the Demerger Scheme and Transfer Scheme. It will accompany the Notices of Meetings and Scheme Booklet to be sent to shareholders. The sole purpose of the report is an expression of Grant Samuel’s opinion as to whether the Demerger Scheme and the Transfer Scheme are in the best interests of Foodland shareholders and as to whether the Demerger Scheme is materially prejudicial to creditors.

Grant Samuel’s opinion should not be construed as a recommendation as to whether or not to vote in favour of the resolutions. Approval or rejection of the Demerger Scheme and the Transfer Scheme is a matter for individual shareholders based on their own circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Demerger Scheme and the Transfer Scheme should consult their own professional adviser.

2.2 Basis of Evaluation

There is no legal definition of the expression “in the best interests”. The Australian Securities Commission (now the Australian Securities and Investments Commission) issued Policy Statement 75 which established certain guidelines in respect of independent expert reports prepared for the purposes of Section 411, 640 and 703 of the Corporations Act 2001. Policy Statement 75 is primarily directed towards reports prepared for the purpose of Section 640 and comments on the meaning of “fair and reasonable” in the context of a takeover offer. The statement gives limited guidance as to the regulatory interpretation or meaning of “in the best interests” other than to imply that it is similar to “fair and reasonable”.

Schemes of arrangement pursuant to Section 411 can encompass a wide range of transactions. Accordingly, “in the best interests” must be capable of a broad interpretation to meet the particular circumstances of each transaction. This involves a judgement on the part of the expert as to the



overall commercial effect of the transaction, the circumstances that have led to the proposal and the alternatives available. The expert must weigh up the advantages and disadvantages of the proposal and form an overall view as to whether the shareholders are likely to be better off if the proposal is implemented than if it is not.

In Grant Samuel's opinion, the most appropriate basis on which to evaluate the Proposal is to assess whether the overall benefits for the shareholders outweigh any disadvantages and risks that might result.

The following factors, *inter alia*, have been considered in determining whether the Demerger Scheme and the Transfer Scheme are in the best interests of Foodland shareholders:

- the underlying value of Foodland;
- the value of the consideration offered;
- the existing shareholding structure of Foodland;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of Foodland shares in the absence of the Proposal;
- the other advantages and disadvantages of shareholders approving the Transfer Scheme; and
- the other benefits, costs, disadvantages and risks of the Demerger Scheme, including the potential consequences if the Demerger Scheme proceeds and the Transfer Scheme does not proceed.

2.3 Information

In preparing this report, Grant Samuel has had access to and relied on, without independent verification, the following information:

Publicly available information

- the Scheme Booklet accompanying this report (including earlier drafts);
- annual reports of Foodland for the four financial years ended 1 August 2004;
- the half year report of Foodland for the 6 months ended 30 January 2005;
- press releases, public announcements, media and analyst presentation material and other public filings by Foodland including information available on Foodland's website;
- annual reports for Metcash for the 2002 to 2005 financial years;
- annual reports for Woolworths for the 2002 to 2004 financial years, and the Woolworths half year report for the 6 months ended 2 January 2005;
- press releases, public announcements, media and analyst presentation material and other public filings by Metcash and Woolworths in relation to the Proposal;
- recent brokers' reports on Foodland, Metcash and Woolworths and the grocery wholesaling and retailing industries in Australia, New Zealand and overseas;
- the Metcash Bidder's Statement dated 21 January 2005 in relation to the off-market takeover offer for all the ordinary shares in Foodland; and
- sharemarket data and related information on Australian, New Zealand and international listed companies engaged in the grocery wholesaling and retailing industries.

Non public information provided by Foodland

- Foodland management accounts for the eleven months ended 3 July 2005 and forecast for the year ended 31 July 2005;



- Foodland preliminary results for the year ended 31 July 2005;
- Foodland management budget for Foodland for the year ending 30 July 2006;
- current Foodland management forecasts for Foodland for the years ending 29 July 2007 and 3 August 2008; and
- other confidential documents, Board papers, presentations and working papers.

Grant Samuel has also held discussions with, and obtained information from, senior management of Foodland and its advisers.

Grant Samuel has had no access to non public information in relation to Metcash or Woolworths.

2.4 Limitations and Reliance on Information

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by Foodland and its advisers. Grant Samuel has considered and relied upon this information. Foodland has represented in writing to Grant Samuel that to its knowledge the information provided by it was complete and not incorrect or misleading in any material aspect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to whether the Demerger Scheme and Transfer Scheme are in the best interests of Foodland shareholders and as to whether the Demerger Scheme is materially prejudicial to creditors. However, Grant Samuel does not warrant that its enquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. In any event, an opinion of the kind expressed in this report is more in the nature of an overall review rather than a detailed audit or investigation.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Foodland. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

The information provided to Grant Samuel included 2005 preliminary results and 2006 budgeted financial results for Foodland pre and post the Demerger Scheme prepared by management of Foodland. Foodland is responsible for the budgets.

Grant Samuel has used and relied on the 2005 preliminary results and 2006 budget (pre and post the Demerger Scheme) for the purpose of its analysis. The major assumptions underlying the 2006 budget were reviewed by Grant Samuel in the context of current economic, financial and other conditions. However, it should be noted that although Foodland outperformed budget in the 2002 and 2003 financial years, it underperformed budget in the 2004 financial year. Furthermore, Foodland's 2005 financial performance (which reflects the unaudited results for the year ended 31 July 2005) fell below the 2005 budget by 3.2% at the EBITA¹ level on a consolidated basis. In

¹ EBITA is defined as earnings before net interest, income tax, goodwill amortisation and unusual items.



addition, a review of recent brokers' reports in relation to Foodland indicate that the 2006 budgeted EBITA of \$268 million falls above market expectations which average \$255 million. However, it is noted that there is only a small number (four) of recent brokers' reports which contain forecast financial information and, accordingly, the extent to which the sample is representative of market expectations is uncertain.

Nonetheless, Grant Samuel considers that, based on the inquiries it has undertaken and only for the purposes of its analysis for this report (which do not constitute, and are not as extensive, as an audit or accountant's examination), there are reasonable grounds to believe that Foodland's 2006 budget has been prepared on a reasonable basis. In forming this view, Grant Samuel has taken the following factors, *inter alia*, into account:

- the Foodland and Progressive Enterprises 2006 budget (post Demerger Scheme) and the underlying assumptions has been reviewed by an investigating accountant for reasonableness and accuracy of compilation and application of assumptions;
- the Foodland 2006 budget (pre Demerger Scheme) was prepared on a detailed bottom up approach. It was reviewed in detail and formally adopted by the directors of Foodland; and
- despite the overall performance of Foodland in 2005 financial year falling below the budget, Foodland's performance is in line with the prior year.

Grant Samuel has no reason to believe that Foodland's 2006 budget reflects any material bias, either positive or negative. However, the achievability of Foodland's 2006 budget is not warranted or guaranteed by Grant Samuel. Future profits and cash flows are inherently uncertain. They are predictions by the directors and management of Foodland of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of the company, its directors or management. Actual results may be significantly more or less favourable.

In preparing this report Grant Samuel has used publicly available information on Metcash and Woolworths.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the information set out in the accompanying Scheme Booklet sent by Foodland to its shareholders is complete, accurate and fairly presented in all material respects;
- the Demerger Scheme and the Transfer Scheme will be implemented in accordance with their terms; and
- the legal mechanisms to implement the Demerger Scheme and the Transfer Scheme are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analyses of factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.



3 Australian and New Zealand Grocery Sectors

3.1 Australia

The grocery sector is the largest retailing sector in Australia with annual retail turnover for the year ended 31 December 2004 estimated at approximately \$57 billion, accounting for over 70% of total food retailing in Australia. The largest markets are the eastern States of Queensland, New South Wales and Victoria, which account for approximately 75% of the national market.

The Australian grocery retailing market is dominated by two major chains, Woolworths and Coles Myer Limited ("Coles Myer"), which have a combined market share of approximately 77%. The other main grocery retailers are Foodland, with a national market share of approximately 5%, and the Aldi Stores (a limited partnership) ("Aldi") and Pick 'n Pay, which account for approximately 4% of the market. The balance of the market (approximately 14%) is predominantly held by independent grocery retailers. Metcash is the largest wholesaler of groceries in Australia. In addition to its retail business, Foodland also operates a substantial wholesale business in Western Australia.

Woolworths, Coles Myer and Foodland are vertically integrated, dealing directly with suppliers. Independent retailers are supplied by wholesalers relying on closely linked systems for ordering and distribution. A large number of independent retailers operate under banner groups. Margins in the sector are low, with EBITA margins in the order of 3-5% of sales.

3.1.1 Retail

The Australian supermarket and grocery retailing sector has grown by an average rate of 6.8% per annum over the five years to 30 June 2004. Market commentators and analysts forecast expenditure on food in Australia to increase at a real rate of 2.7% in the year ended 30 June 2005 and 2.5% in the year ending 30 June 2006. Supermarket sales are forecast to increase from \$44 billion in the year ended 30 June 2004 by 4.6% to \$46 billion in the year ended 30 June 2005 and by 4.4% to \$48 billion in the year ending 30 June 2006 (excluding alcohol).

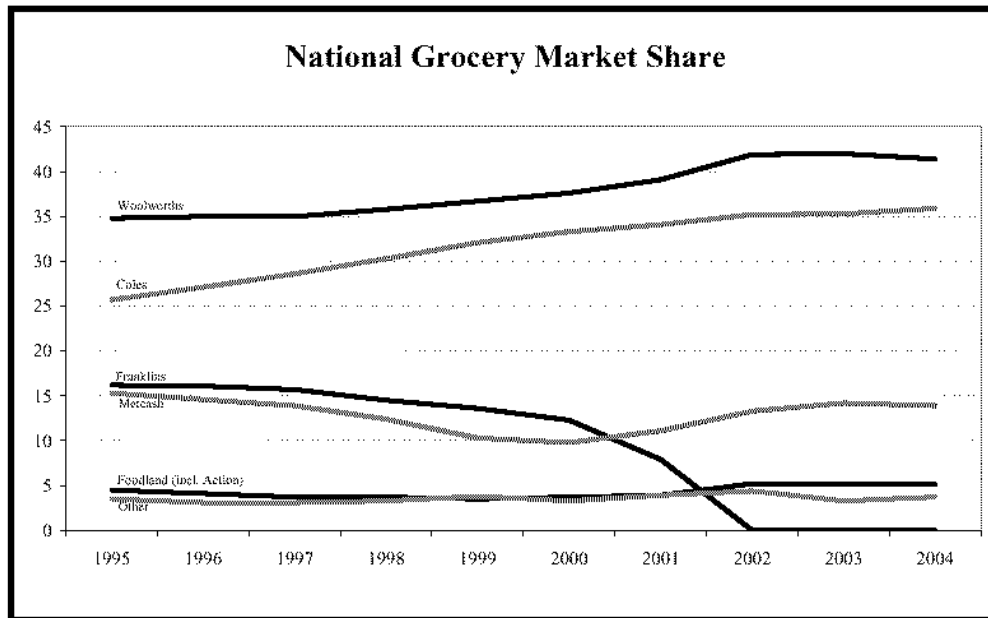
Supermarket and grocery sales are relatively insensitive to changes in economic conditions. Inflation and population growth are the most significant factors in the growth of food sales and will result in continued growth of the industry. In addition, the growth rate of supermarket and grocery sales is positively affected by trends towards semi-prepared meals, increased fresh foods and changes in eating habits. Further growth is expected from range extension and category growth which will attract new business to stores.

Food price inflation was approximately 1.7% per annum over the year to 31 March 2005 compared with general inflation of 2.4%. Price competition is expected to remain high in the short to medium term as a result of the continued expansion of Aldi, supply chain cost savings being passed on (at least in part) to consumers and the use of pricing strategies such as Woolworths' Every Day Low Prices and fuel discount offers. This is expected to result in food price inflation continuing to be lower than general inflation over the short to medium term.

Over the past two decades the supermarket and grocery sector has undergone significant rationalisation with the number of participants declining substantially. The major chains have grown through acquisition and independent retailers have formed co-operatives or buying groups. Grocery wholesalers have sought to achieve economies of scale and maintain the market share of independent retailers in the face of competition from the major chains.



The market share of Australian grocery retailers is shown in the following chart:



Source: AZTEC Information Systems.

The market shares of the major market participants increased in 2001 following the sell-down of Franklins Ltd ("Franklins") by Dairy Farm International Holdings Limited ("Dairy Farm"). Franklins stores were sold to independents (under the IGA banner), Pick'n Pay, Woolworths, Coles Myer and Foodland.

The sector has shifted from many small stores to fewer but larger supermarkets. Over the past ten years the number of supermarkets has declined by 60% but the average size of Australian grocery stores is estimated to have doubled. The trend towards larger stores has assisted the growth of the major supermarket chains.

Access to sites is, however, becoming increasingly critical with the major chains having secured key retail sites with long term leases. With fewer sites being available, they are becoming increasingly expensive. As sites for the large size formats of the major chains become harder to find, the major chains may pursue smaller store formats in competition with independent retailers.

In addition to growing in size, supermarkets are expanding by increasing the number of items within categories ("range extension") and the number of categories on offer. Categories are expanding to include alcoholic beverages, petrol, pharmaceuticals, banking services, general merchandise and prepared meals. The major chains have increased their focus on private label products which provide higher margins and address the entry into Australia of Aldi.

Independent retailers have experienced significant competition as a result of the growth of Woolworths and Coles Myer, which have increased their market share through the introduction of petrol discount offers, revamped fresh food offerings and price competition. This has resulted in a significant reduction in the number of independent retailers, many of which have either closed down or been acquired by the major chains. The recent focus of Woolworths and Coles Myer on supply chains and logistics as well as the trend to open more large format stores is expected to add to the pressure on independent retailers.



The major supermarket store networks and independent retailers at October/November 2004 were estimated as follows:

| Number of Supermarkets by Major Operator - October/November 2004 | | | | | | | |
|--|-------------|------------|-----------------|------------|------------|-----------|--------------|
| | NSW/ ACT | VIC | QLD | SA/NT | WA | TAS | Total |
| Major Chains | | | | | | | |
| Woolworths | 232 | 179 | 145 | 66 | 61 | 29 | 712 |
| Coles Myer | 203 | 180 | 163 | 89 | 73 | 14 | 722 |
| Franklins (Pick 'n Pay) | 78 | - | - | - | - | - | 78 |
| Action (Foodland) | - | - | 44 ² | - | 36 | - | 80 |
| Aldi | 46 | 24 | 10 | - | - | - | 80 |
| Total | 559 | 383 | 362 | 155 | 170 | 43 | 1,672 |
| Independents/Banner Groups | | | | | | | |
| FoodWorks ³ | 23 | 99 | 47 | - | - | - | 169 |
| Australian United Retailers Limited ³ | 13 | 71 | 396 | - | - | 9 | 489 |
| Dewsons (Foodland) | - | - | - | - | 62 | - | 62 |
| Supa Valu (Foodland) | - | - | - | - | 117 | - | 117 |
| Eziway (Foodland) | - | - | - | - | 50 | - | 50 |
| IGA (Metcash) | 298 | 344 | 202 | 208 | - | - | 1,052 |
| Total | 334 | 514 | 645 | 208 | 229 | 9 | 1,939 |

Source: Retail World Annual Report 2004, Foodland.

Woolworths is the largest supermarket retailer with around 41.5% of the grocery retailing market based on moving annual turnover as at 3 July 2005. Woolworths has increased its market share from 37.9% to 41.5% over the past 4 years, principally due to new store openings, store extensions, refurbishments and the acquisition of independent operators (eg. part of the Franklins supermarket chain in 2001). Woolworths was the first of the supermarket chains to offer discounted petrol (in the late 1990s), aimed at improving retail grocery sales and market share.

Coles Myer is the second largest supermarket retailer in Australia with around 35.8% of the grocery retailing market based on moving annual turnover as at 3 July 2005. Coles Myer has increased its market share from 33.5% to 35.8% over the past 4 years, principally through store acquisitions, new store openings and an aggressive store refurbishment program. In 2003, Coles Myer announced an initiative with Shell, offering discounted petrol in response to Woolworths' petrol offering.

Foodland owns and operates Action supermarkets in Western Australia, Queensland and northern New South Wales. Through its wholesale operations Foodland supplies independent retailers in Western Australia under the Dewsons, Supa Valu and Eziway banner groups.

Metcash supplies independent retailers under the IGA banner group in all regions except Western Australia and Tasmania and also supplies FoodWorks/Australian United Retailers Limited's supermarkets.

Aldi is a new entrant to the Australian supermarket sector. It opened its first store in January 2001 and has a 3% share of the Australian grocery retailing market. Aldi is a worldwide grocery chain with operations extending through the United States, Europe and Australia. Aldi sells a relatively limited range of products at discount prices. The Aldi stores target the lower end of the market and bulk buyers. Aldi's major impact has been to lower prices in neighbouring competitor stores, particularly for private label products.

² Includes stores in northern New South Wales.

³ FoodWorks and Australian United Retailers Limited merged during 2004.



Pick 'n Pay is a South African listed food retailer that acquired the New South Wales Franklins stores in 2001. Pick 'n Pay has stated an intention of growing its business in Australia. To achieve its growth objectives and achieve sustainable economies of scale Pick 'n Pay is expected to need to undertake acquisitions of larger independents. Pick 'n Pay has developed its own warehousing and distribution infrastructure and its distribution agreement with Metcash terminated on 31 January 2005.

3.1.2 Wholesale

Grocery wholesalers supply banner groups and independent retailers. Banner groups consist of independent grocery retailers that operate within a co-operative arrangement with a wholesaler to purchase and sell groceries under an identifiable store image or 'banner' to provide consistent product and service offers.

Grocery wholesalers offer a range of services, the most significant of which are sourcing, warehousing and distributing merchandise including dry groceries, chilled and frozen goods and fresh meat and produce. Grocery wholesalers provide retail and marketing support services. Retail support typically extends to store operations and financial services. Branding and promotional support present product and service offers to consumers.

The success of the wholesaling industry depends upon achieving economies of scale through maintaining adequate market share, supported by:

- tight cost control;
- efficient warehousing and distribution systems;
- competitive buying power;
- effective credit management procedures;
- close ties with retail outlets including the provision to independent retailers of support services such as advertising and retail support services; and
- the provision of full range services including cash and carry operations.

The grocery wholesaling industry in Australia has consolidated in the last twenty years from primarily State based operators to three significant independent wholesalers. This consolidation has been driven by the objective of improving economies of scale, buying power and access to capital. The main independent wholesalers are Metcash, Foodland and Statewide Independent Wholesalers Limited ("SIW"), which operates only in Tasmania. SIW is 60% owned by Woolworths and 40% owned by the Northern Wholesalers Co-operative Society Limited.

Despite industry consolidation, wholesalers have been unable to prevent a progressive erosion of their market share. This reflects the ongoing diminution of the market share of independent supermarkets, as consumers are increasingly attracted to large format supermarkets. Metcash's market share increased from 10% to 14% following its purchase of Franklins stores from Dairy Farm, but has remained steady since that time. Foodland's market share increased from 3% to 5% through the acquisition of Franklins stores but has remained steady at 5% over the past couple of years.

3.2 New Zealand

The grocery sector in New Zealand has annual retail turnover estimated at approximately NZ\$9.7 billion. Of total grocery sales, approximately 93% is through the supermarkets of two major operators, Foodland's subsidiary Progressive Enterprises Limited ("Progressive") and the three Foodstuffs co-operatives ("Foodstuffs"). The remaining 7% of grocery sales is through convenience stores and service stations.



3.2.1 Retail

The retail grocery market is supplied by full service supermarkets, discount supermarkets and a large but decreasing number of small format convenience stores. Following Progressive's acquisition of Woolworths (NZ) Limited⁴ ("Woolworths (NZ)"), the supermarket retailing segment of the grocery sector in New Zealand is now effectively a duopoly between Foodstuffs (estimated 56% market share of supermarket grocery sales) and Progressive (estimated 44% market share of supermarket grocery sales).

Foodstuffs consists of three separate regionally based retailer-owned co-operative companies together with their federation body, known as Foodstuffs (NZ) Ltd. The three co-operative companies and their territories are:

| Foodstuffs – Co-operatives | | | |
|--|--------------------------------|---|--|
| Co-operative | Cash & Carry Outlet | Regions | Wholesale Turnover (NZ\$ billion) |
| Foodstuffs (Auckland) | James Gilmour | North Island from Gisborne, Turangi and Taumaranui northwards | 2.7 |
| Foodstuffs (Wellington) Co-operative Society | Toops Wholesale | Southern half of the North Island | 1.7 |
| Foodstuffs (South Island) | Trents Wholesale | South Island | 1.7 |
| | | | 6.1 |

Source: Foodstuffs Annual Reports and website.

Note: Wholesale turnover for the year ended February 2004.

The principal activities of the three Foodstuffs co-operative companies include the organisation and management of the supply chain for groceries, fresh foods and associated merchandise for members, the provision of support services, the design and development of store formats for franchising to members, the development and management of retail properties, and the provision of private label merchandise.

Foodstuffs is the largest distributor of groceries in New Zealand. Each individual store is owner-operated by a co-operative member. In some regions the co-operative company is also a shareholder or co-owner with its members in a number of the large retail stores.

In addition to wholesale warehouse and distribution operations, each of the Foodstuffs co-operative companies operates cash and carry outlets that service the needs of milk bars, smaller convenience stores, service stations and catering and institutional customers.

The annual turnover of Foodstuffs' affiliated stores is estimated to be over NZ\$7 billion (including GST). Foodstuffs' various store brands and formats as at December 2004 are summarised as follows:

| Foodstuffs – Operating Profile (December 2004) | | |
|---|-------------------|---|
| Brand | No. stores | Description |
| New World | 131 | Full service supermarkets |
| PAK'nSAVE | 36 | Large format discount food barns/warehouses |
| Write Price | 6 | Smaller format discount food barns/warehouses |
| Four Square/Four Square Discount | 288 | Convenience stores |
| On The Spot | 191 | Convenience stores |

Source: Foodstuffs Annual Reports and website.

⁴ Woolworths (NZ) is unrelated to the Australian listed company, Woolworths Limited.



Foodstuffs has also entered into an arrangement with St George Bank Limited to offer to its customers a range of retail banking products.

Progressive operates a corporate ownership model and franchise network which gives it a distinct advantage while Foodstuffs operates a co-operative owner operated model. In recent years Progressive has offered a wider product range, particularly of fresh merchandise. Controlling its fresh acquisition and distribution functions centrally has ensured greater consistency and a higher quality offering. Foodstuffs' model is based on regional distribution centres focused primarily on branded consumer goods, leaving the fresh component to franchisees.

Foodstuffs is a robust competitor unwilling to sacrifice market share. The acquisition of Woolworths (NZ) and the subsequent conversion and refurbishment programme saw Progressive's market share increase. In the last three months of the 2004 financial year, Progressive increased its market share by 1.4%. Foodstuffs' reaction has been through price competition which has recently won back some market share but at a cost to margin.

In recent years, competition has resulted in a trend to closures of smaller format stores. Small format stores face competition from supermarkets and petrol stations that generally stay open longer. This trend is expected to continue. As a consequence, the success of Foodstuffs will be increasingly concentrated in the hands of large-scale format owners who have a significant investment in their stores. It is expected that this concentration will call into question the co-operative model, as it has done in almost every other market in the world. The combined retained earnings of the three Foodstuffs co-operatives exceeds NZ\$430 million while the issued capital, which is redeemable at par when a member retires, is only NZ\$2.1 million.

For as long as Foodstuffs remains a cohesive co-operative group, a high level of competitive pressure is expected despite the duopolistic nature of the market. Growth for Progressive is expected to come largely from market growth, process improvements in logistics and product initiatives.

The likelihood of a third competitor entering the New Zealand retail grocery market has increased in recent months with German supermarket chain Aldi confirming that it is investigating potential entry into the New Zealand market. However, a third competitor is expected to face difficulties obtaining suitable sites. Whilst Aldi's smaller format stores may make site acquisitions easier, it is uncertain if its limited range will appeal to customers.

The Warehouse Group, a New Zealand listed company, has also recently announced that it will expand its involvement in the grocery sector. The Warehouse Group initially plans to open two hypermarkets (a version of its general merchandise stores that will include a full grocery offering) in New Zealand by the end of 2006. The Warehouse Group currently sells a limited range of dry goods in its stores but will need to substantially alter its store format or open new stores if it is to expand into perishable goods.

3.2.2 Wholesale

Wholesale grocery trade in New Zealand has been declining and is expected to continue to decline due to:

- increasing volumes of merchandise being delivered directly to stores;
- a weakening of the market position of the independent convenience stores as they are increasingly unable to compete effectively with the supermarket chains;
- an ongoing reduction in tobacco sales; and
- margin pressure as cash and carry customers can often buy cheaper at discount supermarkets.

As a result of such pressures the wholesale segment has undergone significant rationalisation. In November 2000, Progressive sold its Rattrays Cash & Carry and food service business ("Rattrays"). Rattrays was subsequently put into receivership. Foodstuffs and Progressive are now the only major wholesalers in New Zealand. Foodstuffs' wholesale business supplies its co-

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operative members and some large independents via centrally located warehouses. It also operates cash and carry outlets, which supply the bulk of the convenience store market as well as food service customers.



4 Profile of Foodland

4.1 Background

Foodland is a leading grocery wholesaler and supermarket retailer in Western Australia, Queensland, northern New South Wales and New Zealand. The company is based in Perth, Western Australia, and has a market capitalisation of approximately \$3.2 billion on the ASX.

Foodland's origins date from 1926 when the company was incorporated as Duncan Preston Limited. The name was changed to Associated Grocers Limited in 1956 and the company was renamed Foodland in 1972 when it merged with Foodland Co-operative Limited. The company was listed on the ASX and NZX in 1990 and 1992 respectively. Foodland elected to delist from the NZX in 2003.

Key events in Foodland's corporate history include:

- Foodland acquired the grocery wholesaling division of D&J Fowler Limited in 1981 and the grocery retail chain Action Food Barns in 1985. Action Holdings Limited ("Action") became the holding company for Foodland's retail activities. In November 1986, Action was listed on the ASX with Foodland retaining a 49.0% shareholding. Foodland acquired the shares it did not own in Action in 1993;
- in July 1992, Foodland acquired the Countdown supermarket chain and the Rattrays Cash and Carry business, both of which operated primarily in the South Island of New Zealand. The Rattrays business was subsequently sold in the 2000 financial year;
- in August 1992 Action and Vox Ltd announced that they had acquired from the receiver of Venture Stores Limited ("Venture") the assets and undertakings of the Venture chain. In November of that year, Action and Vox Ltd each effectively acquired a 25% shareholding in Farmers Deka Limited ("Farmers Deka") via a jointly owned New Zealand company. The interests of Action and Vox Ltd in Venture were sold to Farmers Deka at the same time. Farmers Deka was an unlisted private company in New Zealand which owned and operated Farmers Family Stores, Farmers Home Centres, Deka (discount department stores) and Toy Warehouse (specialty stores). In July 1993, Foodland acquired the interests held by Farmers Deka in Venture. Farmers Deka was acquired by Foodland in November 1993. The Deka chain of department stores was subsequently closed during the 2001 financial year;
- in July 1993, Foodland acquired a 38.6% shareholding in Progressive through a tender sale by Coles Myer. Progressive was the owner of two New Zealand supermarket chains, Foodtown and 3 Guys and of the family restaurant chain, Georgie Pie, which operated in New Zealand's North Island. By arrangement with Progressive, Foodland then sold the Countdown and Rattrays businesses to Progressive in exchange for further shares in Progressive, increasing Foodland's ownership of Progressive to 57.0%. This transaction was approved by Progressive shareholders in October 1993. Foodland subsequently increased its shareholding in Progressive through on market buying and participation in Progressive's dividend reinvestment plan, and acquired all remaining shares by way of a takeover offer in June 1999;
- in June 2001, Foodland purchased 36 Franklins stores in Queensland and northern New South Wales and Franklins' Richlands warehouse and Rocklea fresh produce facility in Brisbane, and acquired four other Franklins stores shortly thereafter. The stores commenced trading under the Action banner in March 2002;
- in June 2002, Progressive acquired Woolworths (NZ), a supermarket operation trading through 85 supermarkets under the Woolworths, Big Fresh and Price Chopper banners and through 26 Woolworths at Gull outlets which supply groceries and petrol. Subsequently, Progressive rationalised its supermarket banners to three (Countdown, Foodtown and Woolworths), rebranding the Big Fresh, Price Chopper and 3 Guys supermarkets under the remaining banners;
- during the 2003 financial year, Foodland made a decision to centralise its Australian buying and merchandising personnel for packaged grocery products in Melbourne. Prior to this, buying responsibilities were spread across three separate teams in Queensland and Western

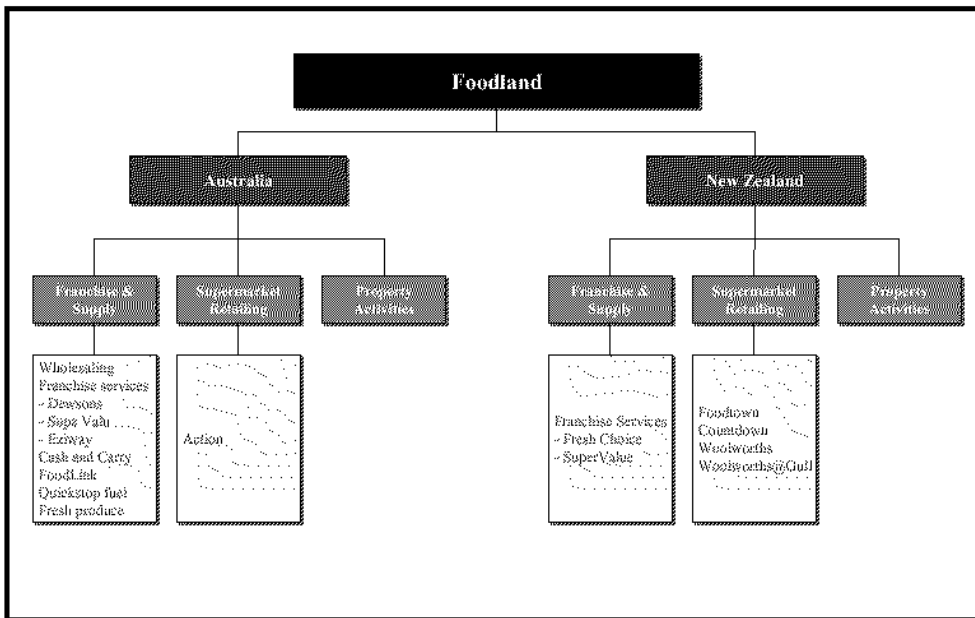


Australia. Responsibility for sourcing fresh food remains State based, to maximise local product availability, flexibility of supply and to support local growers in Queensland and Western Australia. Responsibility for inventory replenishment activity was transferred to supply chain departments to improve product availability while increasing stock turn efficiency;

- in November 2003, Foodland completed the sale of Farmers Holdings Limited, the ultimate holding company controlling the Farmers Group, to focus on supermarket and grocery wholesaling operations throughout Australia and New Zealand; and
- in December 2003, Foodland sold a portfolio of Australian properties for \$153.2 million to an unlisted property trust that is to own Foodland tenanted properties exclusively. Foodland retains management of industrial sites and holds the first right of refusal should the properties be sold. The objective is to eventually list the trust. This was followed by the sale of a New Zealand property portfolio to Multiplex in July 2004 for \$130.8 million.

Foodland continues to hold a significant property portfolio in Australia and New Zealand. In addition, Foodland is actively engaged in locating suitable sites for developing new Action stores and sites for franchisees in Australia and new supermarkets in New Zealand. Property development and management activities extend to the planning of store layouts and the supervision of refurbishment work contracted to third parties.

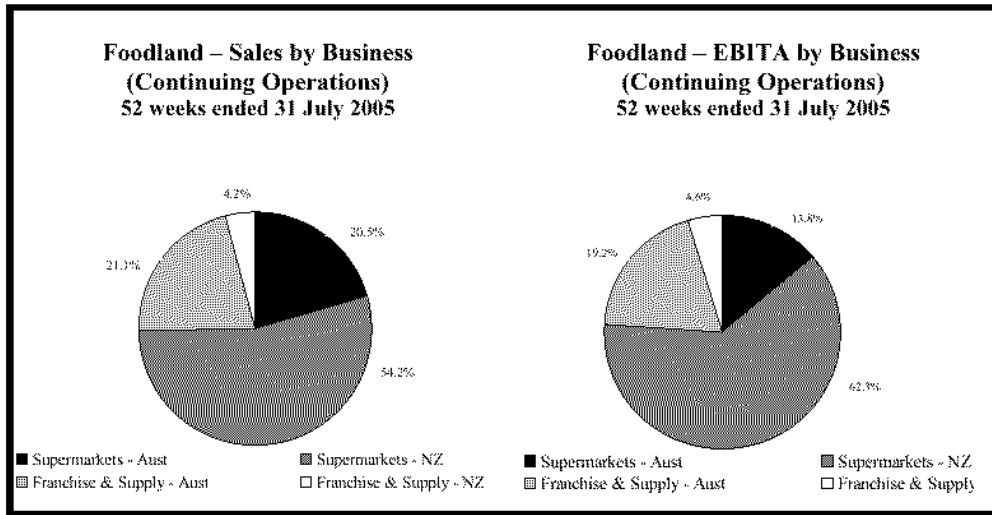
Foodland’s current business structure is illustrated in the following diagram:



Source: Foodland.

Whilst Foodland is Australian-based, the company generates substantial sales and earnings from its New Zealand operations. For the 2005 financial year, 58.4% of Foodland’s sales and 66.9% of EBITA was generated in New Zealand:

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Source: Foodland.

4.2 Financial Performance

The table below sets out the financial performance of Foodland for the four years to 31 July 2005:

| Foodland – Financial Performance (A\$ millions) | | | | |
|---|---------------------------------|--------------------|--------------------|---------------------|
| | 52 weeks ended | | | |
| | 4 Aug 02 actual ⁵ | 3 Aug 03 actual | 1 Aug 04 actual | 31 Jul 05 actual |
| Sales revenue – continuing operations | 4,016 | 5,742 | 5,888 | 6,335 |
| Other operating revenue – continuing operations | 209 | 305 | 311 | 397 |
| Non-operating revenue | - | - | 484 | - |
| Discontinued operations | 680 | 705 | 154 | - |
| Total revenue | 4,905 | 6,752 | 6,837 | 6,731 |
| EBITDA⁶ – continuing operations | 228 | 327 | 333 | 329 |
| Depreciation and amortisation | (67) | (85) | (85) | (79) |
| EBITA – continuing operations | | | | |
| Australian businesses | 83 | 87 | 84 | 85 |
| New Zealand businesses | 76 | 148 | 159 | 171 |
| Corporate costs | (8) | (10) | (10) | (11) |
| Property | 10 | 17 | 15 | 6 |
| EBITA – continuing operations | 161 | 242 | 248 | 251 |
| Discontinued operations and significant items | 43 | 42 | 51 | (20) |
| EBITA | 204 | 284 | 299 | 231 |
| Goodwill amortisation | (19) | (42) | (42) | (45) |
| EBIT⁷ | 185 | 242 | 257 | 186 |
| Net borrowing costs | (31) | (51) | (31) | (23) |
| Operating profit before tax | 154 | 191 | 226 | 164 |
| Income tax expense | (52) | (71) | (83) | (68) |
| Net profit attributable to Foodland shareholders | 102 | 120 | 143 | 95 |
| <i>Statistics</i> | | | | |
| <i>Basic earnings per share (cents)</i> | <i>103.1</i> | <i>103.3</i> | <i>122.0</i> | <i>na</i> |
| <i>Dividends per share (cents)</i> | <i>63.7</i> | <i>85.1</i> | <i>96.0</i> | <i>na</i> |

Source: Foodland Annual Reports and Foodland.

Note: The numbers in this table may not add due to rounding.

The following notes should be considered when reviewing the financial performance of Foodland:

- the summary of financial performance excludes pro-forma adjustments in relation to the Demerger Scheme;
- discontinued operations relate to the operating results of the Farmers Group (including property related income) which was sold in November 2003, the profit on the sale of the Farmers Group and the profit on the sale of properties into property trusts. In the 2002 financial year, discontinued operations also include an additional provision for Deka closure costs;
- other operating revenue includes interest income, proceeds received on the sale of non-current assets, settlement discounts and supplier rebates;

⁵ 53 week period.

⁶ EBITDA is defined as earnings before net interest, income tax, depreciation and amortization and unusual items.

⁷ EBIT is defined as earnings before net interest and income tax and unusual items.



- non operating revenue in the 2004 financial year comprises the proceeds received on the sale of the Farmers Group (\$199.6 million) and the proceeds on the sale of properties into property trusts (\$284.0 million) (see below);
- property earnings relate to both internal and external rental charges for properties owned by Foodland. In December 2003, Foodland sold the majority of its Australian property assets, comprising distribution centres and support office complexes in Queensland and Western Australia, a food service complex in Perth, two Cash and Carry branches and two shopping centres in Western Australia, to a new unlisted property trust for gross proceeds of \$153.2 million. This was followed by the sale of the majority of the New Zealand property assets comprising three distribution centres and support office complexes and seven retail sites to Multiplex in July 2004 for gross proceeds of NZ\$144.0 million (A\$130.8 million). Foodland has entered into lease arrangements for these properties. Property earnings declined in 2005 due to the reduced property holdings of Foodland;
- net borrowing costs exclude net interest income from the former consumer finance business of the Farmers Group, which was divested in November 2003;
- corporate costs include expenses associated with the Board, special projects, the corporate finance and treasury divisions, corporate affairs, and the Managing Director and Chief Executive Officer's office; and
- Foodland has historically been able to pay fully franked dividends to shareholders. However, dividends for the 2005 financial year are expected to be partially franked due to the high proportion of New Zealand earnings. The actual level of franking will largely depend on the success of Foodland in a court case with the Australian Taxation Office, which may result in tax refunds and, accordingly, a decrease in Foodland's available franking credits (refer Section 4.3). The Board of Foodland paid a 2005 interim dividend of 43.0 cents per share, franked to 25%, representing a payout ratio of 66.9% compared to 50.7% in the prior year first half. The increased payout ratio reflects the partial franking of the dividend and Foodland's current low level of gearing.

Foodland's operating results include the following unusual items for the four years ended 31 July 2005:

| Foodland - Unusual Items (A\$ millions) | | | | |
|---|---------------------------------|--------------------|--------------------|---------------------|
| | 52 weeks ended | | | |
| | 4 Aug 02 actual [*] | 3 Aug 03 actual | 1 Aug 04 actual | 31 Jul 05 actual |
| Provision for Australian buying office relocation | (2) | - | - | - |
| Profit on sale of Farmers Holdings Limited Group | - | - | 19 | - |
| Profit on sale of properties into property trusts | - | - | 30 | - |
| Profit on redemption of redeemable preference shares | - | - | 5 | - |
| Costs associated with the initial Metcash takeover offer and the Proposal | - | - | - | (20) |
| Total unusual items before income tax | (2) | - | 54 | (20) |

Source: Foodland Annual Reports and Foodland.

4.3 Financial Position

The financial position of Foodland as at 3 August 2003, 1 August 2004, 30 January 2005 and 31 July 2005 is summarised in the table below:

^{*} 53 week period.


Foodland – Financial Position (A\$ millions)

| | As at | | | |
|--|---------------|---------------|---------------|---------------|
| | 3 Aug 03 | 1 Aug 04 | 30 Jan 05 | 31 Jul 05 |
| Trade debtors and prepayments | 94 | 75 | 97 | 80 |
| Inventories | 499 | 412 | 447 | 420 |
| Trade creditors | (477) | (437) | (557) | (427) |
| Current tax liabilities | (1) | (6) | (6) | 24 |
| Net working capital | 115 | 44 | (19) | 97 |
| Consumer finance debtors | 269 | - | - | - |
| Property, plant and equipment | 708 | 451 | 536 | 555 |
| Intangibles | 735 | 722 | 710 | 677 |
| Deferred income tax | 37 | 28 | 32 | 33 |
| Provision for employee entitlements | (50) | (47) | (60) | (48) |
| Other provisions | (26) | (14) | - | (10) |
| Net other assets/(liabilities) | 139 | 195 | 55 | 36 |
| Capital employed | 1,927 | 1,379 | 1,254 | 1,340 |
| Cash | 106 | 59 | 66 | 74 |
| Borrowings | (1,064) | (425) | (296) | (404) |
| Net borrowings | (958) | (366) | (230) | (330) |
| Shareholders' equity attributable to members of Foodland | 969 | 1,013 | 1,024 | 1,010 |
| <i>Statistics</i> | | | | |
| <i>Net tangible assets ("NTA") per share</i> | <i>\$2.01</i> | <i>\$2.49</i> | <i>\$2.66</i> | <i>\$2.83</i> |
| <i>Gearing (net borrowings/(shareholders' equity plus net borrowings))</i> | <i>49.7%</i> | <i>26.5%</i> | <i>18.3%</i> | <i>24.6%</i> |

Source: Foodland Annual Reports, Foodland Half Yearly Report for the 6 months ended 30 January 2005 and Foodland.

The following notes should be considered when reviewing the statement of financial position as outlined above:

- working capital management was a priority in 2004, with a significant reduction in inventory and debtors achieved by year end;
- despite budgeting to spend \$286.0 million on capital projects in the 2004 financial year, Foodland only invested \$180.0 million, primarily on the expansion and refurbishment of its supermarket networks in Australia and New Zealand. Three new and three replacement stores were opened, five new stores were purchased and 17 stores were refurbished. Foodland spent a further \$251.0 million on acquisitions, refurbishments and information technology projects in the 2005 financial year;
- in addition to its distribution facilities and warehouses, Foodland previously owned shopping centres and undeveloped retail sites throughout Queensland and Western Australia. In December 2003, Foodland sold a portfolio of Australian properties for \$153.2 million to a new unlisted property trust that is to own Foodland tenanted properties exclusively. Foodland retains management of industrial sites and holds the first right of refusal should the properties be sold. The objective is to eventually list the trust. This was followed by the sale of a New Zealand property portfolio to Multiplex in July 2004 for \$130.8 million. The funds from the property sales, together with the proceeds from the sale of the Farmers department stores and consumer finance business, have been allocated against debt pending reinvestment;
- the capital expenditure program is predicated on newly acquired stores being either sold to the existing property trust or other investors or alternatively being purchased directly by them;
- Foodland has borrowings consisting of working capital and three and five year term facilities denominated in New Zealand and Australian dollars. Total available facilities to Foodland are NZ\$670.0 million and \$342.0 million in New Zealand and Australia respectively;



- Foodland's gearing as at 1 August 2004 of 26.5% was below its target gearing range of 35-45%. This is largely due to the proceeds received from the sale of Farmers and the Australian properties. Gearing levels fell further to 18.3% in the first half of the 2005 financial year due to the receipt in late August 2004 of the New Zealand property proceeds, and the timing of working capital payments and capital expenditure. However, Foodland's gearing increased in the second half of the 2005 financial year to 24.6% with the acquisition of new supermarket sites and refurbishment of existing stores; and
- on 1 February 2001, Foodland and one of its wholly owned subsidiaries were issued with income tax assessments from the Australian Taxation Office ("ATO") arising from an audit of the company's affairs. Foodland is in dispute with the ATO in relation to the assessments. At 31 July 2005, the outstanding assessments including penalties and interest approximated \$25.5 million. Foodland has not made a provision for the assessments in its statement of financial position. However, the ATO has withheld \$25.5 million in GST and income tax refunds due to Foodland and other of its wholly owned subsidiaries, as an offset against the amounts assessed. This amount is disclosed as a receivable in Foodland's balance sheet.

4.4 Capital Structure and Share Price Performance

As at 8 September 2005, Foodland had 117,828,603 ordinary shares on issue.

The top ten ordinary shareholders in Foodland as at 17 June 2005 are shown in the table below:

| Foodland – Top Ten Ordinary Shareholders | | |
|---|------------------------------------|-------------------|
| | Number of Shares (000s) | % Interest |
| UBS Global Asset Mgt (Group) | 14,104 | 12.0% |
| Credit Suisse First Boston (Group) | 7,149 | 6.1% |
| Schroder Investment Mgt | 7,011 | 6.0% |
| Citadel Investment Group | 6,201 | 5.3% |
| Investors Mutual | 4,948 | 4.2% |
| OZ Mgt | 3,957 | 3.4% |
| Concord Capital | 3,596 | 3.1% |
| Portfolio Partners | 2,668 | 2.3% |
| Cheyne Capital Management | 3,878 | 3.3% |
| Vanguard Investments | 1,565 | 1.3% |
| Subtotal – Top ten ordinary shareholders | 55,077 | 46.7% |
| Other shareholders | 62,750 | 53.3% |
| Total ordinary shareholders | 117,827 | 12.0% |

Source: Foodland.

Substantial shareholders with an interest in Foodland ordinary shares greater than 5% at 1 August 2005 are set out below:

| Foodland – Substantial Shareholders | | |
|---|------------------------------------|-------------------|
| | Number of Shares (000s) | % Interest |
| UBS Nominees Pty Ltd | 21,174 | 18.0% |
| Credit Suisse First Boston Australia (Holdings) Limited | 7,704 | 6.5% |
| Schroder Investment Management Australia Limited | 6,356 | 5.4% |

Source: Foodland.

4.4.1 Share Price History

The share price and history of trading in Foodland ordinary shares on the ASX since January 2000 is set out below:

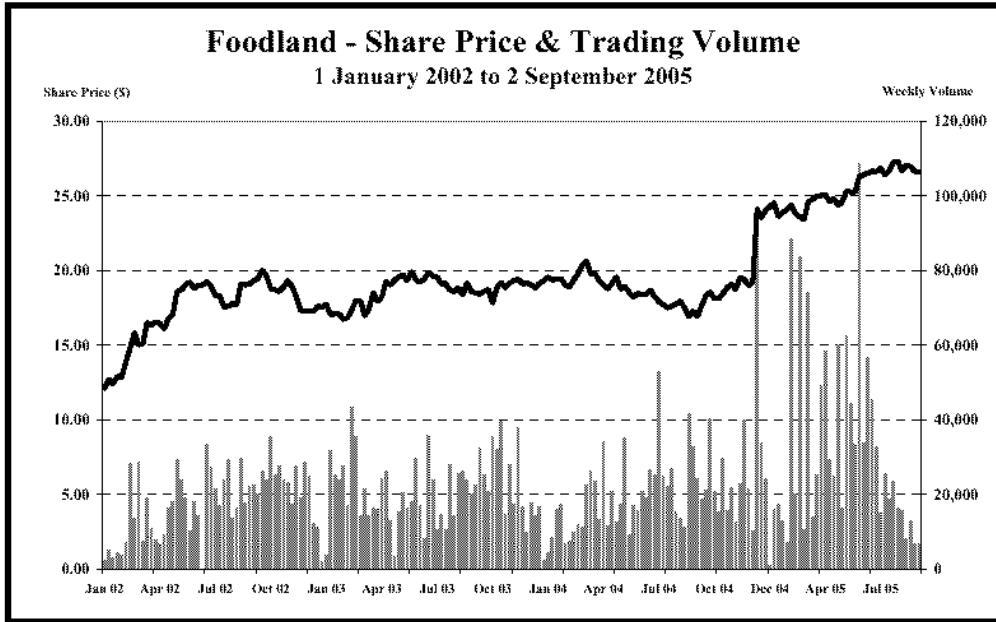


| Foodland – Ordinary Share Price and Trading History | | | | | |
|--|-------------------------|------------|--------------|-------------------------------------|------------------------------------|
| Period | Share Price (\$) | | | Average Weekly Volume (000s) | Average Weekly Transactions |
| | High | Low | Close | | |
| 2000 | 10.29 | 7.08 | 8.98 | 1,161 | 294 |
| 2001 | 13.03 | 8.23 | 12.21 | 1,520 | 537 |
| 2002 | 20.14 | 12.00 | 17.75 | 1,785 | 689 |
| 2003 | 20.01 | 16.25 | 19.46 | 2,110 | 956 |
| 2004 | 25.06 | 16.65 | 24.27 | 2,201 | 1,135 |
| Month ended | | | | | |
| 31 January 2005 | 24.99 | 23.30 | 24.50 | 1,426 | 705 |
| 28 February 2005 | 24.56 | 23.00 | 23.60 | 4,625 | 919 |
| 31 March 2005 | 25.30 | 23.31 | 25.07 | 4,862 | 921 |
| 30 April 2005 | 25.19 | 24.05 | 24.60 | 3,081 | 731 |
| 31 May 2005 | 26.50 | 24.61 | 26.45 | 6,139 | 1,269 |
| 30 June 2005 | 27.15 | 26.02 | 27.15 | 3,712 | 763 |
| 31 July 2005 | 27.79 | 26.22 | 27.32 | 2,045 | 684 |
| Week ended | | | | | |
| 5 August 2005 | 27.15 | 26.50 | 26.65 | 1,561 | 846 |
| 12 August 2005 | 27.10 | 26.61 | 27.03 | 807 | 676 |
| 19 August 2005 | 27.15 | 25.88 | 26.95 | 1,296 | 940 |
| 26 August 2005 | 26.95 | 26.45 | 26.60 | 662 | 608 |
| 2 September 2005 | 26.97 | 26.25 | 26.62 | 681 | 719 |

Source: IRESS.

The acquisition of Woolworths (NZ) in 2002 resulted in a significant re-rating of Foodland shares. Since then, Foodland's share price has been driven by sales and profit announcements. Foodland's share price increased in March 2004 upon the announcement of a record first half year profit. The announcements of Foodland's 2004 third and fourth quarter results were both followed by a fall in the share price.

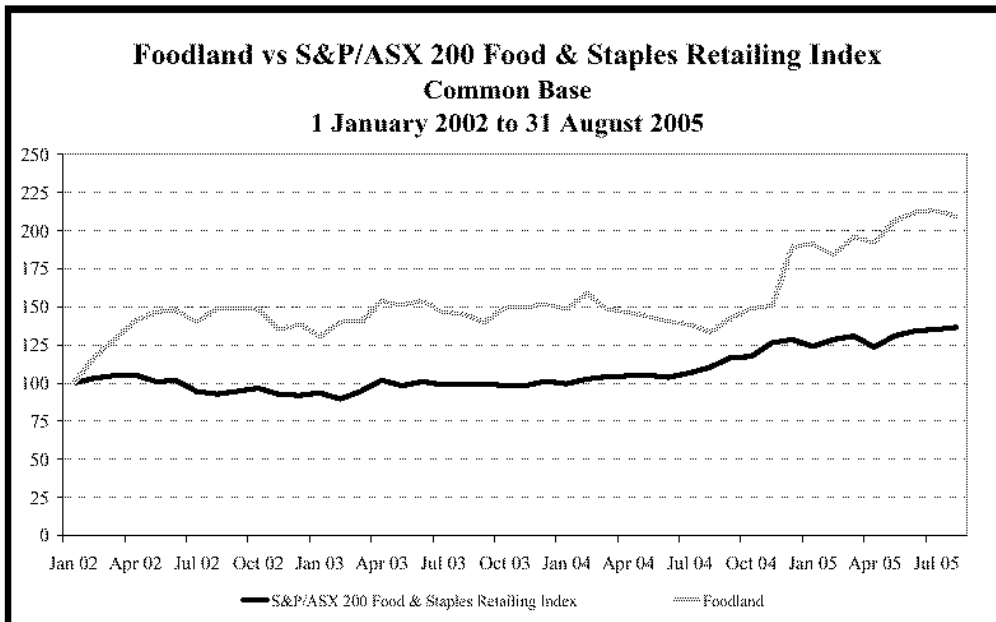
The following graph illustrates share price movements and trading volumes for Foodland ordinary shares since January 2002.



Source: IRESS.

During the three months prior to the announcement of the initial Metcash takeover offer, Foodland shares traded in the range \$16.92-19.64, with a weighted average price of \$18.57. The closing Foodland price on 3 December 2004 was \$19.21. Between the announcement of the initial Metcash offer and 24 May 2005, Foodland shares traded in the range \$22.50-25.80, with a weighted average price of \$24.45. Since the announcement of the Proposal, Foodland shares have traded in the range of \$25.50-27.79, with a weighted average price of \$26.41 (calculated to 8 September 2005).

The relative performance of Foodland's shares against the S&P/ASX 200 Food & Staples Retailing Index since January 2002 is shown below:



Source: IRESS.

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Foodland's share price performance has generally been consistent with the performance of the S&P/ASX 200 Food & Staples Retailing Index. Foodland represented 9.1% of the index on 8 September 2005. The outperformance of Foodland's shares against the index since December 2004 reflects the significant increase in the share price upon the announcement of the initial Metcash offer and the subsequent expectation of a transaction involving Foodland including the revised Metcash offer and the Proposal.



5 Profile of Foodland Australia

5.1 Overview

Foodland Australia consists of the Action Supermarkets and the Franchise and Supply businesses in Australia.

If the Demerger Scheme was approved but the Transfer Scheme did not proceed, Foodland Australia would be the only business owned and operated by Foodland, with its New Zealand businesses separately owned and operated by Progressive Enterprises.

5.2 Action Supermarkets

Action is Foodland's Australian supermarket operator. Action operates 79 full service stores situated in Queensland and northern New South Wales (43) and in Western Australia (36). Foodland believes that Action holds approximately 13% of the Western Australian packaged grocery market (excluding tobacco) and just under 6% of the Queensland market.

Action supermarkets have a combined trading area of 161,600 square metres (over 2,000 square metres on average, per store), together with distribution facilities located in Perth at Canning Vale (52,000 square metres), Osborne Park (3,000 square metres) and Malaga (1,150 square metres), and in Brisbane at Richlands (47,000 square metres) and Rocklea (6,000 square metres). The larger Action supermarkets carry over 590 separate fresh produce lines.

Foodland is in the process of undertaking a substantial refurbishment of existing Action stores in Queensland and pursuing new site acquisitions. This program is being completed on a staged basis over several years. Generally, new store locations are being secured in areas where Action is not currently represented, so the stores will not take sales from existing stores.

During the 2004 financial year, Action opened one new store and one replacement store, and refurbished five supermarkets in Queensland. In the six months ended 30 January 2005, one new store opened and five stores were refurbished in Queensland. A further new store opened in the second half of the 2005 financial year.

In Western Australia, five former Newmart supermarkets were purchased and one store was refurbished during the 2004 financial year. In the year ended 31 July 2005, two new stores opened and four stores were refurbished.

Action's management has identified 35 potential new sites in Western Australia and Queensland/northern New South Wales which would substantially increase the scale of the Action store network.

In June 2000, Foodland introduced a premium quality private label range of products into Action stores, "SR Signature". Following the success of the SR Signature range, Foodland's value range of private label products, "Basics", was introduced in July 2003. Both private label ranges continue to grow in popularity. Foodland management's target is to have private label products representing 20% of Foodland's grocery sales by the end of the 2006 financial year.

In response to customer preference for variety in fresh food, Foodland has focussed on developing strong fresh food departments in Action stores. In Western Australia, almost all fresh products are sourced from local suppliers, bypassing the market system. Action has developed the Q-Lamb brand in conjunction with producers south west of Perth to ensure quality and consistency. Action's other own brand meat ranges, WA Select Pork and the Action-Saver range, are also intended to provide a point of differentiation in comparison with competitors. Foodland is endeavouring to achieve the same strategy for the supply of fresh produce in Queensland.

Foodland is also focussed on expanding its range of general merchandise in Action stores. The sale of general merchandise generates higher margins than packaged or fresh grocery items.



In Western Australia, the Action customer loyalty card was launched in November 2003. The loyalty card is for frequent shoppers. For every \$1,500 spent at Action supermarkets, the customer receives a \$20 voucher to spend at the seafood, meat, deli, bakery or fruit and vegetable departments at participating Action stores. Other initiatives are also being utilised in the form of continuity programs, where customers can “cash-in” points for other consumer goods. The loyalty program has grown in popularity and currently has around 454,687 customers of which 221,742 are active.

During the 2004 financial year, a rapid increase in fuel discounting occurred as the major chains expanded fuel discount schemes on a national basis. As Foodland does not have a national presence, the company has not invested significantly in the ownership of service stations. However, in order to remain competitive Foodland has used various forms of fuel promotional programs to provide customers of Action supermarkets access to petrol related discounts.

In Queensland and New South Wales, Action offers a 4 cents per litre discount at certain nearby independent fuel operators for every \$30 spent at an Action store, redeemable at 132 fuel service stations. To respond to the fuel discounting offers of competitors in Western Australia, Action introduced a reverse voucher system for customers of the loyalty program. The program encourages the use of the Action loyalty card by providing a discount off grocery purchases at an Action supermarket to customers who have spent a specified amount at a petrol station. The discount is offered for certain advertised periods of time.

A summary of the financial results for the Action business for the four years to 31 July 2005 is shown below:

| Action Supermarkets - Financial Results Summary (A\$ millions) | | | | |
|---|---------------------------------|--------------------|--------------------|---------------------|
| | 52 weeks ended | | | |
| | 4 Aug 02 actual ⁹ | 3 Aug 03 actual | 1 Aug 04 actual | 31 Jul 05 actual |
| Sales revenue | 1,079 | 1,209 | 1,330 | 1,364 |
| Number of supermarkets | 71 | 75 | 81 | 79 |
| EBITDA | 38 | 48 | 57 | 57 |
| EBITA | 32 | 37 | 39 | 35 |
| EBITA margin | 3.0% | 3.0% | 2.9% | 2.6% |
| Capital expenditure ¹⁰ | 155 | 35 | 72 | 51 |

Source: Foodland Annual Reports and Foodland.

In the three years ended 1 August 2004, the Action business increased sales and EBITA year on year primarily through increasing store numbers, gross margins and ongoing cost reductions. In particular, the acquisition of the former Franklins stores and distribution centres (which cost approximately \$155 million plus inventory) resulted in a significant increase in sales in the 2002 financial year. Following the staged acquisition, Action spent \$18 million completing a preliminary store upgrade and rebranding program, extended the store merchandise range and partially rectified existing inventory problems.

Despite the larger number of Action supermarkets located in Queensland/northern New South Wales, the Western Australian stores generate higher margins. The lower profitability of Action in Queensland/northern New South Wales is due to a combination of factors, including Foodland’s lack of scale in this region compared to the major chains, a lower level of customer brand awareness, and the poor condition of the Franklins stores acquired by the business. Foodland’s store refurbishment and new store acquisition program on the east coast has been slower than

⁹ 53 week period.

¹⁰ Capital expenditure includes expenditure in relation to store refurbishments and upgrades and the acquisition of land and buildings in Western Australia.



anticipated. The transport costs to far north Queensland add significantly to the costs of the business in this region.

Action experienced increasingly competitive trading conditions in the 2004 financial year, particularly during the second half, when the national chains escalated petrol discounting activity. The entrance of Aldi into the Queensland market contributed to a further decline in EBITA margins. In addition, the former Newmart stores purchased in Western Australia in November 2003 performed below expectations and Foodland incurred significant initial costs associated with the launch of the Action customer loyalty program in this State.

Despite the poorer historical performance of Action in Queensland/northern New South Wales than in Western Australia, Foodland management believes that Queensland offers attractive growth prospects, both in terms of store expansion and the opportunity for continued improvement and further refinement of the business strategy. Economic growth in Queensland/northern New South Wales is expected to continue to be high. However, deteriorating market conditions suggest that margins will continue to remain low.

Foodland management believes that further growth of the Action store network is available in Western Australia, although not to the same extent as in Queensland/northern New South Wales, as the market is more mature. Foodland expects that prevailing industry trends and intense competition are likely to prevent Action's Western Australian store network from returning to the percentage margin levels achieved in previous years.

Foodland increased sales in Action stores in the 2005 financial year as a result of improved store formats being implemented across all Action stores and the strong focus on fresh produce. In Western Australia, the Action loyalty card further improved customer penetration and retention. However, earnings declined, with margins falling slightly as a result of increasing competition.

5.3 Franchise & Supply

The operations of Foodland's Franchise & Supply division are:

- grocery wholesaling, including ambient, frozen and chilled;
- franchise services to Dewsons, Dewsons Express, Supa Valu and Eziway banner groups;
- supply to other independent supermarket operators throughout Western Australia;
- Cash and Carry warehouses;
- fuel under the Quickstop brand;
- food service; and
- fresh produce wholesaling.

Foodland is a grocery wholesaler to all Western Australian independent supermarket operators. Foodland's wholesaling operations are conducted principally from its distribution centre complex in Canning Vale, Perth. This site is 20.8 hectares in area, and consists of a main warehouse with an area of about 52,000 square metres opened in 1993, a cold store of 7,790 square metres opened in 1988 and extended to 8,920 square metres in 1996, a second dry storage warehouse of 4,300 square metres opened in 1992 and a Cash and Carry branch of about 10,000 square metres which opened in 1988.

More than 15,350 different grocery and general merchandise lines are distributed to over 700 customers throughout Western Australia. Foodland management believes the company services about 38% of the wholesale grocery market in Western Australia. The balance of Foodland's grocery distribution occurs either directly from suppliers or through warehouses operated by national supermarket chains.

All buying of packaged grocery products is undertaken by the Melbourne buying office. Rebuying is undertaken from the Canning Vale warehouse.



Foodland maintains four franchise banner groups:

| Foodland Franchise Banner Groups – Operating Profile | | | |
|---|-------------------|--|-------------------------|
| Brand | No. stores | Description | Average Size sqm |
| Dewsons | 65 | Full service high quality supermarkets | 1,000 – 2,000 |
| Dewsons Express | 1 | Convenience stores with fresh categories and convenience lines focus | 450 – 500 |
| Supa Valu | 122 | Full service convenience stores | 500 – 900 |
| Eziway | 53 | Limited range convenience stores | 200 – 600 |

Source: Foodland.

Dewsons is Foodland's first tier franchise banner group. There are currently 65 franchise stores located throughout Western Australia, with 46 in metropolitan areas and 19 in regional centres. The stores have fresh fruit and vegetables daily, fresh meat prepared on site, a fresh full deli service and the entire range of dairy and grocery items.

Foodland has also recently launched Dewsons Express, a new convenience store with a reduced grocery range and an emphasis on fresh categories and convenience lines. There is currently one Dewsons Express store located in Perth.

The number of stores within the Supa Valu franchise group, Foodland's second tier banner group, grew from 70 to 122, primarily through rebranding of Foodland stores, during the 2004 and 2005 financial years.

A third tier franchise banner group, branded Eziway, was established in the 2004 financial year. The new banner group has 53 stores through the rebranding of former Foodland and Four Squares franchises.

A new franchise agreement was signed by 98% of the existing franchisees in the 2004 financial year, replacing 13 different prior agreements. The agreement is consistent across all banner groups. It was developed to provide franchisees with an improved volume rebate structure, designed to maximise the extent to which franchisees purchase from Foodland (rather than other suppliers) and ensure that franchisees stock Foodland's private label brands. The franchise agreement also provides a first right of refusal for Foodland in the event that an owner wishes to sell the store.

Foodland's three Cash and Carry warehouses supply up to 26,500 separate grocery and general merchandise lines to retailers and small business operators seeking to purchase less than full carton quantities. In addition to the Cash and Carry warehouse in Canning Vale (10,000 square metres), Cash and Carry branches are also located in Balcatta (7,013 square metres), Kalgoorlie (1,300 square metres) and Bunbury (3,000 square metres) which opened in early April 2005. The Melbourne buying office undertakes part of the buying for the Cash and Carry warehouses.

Foodland acquired the FoodLink food service business in September 2002 and merged it with its existing food service business. It operates from a 10,000 square metre warehouse in O'Connor, Perth. FoodLink supplies about 5,600 lines to nearly 1,700 customers, including caterers, hotels, restaurants, cafes, institutions, schools and mine sites throughout Western Australia. Foodland management believes that FoodLink is one of Western Australia's largest food service operators, with around 10% market share. Other competitors in the food service market include two privately owned businesses, Kailis Brothers and Sealanes, and a national competitor, Bidvest, a subsidiary of Bidvest Plc, a global participant in the food service market.

During the 2004 financial year, Foodland agreed to purchase 16 former Mobil service stations located in the Perth metropolitan area. The stores, branded Quickstop, honour petrol discount vouchers issued by Dewsons and Supa Valu supermarkets. Supply arrangements have been



negotiated with Mobil. The availability of such arrangements has allowed the banner groups to counter the roll-out of petrol discounting activity by the national chains.

Another initiative introduced during the 2004 financial year was the extension of the customer rebate scheme to include fresh produce. Foodland supplies fresh produce to Action and its own banner group stores in addition to independent stores in Western Australia. This initiative is expected to increase Foodland's wholesale customer base in coming years.

The following chart summarises the composition of sales revenue for the Franchise & Supply business in the year ended 31 July 2005:



Source: Foodland.

Note: Sales for the wholesale business include sales to Action in Western Australia.

A summary of the financial results for the Franchise & Supply business in Western Australia for the four years to 31 July 2005 is shown below:

| Franchise & Supply (Aust) – Financial Results Summary (AS millions) | | | | |
|---|----------------------------------|--------------------|--------------------|---------------------|
| | 52 weeks ended | | | |
| | 4 Aug 02 actual ¹¹ | 3 Aug 03 actual | 1 Aug 04 actual | 31 Jul 05 actual |
| Sales revenue | 1,228 | 1,288 | 1,309 | 1,404 |
| EBITDA ¹² | 56 | 56 | 50 | 54 |
| EBITA | 50 | 51 | 45 | 49 |
| EBITA margin | 4.1% | 3.9% | 3.4% | 3.5% |
| Capital expenditure ¹² | 3 | 27 | 11 | 11 |

Source: Foodland Annual Reports and Foodland.

The Franchise & Supply business in Western Australia has experienced increasingly competitive market conditions in recent years, which has resulted in declining EBITA margins. Despite a small increase in sales in the 2004 financial year, largely through a stronger performance of

¹¹ 53 week period.

¹² For the years 2002 to 2004 capital expenditure includes corporate / head office and EBITDA includes associated depreciation.



Foodland's principal franchise groups Dewsons and Supa Valu stores, EBITA declined 13.3% due to a reduction in purchases by non aligned franchisees and convenience store customers and the impact of restructuring and integrating the FoodLink acquisition. The acquisition of two former major independent customers of Foodland had an additional adverse impact on sales.

Sales of the Cash and Carry warehouses declined during the 2004 financial year, primarily as a result of a decrease in tobacco sales. An increased sales focus on high margin confectionary products offset some of this loss in the 2005 financial year. Similarly, sales of the food service division, FoodLink, declined during the 2004 financial year due to initial integration issues, culminating in the loss of a major customer. However, Foodland management believes there is significant capacity to increase the sales revenues and earnings of the food services business due to the fragmented nature of the current market.

The Franchise & Supply business in Australia increased sales by 7.2% in the 2005 financial year to \$1.4 billion. The 2005 financial results include a new Cash and Carry warehouse at Bunbury and a full year contribution from the Quickstop fuel business. The franchise banner groups also generated additional sales for Foodland through increased store numbers, improved store formats and fresh product differentiation.

5.4 Pro Forma Financial Performance

The historical and budgeted pro forma financial performance of Foodland Australia for the 2002 to 2005 financial years are summarised below:

| Foodland Australia – Pro Forma Financial Performance (A\$ millions) | | | | | | |
|--|---|-----------------------------|-----------------------------|------------------------------|------------------------------|------------------------------|
| | 52 weeks ending | | | | | |
| | 4 Aug 02 actual AGAAP ¹⁵ | 3 Aug 03 actual AGAAP | 1 Aug 04 actual AGAAP | 31 Jul 05 actual AGAAP | 31 Jul 05 actual AIFRS | 30 Jul 06 budget AIFRS |
| Sales revenue | 2,029 | 2,211 | 2,331 | 2,450 | 2,450 | 2,665 |
| EBITDA | 102 | 110 | 104 | | | |
| Depreciation and amortisation | (19) | (23) | (25) | | | |
| EBITA | | | | | | |
| Action Supermarkets | 32 | 36 | 39 | 35 | 33 | 44 |
| Franchise & Supply | 50 | 51 | 45 | 49 | 50 | 53 |
| Property | 8 | 10 | 5 | 2 | 2 | 5 |
| Corporate costs | (7) | (10) | (10) | (9) | (7) | (9) |
| EBITA | 83 | 87 | 79 | 77 | 78 | 93 |
| Goodwill amortisation | | | | (9) | - | - |
| EBIT | | | | 68 | 78 | 93 |
| Net borrowing costs | | | | (1) | (1) | (4) |
| Corporate activity costs and other significant and non-recurring items | | | | (20) | (20) | (4) |
| Profit before tax | | | | 48 | 58 | 85 |
| Income tax expense | | | | (23) | (23) | (26) |
| Profit after tax attributable to Foodland shareholders | | | | 25 | 34 | 59 |

Source: Scheme Booklet and Foodland.

The pro forma financial information assumes that the Demerger Scheme was implemented on 30 July 2001, and has been adjusted to:

¹⁵ 53 week period.



- reflect the assets and entities that comprise Foodland Australia;
- exclude the impact of certain non-recurring items in the results for period presented;
- include the costs necessary for the demerged Australian business to operate as a separate business from the demerged New Zealand business; and
- present the results on a basis consistent with the current accounting policies of Foodland.

Corporate activity costs and other significant items for the 2005 financial year relate to the costs of responding to the initial Metcash takeover offer and to the Proposal.

Detailed pro forma financial information is set out in Part 8 of the Scheme Booklet. The key assumptions upon which the budgets are based are set out in Part 8.6.5 of the Scheme Booklet. The budgets should be read in conjunction with the sensitivity analysis set out in Part 8.6.6 of the Scheme Booklet, and the Investigating Accountant's Report set out in Part 15 of the Scheme Booklet. Grant Samuel takes no responsibility for the budgets. Grant Samuel does not warrant the achievement of the budgets. Budgets by their nature involve assessments of uncertain future events. Actual future performance may be significantly more or less favourable than the budgets.

5.5 Pro Forma Financial Position

The pro forma statement of financial position of Foodland Australia as at 31 July 2005 (under AGAAP and AIFRS) is summarised below:

| Foodland Australia – Pro Forma Financial Position (A\$ millions) | | | |
|--|--------------------|--------------------|--------------------|
| | As at 31 July 2005 | | |
| | actual AGAAP | pro forma AGAAP | pro forma AIFRS |
| Current debtors | 77 | 75 | 75 |
| Inventories | 201 | 201 | 200 |
| Current creditors | (160) | (160) | (160) |
| Current tax liabilities | (4) | (4) | (4) |
| Net working capital | 114 | 112 | 111 |
| Non current receivables | 299 | - | - |
| Property, plant and equipment | 237 | 237 | 235 |
| Intangibles | 140 | 140 | 149 |
| Other financial assets | 170 | - | - |
| Deferred income tax | 7 | 7 | 5 |
| Provisions | (22) | (22) | (22) |
| Net other assets/(liabilities) | 11 | 11 | 12 |
| Capital employed | 956 | 485 | 490 |
| Cash | 39 | 39 | 39 |
| Borrowings | (30) | (7) | (7) |
| Net cash/(borrowings) | 9 | 32 | 32 |
| Shareholders' equity attributable to members of Foodland Australia | 965 | 517 | 522 |
| <i>Statistics</i> | | | |
| <i>Net tangible assets ("NTA") per share</i> | <i>\$7.00</i> | <i>\$3.20</i> | <i>\$3.17</i> |
| <i>Gearing (net borrowings/(shareholders' equity plus net borrowings))</i> | <i>(0.9%)</i> | <i>(6.5%)</i> | <i>(6.4%)</i> |

Source: Scheme Booklet and Foodland.

The pro forma financial position of Foodland Australia has been prepared on the basis that the Demerger Scheme occurred on 31 July 2005. In analysing the pro forma financial position of Foodland Australia, the following should be noted:



- the pro forma statements have been adjusted to exclude the assets and liabilities of Foodland's New Zealand business; and
- pro forma adjustments have also been made to reflect the proposed debt structure of Foodland Australia following the Demerger Scheme, and the capital reduction that will occur as a consequence of the Demerger Scheme.

A detailed description of the assumptions and adjustments incorporated in the pro forma financial position of Foodland Australia is set out in Part 8.4.1 of the Scheme Booklet.

5.6 Board and Senior Management

The Board of directors and management team of Foodland immediately following approval of the Demerger Scheme would comprise the current directors and management of Foodland (if the Transfer Scheme was not also approved). However, they would no longer have responsibility for Foodland's New Zealand business. After the Demerger, the existing Foodland Board would meet to determine an appropriate Board for Foodland going forward. Foodland expects that some of the existing directors would remain appointed, but that there would also be some new directors appointed.

The Foodland Board has not determined whether any changes would be required to the composition of the senior management team of Foodland following the Demerger Scheme (if the Transfer Scheme was not also approved). The composition of Foodland's senior management team would be determined by the new Foodland Board.

5.7 Dividends

The level of future dividend payments by Foodland (if the Demerger Scheme was approved but the Transfer Scheme did not proceed) would be a matter for the Board of Foodland depending on financial and other circumstances at the time. It is expected that Foodland would have the ability to pay fully franked dividends as its earnings would be generated entirely from within Australia.



6 Profile of Foodland New Zealand

6.1 Overview

Foodland New Zealand consists of the Progressive Supermarkets and Franchise & Supply businesses.

If the Demerger Scheme was approved but the Transfer Scheme did not proceed Progressive Enterprises would own and operate Foodland New Zealand.

6.2 Progressive Supermarkets

Progressive Supermarkets holds approximately 44% of the New Zealand retail grocery market and operates the Foodtown, Woolworths (NZ) and Countdown supermarket chains. As at 3 July 2005 Progressive Supermarkets was trading through 150 supermarkets and 22 Woolworths Micro and Quickstop convenience stores. The combined retail trading area totals approximately 289,000 square metres.

A profile of Progressive Supermarkets' business is set out below:

| Progressive Supermarkets – Operating Profile | | | |
|--|------------|---|------------------|
| Brand | No. stores | Description | Average Size sqm |
| Woolworths (NZ) | 63 | Full service high quality supermarkets | 750 – 2,900 |
| Foodtown | 30 | Full service high quality supermarkets | 1,200 – 2,900 |
| Countdown | 57 | Full service discount supermarkets | 650 – 3,800 |
| Woolworths Micro and Quickstop | 22 | Convenience stores located at Gull service stations | 130 – 200 |

Source: Foodland.

Progressive Supermarkets' full service Foodtown and Woolworths (NZ) formats target higher gross margins as a percentage of turnover than the Countdown discount format but have a lower level of sales per square metre and a higher wage percentage.

The acquisition of Woolworths (NZ) has proven very successful for Foodland. The synergy benefits were realised in a shorter time period than projected and exceeded expectations. At the time Woolworths (NZ) was acquired Progressive Supermarkets acknowledged that the previous owners had restricted capital expenditure and that the majority of stores would require some level of upgrading. Since then Progressive Supermarkets has entered upon an extensive program of rebranding, store conversion and store upgrades. To date, of a total of 85 supermarkets acquired from Woolworths (NZ), 14 have been converted to Countdown, three converted to Foodtown, 12 have been upgraded as Woolworths (NZ) stores and four have been closed.

In the financial period ended 31 July 2005 Progressive Supermarkets constructed two new stores. It also completed a further three conversions and ten refurbishments. Total capital expenditure for the 2005 financial year was NZ\$178 million (including property acquisitions). Progressive Supermarkets' longer term forecast is for capital expenditure to reduce to closer to depreciation, excluding new store developments.

Progressive Supermarkets' brand strategy is to provide the Countdown, Foodtown or Woolworths (NZ) format suitable to the demographics of the catchment area and having regard to the competitive environment. Foodtown has a greater representation in the North Island, particularly metropolitan Auckland, and Woolworths (NZ) in regional centres in the North Island and throughout the South Island. Using two premium or full service supermarket brands allows Progressive Supermarkets to further tailor its offering as illustrated by the new inner city Foodtown in Auckland, which as well as heralding a new layout, recognises the increasing ethnic diversity and growing number of inner city apartment dwellers.



Countdown was developed by Christchurch based grocery wholesaler Rattrays, to counter the introduction of PAK'nSAVE in the South Island. Its acquisition by Progressive Supermarkets in 1992 saw a modest expansion of the format. Over the last two years the number of Countdown supermarkets has increased from 32 to 57, primarily as a result of conversions of Woolworths (NZ) stores. The Countdown format generally provides a lower level of store ambience than Foodtown or Woolworths (NZ), but aims to give the shopper a higher standard and more comprehensive fresh offering than a PAK'nSAVE. Progressive Supermarkets management believes that its new format Countdown supermarket combined with low prices is providing it with a competitive advantage over the PAK'nSAVE format, which has remained largely unchanged for over 10 years.

Unlike Foodland in Australia, to date Progressive Supermarkets has not used petrol as a marketing tool and Foodstuffs has been more aggressive in pursuing the development of petrol stations alongside supermarkets. In November 2004 Progressive Supermarkets opened its first Countdown Petrol outlet at Hamilton, selling both fuel and a range of convenience items. Given its initial success, Progressive Supermarkets is expected to expand this business. Progressive Supermarkets receives the margin on both fuel and kiosk sales. Gull Petroleum (NZ) Limited ("Gull") supplies the petrol for the station.

Under the Woolworths Micro and Quickstop petrol stations model, Gull supplies the fuel and incurs all property related costs (excluding convenience store fit-outs). Progressive Supermarkets manages each petrol station, providing the staff to man the pumps in the station forecourt and for grocery sales within the convenience store. Gull receives the margin on petrol sales and Progressive Supermarkets receives the margin on store sales. In the majority of outlets the Woolworths Micro and Quickstop model is profitable and this business is now close to breakeven for Progressive Supermarkets. Progressive Supermarkets' management is continuing to refine the Woolworths Micro and Quickstop convenience store format.

Beer and wine has continued to be a significant growth segment for supermarkets since its introduction into stores in the late 1990s. In more recent years an emphasis on branding and format have resulted in Progressive Supermarkets' full service stores achieving growth in sales of higher quality wines and premium beers.

Private label product sales are also an increasing percentage of grocery turnover. Progressive Supermarkets sells the "SR Signature" and "Basics" (a lower price alternative) private label brands in all supermarkets. Private label products are generally sold at higher gross margins as a percentage of sales compared to the supplier branded alternative, although this higher gross margin percentage is to an extent offset by the lower selling price, producing a similar level of gross margin in dollar terms. The penetration of private label products in the New Zealand grocery market is relatively low compared to overseas markets but both Progressive Supermarkets and Foodstuffs report that the trend is for private label sales to increase. Progressive Supermarkets' target is to have private label products representing 20% of grocery sales by the end of the 2006 financial year.

Progressive Supermarkets is expanding its range of general merchandise, increasing both its standard range and promotional items. General merchandise is a relatively small proportion of total store turnover but produces a higher gross margin percentage than other non-perishable lines. In June 2004 Progressive Supermarkets also opened its first joint venture pharmacy section within its inner city Foodtown supermarket in Auckland. This initiative was viewed as a natural extension of the comprehensive range of over-the-counter pharmaceutical and cosmetic products that are being sold in its supermarkets.



Set out below is a summary of the actual financial results for Progressive Supermarkets for the four years to 31 July 2005:

| Progressive Supermarkets - Financial Results Summary (NZ\$ millions) | | | | |
|--|----------------------------------|--------------------|--------------------|---------------------|
| | 52 weeks ended | | | |
| | 4 Aug 02 actual ¹⁴ | 3 Aug 03 actual | 1 Aug 04 actual | 31 Jul 05 actual |
| Sales revenue | 2,044 | 3,611 | 3,774 | 3,923 |
| Number of supermarkets ¹⁵ | 179 | 178 | 175 | 172 |
| EBITDA | 116 | 222 | 235 | 241 |
| EBITA | 80 | 153 | 169 | 173 |
| EBITA margin | 3.9% | 4.2% | 4.5% | 4.4% |
| Capital expenditure ¹⁶ | 16 | 54 | 86 | 178 |

Source: Foodland Annual Reports and Foodland.

Progressive Supermarkets acquired Woolworths (NZ) on 16 June 2002 and accordingly the result for the 53 weeks ended 4 August 2002 includes 5 weeks of trading for the Woolworths (NZ) stores. Growth in sales revenue in the financial period ended 3 August 2003 largely reflects the impact of a full year of ownership of Woolworths (NZ). The improvement in EBITA margin was a result of significant synergy benefits realised during the period including realigning supplier terms and rationalisation of distribution, meat processing and cold storage operations.

Progressive Supermarkets widened its *"We won't be beaten – Guaranteed"* campaign to more Countdown supermarkets during the 52 week period ended 1 August 2004. Progressive Supermarkets management believes this triggered a new round of competitive activity, which in turn contributed to low levels of food price inflation in New Zealand. For Progressive Supermarkets, increases in market share more than offset low price inflation and resulted in EBITA growth of approximately 10% for the period.

Progressive Supermarkets' budget for the 52 weeks ended 31 July 2005 was based on aggressive growth assumptions whilst maintaining EBITA margins. Actual results for the year ended 31 July 2005 show a more modest rate of growth in sales revenues. EBITA margins have declined due to stock losses and One Card (Progressive Supermarkets' loyalty program) costs. Growth in sales revenue for Progressive Supermarkets is slightly behind growth in supermarket and grocery store sales for the whole of New Zealand, indicating a small decline in market share. The decline in margin is due primarily to reinvestment in price and competitive activity.

6.3 Franchise & Supply

Foodland New Zealand is the franchise co-ordinator for the Fresh Choice and SuperValue banner groups. Primarily operating in the South Island, the two chains have stores in locations that currently do not justify a larger format supermarket. Owner/operators manage the stores and Foodland New Zealand provides support through a comprehensive marketing and management service. The business is growing and profitable and, whilst only a relatively small part of Foodland New Zealand's total business, is seen to have good opportunities for expansion, particularly in the North Island.

¹⁴ 53 week period.

¹⁵ Includes 25 Woolworths Micro and Quickstop convenience stores.

¹⁶ Capital expenditure for 2005 includes property development.

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Set out below is a summary of the actual financial results for Foodland New Zealand's Franchise & Supply business for the four years to 31 July 2005:

| Franchise & Supply (NZ) - Financial Results Summary (NZ\$ millions)¹⁷ | | | | |
|---|----------------------------------|--------------------|--------------------|---------------------|
| | 52 weeks ended | | | |
| | 4 Aug 02 ¹⁸ actual | 3 Aug 03 actual | 1 Aug 04 actual | 31 Jul 05 actual |
| Sales revenue | 237 | 255 | 265 | 302 |
| Number of supermarkets | 41 | 40 | 42 | 43 |
| EBITDA | 11 | 12 | 12 | 13 |
| EBITA | 11 | 12 | 11 | 13 |
| EBITA margin | 3.3% | 3.8% | 4.3% | 4.1% |

Source: Foodland Annual Reports and Foodland.

Foodland New Zealand sold its Red Arrow tobacco van business in the last quarter of the 52 weeks ended 3 August 2003. The figures in the above table relate to Foodland New Zealand's Franchise & Supply operations only and exclude results for Red Arrow, which historically was reported as part of the Franchise & Supply (NZ) division.

6.4 Pro Forma Financial Performance

The pro forma financial performance for the 2002 to 2006 financial years of Progressive Enterprises are summarised below:

| Progressive Enterprises – Pro Forma Financial Performance (A\$ millions) | | | | | | |
|---|-----------------------------|-----------------------------|-----------------------------|------------------------------|------------------------------|------------------------------|
| | 52 weeks ended | | | | | |
| | 4 Aug 02 actual AGAAP | 3 Aug 03 actual AGAAP | 1 Aug 04 actual AGAAP | 31 Jul 05 actual AGAAP | 31 Jul 05 actual AIFRS | 31 Jul 06 budget AIFRS |
| Sales revenue | 1,987 | 3,531 | 3,558 | 3,885 | 3,885 | 4,007 |
| EBITDA | 107 | 213 | 225 | 225 | 225 | 225 |
| Depreciation and amortisation | (31) | (62) | (60) | (60) | (60) | (60) |
| EBITA | | | | | | |
| Progressive Supermarkets | 66 | 136 | 149 | 159 | 156 | 163 |
| Franchise & Supply | 10 | 12 | 10 | 12 | 12 | 12 |
| Property | 3 | 6 | 10 | 4 | 4 | - |
| Corporate costs | (3) | (3) | (4) | (4) | (4) | (4) |
| EBITA | 76 | 151 | 165 | 172 | 169 | 172 |
| Goodwill amortisation | | | | (100) | - | - |
| EBIT | | | | 72 | 169 | 172 |
| Net borrowing costs | | | | (22) | (22) | (25) |
| Profit before tax | | | | 49 | 147 | 147 |
| Income tax expense | | | | (49) | (48) | (49) |
| Profit after tax attributable to Progressive Enterprises shareholders | | | | - | 98 | 99 |

Source: Scheme Booklet and Foodland.

Note: The numbers in this table may not add due to rounding.

The pro forma financial information assumes that the Demerger Scheme was implemented on 30 July 2001. The pro forma historical financial information has been adjusted to:

¹⁷ Capital expenditure has been less than \$0.5 million per annum over the period.

¹⁸ 53 week period.



- reflect the assets and entities that comprise Foodland New Zealand;
- exclude the impact of certain non-recurring items in the results for the period presented;
- include the costs necessary for the demerged New Zealand business to operate as a separate business from Foodland's demerged Australian business; and
- present the results on a basis consistent with the current accounting policies of Foodland.

Detailed pro forma financial information is set out in Part 10 of the Scheme Booklet. The key assumptions upon which the budgets are based are set out in Part 10.6.5 of the Scheme Booklet. The budgets should be read in conjunction with the sensitivity analysis set out in Part 10.6.6 of the Scheme Booklet, and the Investigating Accountant's Report set out in Part 15.2 of the Scheme Booklet. Grant Samuel takes no responsibility for the budgets. Grant Samuel does not warrant the achievement of the budgets. Budgets by their nature involve assessments of uncertain future events. Actual future performance may be significantly more or less favourable than the budgets.

6.5 Pro Forma Financial Position

The pro forma statement of financial position of Progressive Enterprises as at 31 July 2005 (under AGAAP and AIFRS) is summarised below:

| Progressive Enterprises – Pro Forma Financial Position (A\$ millions) | | | |
|--|--------------------|--------------------|--------------------|
| | As at 31 July 2005 | | |
| | actual AGAAP | pro forma AGAAP | pro forma AIFRS |
| Current debtors | 25 | 25 | 25 |
| Inventories | 219 | 218 | 214 |
| Current creditors | (270) | (268) | (268) |
| Net working capital | (26) | (25) | (29) |
| Non current receivables | 2 | 2 | 2 |
| Property, plant and equipment | 319 | 319 | 319 |
| Intangibles | 458 | 2,004 | 578 |
| Other financial assets | 1 | - | - |
| Deferred income tax | 26 | 26 | 29 |
| Non current payables | (276) | - | - |
| Provisions | (36) | (36) | (36) |
| Net other assets/(liabilities) | 6 | 6 | 2 |
| Capital employed | 472 | 2,296 | 865 |
| Cash | 35 | 35 | 35 |
| Borrowings | (374) | (374) | (374) |
| Net borrowings | (339) | (339) | (339) |
| Shareholders' equity attributable to members of Progressive Enterprises | 133 | 1,957 | 526 |
| <i>Statistics</i> | | | |
| <i>Gearing (net borrowings/(shareholders' equity plus net borrowings))</i> | 71.7% | 14.7% | 39.2% |

Source: Scheme Booklet and Foodland.

The pro forma financial position of Progressive Enterprises has been prepared on the basis that the Demerger Scheme occurred on 31 July 2005. In analysing the pro forma financial position of Progressive Enterprises, the following should be noted:

- the pro forma statements have been adjusted to exclude the assets and liabilities of Foodland's Australian business;



- pro forma adjustments have been made to reflect the acquisition of Foodland's New Zealand business by Progressive Enterprises as if it had occurred at 31 July 2005; and
- pro forma adjustments have also been made to reflect the proposed capital and debt structure of Progressive Enterprises following the Demerger.

A detailed description of the assumptions and adjustments incorporated in the pro forma financial position of Progressive Enterprises is set out in Part 10.4.1 of the Scheme Booklet.

6.6 Board and Senior Management

If the Demerger Scheme proceeds and the Transfer Scheme does not proceed, the Board of Progressive Enterprises immediately after the Demerger Scheme would be comprised of the current Foodland Board members.

Shortly after the implementation of the Demerger Scheme, the Foodland Board would determine an appropriate Board for Progressive Enterprises. It is uncertain whether there would be any common directors on the Board of Foodland and Progressive Enterprises.

Initially following implementation of the Demerger Scheme, the management team of Progressive Enterprises would effectively be the current management of Foodland's New Zealand businesses. Upon appointment, the new Progressive Enterprises Board would determine whether any changes were required to the composition of the senior management team.

6.7 Dividends

The level of future dividend payments by Progressive Enterprises would be a matter for the Board of Progressive Enterprises depending on financial and other circumstances at the time. As Progressive Enterprises' earnings would almost entirely be generated from New Zealand, those earnings would not give rise to significant Australian franking credits.



7 Profile of Metcash

7.1 Background

Metcash is a wholesale distributor of groceries and fast moving consumer goods, including liquor, with operations in Australia and New Zealand. Metcash has a market capitalisation of approximately \$1.7 billion on the ASX.

Metcash was formerly known as Davids Limited (“Davids”) and commenced operations in 1927 in New South Wales as a grocery wholesaler. It expanded its wholesaling activities into cash and carry operations in 1959, and then liquor wholesaling in 1968. Davids listed on the ASX in 1994. In 1998, Metoz (then known as Metro Cash & Carry Limited) acquired a 76% interest in Davids. Davids changed its name to Metcash in September 2000. At the time Metoz acquired control of Davids, the Davids business was underperforming and had incurred significant losses. Metoz implemented a turnaround strategy that restored the business to profitability. The strategy included the sale or closure of company-owned retail stores to focus on wholesaling, improvements to IT systems, new management and the rationalisation of banner groups.

On 6 December 2004, Metcash announced its intention to make a takeover offer to acquire all the issued capital in Foodland, and a capital reorganisation which would result in the cancellation of the issued capital in Metcash held by Metoz. As part of the funding for the Foodland offer, Metcash also announced that it had completed an institutional placement, raising almost \$270 million, and subsequent share purchase plan raising \$21 million. As a result of the placement and share purchase plan, Metoz’s interest in Metcash was diluted from 60% to 52%. On 7 April 2005 Metcash announced that the scheme of arrangement to effect the capital reorganisation had been approved.

Metcash announced that it had increased its offer for Foodland’s Australian business on 3 May 2005. Subsequently on 25 May 2005, Metcash reached an agreement with Foodland regarding the acquisition of Foodland’s Australian business excluding 20 Action stores and two development sites, which are to be acquired by Woolworths in conjunction with its purchase of Foodland’s New Zealand business.

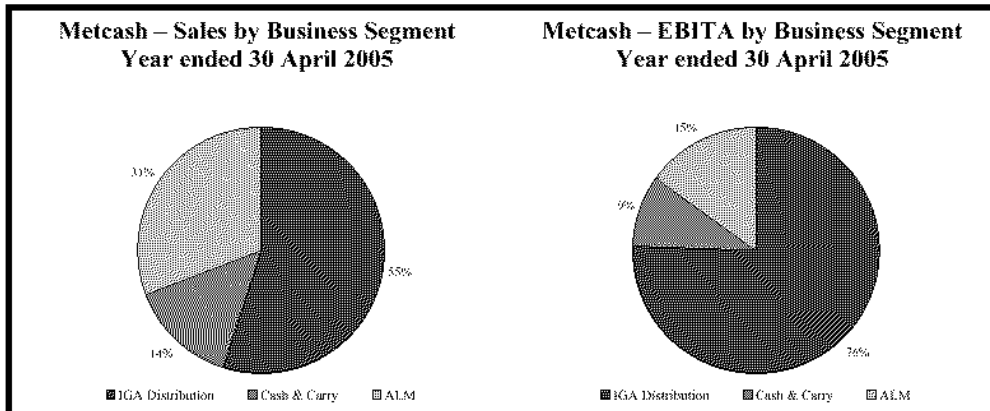
Metcash’s growth has been both organic and through acquisition. Metcash announced on 2 May 2005 that it had reached an in-principle agreement with Australia’s largest independent licensed supermarket group, Ritchies Stores Pty Ltd (“Ritchies IGA”) and a majority of its shareholders to acquire a 26% equity stake in Ritchies IGA from July 2005. Ritchies IGA operates 38 supermarkets in Victoria and New South Wales, trading as Ritchies Supa IGA. Metcash’s investment in Ritchies IGA is expected to facilitate the longer term retention of Ritchies IGA as a key customer of IGA Distribution.

On 14 July 2005, Metcash announced that it had acquired a 25.1% interest in Champion IGA Group in Bendigo from July 2005. Champion IGA operates 6 supermarkets in Victoria trading as Champion Supa IGA. Other recent acquisitions include Allied Liquor in New Zealand and Top End Wholesale Distributors in the Northern Territory.

Metcash’s operations today consist of:

- IGA Distribution (“IGA”), a grocery wholesaler;
- Campbells Cash & Carry, a wholesale distributor of groceries, liquor and confectionery; and
- Australian Liquor Marketers (“ALM”), a liquor wholesaler in Australia and New Zealand.

Metcash’s revenue and earnings by business division for the year ended 30 April 2005 were as follows:



Source: Metcash 2005 Annual Report.

7.2 Profile of Operations

7.2.1 IGA Distribution

IGA distributes groceries to over 4,500 independent grocery retailers in New South Wales, Victoria, Queensland and South Australia from eight distribution warehouses. IGA provides dry grocery, chilled, frozen and general merchandise. The independent retailers' stores have a national grocery market share of approximately 13.3%.

The independent retailers consist of 1,099 IGA banner stores, 658 FoodWorks stores and other independents.

The division has three channels to market:

- Supa IGA (320 stores), which are large format stores carrying a full supermarket range that are designed to compete directly with chain supermarkets;
- IGA and IGA Everybody (513 stores), which are medium format stores, with a corresponding product range, that are designed for lower volume, higher visit shoppers; and
- IGA X-press, Friendly Grocer IGA and other (266 stores), which are small format stores comparable to convenience stores that specifically target the area's shopping demographic.

IGA provides a range of support services to its independent retailers including retail systems support, staff training, advertising and merchandising. In September 2003, Metcash launched a fuel discount offer in association with its IGA stores in response to fuel discount offers from Coles Myer and Woolworths.

7.2.2 Campbells Cash & Carry

Campbells Cash & Carry consists of 42 cash and carry branches across New South Wales, Victoria, Queensland, South Australia and the Northern Territory. The division distributes liquor, food service, grocery, dairy, frozen, confectionery and tobacco products to over 78,000 wholesale customers. It also specialises in distribution to the convenience and petrol and confectionery market, through four convenience store distribution outlets and six specialist confectionery wholesale outlets.

Campbells Cash & Carry has three sub-brands:

- C-Store Distribution, which serves the corporate, multi-site independent convenience store market;
- Lucky 7, which is a Campbells Cash & Carry's banner group for independently owned convenience stores; and



- The Collective Buying Group, which is a marketing group for independent retailers.

Metcash announced on 27 April 2005 the signing of a supply contract with convenience store franchisor 7-Eleven Pty Ltd and its 350 franchised convenience stores across Australia. The contract is estimated to potentially contribute \$200 million in annual sales to Metcash.

7.2.3 Australian Liquor Marketers

ALM is a broad range liquor wholesaler that supplies over 13,000 hotels, liquor stores, restaurants and other premises. The division operates out of 24 distribution centres throughout Australia and New Zealand (through its wholly owned subsidiary, Tasman Liquor Company). ALM is the leading liquor wholesaler in Australia and New Zealand based on turnover.

ALM provides marketing for its retailers and has aimed to improve brand identity by consolidating brands under the Independent Brands Australia banner, consisting of 1,385 independent retailers. Independent Brands Australia operates "Cellarbrations" (194 stores), "Cheers" (102 stores), "Liquor Force" (a 861 member buying group), "Liquorwise" (128 outlets) and "The Local Liquorwise" (100 outlets).

7.3 Financial Performance

The historical financial performance of Metcash for the four years ended 30 April 2005 are summarised below:

| Metcash – Financial Performance (A\$ millions) | | | | |
|--|---------------------|----------------|----------------|----------------|
| | Year ended 30 April | | | |
| | 2002 actual | 2003 actual | 2004 actual | 2005 actual |
| Sales revenue | 5,769 | 6,696 | 7,174 | 6,994 |
| EBITDA | 139 | 185 | 211 | 224 |
| Depreciation and amortisation | (22) | (28) | (27) | (32) |
| EBITA | 117 | 157 | 184 | 192 |
| Goodwill amortisation | (18) | (18) | (21) | (27) |
| EBIT | 99 | 137 | 163 | 165 |
| Net interest expense | (10) | (7) | (7) | (1) |
| Operating profit before tax and unusual items | 89 | 130 | 156 | 164 |
| Unusual items before tax | - | (4) | - | - |
| Income tax expense | (31) | (45) | (54) | (59) |
| Net profit after tax attributable to Metcash shareholders | 58 | 81 | 102 | 105 |
| Statistics | | | | |
| <i>Sales growth</i> | 7.3% | 16.1% | 7.1% | (2.5%) |
| <i>EBITA growth</i> | 20.4% | 33.2% | 17.5% | 4.6% |
| <i>EBITA margin</i> | 2.0% | 2.3% | 2.6% | 2.7% |
| <i>Basic earnings per share (cents) (before goodwill)</i> | 14.3 | 16.2 | 19.3 | 19.6 |
| <i>Dividends per share (cents)</i> | 5.0 | 8.6 | 11.0 | 9.5 |

Source: Metcash Annual Reports.

Metcash's sales and earnings increased significantly in 2003, following the sale by Dairy Farm of 120 Franklins stores to independent operators, who became customers of Metcash. EBITA margins have improved year on year with Metcash's focus on reducing costs through the implementation of major supply chain initiatives such as the creation of large distribution centres, new picking technology and improved supplier relationships.

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The performance of Metcash by business segment is set out below:

| Metcash – Segment Performance (AS millions) | | | | | |
|--|---------------------|----------------|----------------|----------------|----------------|
| | Year ended 30 April | | | | |
| | 2001 actual | 2002 actual | 2003 actual | 2004 actual | 2005 actual |
| Sales revenue | | | | | |
| IGA ¹⁹ | 3,328 | 2,975 | 3,732 | 3,961 | 3,846 |
| Campbells Cash & Carry | na | 964 | 947 | 1,005 | 990 |
| ALM | 1,735 | 1,830 | 2,016 | 2,208 | 2,158 |
| Other ²⁰ | 315 | - | - | - | - |
| Total sales revenue | 5,378 | 5,769 | 6,695 | 7,174 | 6,994 |
| EBITA | | | | | |
| IGA ²¹ | 66 | 85 | 112 | 131 | 142 |
| Campbells Cash & Carry | na | 3 | 10 | 15 | 17 |
| ALM | 27 | 29 | 30 | 35 | 28 |
| Other | 5 | - | 5 | 3 | 5 |
| Total EBITA | 98 | 117 | 157 | 184 | 192 |

Source: Metcash Annual Reports.

Metcash operates predominantly in Australia with New Zealand operations representing less than 10% of revenue and EBITA for the group.

Metcash sold the underperforming John Lewis Food Service business in 2001, added 120 Franklins stores to its IGA banner group in 2001, acquired Allied Liquor in New Zealand in July 2002 and signed a supply agreement in 2003 with Foodworks Supermarket Group which switched grocery supplies from Australian Independent Wholesalers to IGA.

In January 2004, Metcash announced that its supply agreement with Pick 'n Pay for Franklins stores would cease on 31 January 2005. The agreement generated sales of approximately \$600 million for the year ended 30 April 2004. In August 2004, Metcash announced that its supply agreement with Australian Leisure and Hospitality Group had been terminated. The supply agreement generated sales of approximately \$140 million for the year ended 30 April 2004. These events resulted in a decrease in Metcash's sales in the year ended 30 April 2005.

¹⁹ IGA 2001 sales are inclusive of Campbells Cash & Carry.

²⁰ Principally relates to John Lewis Food Service business.

²¹ IGA 2001 earnings are inclusive of Campbells Cash & Carry.



7.4 Financial Position

The financial position of Metcash as at 30 April 2004 and 2005 is summarised below:

| Metcash – Financial Position (A\$ millions) | | |
|--|---------------|------------------------------|
| | As at | |
| | 30 Apr 2004 | 30 Apr 2005 |
| Trade debtors | 658 | 648 |
| Inventories | 401 | 402 |
| Trade creditors | (884) | (827) |
| Current tax liabilities | (13) | (22) |
| Net working capital | 162 | 201 |
| Property, plant and equipment | 130 | 129 |
| Goodwill | 243 | 1,772 |
| Deferred income tax | 3 | 5 |
| Non interest bearing liabilities | - | (374) |
| Provisions | (52) | (50) |
| Net other assets / (liabilities) | 20 | 60 |
| Total funds employed | 506 | 1,743 |
| Cash | 35 | 190 |
| Borrowings | (69) | (409) |
| Net borrowings | (36) | (221) |
| Shareholders' equity attributable to members of Metcash | 470 | 1,522 |
| <i>Statistics</i> | | |
| <i>Net tangible assets per share</i> | <i>\$0.36</i> | <i>(\$0.56)²²</i> |
| <i>Gearing (net borrowings/(shareholders' equity plus net borrowings))</i> | <i>7.0%</i> | <i>12.7%</i> |

Source: Metcash Annual Reports.

Goodwill relates to a number of acquisitions by Metcash, including the acquisition of Independent Holdings Entity in 1995, QIW in 1996, the remaining 50% shareholding in ALM in 2000 and, in 2004, the acquisition of liquor and confectionery operations.

Metcash's goodwill increased by \$1.5 billion as a result of its capital reorganisation effective 7 April 2005.

7.5 Capital Structure and Ownership

At 4 August 2005, Metcash had the following capital structure:

- 428,908,624 ordinary shares on issue;
- 220,795,089 Convertible Unsecured Loan Stock (CULS);
- 500,000 Convertible Undated Preference Shares (CUPS); and
- 10,783,210 options over unissued shares at various exercise prices.

The objective of issuing the CULS was to allow Metcash the flexibility to optimise the company's capital structure for various potential outcomes of the capital reorganisation (which has now been completed). On 19 September 2005, one-third of the remaining CULS will automatically convert into fully paid ordinary shares in Metcash on a one-for-one basis. On 2 August 2005, Metcash announced that it had extended the maturity date for the outstanding CULS to 19 December 2005

²² Net tangible asset backing in Metcash is affected by the capital reorganisation. As at 30 April 2005 the Metcash group had liabilities of \$776 million relating to the buyout of Metoz.

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in accordance with the terms of the CULS. The outstanding CULS will either be redeemed at their issue price of \$2.54 plus a redemption premium of 7.5%, or converted into Metcash shares upon maturity.

The CUPS were issued to Deutsche Bank AG to raise \$50 million to part fund the capital reorganisation. CUPS allow for the holder to request conversion, at which time Metcash can choose to convert them into a variable number of ordinary shares in Metcash or redeem for cash. Metcash can also redeem the CUPS at any time prior to conversion.

The top twenty ordinary shareholders in Metcash accounted for approximately 74% of the ordinary shares on issue as at 19 July 2005.

The top ten ordinary shareholders in Metcash as at 19 July 2005 are shown in the table below:

| Metcash – Top Ten Ordinary Shareholders | | |
|--|----------------------------|---------------|
| | Number of Shares (000s) | % Interest |
| BT Funds Management | 61,136 | 14.3% |
| Lazard Asset Mgt (Group) | 52,916 | 12.3% |
| Perennial Group | 44,623 | 10.4% |
| Deutsche Asset Mgt (Group) | 31,078 | 7.3% |
| ING Investment Mgt (Group) | 28,069 | 6.5% |
| Merrill Lynch Investment Mgrs (Group) | 21,446 | 5.0% |
| Perpetual Investments | 17,017 | 4.0% |
| Berclays Global Investors (Group) | 16,665 | 3.9% |
| 452 Capital | 14,950 | 3.5% |
| Queenstand Investment Corporation | 14,035 | 3.3% |
| Subtotal | 301,934 | 70.4% |
| Other shareholders | 126,975 | 29.6% |
| Total ordinary shareholders | 428,909 | 100.0% |

Source: Metcash 2005 Annual Report.

Substantial shareholders with an interest in Metcash ordinary shares greater than 5% at 19 July 2005 are set out below:

| Metcash – Substantial Shareholders | | |
|---|----------------------------|------------|
| | Number of Shares (000s) | % Interest |
| Lazard Asset Management Pacific Co | 57,141 | 13.3% |
| Commonwealth Bank of Australia | 46,628 | 10.9% |
| Deutsche Bank AG | 38,346 | 8.9% |
| Merrill Lynch & Co Inc. | 28,643 | 6.7% |
| ING Australia Holdings Limited | 27,451 | 6.4% |
| Macquarie Bank Limited | 21,851 | 5.1% |

Source: Metcash 2005 Annual Report.



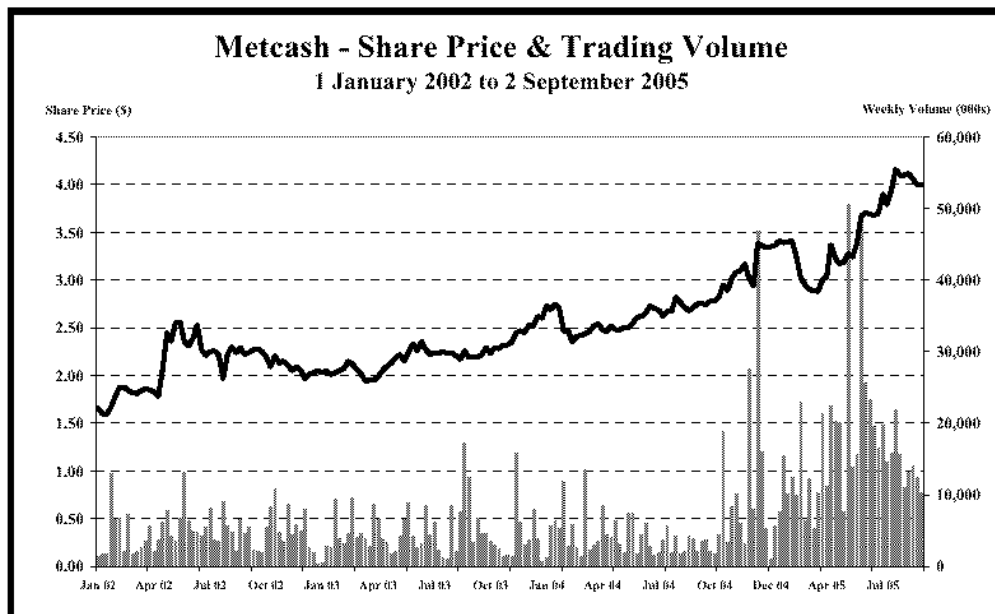
7.6 Share Price History

A summary of the price and trading history of Metcash since 1 January 2000 is set out below:

| Metcash - Share Price History | | | | | |
|-------------------------------|------------------|------|-------|------------------------------|-----------------------------|
| Period | Share Price (\$) | | | Average Weekly Volume (000s) | Average Weekly Transactions |
| | High | Low | Close | | |
| 2000 | 0.56 | 0.30 | 0.36 | 1,033 | 80 |
| 2001 | 1.68 | 0.35 | 1.39 | 2,941 | 268 |
| 2002 | 2.39 | 1.36 | 1.83 | 5,541 | 637 |
| 2003 | 2.46 | 1.68 | 2.42 | 5,446 | 457 |
| 2004 | 3.09 | 2.05 | 3.00 | 6,992 | 585 |
| Month ended | | | | | |
| 31 January 2005 | 3.09 | 2.96 | 3.03 | 10,283 | 667 |
| 28 February 2005 | 3.09 | 2.83 | 2.95 | 12,558 | 827 |
| 31 March 2005 | 3.06 | 2.81 | 3.01 | 13,004 | 777 |
| 30 April 2005 | 3.37 | 2.99 | 3.19 | 16,837 | 684 |
| 31 May 2005 | 3.80 | 3.19 | 3.75 | 31,748 | 1,274 |
| 30 June 2005 | 3.96 | 3.62 | 3.92 | 21,534 | 1,076 |
| 31 July 2005 | 4.32 | 3.76 | 4.10 | 16,057 | 1,182 |
| Week ended | | | | | |
| 5 August 2005 | 4.24 | 4.03 | 4.10 | 11,051 | 1,326 |
| 12 August 2005 | 4.15 | 4.06 | 4.12 | 13,212 | 947 |
| 19 August 2005 | 4.14 | 4.05 | 4.06 | 14,095 | 1,068 |
| 26 August 2005 | 4.11 | 3.93 | 4.00 | 12,498 | 1,338 |
| 2 September 2005 | 4.12 | 3.82 | 4.00 | 10,195 | 1,597 |

Source: IRESS.

The following graph illustrates the movement in Metcash's share price and trading volumes since January 2002:



Source: IRESS.

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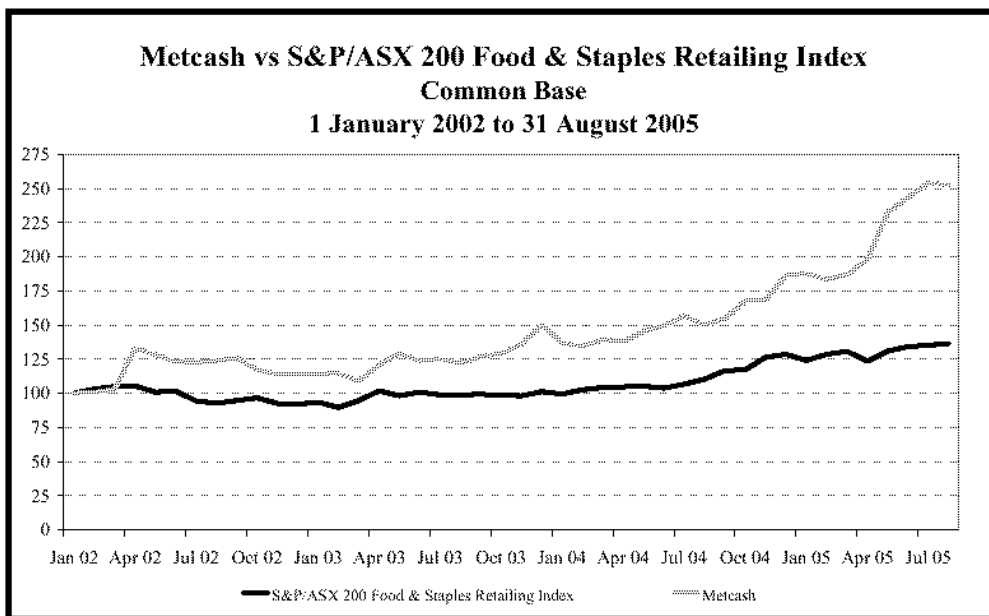


Metcash's share price has generally trended upward since January 2002 reflecting its earnings growth through acquisitions and various business initiatives. Metcash's share price rose significantly in April 2002 following the announcement of a long term supply agreement with the FoodWorks supermarkets group. The share price fell following announcements in January 2004 that supply arrangements with owners of Franklins stores would cease and in August 2004 that supply arrangements with Australian Leisure and Hospitality Group Limited would cease.

The closing price on 3 December 2004, the last trading day prior to the announcement on 6 December 2004 of the offer by Metcash to acquire Foodland, was \$2.94. Between 6 December 2004 and 20 May 2005, Metcash shares traded in the range of \$2.81 to \$3.45, with a volume weighted average price of \$3.24.

The closing price on 20 May 2005, the last day Metcash shares traded prior to the announcement of the Proposal, was \$3.38. Since 25 May 2005 Metcash shares have traded in the range of \$3.56 to \$4.32, with a volume weighted average price of \$3.85 (calculated to 8 September 2005).

Metcash comprised 4.9% of the ASX/S&P 200 Food & Staples Retailing Index on 8 September 2005. Metcash significantly outperformed the index during April and May 2002 due to the announcement of its new supply agreement with the FoodWorks supermarkets group. From May 2002 to December 2004, Metcash performed broadly in line with the S&P/ASX 200 Food & Staples Retailing Index. Since Metcash's initial announcement of its intention to acquire Foodland's Australian business in December 2004, Metcash has significantly outperformed the index.



Source: IRESS.



8 Profile of Woolworths

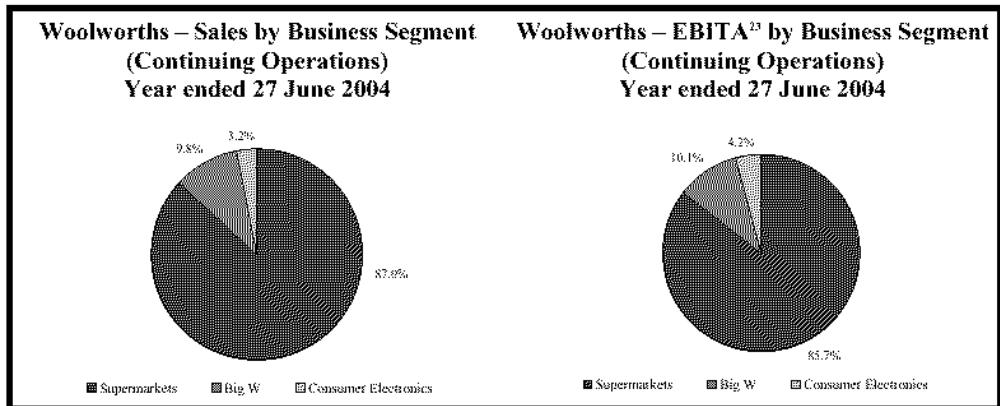
8.1 Background

Woolworths is one of Australia’s leading retailers and comprises a number of businesses offering food, liquor, petrol, general merchandise, and consumer electronics. Woolworths operates more than 2,500 retail locations predominantly across Australia, employing more than 145,000 people. Woolworths is estimated to have a 28% share of the Australian food, liquor and grocery market.

Woolworths opened its first store in Sydney in December 1924. Woolworths has since grown organically and through acquisition. Woolworths was floated on the ASX in 1993 and currently has a market capitalisation of approximately \$17.3 billion. In recent years Woolworths has established and grown a number of new supermarket categories, including petrol and liquor, and has significantly expanded existing categories such as fresh offers including meat, seafood and produce. It has also developed an electronic retailing business and acquired a number of pubs/hotels as an adjunct to its growing liquor retail business.

Woolworths’ major store banners are Woolworths, Safeway, Food For Less, Woolworths Metro, Dick Smith Electronics, Dick Smith PowerHouse, Tandy Electronics, Woolworths Liquor, BWS, First Estate, Dan Murphy’s, Plus Petrol, BIG W, Woolworths Ezy Banking, Woolworths HomeShop and GreenGrocer.com.au.

Woolworths’ revenue and earnings by division for the year ended 27 June 2004 were as follows:



Source: Woolworths 2004 Annual Report.

8.2 Profile of Operations

8.2.1 Supermarkets

Woolworths’ supermarket division contributed more than 85% of Woolworth’s total sales and EBITA for the 2004 financial year. The supermarkets division operates 723 supermarkets in all States of Australia, trading as Woolworths, Safeway and Food for Less. Woolworths’ supermarket activities include petrol and liquor retailing and online grocer retailers, HomeShop and GreenGrocer.com.au. Supermarket sales, including liquor and petrol, were \$24.2 billion in the financial year ended 27 June 2004. Woolworths anticipates that it will open 15 to 25 supermarkets each year for the foreseeable future. Woolworths’ major competitors are Coles Myer and independent retailers, serviced by Metcash.

Woolworths’ store network increased significantly in June 2001 with the acquisition of 67 Franklins stores located in New South Wales, Queensland, South Australia and Victoria. At the time, it was estimated that the transaction increased Woolworths’ share of the Australian food,

²³ EBITA excludes property and central overheads.



liquor and grocery market by approximately 1.9%. The stores were refurbished into Woolworths stores.

Woolworths operates around 938 retail liquor outlets and 169 pubs and clubs. Woolworths generated liquor sales of \$2.1 billion in the year to 27 June 2004. Liquor sales are expected to make an increasing contribution to Woolworths' earnings. Liquor store formats include Dan Murphy's, BWS, First Estate and Woolworths/Safeway liquor. Woolworths anticipates that it will open 6 - 12 Dan Murphy's stores each year for the foreseeable future.

Woolworths has grown its liquor retailing operations significantly in recent years through a number of acquisitions via a joint venture company, Bruandwo. Bruandwo is 75% owned by Woolworths and 25% owned by the Bruce Mathieson Group ("BMG"). Woolworths first entered into the joint venture with BMG in 2002 to gain an interest in MGW Hotels Pty Ltd, which owned 32 hotels and 116 liquor stores in Queensland. In November 2004, Bruandwo acquired Australian Leisure and Hospitality Group Limited ("ALH"). ALH has a portfolio of 135 hotels in five States, operates 266 retail liquor outlets and is Australia's largest hotel operator of electronic gaming machines. The acquisition of ALH is expected to increase Bruandwo's revenue by approximately \$1 billion in the financial year ended June 2005. Bruandwo is currently completing the acquisition of the Victorian hotel, club and liquor retailing assets of BMG.

Woolworths commenced petrol retailing operations in 1996. Petrol is sold through canopies located on or near Woolworths/Safeway supermarket sites. Woolworths offers customers a discount off their fuel purchase at Woolworths owned petrol stations with purchases of \$30 or more from a Woolworths supermarket or BIG W store.

Woolworths generated petrol sales of \$2.2 billion in the year ended 27 June 2004. Petrol sales volumes are currently more than 70 million litres per week. Woolworths' petrol retailing operations were expanded in August 2003 through an alliance with Caltex Australia Limited. Woolworths had 339 petrol outlets at 26 June 2005, and an additional 117 alliance canopies, co-branded Caltex Woolworths/Safeway. Woolworths is targeting expansion of its petrol retail operations to 470 canopies, including outlets operated under the Caltex alliance.

8.2.2 BIG W

Woolworths retails general merchandise through BIG W discount department stores, which aims to appeal to price-conscious customers. BIG W comprises 120 stores and employs more than 17,000 people. In the financial year ended June 2004, BIG W generated sales of \$2.7 billion, 10% of Woolworths' total revenue for the period and contributed 10% of Woolworths' EBITA.

BIG W's products include family apparel and footwear, homewares, stationery and office, toys and sporting, health and beauty, books, home entertainment, motoring, do-it-yourself and everyday needs.

BIG W's Australian discount store peers include Target and Kmart.

Woolworths anticipates that it will open 6 - 10 BIG W stores each year and is targeting expansion of the BIG W store network to 150 stores.

8.2.3 Consumer Electronics

Woolworths retails consumer electronics through 342 stores located in Australia and New Zealand. In the financial year ended 30 June 2004, Woolworths' consumer electronics business generated sales of \$886 million, representing 3% of Woolworths' revenue for the period. Consumer electronics products offered include computers, mobile phones, fax machines, digital cameras and home entertainment products.

Woolworths' consumer electronic business comprises leading electronic retailers, Dick Smith Electronics, Dick Smith Electronics PowerHouse and Tandy.



Dick Smith Electronics ("DSE") was acquired by Woolworths in 1982 and comprises 202 stores across Australia and New Zealand. DSE commenced retailing through superstore formats in 1996 branded Powerhouse. Woolworths operates 18 PowerHouse stores.

Tandy Electronics was acquired by Woolworths in 2001 and comprises 122 stores. Tandy and DSE also provide online retail operations to compliment their retail stores.

8.3 Financial Performance

The historical financial performance for the four years ended 27 June 2004 is summarised below.

| Woolworths – Financial Performance (A\$ millions) | | | |
|---|-----------------------------------|---------------------|---------------------|
| | 52 weeks ended | | |
| | 30 Jun 02 actual ²⁶ | 29 Jun 03 actual | 27 Jun 04 actual |
| Sales revenue | 24,473 | 26,321 | 27,934 |
| EBITDA | 1,184 | 1,344 | 1,473 |
| Depreciation and amortisation | (328) | (371) | (380) |
| EBITA | 856 | 973 | 1,093 |
| Goodwill amortisation | (23) | (27) | (28) |
| EBIT | 833 | 946 | 1,065 |
| Net interest expense | (51) | (40) | (47) |
| Woolworths Income Notes interest | (40) | (41) | (43) |
| Operating profit before tax | 742 | 865 | 975 |
| Income tax expense | (218) | (255) | (287) |
| Net profit after tax | 524 | 610 | 688 |
| Outside equity interest | (1) | - | - |
| Net operating profit after tax attributable to Woolworths shareholders | 523 | 610 | 688 |
| <i>Statistics</i> | | | |
| <i>Sales growth</i> | 17.0% | 7.6% | 6.1% |
| <i>EBITA growth</i> | 19.6% | 13.7% | 12.3% |
| <i>EBITA margin</i> | 3.5% | 3.7% | 3.9% |
| <i>Basic earnings per share (cents)(before goodwill)</i> | 56.3 | 64.6 | 74.3 |
| <i>Dividends per share (cents)</i> | 33.0 | 39.0 | 45.0 |

Source: Woolworths Annual Reports.

Woolworths significantly increased sales and earnings in the 2002 financial year, following the acquisition of 67 Franklins stores located in New South Wales, Queensland, South Australia and Victoria in June 2001. Since this time, Woolworths has consistently improved sales and profitability through organic growth and acquisitions.

The implementation of Project Refresh has also enabled Woolworths to improve its margins. Project Refresh first commenced in 1999 and has concentrated on achieving improved business efficiency processes and business restructuring programs. In the five years to June 2004, Project Refresh has delivered cost savings of 2.85% of sales, representing cumulative savings of approximately \$2.5 billion.

The performance of Woolworths by business segment is set out below:

²⁶ 53 week period.

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| Woolworths – Segment Performance (A\$ millions) | | | | |
|--|--------------------|----------------|----------------|----------------|
| | Year ended 30 June | | | |
| | 2001 actual | 2002 actual | 2003 actual | 2004 actual |
| Sales revenue | | | | |
| Supermarkets | 17,519 | 20,714 | 22,750 | 24,193 |
| BIG W | 2,070 | 2,281 | 2,500 | 2,718 |
| Consumer Electronics | 418 | 659 | 791 | 886 |
| Other ²⁵ | 908 | 819 | 280 | 137 |
| Total sales revenue | 20,915 | 24,473 | 26,321 | 27,934 |
| EBITA | | | | |
| Supermarkets | 627 | 767 | 878 | 984 |
| BIG W | 83 | 94 | 104 | 116 |
| Consumer Electronics | 31 | 31 | 41 | 48 |
| Other ²⁶ | (25) | (36) | (50) | (55) |
| Total EBITA | 716 | 856 | 973 | 1,093 |

Source: Woolworths Annual Reports.

²⁵ Principally relates to discontinued wholesale operations.

²⁶ Principally relates to property EBITA and central overheads.



8.4 Financial Position

The financial position of Woolworths as at 27 June 2004 and 2 January 2005 is summarised below:

| Woolworths – Financial Position (A\$ millions) | | |
|--|---------------------|-----------------|
| | As at | |
| | 27 Jun 2004 | 2 Jan 2005 |
| Trade debtors | 209 | 318 |
| Inventories | 1,847 | 2,442 |
| Trade creditors | (2,177) | (2,914) |
| Current tax liabilities | (132) | (104) |
| Net working capital | (253) | (258) |
| Property, plant and equipment | 2,727 | 3,413 |
| Intangibles | 572 | 1,979 |
| Deferred income tax | 191 | 202 |
| Provisions | (713) | (784) |
| Accruals | (554) | (617) |
| Net other assets / (liabilities) | 246 | 229 |
| Total funds employed | 2,216 | 4,164 |
| Cash | 349 | 429 |
| Borrowings | (513) | (2,144) |
| Woolworths Income Notes | (583) ²⁷ | (600) |
| Net borrowings | (747) | (2,315) |
| Outside equity interest in controlled entities | (5) | (43) |
| Shareholders' equity attributable to members of Woolworth | 1,464 | 1,806 |
| <i>Statistics</i> | | |
| <i>Net tangible assets per share</i> | <i>\$1.45</i> | <i>(\$0.12)</i> |
| <i>Gearing (net borrowings/(shareholders' equity plus net borrowings))</i> | <i>7.4%</i> | <i>55.6%</i> |

Source: Woolworths 2004 Annual Report and Half Yearly Report for the 27 weeks ended 2 January 2005.

The increase in intangibles in the period from 27 June 2004 to 2 January 2005 is largely attributable to the fair value of liquor and gaming licences and property development rights acquired in ALH and MGW of \$1.0 billion and goodwill of \$417 million.

The increase in borrowings during the period is largely attributable to the acquisition of ALH and the reclassification of Woolworths Income Notes from equity to debt (\$600 million) during the period. Borrowings to finance the acquisition of ALH were \$1.3 billion. Debt of approximately \$424 million was assumed from the acquisition of ALH and MGW.

Outside equity interests increased during the period, as a result of the acquisition of ALH and the increase in ownership of Bruandwo from 50% to 75%.

The statement of financial position at 2 January 2005 excludes the impact of the \$251 million interim dividend (24 cents per share) declared by Woolworths on 28 February 2005.

8.5 Capital Structure and Ownership

As at 26 June 2005, Woolworths had 1,061,480,001 ordinary shares on issue and 29,020,082 options over unissued shares at various exercise prices.

²⁷ The Woolworths Income Notes were reclassified from equity to debt in the first half of the 2005 financial year.



The top twenty ordinary shareholders in Woolworths accounted for approximately 44% of the ordinary shares on issue as at 26 June 2005.

The top ten ordinary shareholders in Woolworths as at 26 June 2005 are shown in the table below:

| Woolworths – Top Ten Ordinary Shareholders | | |
|---|------------------------------------|-------------------|
| | Number of Shares (000s) | % Interest |
| J P Morgan Nominees Australia Limited | 139,340 | 13.1% |
| National Nominees Limited | 101,380 | 9.6% |
| Westpac Custodian Nominees Limited | 73,113 | 6.9% |
| Citicorp Nominees Pty Limited | 26,369 | 2.5% |
| Queensland Investment Corporation | 21,128 | 2.0% |
| ANZ Nominees Limited | 16,136 | 1.5% |
| Cogent Nominees Pty Limited | 13,727 | 1.3% |
| Woolworths Custodian Pty Limited | 11,812 | 1.1% |
| AMP Life Limited | 10,877 | 1.0% |
| ANZ Nominees Limited (Cash Income A/C) | 9,492 | 0.9% |
| Subtotal – Top ten ordinary shareholders | 423,374 | 39.9% |
| Other shareholders | 638,106 | 60.1% |
| Total ordinary shareholders | 1,061,480 | 100.0% |

Source: Scheme Booklet.

Substantial shareholders with an interest in Woolworths ordinary shares greater than 5% as at 12 September 2005 are set out below:

| Woolworths – Substantial Shareholders | | |
|--|------------------------------------|-------------------|
| | Number of Shares (000s) | % Interest |
| The Capital Group Companies | 61,822 | 5.8% |
| Barclay Global Investors Australia Limited | 53,277 | 5.0% |

Source: Scheme Booklet.



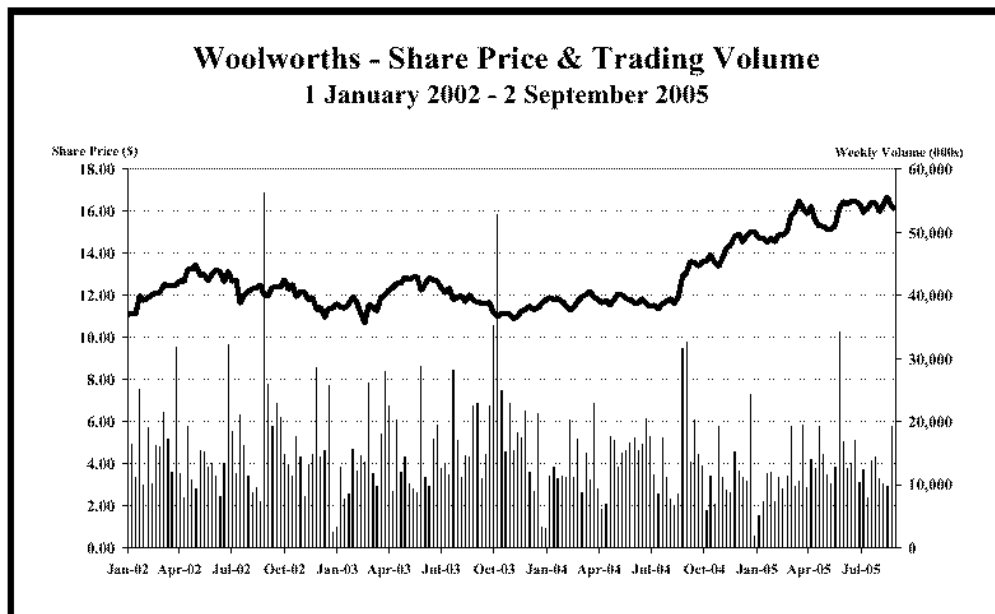
8.6 Share Price History

A summary of the price and trading history of Woolworths since January 2000 is set out below:

| Woolworths - Share Price History | | | | | |
|----------------------------------|------------------|-------|-------|------------------------------|-----------------------------|
| Period | Share Price (\$) | | | Average Weekly Volume (000s) | Average Weekly Transactions |
| | High | Low | Close | | |
| 2000 | 8.62 | 4.63 | 8.42 | 13,999 | 2,418 |
| 2001 | 12.63 | 7.62 | 11.24 | 16,595 | 3,107 |
| 2002 | 13.64 | 10.80 | 11.40 | 16,053 | 3,429 |
| 2003 | 13.19 | 10.64 | 11.80 | 16,534 | 3,836 |
| 2004 | 15.18 | 11.17 | 15.01 | 13,704 | 3,391 |
| Month ended | | | | | |
| 31 January 2005 | 15.05 | 14.31 | 14.59 | 8,690 | 3,360 |
| 28 February 2005 | 15.57 | 14.48 | 15.56 | 9,372 | 3,857 |
| 31 March 2005 | 16.89 | 15.50 | 16.05 | 14,184 | 4,413 |
| 30 April 2005 | 16.48 | 14.96 | 15.29 | 14,864 | 4,869 |
| 31 May 2005 | 16.30 | 14.76 | 16.07 | 17,367 | 5,373 |
| 30 June 2005 | 16.80 | 16.12 | 16.51 | 14,098 | 4,439 |
| 31 July 2005 | 16.50 | 15.78 | 16.40 | 11,704 | 5,013 |
| Week ended | | | | | |
| 5 August 2005 | 16.36 | 15.96 | 15.99 | 11,026 | 5,230 |
| 12 August 2005 | 16.39 | 15.94 | 16.34 | 10,050 | 5,108 |
| 19 August 2005 | 16.87 | 16.33 | 16.69 | 9,796 | 4,737 |
| 26 August 2005 | 16.74 | 16.10 | 16.25 | 19,233 | 5,969 |
| 2 September 2005 | 16.52 | 16.00 | 16.14 | 22,800 | 6,288 |

Source: IRESS.

The following graph illustrates the movement in Woolworths' share price and trading volumes since January 2002:



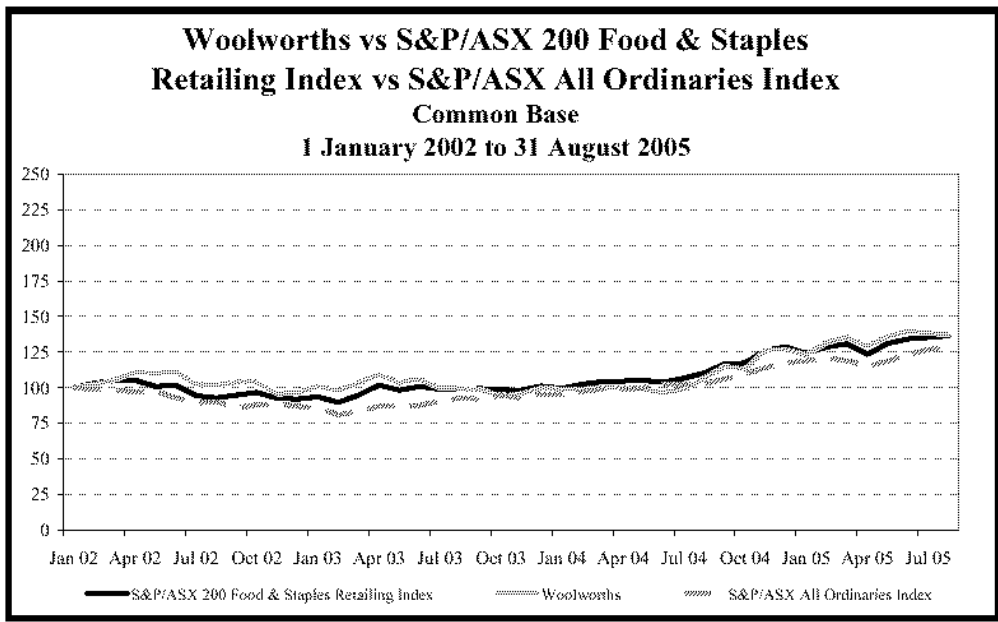
Source: IRESS.



Woolworths' shares generally traded in the range of \$11.00 to \$13.00 from January 2002 to September 2004. Woolworths' share price rose in October 2004 with expectations that Woolworths, through its Bruandwo joint venture, would gain control of ALH. Woolworths' share price continued to rise in November 2004 following Bruandwo's successful acquisition of ALH and Woolworth's reaffirmation to the market of its profit expectations for the year ended 26 June 2005.

The closing price on 23 May 2005, the last Woolworths trading day prior to announcement of Metcash and Woolworths' agreement to acquire Foodland, was \$15.62. Since 25 May 2005, Woolworths shares have traded in the range of \$15.57 to \$16.87, with a volume weighted average price of \$16.16 (calculated to 8 September 2005).

Woolworths comprised 49.6% of the S&P/ASX 200 Food & Staples Retailing Index on 8 September 2005 and 1.7% of the S&P/ASX All Ordinaries Index. Woolworths has generally outperformed the S&P/ASX All Ordinaries Index over the period 1 January 2002 to 31 August 2005.



Source: IRESS.



9 Valuation of Foodland

9.1 Summary

Foodland has been valued in the range \$2.9-3.2 billion. This value range corresponds to a value of \$24.92-27.29 per share. The valuation represents the full underlying value of Foodland. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Foodland shares to trade on the stock exchange in the absence of a takeover offer.

The value of Foodland has been estimated by aggregating the estimated market value of each of Foodland's businesses and other assets and deducting external borrowings and non-trading liabilities. The operating businesses have been valued by reference to capitalised earnings and discounted cash flow ("DCF") analysis. The valuation is summarised below:

| Foodland – Valuation Summary | | | | |
|--|------------------------------|--------------|-----------------------------|----------------|
| | Valuation (NZ\$ millions) | | Valuation (A\$ millions) | |
| | Low | High | Low | High |
| Action Supermarkets | | | 390 | 430 |
| Franchise & Supply | | | 530 | 580 |
| Corporate costs | | | (20) | (17) |
| Other assets/liabilities | | | 95 | 95 |
| Cash | | | 26 | 26 |
| Net value of Australian interests | | | 1,021 | 1,114 |
| Progressive Supermarkets and Franchise & Supply (NZ) | 2,400 | 2,600 | 2,182 | 2,364 |
| Corporate costs | (40) | (35) | (36) | (32) |
| Other assets/liabilities | 61 | 61 | 55 | 55 |
| Debt | (314) | (314) | (285) | (285) |
| Net value of New Zealand interests | 2,107 | 2,312 | 1,916 | 2,102 |
| Value of net assets | | | 2,937 | 3,216 |
| Shares on issue (millions) | | | 117.83 | 117.83 |
| Net value per share | | | \$24.92 | \$27.29 |

Foodland's Australian businesses have been valued in Australian dollars, whilst the New Zealand businesses have been valued in New Zealand dollars. The estimated value has been converted to Australian dollar equivalents using the spot exchange rate prevailing at the time of Grant Samuel's report of approximately A\$1=NZ\$1.10. Foodland's borrowings as at 3 July 2005, which are principally denominated in New Zealand dollars, have been allocated to Foodland New Zealand, consistent with the Transfer Scheme. The borrowings have been translated to Australian dollars at the spot rate.

While each of Foodland's businesses has been valued individually, it is also useful to assess value in overall terms. The multiples of earnings (based on Australian dollar earnings) and net tangible assets implied by the valuation of Foodland are summarised below:



| Foodland – Overall Multiples (times) | | |
|---|------------|-------------|
| | Low | High |
| EBITDA multiples for Foodland | | |
| Historical (year ended 1 August 2004) | 9.6 | 10.4 |
| Historical (year ended 31 July 2005) | 9.7 | 10.6 |
| Budget (year ending 30 July 2006) | 8.7 | 9.4 |
| EBITA multiples for Foodland | | |
| Historical (year ended 1 August 2004) | 12.9 | 14.0 |
| Historical (year ended 31 July 2005) | 12.7 | 13.8 |
| Budget (year ending 30 July 2006) | 11.9 | 13.0 |
| Price/NTA - ungeared | 9.4 | 10.2 |
| - geared | 5.4 | 5.9 |

In Grant Samuel's opinion these multiples are appropriate having regard to:

- Foodland's business and geographic mix;
- the competitive trading environments and the strength of Foodland's position in the various markets in which it operates;
- the expected growth in earnings in each of Foodland's businesses in the short to medium term;
- the strategic position of Foodland's businesses in both the Australian and New Zealand grocery sectors;
- the considerable attractiveness of Foodland's businesses to a number of potential buyers; and
- the substantial synergies available to potential acquirers of the businesses.

9.2 Methodology

9.2.1 Overview

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies that are commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

Capitalisation of earnings or cash flows is the most commonly used method for valuation of industrial businesses. This methodology is most appropriate for industrial businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual capital expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBITA, EBIT or net profit after tax. These are referred to respectively as



EBITDA multiples, EBITA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the sharemarket. EBITDA, EBITA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer.

Where an ongoing business with relatively stable and predictable cash flows is being valued, Grant Samuel uses capitalised earnings or operating cash flows as a reference point. Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, whether earnings for valuation purposes reflect historical or projected earnings, the quality of earnings, growth prospects and relative business risk.

The choice between EBITDA, EBITA and EBIT is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable if depreciation or non-cash charges distort earnings or make comparisons between companies difficult.

In determining a value for each of the Foodland businesses, Grant Samuel has considered the EBITDA and EBITA multiples implied by the valuation range compared with the EBITDA and EBITA multiples derived from an analysis of comparable listed companies and transactions involving comparable businesses.

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, including mining, and for the valuation of start-up projects where earnings during the first few years can be negative. Discounted cash flow valuations involve calculating the net present value of projected cash flows. The cash flows are discounted using a discount rate that reflects the risk associated with the cash flow stream. Considerable judgement is required in estimating future cash flows and the valuer generally places great reliance on medium to long term projections prepared by management. In addition, even where cash flow forecasts are available for up to, say, ten years, the terminal or continuing value is usually a high proportion of value. Accordingly, the value attributed to this terminal value becomes a critical determinant in the valuation. The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The judgemental nature of the assumptions that need to be made and the width of any value range mean that considerable care needs to be exercised in interpreting the results of discounted cash flow analysis. Notwithstanding these limitations, discounted cash flow valuations are commonly used in valuing industrial companies despite the explicit and relatively detailed assumptions as to expected future performance that need to be made.

Grant Samuel has considered a discounted cash flow analysis in valuing Foodland's businesses. The discounted cash flow analysis was based on cash flow models prepared by Grant Samuel. The discounted cash flow models project cash flows from 4 July 2005 onwards. The financial models used in the discounted cash flow analysis were based on Foodland's 2006 budget and management forecasts for the 2007 and 2008 financial years, amended as deemed appropriate by Grant Samuel. The cash flow projections for 2009 to 2011 (the terminal value year) represent Grant Samuel's assumptions for valuation purposes only, and do not represent Foodland management forecasts. The discounted cash flow analysis requires the application of judgements regarding a range of highly uncertain future matters. These include judgements in relation to the assumptions underlying Foodland's forecasts, judgements in relation to subsequent growth in sales and profitability, and judgements regarding free cash flow implicit in the estimation of a terminal value for the business.



It should be recognised that the calculated net present values derived using the discounted cash flow analysis are extremely sensitive to small changes in assumptions regarding margins, revenue growth and capital expenditure for periods many years into the future. This sensitivity to assumptions regarding future operational performance is highlighted by the fact that the terminal value represents a significant amount of total net present value.

Industry rules of thumb are commonly used in some industries. These are generally used by a valuer as a “cross check” of the result determined by capitalising earnings or discounting cash flows. While they are only used as a cross check in most cases, industry rules of thumb can be the primary basis on which buyers determine prices in some industries. In this case, Grant Samuel is not aware of any commonly used rules of thumb that would be appropriate to value the businesses of Foodland. In any event, it must be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading. Such an approach is not appropriate in valuing Foodland’s businesses.

9.2.2 Capitalisation Multiples

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers it is necessary to infer the appropriate multiple from other evidence.

The primary approach is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. However, each transaction will be the product of a unique combination of factors, including:

- economic factors (eg. economic growth, inflation, interest rates) affecting the markets in which the company operates;
- strategic attractions of the business - its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
- rationalisation or synergy benefits available to the acquirer;
- the structural and regulatory framework;
- investment and sharemarket conditions at the time; and
- the number of competing buyers for a business.

A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. This range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

An alternative approach is to review the multiples at which shares in listed companies in the same industry sector trade on the sharemarket. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies. To convert sharemarket data to meaningful information on the valuation of companies as a whole, it is market practice to add a “premium for control” to allow for the premium that is normally paid to obtain control through a takeover offer. This premium is typically in the range 20-35%.

The premium for control paid in takeovers is observable but caution must be exercised in assessing the value of a company or business based on the market rating of comparable companies or businesses. The premium for control is an outcome of the valuation process, not a determinant of



value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. It is inappropriate to apply an average premium of 20-35% without having regard to the circumstances of each case. In some situations there is no premium. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by institutional investors through an initial public offering.

Acquisitions of listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall sharemarket levels and rating between countries, economic factors (economic growth, inflation, interest rates) and market structures and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or sharemarket levels.

The analysis of comparable transactions and sharemarket prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

9.3 Market Evidence

9.3.1 Transaction Multiples

Although there have been a number of transactions in the food retailing sector in recent years, few transactions have occurred in Australia and New Zealand. For a number of these transactions, only limited information is available.

The following table summarises the terms of recent transactions in Australia and New Zealand for which terms were publicly disclosed:

| Recent Transaction Evidence | | | | | | | | |
|-----------------------------|--|--|---|-------------------------------|----------|------------------------------|----------|--|
| Date | Target | Transaction | Consideration ²⁸ (millions) | EBITDA Multiple ²⁹ | | EBITA Multiple ³⁰ | | |
| | | | | historical | forecast | historical | forecast | |
| Dec 2004 | Metcash Trading Limited | Selective capital reduction of Metoz's 52% shareholding in Metcash Trading Limited | A\$1,866 | 9.2 | 9.0 | 10.0 | 10.3 | |
| Jun 2002 | Woolworths (NZ) | Acquisition by Foodland | NZ\$690 | 7.3 | na | 13.8 | na | |
| Oct 2001 | 27 Franklins stores | Acquisition by Coles Myer | A\$86 | na | na | na | na | |
| Jun 2001 | 36 Franklins stores plus 2 distribution facilities | Acquisition by Foodland | A\$155 | na | na | na | na | |
| Jun 2001 | 53 Franklins stores and brandnames | Acquisition by Pick 'n Pay Stores Limited | A\$101 | na | na | na | na | |
| Jun 2001 | 67 Franklins stores in Australia | Acquisition by Woolworths | A\$229 | na | na | na | 11.3 | |
| Jun 1999 | Progressive | Acquisition by Foodland | NZ\$558 | 7.4 | 7.0 | 12.2 | 10.8 | |
| Feb 1998 | Davids Limited | Acquisition of 76% by Metro Cash & Carry Ltd | A\$490 | 6.1 | 7.6 | 8.8 | 11.3 | |

Source: IRESS, Bloomberg, company announcements, Annual Reports, takeover documents, brokers' reports, media reports and discussions with Foodland regarding Franklins store sell-down.

²⁸ Implied equity value if 100% of the company or business had been acquired.

²⁹ Represents gross consideration divided by EBITDA.

³⁰ Represents gross consideration divided by EBITA.



A more detailed description of these transactions is contained in the Appendix to this report. The transaction evidence shows that acquirers have generally been willing to pay 7.0-7.6 times forecast EBITDA and 10.8-11.3 times forecast EBITA for grocery wholesalers and supermarket retailers in Australia and New Zealand.

The most relevant benchmarks against which to consider the value of Foodland's businesses are the acquisition of Davids by Metro Cash & Carry Limited in 1998, Foodland's acquisition of the minority interests in Progressive in June 1999, the acquisition by Foodland of 36 Franklins stores in June 2001, and the acquisition of Woolworths (NZ) by Foodland in June 2002. The following comments are noted in relation to these transactions:

- prior to the acquisition of Davids by Metro Cash & Carry Limited, Davids was the largest grocery wholesaler in Australia, and was also the owner of more than 100 supermarkets;
- the takeover offer for Progressive by Foodland only involved an acquisition of the interests of minorities as Foodland held 57% of Progressive shares prior to this transaction. In this situation, the minority shareholders had little prospect of receiving full value from a third party offer, given Foodland's shareholding;
- the acquisition of Woolworths (NZ) by Foodland involved a merger of the second and third largest participants in the market to create the second largest competitor, with a market share of more than 40%; and
- the acquisition by Foodland of 36 Franklins stores and two distribution facilities is relevant as these stores represent the majority of Foodland's Action store network in Queensland/northern New South Wales. However, meaningful multiples of earnings cannot be calculated as the Franklins stores were making losses.

Grant Samuel has also considered, for completeness, the multiples implied by the acquisition of Metoz by Metcash under the Capital Reorganisation. The terms of Metcash's acquisition of all the shares in Metoz imply transaction multiples of 9.0 times forecast EBITDA and 10.3 times forecast EBITA.

A review of transactions involving international companies indicates that transactions have taken place at prices that imply a very wide range (even after outlying multiples are excluded). Although these transactions involve international companies which are not directly comparable to Foodland because of differences in economic factors, market structures and regulatory frameworks, they do give some guidance as to what acquirers might pay for Foodland's businesses. Further details on these transactions are in the Appendix to this report.

9.3.2 Trading Multiples

There are few supermarket retailing or grocery wholesaling companies operating in Australia and no listed companies in New Zealand. However, there are many listed international supermarket retailing companies. Although some retailers also undertake grocery distribution, there are few pure grocery wholesalers. The following table presents average trading multiples for selected domestic and international listed supermarket retailing and wholesaling companies.



| Sharemarket Ratings of Selected Comparable Companies ³¹ | | | | | | | |
|--|---------------------------------|-------------------------------|----------|----------|------------------------------|----------|----------|
| | Market Capitalisation (million) | EBITDA Multiple ³² | | | EBITA Multiple ³³ | | |
| | | actual | forecast | forecast | actual | forecast | forecast |
| Foodland Associated Limited | \$2,264 | 7.3 | 7.1 | 6.8 | 9.8 | 9.6 | 9.3 |
| Australia | | | | | | | |
| Woolworths Limited | \$16,916 | 12.9 | 10.9 | 9.5 | 17.4 | 14.3 | 12.4 |
| Coles Myer Limited | \$13,046 | 8.5 | 7.9 | 7.2 | 13.1 | 12.5 | 11.1 |
| Metcash Limited | \$1,930 | 9.4 | 9.2 | 9.4 | 10.8 | 10.6 | 10.9 |
| <i>Simple average</i> | | 10.3 | 9.3 | 8.7 | 13.7 | 12.5 | 11.5 |
| <i>Weighted average³⁴</i> | | 10.9 | 9.6 | 8.6 | 15.2 | 13.3 | 11.8 |
| Europe | | | | | | | |
| Carrefour Group | 27,817 | 6.7 | 6.4 | 6.1 | 10.1 | 9.8 | 9.4 |
| Metro AG | 14,054 | 7.5 | 6.9 | 6.1 | 12.2 | 11.4 | 10.7 |
| Koninklijke Ahold NV | 11,196 | 7.5 | 7.1 | 6.1 | 15.8 | 12.7 | 10.0 |
| Casino Guichard-Perrachon SA | 6,119 | 6.3 | 6.1 | 5.9 | 9.1 | 8.9 | 8.6 |
| Delhaize Group | 4,782 | 5.3 | 5.5 | 5.2 | 7.7 | 8.1 | 7.7 |
| <i>Simple average</i> | | 6.6 | 6.4 | 5.9 | 11.0 | 10.2 | 9.3 |
| <i>Weighted average</i> | | 6.8 | 6.5 | 6.0 | 11.3 | 10.4 | 9.6 |
| United Kingdom | | | | | | | |
| Tesco plc | £24,698 | 9.7 | 8.6 | 7.7 | 12.9 | 11.5 | 10.3 |
| J Sainsbury plc | £4,930 | 7.5 | 7.4 | 6.5 | 17.6 | 17.3 | 14.5 |
| Wm Morrison Supermarkets plc | £4,979 | 9.2 | 13.9 | 9.1 | 16.0 | 35.3 | 15.5 |
| <i>Simple average</i> | | 8.8 | 10.0 | 7.8 | 15.5 | 21.4 | 13.4 |
| <i>Weighted average</i> | | 9.3 | 9.2 | 7.7 | 14.0 | 15.7 | 11.6 |
| United States | | | | | | | |
| Wal Mart Stores Inc | US\$207,943 | 11.0 | 9.8 | 9.1 | 13.8 | 12.6 | 12.0 |
| The Kroger Company Inc | US\$14,937 | 7.2 | 6.7 | 6.3 | 12.4 | 11.1 | 10.5 |
| Safeway Inc | US\$10,966 | 8.2 | 7.4 | 7.2 | 14.5 | 12.2 | 11.9 |
| Albertson's Inc | US\$7,731 | 6.0 | 5.7 | 5.5 | 11.3 | 10.5 | 10.2 |
| Supervalu Inc | US\$4,911 | 5.6 | 6.1 | 5.8 | 7.9 | 8.8 | 8.5 |
| <i>Simple average</i> | | 7.6 | 7.1 | 6.8 | 12.0 | 11.0 | 10.6 |
| <i>Weighted average</i> | | 10.4 | 9.3 | 8.7 | 13.5 | 12.3 | 11.8 |
| <i>Simple average (ex Wal Mart)</i> | | 6.7 | 6.4 | 6.2 | 11.5 | 10.6 | 10.3 |
| <i>Weighted average (ex Wal Mart)</i> | | 7.0 | 6.6 | 6.3 | 12.2 | 11.0 | 10.6 |
| South Africa | | | | | | | |
| Pick 'n Pay Stores Limited | R13,772 | 9.9 | 8.5 | 7.5 | 13.1 | 11.0 | 9.6 |
| Shoprite Holdings Limited | R8,036 | 6.0 | 5.4 | 4.7 | 9.2 | 7.8 | 6.9 |
| <i>Simple average</i> | | 8.0 | 7.0 | 6.1 | 11.1 | 9.4 | 8.2 |
| <i>Weighted average</i> | | 8.5 | 7.4 | 6.5 | 11.6 | 9.8 | 8.6 |

Source: IRESS, Bloomberg, Annual Reports, company announcements, brokers' reports.

These multiples are based on share prices at 22 July 2005 (except the multiples for Metcash and Foodland, which are based on the share price on 3 December 2004, the day immediately prior to the announcement of the initial Metcash offer, and for Woolworths, which are based on the share price on 23 May 2005, the last trading day prior to the announcement of the Proposal) and do not incorporate a premium for control. A detailed discussion of these companies is set out in the Appendix to this report.

³¹ The companies have a variety of year ends and report annual results based on a 53 week year every fourth year although there is no consistency as to the 53rd week. Therefore, the data presented for each company is for the most recent historical results and the subsequent two forecast years.

³² Represents gross capitalisation divided by EBITDA.

³³ Represents gross capitalisation divided by EBITA.

³⁴ Weighted by market capitalisation.



The data suggests that:

- Australia's two supermarket retailers trade in the range 7.9-10.9 forecast EBITDA and 12.5-14.3 times forecast EBITA. Coles Myer (although the largest retailer in Australia) trades at multiples lower than Woolworths, probably reflecting the impact of its department store operations on profitability and market expectations of a superior earnings growth profile for Woolworths;
- Australia's only pure grocery and liquor wholesaler, Metcash, traded at 9.2 times forecast EBITDA and 10.6 times forecast EBITA the day immediately prior to the announcement of the initial Metcash offer to Foodland on 6 December 2004. Foodland, Australia's other major grocery wholesaler, (although it also owns retail), traded at 7.1 times forecast EBITDA and 9.6 times forecast EBITA prior to the announcement of the initial Metcash offer. In Grant Samuel's view, however, the share prices of Metcash and Foodland over the 12 months prior to the announcement of the initial Metcash offer to Foodland received significant support from speculation of some corporate activity involving the companies. Effectively, these multiples include some element of control premium and do not represent ordinary trading multiples; and
- international supermarket retailers in the United States and Europe broadly trade in the range of 6.0-8.0 times forecast EBITDA and 8.0-12.0 times forecast EBITA. Supermarket retailers in the United Kingdom are trading at a premium to their peers. However, it is noted that both Tesco and J Sainsbury have substantial operations in banking and financial services in addition to the core retailing businesses.

Globally, supermarket retailers tend to be vertically integrated. Accordingly, there are few pure grocery wholesalers that can be compared to the grocery wholesaling business of Foodland. Supervalu in the United States is comparable to Foodland in that it is an integrated food retail and food distribution business. In addition to a significant supermarket retailing business with numerous national and regional grocery retail banners, Supervalu also has a major food logistics and distribution business supplying approximately 2,500 stores throughout the United States. Supervalu trades at 6.1 times forecast EBITDA and 8.8 times forecast EBITA.

The selected international supermarket retailers are significantly larger than Foodland and operate in different economic conditions, market structures and regulatory frameworks. Accordingly, caution must be used in relying on the trading multiples of these companies.

9.4 Valuation of Foodland Australia

9.4.1 Summary

Grant Samuel has valued Foodland's Australian businesses in the range \$1.0–1.1 billion. The valuation is summarised below:

| Foodland Australia – Valuation Summary (A\$ millions) | | |
|--|---------------|---------------|
| | Low | High |
| Action Supermarkets | 390 | 430 |
| Franchise & Supply | 530 | 580 |
| Operating businesses | 920 | 1,010 |
| Corporate overheads | (20) | (17) |
| Other assets and liabilities | 95 | 95 |
| Enterprise value | 995 | 1,088 |
| Cash | 26 | 26 |
| Net asset value | 1,021 | 1,114 |
| Number of shares on issue | 117.83 | 117.83 |
| Value per share | \$8.66 | \$9.45 |

The values have been estimated having regard to earnings multiples and DCF analysis.



Foodland management has indicated that the profitability of Foodland's Australian business is likely to be adversely impacted in the short term by the uncertainty created by the Proposal. Grant Samuel has considered the likely effects of this uncertainty in valuing Foodland's Australian business.

The value attributed to Foodland Australia cannot be directly compared to the value attributed to the Metcash consideration as Woolworths intends to acquire 20 Action stores and two development sites. These assets are included in Grant Samuel's valuation of Foodland Australia.

9.4.2 Key Assumptions

Growth Rates

Future growth of Foodland's Australian businesses will largely be driven by population growth, food inflation in Western Australia and Queensland and any shifts in market share.

Grant Samuel has assumed that Western Australia's population grows at 1.3% per annum and Queensland's population grows at 1.7% per annum, based on forecasts published by the Australian Bureau of Statistics.

For the forecast period, Grant Samuel has assumed food inflation of 1.5%, consistent with current market forecasts.

Discount Rates

The net present values have been calculated using discount rates of 8.5-9.5%.

These rates represent an estimate of a nominal after tax weighted average cost of capital appropriate for the businesses. The discount rates have been determined based on the following assumptions:

- a debt to equity ratio of 25%, having regard to the gearing levels of selected comparable listed domestic and international companies;
- a beta factor in the range of 0.7-0.9, having regard to the beta factors of selected comparable domestic and international companies;
- a risk-free rate of 5.2% based on the current Commonwealth Government 10 year bond rate;
- a cost of debt of 7%, based on current market rates; and
- a market risk premium of 6%.

Synergies

Grant Samuel's valuation of Foodland Australia represents the full underlying value of the businesses and includes a premium for control. The premium comprises two elements:

- a premium for acquiring a controlling interest; and
- a premium for synergies available to an acquirer.

Accordingly, Grant Samuel's analysis has included an assessment of the likely synergies available to an acquirer, and a judgement as to the amount of these synergies for which an acquirer would be prepared to pay. Premiums are paid for a variety of reasons. They can be substantial when there are extensive synergy benefits or perceived strategic benefits for the acquirer. In some cases, particularly when there are few buyers, there may be little or no premium paid.

In the case of Foodland, there are few potential buyers of Foodland Australia. Metcash is arguably the only market participant that could extract substantial synergies through a transaction with Foodland Australia. The two major Australian supermarket retailers, Coles Myer and Woolworths, would have no interest in acquiring Foodland's Franchise & Supply business and are



likely to be prevented under the competition regulations from acquiring the Action chain in full (although they are able to buy individual stores). Pick 'n Pay could possibly be interested in the Action chain. However, it would require certainty of supply from the Franchise & Supply business in Western Australia. In Grant Samuel's view it is unlikely that an international grocery retailer or wholesaler would be interested in acquiring Foodland Australia, due to its competitive position and the limited synergies available to an offshore buyer. A financial buyer is unlikely to pay a significant premium (if any) due to the need to meet return on investment criteria.

The synergies available through a transaction between Foodland and Metcash are significant. Synergies can be obtained primarily in the areas of buying, logistics, warehouse and transportation costs (in Queensland) and corporate overheads (including information technology, finance and administration and other head office and support costs). Foodland management has estimated that these synergies (pre-tax) could be of the order of \$29-33 million in the first year following a merger, increasing to around \$85-90 million by the third year. The Metcash Bidder's Statement dated 21 January 2005 (in the accompanying Independent Expert's Report) includes a synergy value of \$310-352 million, after taking into account implementation costs. This would be broadly consistent with annual pre-tax synergies increasing to around \$40 million by the third year following a merger. For the purpose of its analysis, Grant Samuel has assumed that it is reasonable to expect annual pre-tax merger synergies increasing from \$25-30 million to \$50-60 million by the end of the third year following a transaction.

These synergies could only be extracted through a merger of the Australian businesses of Foodland and Metcash, and would not be available (at least to the same extent) to other potential buyers. The synergies could be described as "special benefits" available only to Metcash. Generally, assessments of the underlying value of a business include only those synergies available to a number of buyers, and do not include any special benefits available to one buyer only.

In this circumstance, however, it is not meaningful or logical to assess the value of Foodland's Australian operations without taking into account the value of the synergies that could be extracted through a merger of the Australian businesses of Foodland and Metcash. These synergies and their implications for the strategic position of the businesses are the primary reason for Foodland shareholders to consider some form of transaction with Metcash. It would make no sense for Foodland shareholders to proceed with a transaction on terms that did not reflect the synergies. In Grant Samuel's view, any assessment of the full underlying value of Foodland should reflect an outcome in which Foodland shareholders receive a fair share of the synergies that are available in consideration for their interests in Foodland Australia.

Moreover, Foodland provides a unique strategic opportunity for Metcash. Metcash should be prepared to pay a price that delivers a fair share of the synergies to Foodland shareholders, to ensure that it secures the opportunity.

On this basis, Grant Samuel has included in its valuation of Foodland Australia a share of annual pre-tax merger synergies increasing from around \$10-12 million in 2006 to \$20-24 million by 2009. Buying and logistics related synergies have been allocated to the Franchise & Supply business and the Action business in Queensland. There would be restructuring costs associated with generating many of the synergy benefits. The valuation reflects an assumption that restructuring costs equal to 75% of the 2006 synergies (other than buying synergies) are incurred.

9.4.3 Action Supermarkets

The Action supermarket business has been valued in the range \$390-430 million. Grant Samuel has prepared separate valuations of the Action businesses in Western Australia and Queensland, having regard to earnings multiples and DCF analysis. Foodland has requested that Grant Samuel not present its valuation analysis for the Western Australian and Queensland businesses on an individual basis, for reasons of commercial confidentiality. Accordingly, the following analysis presents the valuation of the two businesses on a consolidated basis.



Capitalisation of Earnings

The valuation of the Action supermarkets business implies the following multiples of earnings:

| Action Supermarkets – Multiples Implied by Valuation | | |
|--|--------------------------|------|
| | Implied Multiple (times) | |
| | Low | High |
| EBITDA | | |
| Historical (year ended 1 August 2004) | 6.8 | 7.5 |
| Historical (year ended 31 July 2005) | 6.8 | 7.5 |
| Budget (year ending 30 July 2006) | 5.3 | 5.9 |
| EBITA | | |
| Historical (year ended 1 August 2004) | 10.0 | 11.0 |
| Historical (year ended 31 July 2005) | 11.1 | 12.3 |
| Budget (year ending 30 July 2006) | 8.9 | 9.8 |

Grant Samuel believes that the implied multiples are reasonable, having regard to the available market evidence and the particular characteristics of the Action businesses in Western Australian and Queensland/New South Wales.

The multiples reflect the market position of Action in Western Australia and the increasingly competitive Western Australian market, including the escalation of petrol discounting activity and strong price competition. Increasing competition has meant that Action has been consistently unable to achieve its budgets and forecasts. The valuation reflects a judgement that there would be a limited number of potential buyers of the Action chain in Western Australia (although the stores could be sold on a piecemeal basis), and limited opportunity to extract synergies in the absence of a transaction that also involved the Franchise & Supply business.

On the other hand:

- there are opportunities to further grow the Action network in Western Australia, although such growth needs to be selective so as not to cannibalise the sales and earnings of existing stores; and
- the Action customer loyalty card is expected to continue to generate sales growth. However, earnings are unlikely to improve to the same extent due to the costs associated with operating the frequent shopper program.

In relation to the Action supermarket business in Queensland and New South Wales, the valuation reflects:

- escalating competition between the major participants in the Queensland market through aggressive pricing and advertising, customer loyalty offers, petrol discounting activities and, to a lesser extent, the impact of the expanding presence of Aldi;
- the lack of scale of Action in Queensland and the challenges associated with establishing a new brand in that market;
- the substantial transport costs involved in retailing in far north Queensland;
- the consistent underperformance of the business compared to budgets and forecasts; and
- the significant capital expenditure required to grow store numbers and regularly refurbish existing stores.

On the other hand, Queensland offers significant growth prospects, both in terms of store expansion and the opportunity for continued improvement and further refinement of the business and store offer. Further, it is likely that substantial synergies could be extracted by an acquirer of the business, both in terms of buying synergies and in logistics/transport and warehousing savings.

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In assessing the value of the Action chain in Queensland and New South Wales, Grant Samuel has also considered transactions involving comparable assets, particularly the sales of Franklins stores to the major chains.

Discounted Cash flow

DCF analysis was considered in valuing the Action supermarket business. Separate sets of growth and margin assumptions were developed for the Western Australian and Queensland/New South Wales businesses. They are presented on a consolidated basis in the following table:

| Action Supermarkets DCF Analysis – Key Assumptions (A\$ millions) | | | | |
|--|-------------|---------|---------|---------|
| | Year ending | | | |
| | 2006 | 2007 | 2008 | 2011 |
| Revenue | 1,494.2 | 1,610.3 | 1,690.8 | 1,848.5 |
| EBITDA | 70.2 | 88.4 | 100.8 | 110.0 |
| EBITDA margin | 4.7% | 5.5% | 6.0% | 6.0% |
| Capital expenditure | 55.7 | 71.5 | 71.5 | 63.0 |
| Free cash flow | 2.6 | 6.1 | 8.6 | 29.2 |

The projected cash flows upon with the discounted cash flow analysis was based incorporate a share of potential merger synergies that are increasingly realised in the period to 2008, and are reflected in the improving EBITDA margin in this period.

The results of the DCF analysis are summarised below:

| Action Supermarkets – DCF Analysis (A\$ millions) | | | |
|--|---------------|-------|-------|
| Terminal value growth rate | Discount rate | | |
| | 8.5% | 9.0% | 9.5% |
| 2.5% | 353.1 | 321.9 | 295.3 |
| 3.0% | 380.0 | 344.0 | 313.7 |
| 3.5% | 412.3 | 370.2 | 335.3 |

The net present values are very sensitive to the assumptions regarding future operational performance, particularly capital expenditure. This is highlighted by the fact that the terminal value represents over 80% of total net present value. Since Grant Samuel prepared its independent expert's report dated 16 February 2005, the Action supermarkets business underperformed the forecast for the 2005 financial year, particularly Action in Western Australia. In addition, capital expenditure forecasts for the 2007 and 2008 financial years have increased.

Grant Samuel's valuation range for the Action supermarket business of \$390-430 million is at the top end and above the range of values indicated by the DCF analysis. This is a reflection of the Action business in Queensland and New South Wales, for which DCF analysis suggests only modest net present values. In Grant Samuel's view it is reasonable to expect that a significantly higher price could be realised for the Queensland/New South Wales business than suggested by the DCF analysis, having regard to the attractiveness of the stores to a number of potential buyers, the synergies potentially available, and the values realised when the Franklins stores were divested to Woolworths, Pick 'n Pay and Foodland in June 2001.

9.4.4 Franchise & Supply

The Franchise & Supply business has been valued in the range \$530-580 million. The value has been estimated having regard to capitalisation of earnings and DCF analysis.



Capitalisation of Earnings

The valuation of the Franchise & Supply business implies the following multiples of earnings:

| Franchise & Supply - Multiples Implied by Valuation | | |
|--|---------------------------------|-------------|
| | Implied Multiple (times) | |
| | Low | High |
| EBITDA | | |
| Historical (year ended 1 August 2004) | 10.6 | 11.6 |
| Historical (year ended 31 July 2005) | 9.9 | 10.8 |
| Budget (year ending 30 July 2006) | 9.0 | 9.8 |
| EBITA | | |
| Historical (year ended 1 August 2004) | 11.8 | 12.9 |
| Historical (year ended 31 July 2005) | 10.9 | 11.9 |
| Budget (year ending 30 July 2006) | 10.0 | 10.9 |

Grant Samuel considers that the multiples are appropriate having regard to the following:

- in the longer term, Grant Samuel believes that fierce competition in the Western Australian market place will put pressure on the existing market share of independent retailers, and in turn on the Franchise & Supply business;
- further growth within Foodland’s franchise network is available but needs to be selective and reflective of market demographics;
- ultimately, growth of the franchise banner groups in Western Australia will be limited by market size; and
- growth of independents (other than Foodland’s banner groups) is likely to be restrained and the independent (ie. non-franchised) sector may in fact decline due to the intensity of competition.

On the other hand, there are substantial synergies to be extracted through an acquisition by Metcash of the Franchise & Supply business, particularly in the area of buying. Further, the retention of the current restrictions on trading hours in Western Australia provides a more favourable outlook for the business than was otherwise contemplated.

Discounted Cash flow

The key assumptions in the DCF analysis for the Franchise & Supply business are:

| Franchise & Supply DCF Analysis – Key Assumptions (A\$ millions) | | | | |
|---|-------------|-------------|-------------|-------------|
| | 2006 | 2007 | 2008 | 2011 |
| Revenue | 1,485.4 | 1,538.1 | 1,568.9 | 1,664.9 |
| EBITDA | 61.9 | 68.9 | 71.6 | 76.1 |
| EBITDA margin | 4.2% | 4.5% | 4.6% | 4.6% |
| Capital expenditure | 7.1 | 4.8 | 4.8 | 5.1 |
| Free cash flow | 34.0 | 45.9 | 48.0 | 49.8 |

The projected cash flows upon with the discounted cash flow analysis was based incorporate a share of potential merger synergies, reflected in an improved EBITDA margin in 2006 and 2007.



The results of the DCF analysis are summarised below:

| Franchise & Supply – DCF Analysis (A\$ millions) | | | |
|---|----------------------|-------------|-------------|
| | Discount rate | | |
| Terminal value growth rate | 8.5% | 9.0% | 9.5% |
| 1.5% | 616.6 | 574.4 | 537.6 |
| 2.0% | 649.9 | 602.5 | 561.5 |
| 2.5% | 688.7 | 634.9 | 588.8 |

The net present values are very sensitive to the assumptions regarding future operational performance. This is highlighted by the fact that the terminal value represents around 70% of total net present value. The net present values have increased since Grant Samuel's independent expert's report dated 16 February 2005. This reflects the positive outcome of the referendum on the proposed deregulation of trading hours in Western Australia, under which the current restrictions will be maintained.

Grant Samuel's valuation range for the Franchise & Supply business of \$530-580 million is at the low end of the range of values indicated by the DCF analysis. In Grant Samuel's view this is appropriate, having regard to the limited number of potential buyers of the business, its competitive positioning and the strategic risks to which it is exposed.

9.4.5 Corporate Overheads

Foodland incurred unallocated corporate overheads of \$11.0 million in the year ended 31 July 2005 (before net interest and tax) and is budgeted to incur corporate costs of \$10.3 million in the 2006 financial year. These corporate head office costs are not allocated to the businesses and include executive management costs, finance and administration, directors' fees, public listed company costs and buying office costs. These costs would be saved in any acquisition of Foodland.

Grant Samuel has capitalised these corporate costs, using discount rates in the range 8.5-9.5%, in the range \$50.0-57.0 million. This range reflects an effective sharing of the available cost savings between Metcash and Foodland. The capitalised corporate costs have been allocated between Foodland Australia and Foodland New Zealand on the basis of budgeted 2006 EBITA contributions (approximately 35% to Australia and 65% to New Zealand).

9.4.6 Other Assets and Liabilities

Property

Despite having undertaken a major property divestment program over the past 18 months, Foodland continues to hold a significant property portfolio. As at 3 July 2005, the estimated market value of the portfolio in Australia was \$70.9 million.

Tax Receivable

Foodland has a \$25.5 million receivable from the ATO in relation to GST and income tax refunds due to Foodland and other of its wholly owned subsidiaries, as an offset against amounts assessed by the ATO as being payable following an audit of the company's affairs.

Grant Samuel has excluded the amount of the tax receivable for the purpose of attributing a value to Foodland shares. To the extent that the ATO pays, or agrees to pay, any amount to Foodland in relation to the tax receivable, there will be an increase in the value of Foodland shares and a corresponding adjustment to the value of the Offer.

In the event that an amount is recovered from the ATO in respect of the tax receivable after the date of determination of the consideration offered to Foodland shareholders pursuant to the Transfer Scheme, Foodland shareholders may receive a separate payment for this amount some



time after they receive the main portion of the consideration to which they are entitled under the Transfer Scheme.

Employee Loans

Foodland's Employee Share Ownership Plan ("ESOP") enables employees to acquire shares in the company, funded by an interest-free, non-recourse loan from Foodland to the trustee of the ESOP. After tax dividends declared on the shares held by the trustee are applied to reduce the company loans. Where the loan is repaid by the sale of shares by Foodland (eg. upon cessation of employment by the employee), any surplus on the sale is paid to the employee, whilst any shortfall is borne and expensed by Foodland.

As at 3 July 2005, the ESOP loan balance was \$23.9 million.

9.4.7 Surplus Cash

Foodland had surplus cash of \$25.6 million as at 3 July 2005 which relates to the cash float of the Australian business. The surplus cash is included in the valuation of Foodland Australia.

9.5 Valuation of Foodland New Zealand

9.5.1 Foodland New Zealand

Foodland New Zealand has been valued on an ungeared basis in the range NZ\$2.4-2.6 billion using capitalisation of earnings and DCF analysis. In addition, Grant Samuel has included an allocation of corporate overheads of NZ\$35.0-40.0 million to Foodland New Zealand and treated land held for development as surplus assets totalling NZ\$61.4 million.

9.5.2 Key Assumptions

Growth Rates

Future growth of Foodland New Zealand will be driven by a range of factors including expansion of product range, new store developments, population growth and inflation. For the forecast period, Grant Samuel has assumed that New Zealand's population grows at 0.8% per annum, based on forecasts published by Statistics New Zealand.

Discount Rates

The net present values have been calculated using discount rates of 8.5-9.5%. These rates represent an estimate of a nominal after tax weighted average cost of capital appropriate for the businesses. The discount rates have been determined based on the following assumptions:

- a debt to equity ratio of 25%, having regard to the gearing levels of selected comparable listed domestic and international companies;
- a beta factor in the range of 0.75-0.85, having regard to the beta factors of selected comparable domestic and international companies;
- a risk-free rate of 5.8% based on the current New Zealand Government 10 year bond rate;
- a cost of debt of 7.2%, based on current market rates; and
- a market risk premium of 6%.

Synergies

It is a widely held view that both Woolworths and Coles Myer could extract substantial synergies from acquiring Foodland New Zealand, primarily in the areas of buying, corporate overheads, logistics, information technology and warehouse costs. Grant Samuel considers that it is appropriate to include in the valuation of Foodland New Zealand a share of net synergies. Brokers' estimates of these synergies range from \$20 million to \$100 million per annum. Grant

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Samuel's analysis reflects a sharing of the synergies between Woolworths and Foodland New Zealand and accordingly, does not capture the full value of expected synergies. Hence, for the purpose of the valuation, Grant Samuel has assumed that synergies in the first year following an acquisition are offset by implementation costs, but that synergies increase annual earnings by NZ\$25 million with effect from the second year following an acquisition (increasing at the rate of inflation thereafter).

Capitalisation of Earnings

The valuation implies the following multiple of earnings:

| Foodland New Zealand – Multiples Implied by Valuation | | |
|--|--------------------------|------|
| | Implied Multiple (times) | |
| | Low | High |
| EBITDA | | |
| Historical (year ended 1 August 2004) | 9.7 | 10.5 |
| Historical (year ended 31 July 2005) | 9.5 | 10.2 |
| Budget (year ending 30 July 2006) | 9.1 | 9.8 |
| EBITA | | |
| Historical (year ended 1 August 2004) | 13.3 | 14.4 |
| Historical (year ended 31 July 2005) | 12.9 | 14.0 |
| Budget (year ending 30 July 2006) | 12.4 | 13.5 |

The valuation reflects:

- Foodland New Zealand's significant share of a market that has only two participants;
- the potential to further increase earnings by leveraging scale resulting from the acquisition of Woolworths (NZ) in logistics and fresh food, and through appropriate targeting of portfolio of store formats;
- strong cash flow from operations in part off-set by relatively high capital expenditure over the next three years on refurbishments, format conversion and new store fit-outs; and
- the current offer for Foodland New Zealand by Woolworths, and the expectation that the business would also be a highly attractive acquisition target for Coles Myer. For both these companies, Foodland New Zealand would be a unique opportunity to acquire a substantial and profitable complementary business, offering the potential to generate substantial in-market synergies and, over time, considerable growth in New Zealand market share.

Discounted Cash Flow

The table below provides a summary of the assumptions in the DCF analysis for Foodland New Zealand:

| Foodland New Zealand DCF Analysis – Key Assumptions (NZ\$ millions) | | | | |
|--|-------------|---------|---------|---------|
| | Year ending | | | |
| | 2006 | 2007 | 2008 | 2011 |
| Revenue | 4,407.3 | 4,614.2 | 4,861.0 | 5,683.7 |
| EBITDA | 265.0 | 304.7 | 324.9 | 377.1 |
| EBITDA margin | 6.0% | 6.6% | 6.7% | 6.6% |
| Capital expenditure | 113.8 | 161.3 | 105.0 | 111.4 |
| Free cash flow | 196.7 | 55.4 | 123.5 | 186.4 |



The projected cash flows upon with the discounted cash flow analysis was based incorporate a share of acquisition synergies, reflected in an improved EBITDA margin in 2007. Foodland is forecasting a release of free cash in the 2006 financial year due to an improvement in working capital.

It should be recognised that the calculated net present values are extremely sensitive to small changes in assumptions. The results of the DCF analysis are summarised below:

| Foodland New Zealand – DCF Analysis (NZ\$ millions) | | | |
|--|----------------------|-------------|-------------|
| | Discount rate | | |
| Terminal value growth rate | 8.5% | 9.0% | 9.5% |
| 3.0% | 2,658.2 | 2,427.5 | 2,233.0 |
| 3.5% | 2,864.5 | 2,594.7 | 2,370.5 |
| 4.0% | 3,116.6 | 2,795.3 | 2,533.1 |

9.5.3 Net Debt

Grant Samuel has included net debt of NZ\$313.8 million in its valuation of Foodland’s New Zealand operations. This net debt is derived as follows:

| Foodland New Zealand – Net Debt (NZ\$ millions) | | |
|--|------------|--------------|
| | A\$ | NZ\$ |
| NZ\$ denominated debt at 3 July 2005 | | 373.5 |
| Working capital adjustment | | (77.0) |
| Adjusted NZ \$ denominated debt at 3 July 2005 | | 296.5 |
| A\$ denominated debt at 3 July 2005 | 30.0 | 33.0 |
| Finance lease | | 21.7 |
| Cash | | (37.4) |
| Net debt | | 313.8 |

All Foodland debt (including \$30 million of A\$ denominated debt) has been allocated to Foodland’s New Zealand operations, on a basis consistent with the Transfer Scheme.

Foodland’s NZ\$ debt at 3 July 2005 was at a monthly high (and trade creditors at a monthly low). The working capital adjustment reflects an estimate of debt based on average levels of working capital across the month.



10 Evaluation of the Proposal

10.1 Approach

Grant Samuel has been requested to provide an opinion as to whether the Demerger Scheme and the Transfer Scheme are in the best interests of Foodland shareholders and as to whether the Demerger Scheme is materially prejudicial to creditors.

The Transfer Scheme, if approved, will result in the transfer of Foodland's businesses to Metcash and Woolworths. The commercial effect of the Transfer Scheme will be the same as a joint takeover offer for Foodland by Metcash and Woolworths. Accordingly, the fundamental approach to assessing whether the Transfer Scheme is in the best interests of Foodland shareholders is similar to the basis on which a takeover offer would be evaluated:

- does the consideration offered under the Transfer Scheme reflect the full underlying value of Foodland? That is, is the Offer fair? and
- even if the consideration offered does not reflect the full underlying value of Foodland, are there other factors that suggest that shareholders should vote in favour of the Transfer Scheme? This is, is the Offer reasonable?

The overall judgement represents an assessment as to whether Foodland shareholders will be better off voting in favour of the Transfer Scheme and receiving the consideration offered, rather than retaining their current investment in Foodland.

The Transfer Scheme can only proceed if the Demerger Scheme is approved. Accordingly, if the Transfer Scheme is in Foodland shareholders' best interests, it must also be in their best interests to approve the Demerger Scheme.

The Demerger Scheme is not conditional on the Transfer Scheme becoming effective. It is possible for the Demerger Scheme to proceed, even if the Transfer Scheme is not approved. Accordingly, it is also necessary to consider the impact on Foodland shareholders if the Demerger Scheme proceeds in the absence of the Transfer Scheme. The result would be that Foodland shareholders would hold separate investments in a demerged Foodland (which would own and operate Foodland's current Australian businesses) and in Progressive Enterprises (which would own and operate Foodland's current New Zealand business). In this context, assessment of whether the Demerger Scheme is in shareholders' best interests requires an evaluation of the benefits, risks and disadvantages of the demerger by comparison with the status quo.

10.2 Summary

In Grant Samuel's opinion the Demerger Scheme and the Transfer Scheme are in the best interests of the shareholders of Foodland. Foodland shareholders are likely to be better off if both the Demerger Scheme and the Transfer Scheme are implemented than if they are not. Specifically:

- the assessed value of the consideration offered by Metcash and Woolworths to acquire Foodland falls within (or in some cases may marginally exceed) Grant Samuel's valuation range for Foodland. On this basis, in Grant Samuel's view the consideration reflects the full underlying value of Foodland and the Offer is fair;
- since the initial Metcash takeover offer, Foodland has completed a comprehensive review of the alternatives available to release the strategic value of Foodland. Foodland undertook a thorough process for the sale of the company as a whole and on a break-up basis, during which a number of parties were given the opportunity to undertake due diligence and to submit offers. The Proposal represents the most attractive outcome of that sale process for Foodland shareholders. More than eight months have elapsed since the initial Metcash offer was announced. In Grant Samuel's view a superior offer for Foodland is unlikely; and
- the Transfer Scheme effectively allows Foodland shareholders to participate in the synergies that Metcash and Woolworths should be able to extract from owning Foodland's businesses. These synergies are not available to Foodland and its businesses on a standalone basis. If the



Transfer Scheme is not approved, it is likely that the Foodland share price (or the share prices of the demerged Foodland and Progressive Enterprises) will fall, potentially significantly. In Grant Samuel's view the Offer is reasonable.

Grant Samuel has concluded that shareholders are likely to be better off if the Transfer Scheme proceeds than if it does not. Accordingly, the Transfer Scheme is in the best interests of Foodland shareholders. Because the Transfer Scheme is in the best interests of Foodland shareholders, and the Transfer Scheme can only proceed if the Demerger Scheme is approved, the Demerger Scheme is also in the best interests of Foodland shareholders.

In Grant Samuel's view it is in shareholders' best interests to vote in favour of both the Demerger Scheme and the Transfer Scheme.

It is possible for the Demerger Scheme to proceed without the Transfer Scheme. The result would be that shareholders would hold separate investments in Foodland (which would own only its current Australian businesses) and Progressive Enterprises.

In Grant Samuel's view this would be a superior position relative to the maintenance of the status quo (whereby shareholders rejected both the Demerger Scheme and Transfer Scheme and continued to hold their investments in Foodland in its current structure). A demerger of Foodland and Progressive Enterprises would increase shareholders' prospects of realising the full underlying value of Foodland Australia and Foodland New Zealand, by comparison with the status quo. It appears that there is no single natural acquirer of all of Foodland's businesses. However, there are natural acquirers of the Australian and New Zealand businesses on a separated basis. Separation of the businesses through a demerger would therefore increase the likelihood of fully priced change of control transactions for the businesses (by comparison with retaining the current structure).

There would be some risks and disadvantages associated with a demerger of Foodland's Australian and New Zealand businesses. These would principally relate to the smaller size of the demerged Foodland and Progressive Enterprises, diseconomies of scale and transaction costs. However, these risks and disadvantages would be outweighed by the enhanced prospects for fully priced change of control transactions for the demerged companies. On balance, the demerger would be preferable to the status quo and (in this sense) the Demerger Scheme would be in shareholders' best interests.

However, shareholders should understand that the current Proposal, through the Demerger Scheme and the Transfer Scheme, already delivers full value for Foodland's businesses. In Grant Samuel's view there is no reason to believe that shareholders would derive superior value, at least in the short to medium term, through some unspecified transaction subsequent to a demerger. In Grant Samuel's view there would be a real risk, if the Demerger Scheme was approved but the Transfer Scheme did not proceed, that any subsequent acquisition of the demerged businesses would be on less attractive terms than those offered under the Proposal. Accordingly, in Grant Samuel's view Foodland shareholders will be significantly better off if both the Demerger and Transfer Schemes proceed than if only the Demerger Scheme proceeds.

10.3 Background to the Decision and Alternatives Considered

On 6 December 2004, Metcash announced an off-market takeover offer for all the ordinary shares in Foodland. Pursuant to the Metcash offer, Foodland shareholders would retain direct ownership of Foodland's New Zealand business and Metcash would acquire Foodland's Australian business. The Board of Foodland declined to support the Metcash offer on the basis that it was not fair and reasonable to Foodland shareholders due to the inadequate consideration offered for Foodland Australia and the significant uncertainty and substantial legal and value transfer risks inherent in the structure of the offer.

At this time, the Board of Foodland advised shareholders that it was pursuing a number of initiatives to realise the strategic value of Foodland. One of the specific alternatives being evaluated by the Board was the demerger of Foodland Australia and Foodland New Zealand.



In conjunction with pursuing a demerger of Foodland, the Foodland Board considered a range of options focussed on addressing the strategic issues posed by Foodland's current corporate structure. In particular, Foodland pursued the sale of Foodland as a whole and on a break-up basis.

During this process, Foodland had extensive discussions with a number of parties, some of which conducted due diligence procedures. Foodland has advised that offers were received for certain parts of Foodland. Grant Samuel understands that there was less interest in the acquisition of Foodland as a whole.

On 3 May 2005, Metcash increased its takeover offer for Foodland. Following the revised offer, the Board of Foodland advised shareholders that it was continuing to progress discussions with Metcash and other potential bidders. On 25 May 2005, the Board of Foodland announced that it had unanimously agreed to recommend the acquisition of its businesses by Metcash and Woolworths, to be effected by way of a demerger of Foodland followed immediately by a sale of the resulting separated parts to Metcash and Woolworths.

The Foodland Board believes that the current structure of Foodland reduces its corporate appeal to potential acquirers, because few acquirers would be interested in acquiring all of Foodland's businesses. Therefore, subject to shareholder approval, Foodland intends to demerge its Australian business and New Zealand business even if the Transfer Scheme does not proceed.

10.4 Assessment of the Transfer Scheme

10.4.1 Summary

Grant Samuel has valued Foodland in the range \$24.92-27.29 per share. In Grant Samuel's view it is reasonable to attribute value to the Offer as follows:

- for those shareholders who accept the Metcash Cash Consideration and the Woolworths Standard Consideration, the Offer will have a value of approximately \$25.34-25.55 per Foodland share; and
- for those shareholders who accept the Metcash Share Consideration and the Woolworths Standard Consideration, the Offer will have a value of approximately \$27.19-27.60 per Foodland share.

The value attributed to the Offer falls within Grant Samuel's valuation range for Foodland shares. The consideration offered under the Transfer Scheme reflects the full underlying value of Foodland. Accordingly, the Offer is fair.

Foodland has undertaken a thorough process to seek buyers for Foodland, both as a whole and for the separated Australian and New Zealand businesses. More than eight months have elapsed since the initial Metcash takeover offer for Foodland was announced. There is no reason to believe that greater value could be realised for Foodland through another transaction with a third party. In the absence of the Transfer Scheme, the market value of Foodland (or a demerged Foodland and Progressive Enterprises) would be likely to fall. In Grant Samuel's view the Offer is reasonable.

Grant Samuel believes that Foodland shareholders are likely to be better off if the Transfer Scheme proceeds than if it does not. Accordingly, Grant Samuel has concluded that the Transfer Scheme is in Foodland shareholders' best interests.

10.4.2 Value of the Offer

Foodland shareholders are being offered cash and/or Metcash shares and Woolworths shares in consideration for their Foodland shares.

Grant Samuel has attributed a value of \$25.34-27.60 per Foodland share to the Offer, calculated as follows:

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| Value of the Offer (A\$ millions) | | | | |
|---|---|----------------|--|----------------|
| | Metcash Cash Consideration and Woolworths Standard Consideration | | Metcash Share Consideration and Woolworths Standard Consideration | |
| | Low | High | Low | High |
| Metcash offer | | | | |
| Cash | 745.6 | 745.6 | | |
| Shares | | | | |
| Number of Metcash shares per Foodland share | | | 2.07 | 2.07 |
| Metcash share price | | | \$3.95 | \$4.05 |
| Subtotal – scrip consideration | | | 963.2 | 987.6 |
| Total – Metcash offer | 745.6 | 745.6 | 963.2 | 987.6 |
| Value per Foodland share | \$6.33 | \$6.33 | \$8.18 | \$8.38 |
| Woolworths offer | | | | |
| Cash | 1,250.0 | 1,250.0 | 1,250.0 | 1,250.0 |
| Less assumed net debt | (316.0) | (316.0) | (316.0) | (316.0) |
| Shares | | | | |
| Number of Woolworths shares offered | 81.59 | 81.59 | 81.59 | 81.59 |
| Woolworths share price | \$16.00 | \$16.30 | \$16.00 | \$16.30 |
| Subtotal – scrip consideration | 1,305.4 | 1,329.9 | 1,305.4 | 1,329.9 |
| Total - Woolworths offer | 2,239.4 | 2,263.9 | 2,239.4 | 2,263.9 |
| Value per Foodland share | \$19.01 | \$19.22 | \$19.01 | \$19.22 |
| Total equity consideration | 2,985.0 | 3,009.5 | 3,202.6 | 3,251.5 |
| Number of Foodland shares on issue | 117.8 | 117.8 | 117.8 | 117.8 |
| Value per Foodland share | \$25.34 | \$25.55 | \$27.19 | \$27.60 |

The exact cash amount and the exact number of Woolworths shares available under the Woolworths Maximum Cash Consideration and the Woolworths Maximum Share Consideration options will vary according to the elections of all Foodland shareholders. Accordingly, it is not possible to accurately ascribe a value to these consideration alternatives. However, Grant Samuel does not expect that the consideration would be materially different from the range of values of consideration attributed to the Offer.

Due to the scrip components of the Offer, it is necessary to attribute a value to shares in Metcash and Woolworths in assessing the Offer.

In the context of a takeover, it is normal practice to value shares offered as consideration by reference to the market price of those shares. Although share prices reflect only marginal trades in portfolio interests, the share price represents the cash equivalent of the shares offered pursuant to the Offer to Foodland shareholders. It is the amount Foodland shareholders could reasonably expect to realise if they sold the Metcash and/or Woolworths shares issued to them immediately or in the short term. The underlying value of Metcash and Woolworths is not relevant for Foodland shareholders. Foodland shareholders would not be able to access the underlying value of Metcash or Woolworths (except potentially through a subsequent takeover offer for Metcash or Woolworths).

Beyond the short term it can be expected that the Metcash and Woolworths share prices will fluctuate in response to overall market movements, changes in the grocery retailing and wholesaling sectors in Australia and New Zealand and future events specific to Metcash and Woolworths. However, this is not relevant to an assessment of the value of the scrip components of the Offer. The assessment of the Metcash shares and Woolworths shares offered as consideration in the Offer is concerned with the immediate realisable value of the consideration.



The decision to continue to hold Metcash and/or Woolworths shares is a separate investment decision to be made by Foodland shareholders.

There are three issues for Foodland shareholders in assessing the value of Metcash and Woolworths shares offered as consideration in the Offer:

- are there any reasons why the current or recent Metcash and Woolworths share prices are not a reflection of the fair market value of those shares?
- is the acquisition of Foodland Australia likely to have an impact on the Metcash share price? and
- is the acquisition of Progressive Enterprises likely to have an impact on the Woolworths share price?

Value of the Consideration Offered by Metcash

The Metcash Cash Consideration is an amount equal to \$755 million or \$6.41 per Foodland share, and the Metcash Share Consideration is 2.09 Metcash shares for every Foodland share. The cash and share consideration is dependent on a number of adjustments relating to the financial position of Foodland on 2 October 2005. These factors include the surplus cash balance, working capital and the tax receivable. The adjustments are described in more detail in Part 3.3.2 of the Scheme Booklet. Foodland estimates that the total adjustments to the Metcash consideration will represent a deduction of approximately \$9 million. This has the effect of reducing the Metcash Cash Consideration to \$746 million (\$6.33 per Foodland share) and the Metcash Share Consideration to 2.07 Metcash shares for every Foodland share. For the purpose of attributing a value to the Metcash consideration, Grant Samuel has assumed that there are no changes to Foodland's estimate of the adjustments upon implementation of the Proposal, and that the value of the Metcash Cash Consideration will be \$6.33, and the Metcash Share Consideration will be 2.07 Metcash shares per Foodland share.

In ascribing a value to the Metcash shares offered as consideration, Grant Samuel has had regard to the market price of Metcash shares. In the absence of unusual circumstances, the sharemarket normally provides an objective measure of the fair value of shares in a listed company. Market prices usually incorporate the influence of all publicly available information on a company's prospects, future earnings and risks. Having regard to the following factors, Grant Samuel has no reason to challenge the normal assumption that the Metcash share price represents a reasonable assessment of value by a well informed market:

- Metcash is Australia's third largest supermarket operator and general merchandise wholesaler with a market capitalisation of \$1.7 billion as at 8 September 2005, and is represented in a number of indices on the ASX;
- there is a deep, well-traded market for Metcash shares. Weekly trading volumes on the ASX for Metcash shares from 1 July 2004 to 30 June 2005 averaged approximately 13 million or 3% of the total issued capital. The share trading value during this period represented approximately 130% of Metcash's current market capitalisation;
- Metcash shares are currently trading on multiples of 9.9 times forecast 2006 EBITDA and 11.4 times forecast 2006 EBITA (as at 8 September 2005). In Grant Samuel's view these multiples are high, having regard to the competitive environment within which Metcash trades. However, having regard to the significant synergies expected to be generated from the acquisition of Foodland Australia (which are not reflected in forecast 2006 earnings) the multiples are reasonable; and
- one-third of Metcash's remaining CULS automatically convert into Metcash shares on 19 September 2005. Metcash, at its discretion, may convert the remaining Metcash CULS into Metcash shares upon maturity at 19 December 2005 or redeem them at their issue price of \$2.54 plus a redemption premium of 7.5%. Given that Metcash shares are currently trading at well above \$2.73 (\$2.54 issue price plus 7.5% redemption premium), it appears unlikely that Metcash will convert the remaining CULS into shares. In any event, the market is fully informed as to the terms of the CULS and the basis on which Metcash can elect to convert



them. It is reasonable to conclude that the current Metcash share price reflects a market consensus view as to the dilutionary impact of the conversion on 19 September 2005 of one-third of the remaining CULS and the likelihood and dilutionary impact (if any) of any subsequent conversion on 19 December 2005.

The current Metcash share price of \$3.99 (as at 8 September 2005) and the weighted average share price since the announcement of the Proposal on 25 May 2005 of \$3.85 (to 8 September 2005) reflect the market's consensus as to the prospects for the merged Metcash and Foodland Australia. The Metcash share price represents an unbiased, objective assessment of the value of Metcash shares after the acquisition has been completed. Grant Samuel has no reason to challenge this assessment.

Accordingly, Grant Samuel believes that the market price is the best guide to the value of Metcash shares for the purpose of assessing the Offer. On this basis, Grant Samuel considers that it is reasonable to adopt a Metcash share price of \$3.95 to \$4.05 for the purpose of assessing the value of Metcash shares offered as consideration in the Offer.

It is noted, however, that the Metcash share price may move, perhaps significantly, if further information regarding expected synergies or the progress of integrating Foodland Australia into the Metcash business becomes available, or there are other changes in market sentiment towards Metcash's acquisition of Foodland Australia. In addition, Metcash plans to divest the 60 Action stores that it will acquire in Western Australia, Queensland and northern New South Wales to independent retailers, store managers and employees. To the extent that Metcash does not realise expected sale prices for the Action stores, the Metcash share price may be adversely impacted.

Value of the Consideration Offered by Woolworths

Foodland shareholders are being offered \$1.25 billion in cash less net debt that will be assumed by Woolworths, and 81.59 million Woolworths shares. The net debt assumed by Woolworths is expected to be \$316 million, resulting in a net cash consideration of approximately \$934 million. Shareholders can elect to receive:

- Woolworths Standard Consideration. Based on a net cash consideration of \$934 million, the Woolworths Standard Consideration will be approximately \$7.93 cash and 0.6925 Woolworths shares per Foodland share;
- Woolworths Maximum Cash Consideration (more cash and less Woolworths shares); or
- Woolworths Maximum Share Consideration (less cash and more Woolworths shares).

Foodland estimates that the assumed net debt to be transferred to Woolworths upon implementation of the Proposal will be approximately \$316 million. Any difference in the actual assumed net debt position of Foodland at the date of implementation of the Transfer Scheme will be treated as an adjustment to the Woolworths cash consideration. For the purpose of determining the Woolworths cash consideration, the net debt amount is the amount of the external debt of Foodland's New Zealand business adjusted for a range of factors as described in Part 3.2.6 of the Scheme Booklet. Grant Samuel has assumed that there is no adjustment to Foodland's estimated net debt of \$316 million for the purpose of attributing a value to the Woolworths cash consideration.

To attribute a value to the Woolworths Standard Consideration, it is necessary to ascribe a value to shares in Woolworths. Grant Samuel believes it is reasonable to assume that the market price of Woolworths shares represents an unbiased "consensus" estimate of value and is the best guide to the value of Woolworths shares. Having regard to the following factors, Grant Samuel has no reason to believe that there is a material mispricing of Woolworths shares, based on publicly available information:

- Woolworths is Australia's largest supermarket operator and general retailer with over 2,500 retail locations, including food, liquor and petrol operations. Woolworths had a market capitalisation of approximately \$17.3 billion as at 8 September 2005, and is represented in a number of indices on the ASX;



- there is a deep, well-traded market for Woolworths shares. Weekly trading volumes on the ASX for Woolworths shares from 1 July 2004 to 30 June 2005 averaged approximately 133 million shares or 1.3% of the total issued capital. The share trading value during this period represented approximately 59% of Woolworths' current market capitalisation;
- the acquisition of Progressive Enterprises (together with 20 Action stores and two development sites) by Woolworths provides additional scale and a meaningful entry into the New Zealand market, with the opportunity to generate substantial synergies. However, the initial impact on the overall financial performance and financial position of Woolworths is not expected to be significant, adding around 15% (before synergies) at the EBITA level; and
- Woolworths is closely followed by stockbrokers, analysts and institutional investors.

The current Woolworths share price of \$16.24 (as at 8 September 2005) and the weighted average share price since the announcement of the Proposal (25 May 2005) of \$16.16 (to 8 September 2005) reflect the market's consensus view as to the prospects for the merged Woolworths and Foodland New Zealand.

On the basis that the market price is the best guide to the value of Woolworths shares for the purpose of assessing the Offer, Grant Samuel considers that it is reasonable to adopt a Woolworths share price of \$16.00-16.30 for the purpose of assessing the Offer.

10.4.3 Taxation Consequences

To the extent that Australian shareholders receive cash as part of the consideration they elect to receive, a taxable capital gain may arise. To the extent that Australian shareholders receive Metcash or Woolworths shares, and elect to obtain scrip-for-scrip rollover relief, any capital gain that may otherwise arise will be deferred. The cost base of any Metcash and Woolworths shares received will be determined by apportioning the cost base of the Foodland shares held prior to the Transfer Scheme. Foodland has applied to the Australian Taxation Office for Class Rulings confirming the tax treatment of Australian residents.

The foreign taxation implications for non-Australian resident shareholders will depend on their domicile. Non-Australian resident shareholders should seek their own taxation advice.

Foodland shareholders should read the more detailed advice regarding the tax consequences of the Proposal as set out in the Scheme Booklet.

10.4.4 Ineligible Overseas Shareholders

Shareholders not resident in Australia or New Zealand will not be issued with Metcash shares and/or Woolworths shares as part consideration for the sale of Foodland shares. The Metcash and/or Woolworths shares to which ineligible overseas shareholders would otherwise be entitled under the Transfer Scheme will be issued to Foodland (or its agent) for sale on the ASX. The net proceeds will be remitted to the shareholders.

10.4.5 The Offer is Fair

Grant Samuel has valued Foodland in the range \$24.92-27.29 per share. This value is the aggregate of the estimated market value of each of Foodland's operating businesses and the estimated realisable value of other assets, after deducting external borrowings.

This valuation reflects the full underlying value of Foodland's businesses and assets and includes a premium for control. It reflects the strategic value of Foodland to Woolworths and Metcash and explicitly incorporates a share of the synergies that should be available to Woolworths and Metcash. The valuation exceeds the price at which portfolio interests in Foodland would be expected to trade on the ASX in the absence of the Offer or any alternative offer.

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For the purpose of valuing the Offer, Grant Samuel has assessed the value of Metcash shares in the range \$3.95–4.05 per share and Woolworths shares in the range \$16.00–16.30 per share. This equates to an Offer price of:

- \$25.34–25.55 per Foodland share for the Metcash Cash Consideration and Woolworths Standard Consideration; and
- \$27.19–27.60 per Foodland share for the Metcash Share Consideration and Woolworths Standard Consideration.

The values attributed to the Offer generally fall within Grant Samuel's valuation range for Foodland. The top end of the range of values attributed to the Metcash Share Consideration and Woolworths Standard Consideration marginally exceed the top end of the range of values estimated for Foodland. Accordingly, the Offer reflects the full underlying value of Foodland. The Offer is fair.

10.4.6 The Offer is Reasonable

There are a number of further factors that suggest that Foodland shareholders should accept the Offer through approval of the Transfer Scheme. These include:

- the Foodland Board has indicated that the Offer represents the best outcome for Foodland shareholders following an extensive sale process undertaken by Foodland management;
- the initial Metcash offer was announced on 6 December 2004. Since the announcement of the Proposal on 25 May 2005, potential counter bidders have had more than two months to make a higher offer for Foodland. To date, no such offers have been made. Grant Samuel considers it unlikely that a superior offer for Foodland will be forthcoming;
- the Offer is at a premium to the price at which Foodland shares traded prior to the initial Metcash offer. The total value of the Offer as assessed by Grant Samuel is \$25.34-25.55 per Foodland share for the Metcash Cash Consideration and Woolworths Standard Consideration and \$27.19-27.60 per Foodland share for the Metcash Share Consideration and Woolworths Standard Consideration:
 - the value attributed to the Metcash Cash Consideration and Woolworths Standard Consideration represents a premium of 36.5-37.6% to the weighted average Foodland share price over the three months ended 3 December 2004 (the last trading day prior to the announcement of the initial Metcash takeover offer). It represents a premium of 31.9-33.0% to the closing Foodland share price on 3 December 2004;
 - the value attributed to the Metcash Share Consideration and Woolworths Standard Consideration represents a premium of 46.4-48.6% to the weighted average Foodland share price over the three months ended 3 December 2004 (the last trading day prior to the announcement of the initial Metcash takeover offer). It represents a premium of 41.5-43.7% to the closing Foodland share price on 3 December 2004; and
 - the price of Foodland shares has increased in recent months due to speculation about, and then the announcement of, offers by Metcash for Foodland, and subsequently, the Proposal. There is a risk that the Foodland share price (or the price of shares in a demerged Foodland and Progressive Enterprises) would fall significantly if the Proposal was not approved;
- Foodland shareholders will be able to share the benefits of cost savings and other synergies that Metcash and Woolworths should be able to achieve through the acquisition of Foodland's businesses. Foodland shareholders can effectively crystallise these benefits (at least in part) by accepting cash, or gain ongoing exposure to the merged businesses by electing to receive Metcash shares and Woolworths shares; and
- Foodland shareholders will be eligible for capital gains tax roll-over relief in relation to any Metcash shares and Woolworths shares received in exchange for their Foodland shares.



10.4.7 Shareholder Issues

In assessing the value of the Metcash shares and Woolworths shares offered as consideration in the Offer, Grant Samuel has not taken into account any capital gains tax (“CGT”) roll-over relief benefits that some shareholders could receive through acceptance of the Offer. Shareholders should be aware that roll-over relief represents a deferral of tax liability rather than complete relief from the liability. Shareholders seeking to compare the Woolworths Maximum Share Consideration with the Woolworths Maximum Cash Consideration will need to take into account, among other factors, their marginal tax rates and the CGT cost base of their investments in Foodland. Shareholders who are in any doubt as to the differing taxation implications of accepting the various forms of consideration should seek their own tax advice.

The decision of each shareholder as to whether to approve the Transfer Scheme is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt, shareholders should consult an independent professional adviser.

10.5 Assessment of the Demerger Scheme

10.5.1 Summary

In Grant Samuel’s view the Transfer Scheme is in the best interests of Foodland shareholders. The Transfer Scheme can only proceed if shareholders approve the Demerger Scheme. Accordingly, Foodland shareholders would be better off voting in favour of the Demerger Scheme than not. The Demerger Scheme is in the best interests of Foodland shareholders.

Whilst the Demerger Scheme is being proposed as part of the overall Proposal that will result in the effective sale of Foodland to Metcash and Woolworths, approval of the Transfer Scheme is not a pre-condition of the Demerger Scheme. It is possible for the Demerger Scheme to proceed even if the Transfer Scheme is not approved. In Grant Samuel’s view Foodland shareholders would be better off if both the Demerger Scheme and the Transfer Scheme were to proceed than if only the Demerger Scheme was to proceed. If only the Demerger Scheme was to proceed, there could be no guarantee that Foodland shareholders would, in the short to medium term, realise value equivalent to that offered under the Transfer Scheme. The market value of the demerged Foodland and Progressive Enterprises could fall, perhaps significantly.

However, in the event that the Transfer Scheme was not approved, Foodland shareholders would still need to assess whether they were better off voting in favour of the Demerger Scheme, thereby demerging Progressive Enterprises from Foodland (“Demerger”), or voting against the Demerger Scheme and perpetuating the status quo. This would result in Foodland continuing to own and operate its Australian and New Zealand businesses in its current structure.

The benefits, risks and disadvantages of a Demerger by comparison with the status quo are evaluated below in the remainder of this Section 10.5.

10.5.2 Impact of a Demerger

The immediate impact of a Demerger on Foodland shareholders (should the Transfer Scheme not proceed) would be neutral. The pro rata transfer of Progressive Enterprises shares to Foodland shareholders would mean that shareholders would initially be in a position essentially similar to their position immediately prior to a Demerger, except that their previous investment would be held in two separate corporate structures. Shareholders would have the choice of retaining the same effective interest in Foodland’s businesses that they currently hold, by retaining both the Progressive Enterprises shares and their existing shares in Foodland. Accordingly, evaluation of a Demerger requires an assessment of whether a change in the corporate structure would, of itself, be likely to:

- promote an improvement in the financial performance of the businesses;



- enhance share market perceptions of the value of the businesses, as reflected in share prices; or
- increase the price that could be realised for the businesses in the context of a change of control transaction.

Demergers typically add most value in the case of companies that own and operate two or more businesses that have little in common, and which generate little or no synergies through joint ownership. Demergers of such companies can result in more focused spin-offs, with benefits in terms of enhanced management, greater appeal to investors seeking “pure” investment exposure to particular industries or sectors, and increased corporate appeal as the demerged companies become more attractive acquisition targets.

Foodland’s businesses are all in the grocery sector, with retail and wholesale businesses in Australia and the Progressive retail business in New Zealand. Accordingly, many of the benefits that are achievable in other demergers are unlikely to apply in the case of Foodland. A Demerger could result in the creation of two marginally more focussed companies, with potential benefits in terms of investor flexibility, transparency and the alignment of management incentives with corporate performance. On the other hand, a Demerger would have some potential drawbacks including the duplication of some corporate costs, a sub-optimal capital structure for Foodland Australia (at least initially), and, potentially, reduced liquidity and investor interest in the businesses. Assessment of the net effect of these advantages and disadvantages is essentially judgemental. However, in Grant Samuel’s view the net effect is unlikely to be material.

In Grant Samuel’s view, the critical benefit of a Demerger would be that it would significantly enhance the prospects for shareholders to realise full value for the Foodland businesses through change of control transactions at some future time. The Foodland businesses have considerable strategic value. Foodland’s Western Australian based wholesaling business has a strong market position and generates consistent profitability. Its acquisition should be extremely attractive to Metcash, offering significant synergies and the opportunity to improve the competitive position of Metcash in the Australian grocery sector. Foodland’s Progressive Supermarkets business in New Zealand is likely to be the last substantial supermarket business available to be acquired by Woolworths or Coles Myer in Australasia. However, Foodland’s current structure severely limits its attractiveness to potential acquirers. It is likely that few single purchasers would be interested in acquiring (or be permitted by competition regulation to acquire) all of Foodland’s businesses. However, as evidenced during the Foodland sale process, Foodland’s businesses are highly attractive to a number of potential acquirers on a break-up basis.

A Demerger would promote shareholders’ realisation of the full underlying value of Foodland (although there could be no guarantee that any post-Demerger transactions would deliver the same value as that delivered by the Offer). This represents a compelling advantage relative to the alternative of maintaining Foodland’s current structure. Moreover, market expectations of corporate activity would be likely to provide support for the share prices of a demerged Foodland and Progressive Enterprises, at least in the short term.

A Demerger would not be expected to have any material corporate tax implications for Foodland. Similarly, a Demerger should have no tax consequences for the vast majority of Foodland shareholders. Australian resident shareholders would be unlikely to face any tax liability as a result of a Demerger. These shareholders are estimated by Foodland to account for more than 99% of its total shares on issue. The consequences for other shareholders would depend on their domicile and tax status. Some of these shareholders would be likely to face a potential tax liability, particularly in respect of their Progressive Enterprises shares. Shareholders should consider seeking their own taxation and other professional advice when assessing a possible Demerger.

In Grant Samuel’s view it is likely that shareholders would be better off if a Demerger proceeded than if it did not (in the event the Transfer Scheme did not proceed). A Demerger would help ensure that Foodland’s businesses were accessible to potential acquirers, and would maximise the likelihood of a change of control transaction at full underlying value. By comparison, other advantages and disadvantages are unlikely to be material. Accordingly, Grant Samuel has



concluded that a Demerger would be in the best interests of shareholders (in the event that the Transfer Scheme did not proceed). In this sense, the Demerger Scheme would be in shareholders' best interests.

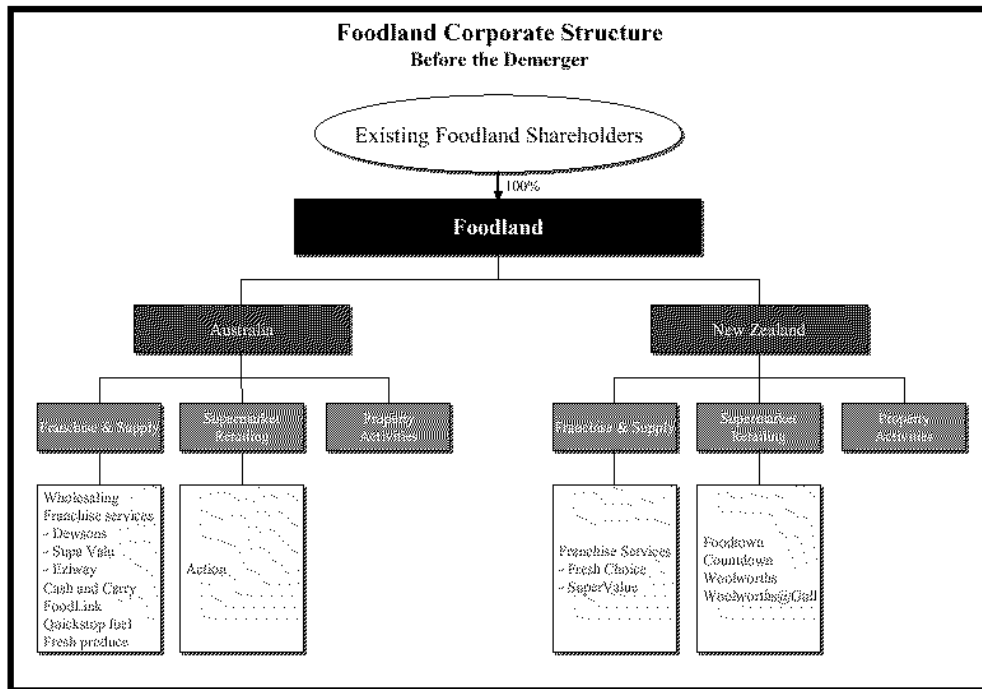
10.5.3 Impact on the Underlying Businesses

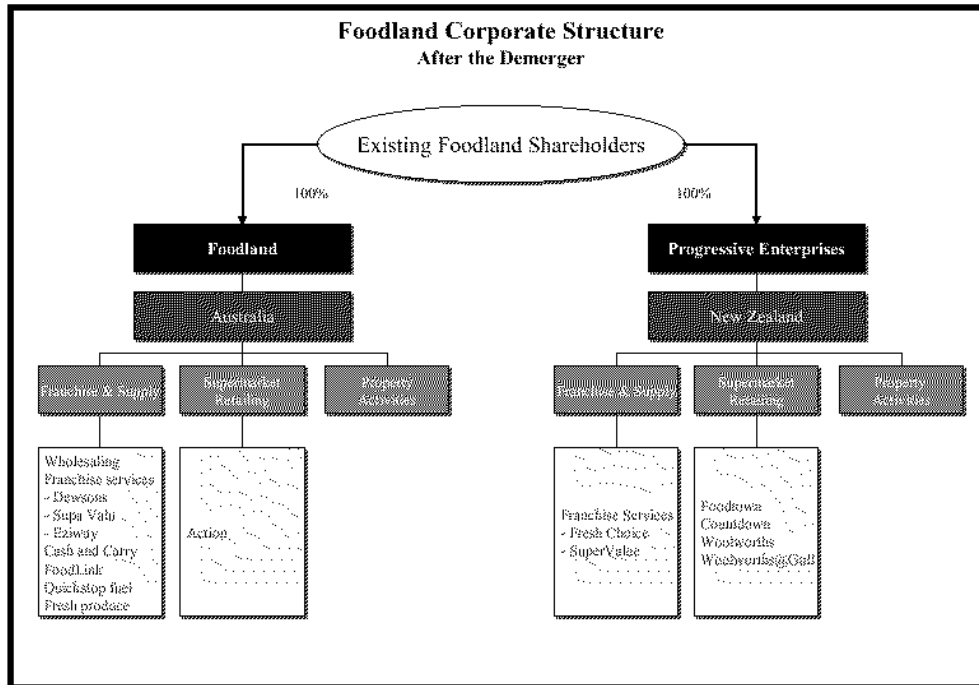
Overview

A Demerger would result in the creation of two companies with separate Boards and management teams. It is possible that this would result in greater Board and management focus and consequent improvements in the returns from the businesses. On the other hand, given that Foodland's activities are already focused on the grocery sector (albeit spread across retail and wholesale, and Australia and New Zealand), the benefits of any additional focus may be limited. There would be some limited duplication of corporate costs and a loss of synergistic benefits available to Foodland in its current form. The magnitude of any net benefit is difficult to assess. In Grant Samuel's view, it is likely that part of any potential benefits could be achieved by Foodland in its current form. Overall, Grant Samuel believes that there is little reason to expect that a Demerger would have a significant impact, either positive or negative, on the underlying businesses.

Structure and Ownership

The Demerger would result in the creation of two companies with separate Boards and management teams. The operating structure and ownership of Foodland before and after the Demerger are summarised in the following charts:





The Demerger would not involve the issue of new Foodland shares. Accordingly, the Demerger would have no impact on the relative ownership interests held by each Foodland shareholder in Foodland.

Foodland shareholders (other than ineligible overseas shareholders) would receive one share in Progressive Enterprises for every share held in Foodland. Foodland would own and operate Foodland's Australian business and Progressive Enterprises would own and operate Foodland's New Zealand business.

Management and Board Focus

A Demerger would result in the creation of two separately listed entities, each with its own senior management team and Board of directors focussed on their respective businesses.

It is possible that a Demerger would impose increased financial and operational disciplines on the management of the demerged Foodland. Without the strong and relatively stable cash flows from Progressive Enterprises, the demerged Foodland would be forced to fund future growth opportunities from its own resources. Management of Foodland would be encouraged to be more disciplined with respect to capital and operating expenditure.

As an independent listed company, Progressive Enterprises and its management would be subject to scrutiny by analysts, investors and the media. There would also be detailed disclosure of business performance. While this scrutiny can create its own problems, it also provides powerful disciplines (and incentives) on the Board and management to maintain and improve performance.

Furthermore, remuneration of management can be more readily linked to the performance of businesses over which management has exclusive control. Historically, management remuneration has been linked, at least in part, to the performance of Foodland shares. Foodland's share price performance has been significantly influenced by the performance of both Foodland Australia and Foodland New Zealand. To the extent that remuneration is linked to share price performance, the Demerger would ensure that remuneration of management is directly related to performance of the business over which management has exclusive control.



Duplication of Corporate Costs

The Demerger would result in the loss of some financial benefits that result from the operation of two businesses within a single corporate group. Those benefits are largely a consequence of operating a single corporate head office for the two businesses and the provision of a number of functions centrally on behalf of all Foodland group businesses.

The two businesses currently share corporate overheads, including costs associated with the Board of directors, Managing Director and Chief Executive Officer's office, and regulatory reporting requirements, and costs associated with technology systems, software and services. While certain services would continue to be provided on a shared basis under contractual arrangements for a transitional period, ultimately the separate companies would each have to support these overheads from its own resources.

The demerged Foodland and Progressive Enterprises would enter into ongoing technology and intellectual property arrangements (including provision for ongoing ownership and use of intellectual property). In particular, pursuant to the Transitional Technology Services Agreement, there would be a continuation of the current situation for a transitional period until Progressive Enterprises migrated to a stand alone system. In return, Progressive Enterprises would be required to pay Foodland a percentage of Foodland's total budgeted information technology operating costs each month.

A Demerger would result in the incurring of additional administration costs. These costs include:

- costs associated with listing Progressive Enterprises on the ASX and NZX, including listing fees, costs associated with maintaining a share register, annual reports (preparation, audit review, printing), shareholder communications, legal and regulatory compliance costs and a Board of directors and secretarial costs; and
- central administrative costs for Progressive Enterprises including accounting, treasury, legal and taxation and other general services.

Foodland has estimated the additional listed company and administration costs of Progressive Enterprises to be around \$3.7 million per annum. In the context of the earnings, assets and likely market value of the Progressive Enterprises this is not a substantial cost. It is expected that the demerged Foodland would be able to achieve savings of around \$1.1 million in relation to these costs following a Demerger of Progressive Enterprises. Therefore, the incremental annual costs resulting from the Demerger would be \$2.6 million.

Loss of Synergies

There is relatively little incremental value from the corporate grouping of Foodland's Australian and New Zealand operations. Accordingly, it is unlikely that any loss of synergy benefits would be significant.

It is expected that, in the event of a Demerger, Foodland and Progressive Enterprises would negotiate an arrangement for ongoing combined sourcing of private label products (in particular, SR Signature Range and Basics). To the extent that such an agreement was not negotiated, the annual incremental costs to the demerged Foodland and Progressive Enterprises are expected to be of an immaterial value.

Foodland and Progressive Enterprises would also negotiate an arrangement for the joint development of information technology applications. Management estimates that, if Foodland and Progressive Enterprises were unable to negotiate an arrangement for the joint development of information technology applications, a one-off capital cost of \$3 million and incremental annual costs of \$1.4 million relating to maintenance and licence fees would be incurred.



10.5.4 Impact on Capital Structure

Financial Flexibility and Efficiency

Progressive Enterprises would assume the majority of Foodland's net debt of approximately \$339 million (pro forma under AGAAP as at 31 July 2005). However, Progressive Enterprises would still be conservatively geared subsequent to a Demerger. This would give Progressive Enterprises sufficient financial flexibility to sustain its business during any prolonged downturn in the New Zealand grocery retailing industry or in response to adverse one-off events.

Foodland would have virtually no debt following a Demerger, and accordingly its capital structure could theoretically be regarded as sub-optimal. On the other hand, if Foodland was more highly geared, it could be vulnerable to any significant decline in cash flow generation or increases in interest rates. Moreover, it could face significant capital commitments relating to expansion of the Action chain. Grant Samuel does not regard the ungeared capital structure of Foodland following a Demerger as a disadvantage.

Impact on Funding Costs

It is possible that, following a Demerger, the demerged Foodland and Progressive Enterprises would be unable to procure debt financing as stand alone entities on terms as favourable as those currently available to Foodland. However, the difference in funding costs would be expected to be modest.

10.5.5 Equity Market Issues

Shareholder Flexibility

Following a Demerger, shareholders would retain their existing exposure to both the Australian business (through their existing shares in Foodland) and to the New Zealand business (through the Progressive Enterprises shares that would be issued to them as a result of the Demerger). Initially at least, shareholders would effectively have their current investment split into two separate parts.

However, a Demerger would provide shareholders with flexibility in managing their investment exposure. Shareholders would have the choice of investing in either or both of Foodland and Progressive Enterprises in whatever proportion, or to whatever extent, they chose. Shareholders would be able to shift their relative exposures to the grocery sector in Australia and New Zealand by selling all or part of one or the other of their shareholdings or by purchasing more shares in one of the individual companies. This should be attractive to investors who wish to base their investment decisions, at least in part, on specific geographic exposures or to focus their investment on grocery wholesaling or retailing. In circumstances such as this where there are limited synergies between the businesses, it would be more efficient for investors to choose the extent and mix of their investment exposure than for companies to impose a choice on them.

Transparent Market Valuations

A Demerger would result in transparent valuations for each of the demerged Foodland and Progressive Enterprises. Investors would be forced to look at the attributes and underlying financial performance of each company separately and in the context of their respective peer groups.

Foodland has traditionally been compared by equity market participants to other grocery retailers (particularly Coles Myer, Woolworths and Metcash). The demerged Foodland is likely to continue to be compared by equity market participants to both grocery retailing and wholesaling companies. Progressive Enterprises is likely to be compared by equity market participants to pure grocery retailing companies.

To the extent that grocery wholesaling businesses are rated by equity markets differently to pure grocery retailers, a Demerger may promote a more transparent valuation of Foodland's Australian and, more particularly, New Zealand operations.



Impact on Liquidity

A Demerger would see Foodland split into two significantly smaller companies. The reduction in size may potentially reduce liquidity and therefore reduce the attractiveness of the demerged Foodland and Progressive Enterprises for some investors. In recent years, it appears that companies with larger market capitalisations have attracted greater investor interest, reflecting, at least in part, the deep and liquid market for their shares and their relative importance to the performance of the market in general.

While a demerged Foodland and Progressive Enterprises would have smaller market capitalisations than Foodland in its current form, it should be recognised that:

- both would remain among Australia's largest listed retailing and wholesaling companies;
- Foodland and Progressive Enterprises would both be expected to be included in the leading domestic indices. It is possible that Foodland may fall outside the S&P/ASX 100, but would be included in the S&P/ASX 200. Progressive Enterprises is likely to be included in the S&P/ASX 100;
- index based investors are likely to continue to need to hold Foodland and Progressive Enterprises shares; and
- both Progressive Enterprises and Foodland would largely retain Foodland's relatively open and diverse share register, which should promote deep and liquid markets for their shares.

The impact of a Demerger on the liquidity of shares in the demerged companies, and the consequent impact on investor interest, is difficult to predict with any confidence. In Grant Samuel's view it is likely that a Demerger would have some adverse impact on liquidity and investor interest in the demerged Foodland and Progressive Enterprises. However, any negative effect should not be significant.

Expectations of Corporate Activity

A Demerger would remove structural impediments to corporate transactions involving the demerged companies. At least in the short to medium term, it is likely that speculation regarding potential corporate activity involving the demerged Foodland and Progressive Enterprises would significantly boost the equity market appeal of the demerged companies. In the longer term, if no corporate activity was to eventuate, this support might dissipate.

10.5.6 Impact on Corporate Control

Overview

In the context of a continuing rationalisation of the international grocery sector, Foodland's businesses, particularly Progressive Enterprises, should be highly attractive to a number of potential acquirers. The sale process undertaken by Foodland management confirmed this expectation. However, Foodland's current structure acts as a disincentive to potential acquirers of Foodland and its businesses. A Demerger would remove these structural impediments and would be expected to enhance the prospect of corporate activity involving Foodland's (demerged) businesses. In addition, it would maximise the competitive tension between potential acquirers of Foodland's demerged businesses.

In Grant Samuel's view a Demerger's promotion of a competitive market for control of Foodland would be a compelling benefit (on the assumption that the Transfer Scheme was not approved). It would materially enhance shareholders' prospects of achieving full underlying value for Foodland's businesses in the context of a change of control transaction (although there is no reason to believe that such full underlying value would exceed the value of the Offer in the short term). Grant Samuel believes that this, of itself, is sufficient justification for Foodland shareholders to vote in favour of a Demerger if the Transfer Scheme is not approved.



Attractiveness to Potential Acquirers

There has been considerable consolidation in the Australian (and worldwide) grocery sector in recent years. Scale is seen as an important competitive advantage, improving purchasing power and margins. The long term trend in the Australian grocery sector has been for the large corporate-owned supermarket chains to win market share at the expense of the independents. The increased scale of the corporate-owned supermarket chains has allowed them to grow profitably and reinvest in their businesses through more competitive pricing, putting increasing pressure on the independent retailers and the wholesaling businesses that support them.

Foodland's assets are highly attractive to a number of potential acquirers:

- Metcash is the most logical purchaser of Foodland's Franchise & Supply business in Australia. It is critically important for both Metcash and Foodland's Franchise & Supply business to increase their scale to address the competitive disadvantage that they face in the Australian grocery sector relative to Coles Myer and Woolworths. A merger of Metcash and Foodland's Franchise & Supply business would produce considerable synergistic benefits, including improved buying terms, reduced warehousing and distribution costs and, in the medium term, reduced information technology costs. It is arguable that a merger of Metcash and Foodland's Franchise & Supply business is essential to the longer term strategic future of both companies. In the absence of a transaction between Metcash and Foodland, the Franchise & Supply business may be of interest to financial buyers. However, a financial buyer would have no access to synergies and would need to confront the same competitive issues currently facing both businesses;
- the Action supermarket chain is of interest to Woolworths (as evidenced by its current offer which includes 20 Action stores and two development sites). The Action supermarket chain could also be of interest to Coles Myer, due to the strategic position of the chain's market share in Western Australia and, to a lesser extent, Queensland and northern New South Wales. However, under the competition regulations it is unlikely that either party would be allowed to acquire the whole chain. It is also possible that the chain may be of interest to financial buyers, although the absence of any synergy benefits may limit the ability of financial buyers to pay full underlying value;
- Progressive holds approximately 44.0% of the New Zealand grocery market. An acquisition of Progressive is extremely attractive to Woolworths (as evidenced by its current offer for the business) and should also be of interest to Coles Myer. Both Woolworths and Coles Myer should be able to realise substantial synergies not available to Foodland, including margin enhancements through improved buying terms. Both have limited expansion opportunities in Australia, with competition regulation effectively preventing them from any significant acquisitions in Australia. An acquisition of Progressive would provide a strong market position in a market of a meaningful size, with few of the risks generally associated with offshore expansion; and
- financial buyers would possibly also be interested in an acquisition of Progressive, although their inability to derive any synergy benefits and need to achieve minimum returns may limit the price that financial buyers were prepared to pay.

The attractiveness of Foodland's assets was confirmed by the strong interest of a number of parties during the recent sale process undertaken by the Foodland Board, and ultimately, the recommended Proposal for the sale of Foodland to Metcash and Woolworths.

Structural Impediments

While there are a number of potential buyers for Foodland New Zealand, and, to a lesser extent, Foodland Australia, the current structure of Foodland severely limits the number of potential acquirers:

- while Metcash is clearly a motivated acquirer of Foodland's Australian Franchise & Supply business, it appears that Metcash is not interested in Foodland's New Zealand business. Moreover, Foodland's size is such that the funding of a conventional offer for 100% of



Foodland would be difficult (if not impossible) for Metcash. The initial Metcash offer, which would effectively have achieved a demerger of Foodland's New Zealand business, was implicitly an endorsement of the benefits of a demerger; and

- Woolworths and Coles Myer are the most logical buyers of Foodland New Zealand. However, they are unlikely to have any significant interest in the Australian Franchise & Supply business and would be likely to face competition restrictions in relation to the Australian retailing assets. Woolworths and Coles Myer are unlikely to be willing to pay full underlying value for all of Foodland's businesses, and then carry the risks associated with on-selling the Australian retail and wholesaling businesses.

A Demerger would remove any structural impediments, actual or perceived, to the achievement of full underlying value on a change of control of Foodland's businesses. The likely potential acquirers of the demerged Foodland and Progressive Enterprises would be able to bid for the businesses in which they were most interested without any concerns about the subsequent disposal of the remaining business. Therefore, a Demerger should maximise the price realised for the businesses in the event of takeover. Conversely, if Foodland's current structure was perpetuated, there would be a real risk that control of Foodland could pass at less than full underlying value. Alternatively, there may be no change of control transaction and, to the extent that investors perceived the current structure as an impediment to such a transaction, Foodland's shares could trade at a discount.

10.5.7 Taxation Issues

Corporate Taxation

A Demerger would involve the transfer of Foodland's New Zealand businesses to Progressive Enterprises (which would in turn be acquired by Foodland shareholders). The capital gains tax consequences of the Demerger for Foodland are set out in Division 125 of the Income Tax Assessment Act 1997 (Cth), which came into effect from 1 July 2002 ("the demerger provisions"). Pursuant to the demerger provisions, Foodland expects the separation of its New Zealand operations from its Australian operations would have no capital gains tax implications for the company.

Impact on Dividends and Franking Credits

The dividend payout ratio of a demerged Foodland following a Demerger has not yet been determined and would be a matter for consideration by the Foodland Board at the relevant time. However, Foodland management anticipates that there would be no change to Foodland's current dividend policy of paying around 60% of profits.

The demerged Foodland would derive almost all of its earnings from Australia, which should allow it to pay fully franked dividends to Australian shareholders in the future.

The dividend payout ratio of Progressive Enterprises following a Demerger would be a matter for consideration by the Progressive Enterprises Board at the relevant time. The earnings of Progressive Enterprises would almost entirely be generated from New Zealand and, therefore, those earnings would not give rise to Australian franking credits. However, it would be likely that Progressive Enterprises would be able to pay fully franked dividends to New Zealand resident shareholders.

Tax Consequences for Australian Resident Shareholders

A Demerger would not be expected to give rise to any adverse tax consequences for Australian resident shareholders. Australian shareholders account for more than 99% of Foodland's issued capital and more than 93% by number of shareholders.

The capital gains tax consequences of a Demerger are prescribed by the demerger provisions. In addition, Foodland expects to obtain a Class Ruling from the ATO that provides certainty as to the taxation consequences for Foodland shareholders arising from a Demerger.



For a shareholder who elects to obtain relief pursuant to the demerger provisions, the tax consequences of a Demerger are expected to be as follows:

- the cash amount to be notionally distributed to Foodland shareholders pursuant to the Demerger would include a capital reduction component of \$4.12 per share. Any capital gain that may otherwise have arisen in relation to this capital reduction would be disregarded;
- the cash amount to be notionally distributed to Foodland shareholders pursuant to the Demerger would include a dividend component of \$12.41 per share. This dividend would not be taxable;
- the sum of the cost bases of the demerged Foodland and Progressive Enterprises shares held by the shareholder immediately after the Demerger would be equal to the cost base of the Foodland shares held by the shareholder before the Demerger. The cost base of the Foodland shares would be allocated between the cost base of the demerged Foodland and Progressive Enterprises shares on the basis of market values; and
- the CGT status of the shareholder's demerged Foodland and Progressive Enterprises shares acquired under the Demerger would be the same as the status of the shareholder's Foodland shares. If the Foodland shares were pre-CGT shares (that is, they had been acquired before 20 September 1985 and were therefore not subject to capital gains tax), the Foodland and Progressive Enterprises shares would be treated as pre-CGT shares.

For a shareholder who does not elect to obtain demerger relief pursuant to the demerger provisions, the CGT consequences of a Demerger are expected to be as follows:

- the shareholder would realise a capital gain to the extent that the capital reduction component notionally distributed (\$4.12 per share) was greater than the cost base of the Foodland shares held by the shareholder;
- the shareholder would not be taxed on the notional dividend (\$12.41 per share) pursuant to the Demerger Act;
- the sum of the cost bases of the demerged Foodland and Progressive Enterprises shares held by the shareholder immediately after the Demerger would be equal to the cost base of the Foodland shares held by the shareholder before the Demerger. The cost base of the Foodland shares would be allocated between the cost base of the Foodland and Progressive Enterprises shares on the basis of market values; and
- all the Foodland shares transferred to the shareholder would be deemed to be post-CGT shares (ie. acquired on or after 20 September 1985), regardless of the CGT status of the shareholder's Foodland shares.

Shareholders holding shares on revenue account are unlikely to face any material adverse tax consequences.

Tax Impact on Non-Australian Resident Shareholders

For Foodland shareholders resident in New Zealand, the capital reduction amount would be treated as a dividend and fully taxable for New Zealand tax purposes.

The non-Australian taxation implications for other non-Australian resident shareholders would depend on the country of domicile of the shareholder. Non-Australian residents should seek their own taxation advice in relation to the taxation impact of a Demerger.

Disclaimer

The analysis set out above outlines the major tax consequences of a Demerger and should be viewed as indicative only. It does not purport to represent any form of formal tax advice regarding the taxation consequences of a Demerger for shareholders. Further details on the taxation consequences of a Demerger for shareholders are set out in Part 12 of the Scheme Booklet. In any



event, the tax consequences for shareholders would depend upon their individual circumstances. If in any doubt, shareholders should consult their own professional financial or taxation adviser.

10.5.8 Other Issues

One-Off Transaction Costs

There would be substantial one-off transaction costs associated with implementing a Demerger, including:

- advisory fees, legal expenses and other advisory and experts' fees;
- the costs of communicating with shareholders (and any advertising costs);
- the costs of establishing Progressive Enterprises as an independent entity (including costs in relation to information technology and other costs associated with the separation of Foodland and Progressive Enterprises);
- the costs associated with producing and distributing the Scheme Booklet; and
- the costs associated with establishing new financial arrangements for Progressive Enterprises.

The majority of these costs are expected to have been incurred, or will be committed, at the time shareholders vote on a Demerger.

Foodland would fund all costs relating to a Demerger up to the date of Demerger implementation. The majority of these costs would be written off directly against shareholders' funds in its balance sheet. Any one-off transaction costs after implementation of a Demerger would be funded by the demerged businesses.

Lack of Track Record of Progressive Enterprises

Progressive Enterprises has no track record of operation as a stand alone company, notwithstanding that Progressive Enterprises has historically been the larger, more profitable segment of Foodland. There is a risk that the relationship between the Progressive Enterprises Board and senior management, which is critical to the long term success of the business and the achievement of many of the benefits of a Demerger, may not work as well as expected (although continuous changes in Board and management composition are a constant of publicly listed businesses.) In addition, Progressive Enterprises would need to establish its own treasury, legal, taxation, statutory financial reporting and information technology support functions. The effectiveness of the new functions is yet to be tested. Implementation problems are almost inevitable.

Impact of Adverse Events on Foodland and Progressive Enterprises

The smaller size of a demerged Foodland may make it less able to readily absorb the financial and business impact of any significant adverse events such as:

- a dramatic downturn in the Australian economy. Any major economic downturn may adversely effect the performance of the demerged Foodland;
- the loss of key customers;
- the impact of new entrants to the wholesale market; and
- increased competition in the Western Australian and Queensland supermarket sectors, through the opening of new stores by existing or new competitors, more aggressive pricing, or other means, that may reduce the sales of Foodland's Action or franchised stores.

The impact of these events would be less material for Foodland in its current form (ie. including the New Zealand business). At the same time, the absolute effects would be the same and, in any case, the demerged Foodland would have a conservative financial structure.



Similarly, Progressive Enterprises would be less able to withstand significant adverse events than as part of the Foodland group in its current form. In particular, Progressive Enterprises may be affected by a dramatic downturn in the New Zealand economy. However, Progressive Enterprises will be a substantial, conservatively geared company with a substantial share of the New Zealand market. Any increased vulnerability to adverse external events should not be material.

Ineligible Shareholders

Foodland shareholders with registered addresses outside Australia and its external territories or New Zealand would not be entitled to participate in the Demerger. Shares in Progressive Enterprises to which Foodland shareholders outside these jurisdictions would otherwise have been entitled as part of a Demerger would be sold on market following the listing of Progressive Enterprises. Any applicable taxes and brokerage fees and other selling costs would be deducted from the proceeds, which would be remitted to the relevant shareholders.

Ineligible overseas shareholders would give up some of their economic interest in Foodland and lose their exposure to Progressive Enterprises' operations. However:

- their Progressive Enterprises shares would be sold for market value;
- they could acquire Progressive Enterprises shares through the ASX or NZX following the listing if they wished to retain an exposure; and
- shareholders representing less than 1% of Foodland's issued capital would be expected to be impacted by these provisions.

10.5.9 Impact on Creditors

As part of a Demerger, Foodland would be divided into two separately listed companies. A Demerger would involve the capital return to Foodland shareholders of \$4.12 per Foodland share (by way of the distribution of shares in Progressive Enterprises). There would be a corresponding reduction in shareholders' funds and future net earnings would be reduced by removal of the contribution from Progressive Enterprises. Definitionally, any reduction in the equity base of a company disadvantages creditors as it reduces the company's capacity to meet the claims of creditors.

However, in Grant Samuel's opinion, the creditors with continued exposure to a demerged Foodland would not be materially prejudiced by the capital return or the Demerger. The reasons are:

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- all of the current borrowings of Foodland would be assumed by Progressive Enterprises. The demerged Foodland would initially have net cash;
- a demerged Foodland would be a substantial company in its own right:

| Foodland (post Demerger) – Key Financial Information (A\$ millions) | | |
|--|--|--------------|
| | Pro forma after Demerger As at 31 July 2005 | |
| | AGAAP | AIFRS |
| Total assets | 710 | 715 |
| Net cash | 32 | 32 |
| Shareholders' equity | 517 | 522 |
| EBITA (before significant and non-recurring items) | | |
| Actual (year ended 31 July 2005) | 77 | 81 |
| Budget (year ending 30 July 2006) | 93 | 93 |
| Net profit after tax⁵⁵ | | |
| Actual (year ended 31 July 2005) | 45 | 57 |
| Budget (year ending 30 July 2006) | 51 | 59 |

- Foodland has received committed offers for new bank financing facilities of \$40 million from a debt provider in respect of the demerged Foodland. The offer comprises a bridging facility of 6 months' duration provided subject to a negative pledge undertaking, including a limit on further indebtedness. It is expected that a bilateral facility would subsequently be established, the terms of which are yet to be agreed. Lenders under this facility would make their own judgements about the creditworthiness of the demerged Foodland in full knowledge of its financial position;
- most trade creditors are short term in nature (ie. repayable within, say, 60 days at any point in time) and they would therefore have the opportunity to reassess for themselves whether or not they wished to grant continued credit to a demerged Foodland; and
- the directors of Foodland have stated that in their opinion a Demerger would not affect the demerged Foodland's ability to pay creditors or meet debts as and when they fall due.

In Grant Samuel's opinion the creditors exposed to Progressive Enterprises are not materially prejudiced by the Demerger:

⁵⁵ After significant items.



- Progressive Enterprises would be a substantial company with modest gearing. Progressive Enterprises would have pro forma shareholders' funds of \$2.0 billion and gearing of 14.7% (under AGAAP). Whilst gearing under AIFRS is higher (given the reduction under AIFRS of the carrying value of intangible assets), economic gearing is low, having regard to the enterprise value of the Progressive Enterprises business of around \$2.3 billion and estimated net debt of around \$339 million (pro forma under AGAAP):

| Progressive Enterprises – Gearing | | |
|--|---------------------------------|--------------|
| | Pro forma after Demerger | |
| | AGAAP | AIFRS |
| <i>As at 31 July 2005</i> | | |
| Net borrowings / Net borrowings plus shareholders' funds | 14.7% | 39.2% |
| <i>Year ended 31 July 2005</i> | | |
| EBITDA / Net interest expense (times) | 7.7 | 7.9 |

- the trade creditors exposed to Progressive Enterprises would generally be short term in nature (ie. repayable within, say, 60 days at any point in time) and they would therefore have the opportunity to reassess for themselves whether or not they wished to grant continued credit to Progressive Enterprises; and
- Progressive Enterprises has received offers for new financing facilities of \$370 million from a debt provider. In the event a Demerger proceeds, this would comprise a bridging facility of 6 months duration provided subject to a negative pledge undertaking, including a limit on further indebtedness. Subsequently, a syndicated facility would be established on terms yet to be agreed. These lenders would make their own judgements as to Progressive Enterprises' financial risk in the full knowledge of its position.

Grant Samuel makes no warranty, express or implied, as to the potential recoverability of existing or contingent debts owed by Foodland, a demerged Foodland or Progressive Enterprises to their creditors as at the date of this report or at any subsequent time. Future creditors must rely on their own investigations of the financial positions of a demerged Foodland and Progressive Enterprises.



11 Qualifications, Declarations and Consents

11.1 Qualifications

Grant Samuel and its related companies provide corporate advisory services in relation to mergers and acquisitions, capital raisings, corporate restructuring and financial matters generally. Grant Samuel's primary activity is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 240 public expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Stephen Cooper BCom (Hons) CA (SA) ACMA and Hannah Crawford BCom LLB CA ASIA, each of whom has a significant number of years of experience in relevant corporate advisory matters. Marisa Leone BBus ASIA and John Nelson BCom BEng (Hons) ASIA assisted in the preparation of the report. Each of the above is an authorised representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

11.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Demerger Scheme is in the best interests of Foodland shareholders and as to whether it materially prejudices the interests of creditors, and as to whether the Transfer Scheme is in the best interests of Foodland shareholders. Grant Samuel expressly disclaims any liability to any Foodland shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

The exact amount of the consideration payable by Metcash and Woolworths will vary, depending on various specifically defined adjustments based on changes in the financial position of Foodland and Progressive Enterprises as set out in Part 3 of the Scheme Booklet. An example of the sort of factor affecting financial position is the level of external debt. Foodland has advised Grant Samuel that it expects that the aggregate effect of these adjustments will not materially vary the value of the consideration payable by Metcash and Woolworths. Grant Samuel's opinion has been prepared on this basis. The final amount of this adjustment to the consideration will be determined on 2 October 2005 (the "Consideration Determination Date").

Grant Samuel makes no warranty, express or implied, as to the potential recoverability of existing or contingent debts owed by the Foodland group to their creditors as at the date of this report or at any subsequent time. Future creditors must rely on their own investigations of the financial position of individual companies in the group with whom they conduct business.

Grant Samuel has had no involvement in the preparation of the Scheme Booklet and has not verified or approved any of the contents of the Scheme Booklet. Grant Samuel does not accept any responsibility for the contents of the Scheme Booklet (except for this report).

11.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with Foodland that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposal. Grant Samuel advises that:



- a small number of Grant Samuel executives hold small parcels of Woolworths shares;
- in June 2005, a related Australian entity, Grant Samuel Property Pty Limited, advised Woolworths on the sale of a property;
- in February 2005, Grant Samuel prepared an independent expert's report for Foodland in relation to the takeover offer by Metcash;
- a related New Zealand entity, Grant Samuel & Associates Limited, undertook preliminary fieldwork based on public information for an independent valuation of Foodland's New Zealand businesses in late 2003;
- a related New Zealand entity, Grant Samuel & Associates Limited, prepared an independent report for Foodland dated 15 September 1999 for the purposes of the compulsory acquisition of the remaining shares in Progressive Enterprises Limited; and
- Louise Watson, Managing Director of Symbol Strategic Communications (which is Foodland's communications adviser), is a member of the Grant Samuel Corporate Finance Advisory Board and has offices located within Grant Samuel's Sydney office.

Grant Samuel had no involvement with, or interest in the outcome of, the Proposal other than the preparation of this report.

Grant Samuel will receive a fee estimated at \$450,000 for the preparation of this report. This fee is not contingent on the outcome of the Proposal. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Practice Note 42 issued by the ASIC (previously known as Australian Securities Commission) on 8 December 1993.

11.4 Declarations

Foodland has agreed that, to the extent permitted by law, Foodland will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of this report. This indemnity will not apply in respect of the proportion of any liability found by a court to be attributable to any conduct involving gross negligence, wilful misconduct, reckless misbehaviour, fraud, or breach of the terms of the engagement letter by Grant Samuel. Foodland has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person except where Grant Samuel or its employees and officers are found to have been guilty of gross negligence, wilful misconduct, reckless misbehaviour, fraud, bad faith or breach of the terms of its engagement, in which case Grant Samuel shall bear such costs.

Advance drafts of this report were provided to senior management and directors of Foodland and Foodland's financial and legal advisers. Certain changes were made to this report as a result of the circulation of the draft reports. In particular, Foodland provided updated information in relation to the estimated adjustments to the Offer by Metcash and Woolworths. Grant Samuel amended its assessment of the value of the Offer to reflect the estimated adjustments. Further, Grant Samuel revised its estimate of the value of Metcash shares to be issued to Foodland shareholders under the Offer from \$3.85-3.95 to \$3.95-4.05 to reflect an increase in the Metcash share price following the issue of draft reports. These changes had the combined impact of reducing the value attributed by Grant Samuel to the Offer from \$25.56-27.61 per Foodland share to \$25.34-27.60 per Foodland share. However, there was no alteration to the methodology, conclusions or recommendations made to Foodland shareholders.



11.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Scheme Booklet to be sent to Foodland shareholders in relation to the Proposal. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

11.6 Other

The opinion is made at the date of this report and reflects circumstances and conditions as at that date. Shareholders who are in doubt as to the action they should take should consult their own independent professional adviser.

The accompanying letter dated 12 September 2005 forms part of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED

12 September 2005

Grant Samuel & Associates



Appendix

Market Evidence

1 Valuation Evidence from Sharemarket Prices

The valuation of Foodland's operating businesses has been considered in the context of the sharemarket ratings of Australian and international companies with activities primarily in supermarket retailing and grocery wholesaling. The multiples shown below are based on sharemarket prices as at 22 July 2005 (except Metcash and Foodland, which are based on the share price on 3 December 2004, the day immediately prior to the announcement of the initial Metcash offer, and Woolworths which is based on the share price on 23 May 2005, the last trading day prior to the announcement of the Proposal) and do not reflect a premium for control.

| Sharemarket Ratings of Selected Comparable Companies ¹ | | | | | | | | | | |
|---|---------------------------------|--------------------------------------|----------|----------|-------------------------------------|----------|----------|---|----------|----------|
| | Market Capitalisation (million) | EBITDA Multiple ² (times) | | | EBITA Multiple ³ (times) | | | Price Earning Multiple ⁴ (times) | | |
| | | actual | forecast | forecast | actual | forecast | forecast | actual | forecast | forecast |
| Foodland Associated Limited | \$2,264 | 7.3 | 7.1 | 6.8 | 9.8 | 9.6 | 9.3 | 15.5 | 14.2 | 13.8 |
| Australia | | | | | | | | | | |
| Woolworths Limited | \$16,916 | 12.9 | 10.9 | 9.5 | 17.4 | 14.3 | 12.4 | 22.0 | 20.3 | 18.0 |
| Coles Myer Limited | \$13,046 | 8.5 | 7.9 | 7.2 | 13.1 | 12.5 | 11.1 | 20.5 | 18.9 | 17.5 |
| Metcash Limited | \$1,930 | 9.4 | 9.2 | 9.4 | 10.8 | 10.6 | 10.9 | 15.7 | 15.2 | 15.6 |
| Simple average | | 10.3 | 9.3 | 8.7 | 13.7 | 12.5 | 11.5 | 19.4 | 18.1 | 17.0 |
| Weighted average ⁵ | | 10.9 | 9.6 | 8.6 | 15.2 | 13.3 | 11.8 | 21.0 | 19.4 | 17.6 |
| Europe | | | | | | | | | | |
| Carrefour Group | 27,817 | 6.7 | 6.4 | 6.1 | 10.1 | 9.8 | 9.4 | 14.0 | 13.5 | 12.6 |
| Metro AG | 14,054 | 7.5 | 6.9 | 6.1 | 12.2 | 11.4 | 10.7 | 16.8 | 15.2 | 13.7 |
| Koninklijke Ahold NV | 11,196 | 7.5 | 7.1 | 6.1 | 15.8 | 12.7 | 10.0 | 14.0 | 18.7 | 12.3 |
| Casino Guichard-Perrachon SA | 6,119 | 6.3 | 6.1 | 5.9 | 9.1 | 8.9 | 8.6 | 11.2 | 10.8 | 10.4 |
| Delhaize Group | 4,782 | 5.3 | 5.5 | 5.2 | 7.7 | 8.1 | 7.7 | 9.9 | 12.2 | 10.9 |
| Simple average | | 6.6 | 6.4 | 5.9 | 11.0 | 10.2 | 9.3 | 33.2 | 14.1 | 12.0 |
| Weighted average | | 6.8 | 6.5 | 6.0 | 11.3 | 10.4 | 9.6 | 31.5 | 14.5 | 12.5 |
| United Kingdom | | | | | | | | | | |
| Tesco plc | £24,698 | 9.7 | 8.6 | 7.7 | 12.9 | 11.5 | 10.3 | 17.2 | 15.1 | 13.4 |
| J Sainsbury plc | £4,930 | 7.5 | 7.4 | 6.5 | 17.6 | 17.3 | 14.4 | 20.3 | 28.6 | 22.3 |
| Wm Morrison Supermarkets plc | £4,979 | 9.2 | 13.9 | 9.1 | 16.0 | 35.3 | 15.5 | 24.3 | 83.5 | 23.6 |
| Simple average | | 8.8 | 10.0 | 7.8 | 15.5 | 21.4 | 13.4 | 20.6 | 42.4 | 19.8 |
| Weighted average | | 9.3 | 9.2 | 7.7 | 14.0 | 15.7 | 11.6 | 18.7 | 26.9 | 16.2 |
| South Africa | | | | | | | | | | |
| Pick'n Pay Stores Limited | R13,772 | 9.9 | 8.5 | 7.5 | 13.1 | 11.0 | 9.6 | 20.4 | 17.4 | 15.2 |
| Shoprite Holdings Limited | R8,036 | 6.0 | 5.4 | 4.7 | 9.2 | 7.8 | 6.9 | 14.3 | 13.0 | 11.2 |
| Simple average | | 8.0 | 7.0 | 6.1 | 11.1 | 9.4 | 8.2 | 17.3 | 15.2 | 13.2 |
| Weighted average | | 8.5 | 7.4 | 6.5 | 11.6 | 9.8 | 8.6 | 18.1 | 15.7 | 13.7 |

¹ The companies have a variety of year ends and report annual results based on a 53 week year every fourth year although there is no consistency as to the 53rd week. The data presented for each company is for the most recent historical results and the subsequent two forecast years.

² Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation and significant items.

³ Represents gross capitalisation divided by EBITA. EBITA is earnings before net interest, tax, goodwill amortisation and significant items.

⁴ Represents the market capitalisation divided by net profit after tax before goodwill and significant items.

⁵ Weighted by market capitalisation.



Sharemarket Ratings of Selected Comparable Companies

| | Market Capitalisation (million) | EBITDA Multiple (times) | | | EBITA Multiple (times) | | | Price Earning Multiple (times) | | |
|---------------------------------------|---------------------------------|-------------------------|------------|------------|------------------------|-------------|-------------|--------------------------------|-------------|-------------|
| | | actual | forecast | forecast | actual | forecast | forecast | actual | forecast | forecast |
| <i>United States</i> | | | | | | | | | | |
| Wal Mart Stores Inc | US\$207,943 | 11.0 | 9.8 | 9.1 | 13.8 | 12.6 | 12.0 | 20.2 | 18.4 | 18.3 |
| The Kroger Company Inc | US\$14,937 | 7.2 | 6.7 | 6.3 | 12.4 | 11.1 | 10.5 | 18.2 | 16.0 | 14.8 |
| Safeway Inc | US\$10,966 | 8.2 | 7.4 | 7.2 | 14.5 | 12.2 | 11.9 | 19.3 | 16.3 | 15.2 |
| Albertson's Inc | US\$7,731 | 6.0 | 5.7 | 5.5 | 11.3 | 10.5 | 10.2 | 16.0 | 15.1 | 14.3 |
| Supervalu Inc | US\$4,911 | 5.6 | 6.1 | 5.8 | 7.9 | 8.8 | 8.5 | 11.6 | 13.8 | 13.1 |
| <i>Simple average</i> | | <i>7.6</i> | <i>7.1</i> | <i>6.8</i> | <i>12.0</i> | <i>11.0</i> | <i>10.6</i> | <i>17.1</i> | <i>15.9</i> | <i>15.1</i> |
| <i>Weighted average</i> | | <i>10.4</i> | <i>9.3</i> | <i>8.7</i> | <i>13.5</i> | <i>12.3</i> | <i>11.8</i> | <i>19.8</i> | <i>18.0</i> | <i>17.7</i> |
| <i>Simple average (ex Wal Mart)</i> | | <i>6.7</i> | <i>6.4</i> | <i>6.2</i> | <i>11.5</i> | <i>10.6</i> | <i>10.3</i> | <i>16.3</i> | <i>15.3</i> | <i>14.3</i> |
| <i>Weighted average (ex Wal Mart)</i> | | <i>7.0</i> | <i>6.6</i> | <i>6.3</i> | <i>12.2</i> | <i>11.0</i> | <i>10.6</i> | <i>17.2</i> | <i>15.6</i> | <i>14.6</i> |

Source: IRESS, Bloomberg, Annual Reports, Company Announcements, Brokers' Reports

The analysis of sharemarket ratings indicates that:

- Australian supermarket and grocery companies are trading broadly within a range of 0.3-0.6 times forecast revenue, 8-11 times forecast EBITDA, 11-14 times forecast EBITA and 15-20 times forecast net profit after tax (before goodwill amortisation). Coles Myer (although the largest retailer in Australia) trades at multiples lower than Woolworths probably reflecting the impact of its department store operations on profitability. It should also be noted that Woolworths and Coles dominate the grocery industry and are both vertically integrated. In comparison, Foodland is a grocery wholesaler which owns retail stores while Metcash is solely a grocery and liquor wholesaler;
- the world's largest retailer, Wal Mart trades at a significant premium to its United States peers;
- United States supermarket and grocery companies (excluding Wal Mart) are trading broadly in the range of 0.3-0.5 times forecast revenue, 6-7 times forecast EBITDA, 9-12 times forecast EBITA and 14-16 times forecast net profit after tax (before goodwill amortisation);
- European (ex United Kingdom) supermarket and grocery companies are trading broadly around 0.4 times forecast revenue, 5-7 times forecast EBITDA, 8-12 times forecast EBITA and 11-15 times forecast net profit after tax (before goodwill amortisation). The multiples for Ahold are not meaningful for analysis purposes as a consequence of a substantial restructuring being undertaken during the period. Ahold and Delhaize Group both derive approximately 70% of revenue and over 80% of EBITA from the United States while Carrefour, Metro and Casino operate predominantly in Europe;
- the United Kingdom supermarket companies are trading at a premium to their European peers. It should be noted that both Tesco and J Sainsbury have substantial operations in banking and financial services. Wm Morrison has recently issued a series of profit warnings and expects current year earnings to decline significantly; and
- Pick 'n Pay Stores is the dominant retail operator in South Africa and operates under a lower cost structure than its industry rivals. Pick 'n Pay Stores' market position, operating efficiency and growth prospects is reflected in premium trading multiples over those of Shoprite. The trading multiples for Pick 'n Pay are similar to those of its larger global peers (eg. Woolworths, Tesco and Wal Mart Stores) while those for Shoprite Holdings are more comparable to the smaller European and United States operators.



A brief description for each company is set out below.

Woolworths Limited

Woolworths is one of Australia's leading retailers, operating more than 2,500 retail locations and employing over 145,000 people. Supermarkets account for approximately 85% of revenue and of group EBIT. Woolworths also operates petrol outlets under the Woolworths Plus Petrol banner, Big W variety stores, Dick Smith Electronics, Powerhouse, Tandy Electronics, Woolworths Liquor, Ezy Banking and the Homeshop and GreenGrocer.com.au internet grocery stores. The historical earnings multiples for Woolworths are not comparable to the forecast multiples as a consequence of the reclassification of Woolworths Income Notes ("WINS") from equity to debt following year end (i.e. the WINS dividends will now be accounted for as interest expense).

Coles Myer Limited

Coles is one of Australia's leading retailers, operating retail chain stores including supermarkets, department stores, apparel shops, fast food restaurants, liquor stores and discount stores. Coles generated sales of A\$32.3 billion in the financial year ended July 2004. Business is conducted predominantly under the following names: Coles, Bi-Lo, Liquorland, Vintage Cellars, Kmart, Megamart, Myer, Kmart Tyre & Auto Service, Officeworks, Target and Harris Technology. Coles offers petrol and convenience retailing under the banner, Coles Express, from 600 outlets through a joint venture with Shell. Coles operates approximately 2,000 stores in Australia and New Zealand and employs approximately 190,000 people. In the 2004 year the Food, Liquor and Fuel Division accounted for approximately 65% of revenue and group EBIT.

Metcash Trading Limited

Metcash is a marketing and distribution company operating in the food and other consumer goods sectors. It trades under the IGA Distribution, Campbell's Cash & Carry and Australian Liquor Marketers banners. On 6 December 2004 Metcash announced a major capital reorganisation and a takeover offer for Foodland. The multiples presented are calculated based the last share price on 3 December 2004 (being the last trading day prior to the announcement) and brokers forecasts available at that time.

Carrefour Group

Carrefour is the largest food and consumables retailer in Europe and the second largest retailer in the world. Carrefour operates hypermarkets which offer a wide range of food in addition to non-food products, supermarkets offering mostly food products, hard discounters offering mostly food products in small stores at low prices, convenience stores, and cash-and-carry food service outlets designed to meet the needs of the restaurant and food industry. The majority of earnings are derived from France (49% of sales) followed by the rest of Europe (37%), Asia (7%) and the Americas (7%).

Metro AG plc

Metro is a large European wholesale and retail group, operating supermarkets, hypermarkets, department stores, home improvement stores and consumer electronic stores in 30 countries across Europe and Asia. The majority of the company's sales are derived from Germany (51% in 2004) where it trades under the names Metro Cash & Carry, Real, Extra, Media Market and Saturn, Praktiker and Kaufhof. Metro Cash & Carry, the group's wholesale business, is the world's largest self-service wholesale business and has expanded into 28 countries. Sales revenue in 2004 was 56.4 billion.



Koninklijke Ahold NV

Ahold operates supermarkets, hypermarkets and discount stores in Europe, North and South America and Asia. The company operates under various brands in each of these regions, including Stop & Shop, Giant, TOPS, Albert Heijn and Bompreco. In addition to its retail operations, Ahold is a grocery wholesaler to restaurants, hotels, universities, government facilities and other large institutions. Over 70% of Ahold's sales are from its US retail operations, with European retail comprising 27% of sales. The company suffered increasing margin deterioration between 2000 and 2003, became over geared as a result of a series of acquisitions and uncovered a major incidence of fraud in its US food service operations in 2003. The company has initiated a restructuring plan for its businesses and plans to sell approximately 2.5 billion of non-core assets by the end of 2005. The sale of non-core assets in 2004 and 2005 is expected to result in improvements in profitability however will also result in a significant writedown in goodwill. Further margin deterioration in the core US retail business is expected in 2005 before an anticipated improvement in 2006. Consequently, the multiples calculated for Ahold for forecast periods reflect this operating transition and are not meaningful.

Casino Guichard-Perrachon SA

Casino is a large European food retailer and operates hypermarkets, supermarkets, discount stores, convenience stores and restaurants in 15 countries. Casino owns and operates more than 9000 stores, the majority of which are located in France. More than 2000 stores are located outside of France. French retail operations represent the majority of the company's business, generating 80% of 2003 sales and 91% of Group EBIT. More than 70% of Casino's operating income is generated in discount and convenience formats. Sales revenue in 2004 was 23.2 billion. The Rallye Group has 51% of Casino ordinary shares and 64% of the voting rights.

Delhaize Group

Delhaize Group operates supermarkets, drugstores, discount stores and health and beauty shops in nine countries across three continents and has an international network of 2,565 stores. In 2004 Delhaize generated sales revenue of 18.0 billion and net income of 211 million. Despite its primary listing being in Belgium, Delhaize America, operating 1,523 stores under the Food Lion, Hannaford, Kash N' Karry and Harveys banners, is Delhaize Group's largest operating company accounting for over 71% of sales and 78% of EBIT;

Tesco plc

Tesco operates retail stores in the United Kingdom, Ireland, France, Hungary, Poland, Czech Republic, Slovakia, Thailand, South Korea, Taiwan and Malaysia. The company operates approximately 1,900 stores within the United Kingdom where it is the leading food retailer, and a further 400 stores internationally. In the year to February 2005, Tesco generated sales revenue of £37.1 billion. Tesco's origins are in food retailing but it has diversified in recent years to also offer non-food products such as CDs and DVDs, books, home entertainment and household appliances through its supermarkets and on-line store. Tesco Express operates a chain of petrol stations in the United Kingdom and Tesco Personal Finance offers life and general insurance, credit cards, loans and savings products through a joint venture with Royal Bank of Scotland.

J Sainsbury plc

J Sainsbury is a leading United Kingdom food retailer with interests in financial services and property. The company comprises Sainsbury's Supermarkets, a 55% interest in Sainsbury's Bank, Bells Stores, Jackson's Stores (acquired August 2004) and JB Beaumont. Sainsbury's Supermarkets is the second largest food retailer in the United Kingdom after Tesco, operating over 700 stores and employing over 150,000 people. In the year to March 2005 Sainsbury generated sales revenue of £16.6 billion. Just under half of products sold through Sainsbury's Supermarkets are sold under the Sainsbury in-house brand. Sainsbury's premises include petrol stations and in-store restaurants. J Sainsbury has underperformed in recent years and is currently undertaking a major restructuring and redirection of business strategy, the results of which are expected beyond the forecast period presented. Consequently, the earnings multiples presented are not meaningful.

***Wm Morrison Supermarkets plc***

In March 2004 (following year end) Wm Morrison completed the acquisition of Safeway Plc, creating the UK's fourth largest supermarket group with around 500 stores. Wm Morrison is currently in the process of rebranding and converting Safeway stores into the Wm Morrison banner and store format, as well as discontinuing Safeway's loss-leading pricing strategy in favour of Wm Morrison's more successful total low price strategy. In the year to January 2005 Wm Morrison generated sales of £12.1 billion. In addition to grocery products, stores offer CDs & DVDs, home & leisure products, photo processing, pharmacies, dry cleaning and petrol fill stations. Management has indicated that current year forecast earnings are expected to be significantly below historical earnings as issues associated with the integration of Safeway stores negatively impact expectations for sales and margins.

Wal Mart Stores Inc

Wal Mart is the world's largest retailer with annual sales of US\$285 billion, including international sales of more than US\$56 billion. Wal Mart's operations are centered in the United States where the company has over 1,350 Wal Mart Discount Stores, 1,700 Supercenters and 85 Neighborhood Markets, all of which offer a variety of general merchandise and groceries. Wal Mart also has 550 membership warehouse clubs operating under the Sam's Club banner which provide merchandise at "member's only" prices for both business and personal use. In recent years Wal Mart has expanded internationally and now owns the ASDA Group supermarket chain and George apparel stores in the United Kingdom in addition to Discount Stores, Supercenters, Sam's Clubs and Neighbourhood Markets in Argentina, Brazil, Canada, Germany, South Korea, Mexico and Puerto Rico. The company also operates joint ventures in China and has a 37.8% interest in The Seiyu Ltd, a Japanese retail chain. Wal Mart Stores account for approximately 67% of 2005 sales. Wal Mart is expected to continue gaining market share in the United States at the expense of other retailers. The international operations are expected to be a strong source of future growth.

The Kroger Company Inc

Kroger is the second largest retail food operator in the United States. Kroger operates supermarkets and convenience stores under names such as Dillon Food Stores, City Market, Sav-Mor, Kwik Shop, and Mini Mart. Kroger generated sales of US\$56.4 billion for the year to January 2005. At February 2005 the company operated 2,532 supermarkets, approximately 30% of which were owned. Of these supermarkets, 536 had fuel centres. Kroger operates three store formats: supermarkets, department stores and 'price-impact' warehouse stores. Kroger also operated 793 convenience stores and 432 fine jewellery stores. Private brand products play an important role in the company's merchandising strategy. Supermarket divisions typically stock approximately 7,800 private label items of which approximately 55% are produced in the company's manufacturing plants.

Safeway Inc

Safeway is one of the largest food and drug retailers in North America, operating 1,800 stores, approximately one third of which are company-owned and the remainder leased. Safeway generated sales of \$35.8 billion in the year to December 2004. The company's US retail operations are located in the Western, South Western Rocky Mountain, Mid Western and Mid Atlantic regions of the United States. The company's Canadian retail operations are located principally in British Columbia, Alberta and Manitoba/Saskatchewan. Stores operate under the banners, Safeway, Pak n Save Foods, Vons, Pavilions, Dominick's, Carrs, Randalls, Tom Thumb and Genuardi's. Stores typically incorporate Starbucks coffee shops and fuel centres. Safeway also has an extensive network of distribution, manufacturing and food processing facilities, a 49% interest in Casa Ley, S.A. de C.V. which operates 115 food and general merchandise stores in Western Mexico, and a strategic alliance with and a 54% ownership interest in Grocery Works Holdings, Inc., an Internet grocer.

Albertson's Inc

Albertson's operates a retail food-drug chain in various states across the United States. At February 2005, the company operated 2,503 retail stores in 37 states. These retail stores consist of 1,556 combination food-drug stores, 707 stand-alone drugstores, and 247 conventional and warehouse stores. The company also operated 234 fuel centres co-located with retail stores. Retail operations are supported by 17 major company distribution centres. Full year sales for the financial year ended January 2005 were US\$39.9 billion.

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Supervalu Inc

Supervalu is an integrated food retail and food distribution business operating in the United States grocery industry and employs approximately 56,000 employees. The food retail business comprises 1,550 stores across three retail formats: 'extreme value' stores operated under the banner Save-A-Lot, 'price superstores' operated under the banners of Cub Foods, Shop 'n Save, Shoppers Food Warehouse and Biggs, and supermarkets operated under various regional brands. Supervalu's store network includes 879 licensed stores. Supervalu generated sales of US\$19.5 billion in the year to February 2005. The logistics and distribution business serves approximately 3,000 stores across 48 states throughout the United States. Supervalu also offers third party logistics capabilities.

Pick 'n Pay Stores Limited

Pick 'n Pay Stores is a multi-channel retailer of food, clothing and general merchandise in Africa and Australia, operating supermarkets and hypermarkets. The group operates under the Pick 'n Pay brand and a range of other budget brands in Africa (predominantly South Africa) and operates 78 Franklins stores in Australia. Pick 'n Pay also operates stand-alone clothing stores. Pick 'n Pay generated sales of R31.9 billion in the year to February 2005 from a network of approximately 667 stores. Franklins Australia sales were A\$841 million in the year to February 2005. The group pioneered and is dominant in hypermarket format stores in South Africa. Pick 'n Pay has a joint venture with Nedbank Limited, Go Banking, offering banking services.

Shoprite Holdings Limited

Shoprite Holdings operates the largest fast moving consumer goods business in Africa. Its higher margin South African businesses are second in market share to Pick 'n Pay Stores and operate under a higher cost structure. The group's retail brands include Shoprite (312 stores), Checkers, OK, Hyperama, Freshmark, Usave and Sentra. Shoprite Holdings operates 705 stores across 16 countries in Africa, predominantly in Southern Africa. Full year sales revenue in the most recent financial period was R27.2 billion.



2 Valuation Evidence from Transactions

In recent years there have been a number of transactions in Australia and internationally involving the acquisition of supermarket operators and grocery wholesalers. The transactions identified provide evidence of prices that acquirers are willing to pay and provide some support for the multiples implied by the valuation of Foodland's operating businesses:

| Recent Transaction Evidence | | | | | | | | | |
|----------------------------------|--|--|--|-------------------------------|----------|------------------------------|----------|-----------------------------|----------|
| Date | Target | Transaction | Consideration ⁶ (millions) | Revenue Multiple ⁷ | | EBITDA Multiple ⁸ | | EBITA Multiple ⁹ | |
| | | | | Historical | Forecast | Historical | Forecast | Historical | Forecast |
| Australia and New Zealand | | | | | | | | | |
| Dec 2004 | Metcash Trading Limited | Selective capital reduction of Metoz's 60% shareholding in Metcash Trading Limited | A\$1,866 | 0.3 | 0.3 | 9.2 | 9.0 | 10.0 | 10.3 |
| Jun 2002 | Woolworths New Zealand | Acquisition by Foodland Associated Limited | NZ\$690 | 0.4 | 0.4 | 7.3 | na | 13.8 | na |
| Oct 2001 | 20 Franklins stores | Acquisition by Coles Myer Limited | A\$35 | 0.1 | na | na | na | na | na |
| Jun 2001 | 35 Franklins stores plus and 2 distribution facilities | Acquisition by Foodland Associated Limited | A\$155 | 0.3 | na | na | na | na | na |
| Jun 2001 | 53 Franklins stores and brandnames | Acquisition by Pick 'n Pay Stores Limited | A\$101 | na | na | na | na | na | na |
| Jun 2001 | 67 Franklins stores in Australia | Acquisition by Woolworths Limited | A\$229 | 0.2 | 0.2 | na | na | na | 11.3 |
| Jun 1999 | Progressive Enterprises Limited | Acquisition by Foodland Associated Limited | NZ\$558 | 0.3 | 0.3 | 7.4 | 7.0 | 12.2 | 10.8 |
| Feb 1998 | Davids Limited | Acquisition of 76% by Metro Cash & Carry Ltd | A\$490 | 0.1 | 0.1 | 6.1 | 7.6 | 8.8 | 11.3 |
| South Africa | | | | | | | | | |
| Oct 2004 | Mettrade Limited | Acquisition by management and investor consortium | R1,300 | 0.1 | na | 4.0 | na | 5.0 | na |
| United Kingdom and Europe | | | | | | | | | |
| Dec 2004 | Big Food Group plc | Acquisition by Bauger Group consortium | £326 | 0.1 | 0.1 | 4.0 | 4.4 | 7.9 | 9.0 |
| Dec 2003 | Safeway plc | Acquisition by Wm Morrison Supermarkets plc | £3,000 | 0.5 | 0.5 | 7.2 | 7.4 | 10.5 | 11.5 |
| Oct 2002 | T&S Stores plc | Acquisition by Tesco plc | £377 | 0.6 | na | 8.9 | na | 11.3 | na |
| Jun 2002 | Budgens plc | Acquisition of 72% by Musgrave Group | £274 | 0.6 | na | 9.5 | na | 14.6 | na |
| Oct 2000 | Centros Comerciales Carrefour | Acquisition of 20.3% by Carrefour Group | 718 | na | na | 7.5 | na | 13.0 | na |
| May 2000 | Booker plc | Acquisition by Iceland plc | £378 | 0.2 | 0.2 | 7.0 | 7.0 | 10.2 | 9.6 |
| Jun 1999 | ASDA Group | Acquisition by Wal Mart Stores Inc | £6,987 | 0.9 | 0.8 | 12.9 | 12.1 | 17.0 | 16.9 |
| North America | | | | | | | | | |
| Mar 2004 | JS USA Holdings Inc | Acquisition by Albertson's Inc | US\$2,107 | 0.5 | na | na | na | 10.0 | na |
| Sep 2001 | Alliant Food Services | Acquisition by Ahold | US\$1,477 | 0.3 | 0.3 | 12.9 | 11.4 | 17.0 | 14.8 |

⁶ Implied equity value if 100% of the company or business had been acquired.

⁷ Represents gross consideration divided by revenue. The gross consideration is the sum of the equity and/or cash consideration plus borrowings net of cash.

⁸ Represents gross consideration divided by EBITDA.

⁹ Represents gross consideration divided by EBITA.

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| Recent Transaction Evidence | | | | | | | | | |
|------------------------------------|--------------------------|--------------------------------------|---|--------------------------------|----------|-------------------------------|----------|------------------------------|----------|
| Date | Target | Transaction | Consideration ¹⁰ (millions) | Revenue Multiple ¹¹ | | EBITDA Multiple ¹² | | EBITA Multiple ¹³ | |
| | | | | Historical | Forecast | Historical | Forecast | Historical | Forecast |
| Sep 2001 | Bruno's Supermarkets Inc | Acquisition by Ahold | US\$543 | 0.4 | 0.3 | 10.4 | 8.3 | 18.8 | 15.1 |
| Sep 2000 | Delhaize America | Acquisition of 55% by Delhaize Group | US\$3,658 | 0.4 | 0.4 | 5.4 | 4.9 | 7.6 | 7.5 |
| Aug 1999 | Hannaford Bros | Acquisition by Delhaize America | US\$3,267 | 1.1 | 1.0 | 13.0 | 11.9 | 19.5 | 18.0 |
| Jul 1999 | Randall's Food Markets | Acquisition by Safeway Inc | US\$1,411 | 0.7 | 0.6 | 10.4 | 8.0 | 12.9 | na |
| Jun 1999 | Richfoods Holdings Inc | Acquisition by Supervalu Inc | US\$891 | 0.4 | 0.4 | 6.8 | 6.3 | 9.2 | 7.6 |
| Oct 1998 | Fred Meyer Inc | Acquisition by The Kroger Company | US\$7,030 | nm | 0.8 | nm | 9.3 | nm | 13.3 |
| Aug 1998 | American Stores Co | Acquisition by Albertson's Inc | US\$12,369 | 0.8 | na | 12.6 | na | na | na |
| Aug 1998 | Carr-Gottstein Foods | Acquisition by Safeway Inc | US\$344 | 0.5 | na | 7.1 | na | 10.9 | na |

Source: IRESS, Bloomberg, Company Announcements, Annual Reports, Takeover Documents, Brokers' Reports, Media Reports

The transactions have taken place at prices that imply multiples in a very wide range (even after outlying multiples are excluded):

- 0.2-0.8 times historical sales revenue and 0.2-0.6 times forecast sales revenue;
- 5.4-10.4 times historical EBITDA and 6.3-9.3 times forecast EBITDA; and
- 7.6-13.8 times historical EBITA and 7.6-15.1 times forecast EBITA.

Newco (wholly owned subsidiary of Metcash) / Metcash

On 6 December 2004 Metcash announced a capital reorganisation under which, Newco, a wholly owned subsidiary, acquired all of the shares in Metoz Holdings Limited ("Metoz"). Metoz's major asset was a 52% shareholding in Metcash. The acquisition was effectively a buyout by Metcash minority shareholders of the majority shareholder, Metoz. The acquisition was implemented via a scheme of arrangement where Metoz shareholders received cash consideration of R2.65 per Metoz share and valued Metoz at R4.8 billion. The transaction implied an equity value for Metcash of \$2.92 per share, or \$1.87 billion for 100%.

Foodland / Woolworths NZ

In June 2002 Dairy Farm announced an agreement to sell Woolworths New Zealand to Foodland. At the time of the acquisition Woolworths was the third largest participant in the New Zealand grocery retailing market with 85 supermarkets, 26 mini-marts and three warehouses.

¹⁰ Implied equity value if 100% of the company or business had been acquired.

¹¹ Represents gross consideration divided by revenue. The gross consideration is the sum of the equity and/or cash consideration plus borrowings net of cash.

¹² Represents gross consideration divided by EBITDA.

¹³ Represents gross consideration divided by EBITA.



Franklins Ltd

On 22 January 2001, Dairy Farm International Holdings Limited (“Dairy Farm”) announced a strategic review of its Australian supermarket business, Franklins Ltd and on 18 April 2001 announced that it would sell off its Australian business. As a consequence, Dairy Farm entered into a Joint Independent Divestment Alliance with Metcash whereby Metcash would assist Dairy Farm in selling some of the stores to customers of Metcash that traded under the IGA banner. On 22 May 2001, Dairy Farm reached a resolution with the Australian Competition & Consumer Commission (“ACCC”) on a viable framework for the managed sell-down of the Franklins’ business whereby approximately 160 stores would be sold through Metcash (with some going to a foreign operator), 67 stores to Woolworths and 35 stores to Foodland. The sell-down was achieved by the following transactions:

- on 4 June 2001, 67 stores were sold to Woolworths for \$229 million (i.e. a multiple of 9.5 times average weekly turnover for the stores);
- on 18 June 2001, 53 stores, the Franklins brand and trading names and the No Frills product brand in Australia were sold to Pick ‘n Pay Stores Limited of South Africa for \$101 million;
- on 25 June 2001, 36 stores and two distribution centres were sold to Foodland for \$155 million (i.e. a multiple of 16.1 times average weekly turnover for the stores); and
- on 8 October 2001, Coles Myer acquired 20 stores for \$34.8 million (i.e. a multiple of 4.5 times average weekly turnover for the stores).

Meaningful multiples of earnings cannot be calculated due to the loss-making nature of Franklins’ stores.

Foodland Associated / Progressive Enterprises minorities

In June 1999 Foodland launched a bid to acquire all shares held by minority shareholders of Progressive Enterprises for cash consideration of NZ\$2.90 per share, later increased to NZ\$3.00 per share. The offer was successful with Foodland moving to compulsory acquisition of all remaining shares on 23 August 1999.

Metro Cash & Carry Limited / Davids Limited

On 10 February 1998 Metro Cash & Carry Limited made a \$1.10 per share takeover offer for Davids Limited. The offer came after Metro Cash & Carry acquired a 14.9% interest of Davids with a call option over a further 5%. Davids owned over 100 supermarkets and was Australia’s largest grocery wholesaler selling food wholesale to more than 4,000 retail outlets. Metro Cash & Carry was South Africa’s largest wholesale grocery distribution company and viewed the acquisition as a way to expand into Australia.

Management and Investor Consortium / Metrade Limited

On 5 May 2004, Metro Cash & Carry Limited announced its intention to sell its wholly owned subsidiary, Metcash Trading Limited (“Metrade”), to a consortium comprising management and investors. Prior to the transaction Metrade was the largest wholesale distributor of groceries and other fast moving consumer goods in the African continent. The offer price comprised R1.3 billion for all of the shares in Metrade (a premium of 13.5% to net asset value) and R206 million of net debt was assumed by the consortium as part of the acquisition. The transaction was approved by Metro Cash & Carry Limited shareholders in September 2004. Following the transaction the company was renamed Metoz Holdings Limited and its major asset was a 60.3% equity stake in Metcash.

Bauger / Big Food Group

On 30 November 2004 Bauger, Iceland’s largest retail company, offered £0.95 per share for Big Food Group, owner of United Kingdom frozen food retail chain “Iceland”. The bid represented an acquisition price of £326 million. The offer price was scaled back from an initial acquisition price of £1.10 per share following concerns over deteriorating trading results during the offer period and the size of the target’s pension liability.



Wm Morrison / Safeway plc

On 15 December 2003, Wm Morrison announced a takeover offer for all shares in Safeway plc for consideration of 1 Wm Morrison share plus £0.60 for each Safeway share. At the prior closing share price of Wm Morrison, this valued the equity in Safeway at exactly £3 billion. At the time of acquisition, Safeway was the fourth largest food retailer by market share in the United States with 479 stores, 194 petrol stations and 59 petrol station/convenience stores operated under a joint venture with BP.

Tesco / T&S Stores

In October 2002, Tesco offered £377 million for 100% of convenience store operator T&S Stores plc. The deal, settled in January 2003, saw Tesco acquire 862 convenience stores. The acquisition price was settled through the issue of Tesco ordinary shares. Tesco acquired £153 million of T&S Stores debt in addition to the acquisition price.

Musgrave Group / Budgens

In August 2000 the Musgrave Group acquired 28% of British supermarket chain Budgens plc. In September 2002 Musgrave subsequently acquired the remaining shares in the company. At that time, Budgens operated 234 supermarkets and convenience stores in the South East of England.

Iceland plc/Booker plc

On 25 May 2000, Iceland plc announced it would acquire Booker plc. The consideration offered was 0.5292 shares of Iceland for each share of Booker, a value of £1.50 per share. Booker, as the largest food wholesaler in the United Kingdom with 35% of the market, supplied retailers and caterers. Iceland was a United Kingdom supermarket chain that intended to use Booker's 182 warehouses as distribution hubs for online shopping and home delivery.

Wal Mart / ASDA Group

In October 1999 Wal Mart acquired all of the stock of ASDA Group, the third largest retailer in the United Kingdom, for a purchase price of approximately £7 billion. ASDA had 229 stores at the time of the acquisition. The acquisition of ASDA marked Wal Mart's entry into the United Kingdom.

Carrefour / Centros Comerciales Carrefour

In October 2000, Carrefour Group merged its two majority owned Spanish grocery retailers, Centros Comerciales Pryca and Centros Comerciales Continente, to create Centros Comerciales Carrefour ("CCC"), Spain's largest grocery retailer with 120 hypermarkets, 200 supermarkets and 1,800 Dia discount stores. In September 2002, Carrefour announced a plan to acquire minority shareholders' remaining 20.3% ownership of CCC. The deal involved the exchange of minority shareholders' CCC shares for Carrefour shares. The exchange ratio represented a premium of 14.4% over the prior closing CCC share price.

Albertson's / JS USA Holdings

In March 2004, Albertson's announced an agreement to purchase 100% of JS USA Holdings, the owner of the 204-store Shaw's and Star Markets supermarket chains in the US for consideration of US\$2,475 million including US\$368 million of capital lease liabilities acquired in the deal. At the time Shaw's was the 11th largest supermarket operator in the United States. JS USA Holdings was previously 100% owned by J Sainsbury plc.

Ahold / Alliant Exchange

In September 2001, Netherlands-based food retailer Ahold announced the purchase of approximately 80% of Alliant Exchange, the former food service division of Kraft, from Clayton Dubilier & Rice Inc, a New York equity buy-out firm.



Ahold / Bruno's Supermarkets

In September 2001, Ahold announced its intention to acquire United States food retailer Bruno's Supermarkets. Bruno's operated a chain of 185 stores under the banners of Bruno's (superstores), Food World and Food Max (supermarkets) and Food Fair (convenience stores) located in Alabama, Florida, Mississippi and Georgia.

Delhaize Group / Delhaize America

In September 2000, the boards of Delhaize Group (Brussels listed) and Delhaize America Inc. announced a proposed merger of the companies to be implemented by way of an exchange of all outstanding shares in Delhaize America for ordinary shares of Delhaize Group. The proposed conversion ratio of Delhaize America shares into Delhaize Group shares represented a premium of 32% over the pre-offer 20-day average closing price of Delhaize America shares. The conversion ratio was later increased from 0.35:1 to 0.4:1 to take account of a reduction in Delhaize Group's share price during the offer period. However, given the transaction was structured as a merger, it is possible that the exchange price did not reflect a premium above a full enterprise value for Delhaize America. The transaction resulted in Delhaize Group increasing its ownership in Delhaize America from 45% to 100%, expanding its shareholder base, simplifying its ownership structure and commencing dual listing on the Brussels and New York stock exchanges. At the time of the acquisition, Delhaize America was the fifth largest supermarket company in the US, operating 1,420 supermarkets in 16 states and employing 116,000 people.

Delhaize America / Hannaford Brothers

On 18 August 1999, Delhaize America Inc agreed to acquire Hannaford Brothers Co for US\$3,267 million. Hannaford Brothers had 150 supermarkets in Maine, New Hampshire, Vermont, New York, Massachusetts, Virginia, North Carolina and South Carolina operating under the names Shop 'n Save and Hannaford. The acquisition allowed Delhaize America to expand into the northeastern United States.

Safeway Inc / Randall's Food Markets

In July 1999 Safeway Inc announced the acquisition of Randall's Food Markets. Safeway paid approximately US\$755 million in cash, issued approximately 12.7 million shares of common stock and assumed debt. Randall's was the second largest supermarket operator in its principal markets, with 115 stores located in major Texan metropolitan areas including Houston (46 stores), Dallas/Fort Worth (57 stores) and Austin (12 stores).

Supervalu Inc / Richfood Holdings Inc

On 9 June 1999 Supervalu Inc announced it would acquire Richfood Holdings Inc for US\$891 million. The consideration offered was US\$18.50 per share in cash and stock. Richfood was the fourth largest publicly owned food wholesaler in the United States serving approximately 1,400 retail grocery stores throughout the Mid-Atlantic region of the United States. In addition, Richfood operated 92 supermarkets in Maryland, Virginia and the District of Columbia. Wholesaling accounted for 56% of 1999 revenue.

Kroger / Fred Meyer

In October 1998 Kroger announced the acquisition of all the outstanding common stock of Fred Meyer Inc. for Kroger shares. Fred Meyer was one of the largest domestic food retailers in the United States, operating 781 supermarkets and multi-department stores. During the financial year ended 30 January 1998 Fred Meyer acquired three large American retail operations: Smith's Food & Drug Inc, Quality Food Centers and Ralphs Grocery Company. These acquisitions more than doubled the company's sales and almost trebled EBITDA in the next full financial year. As a result, the transaction evidence based on historical multiples from Fred Meyer's 1998 financial year is not meaningful.

GRANT SAMUEL



Albertson's / American Stores Company

On 2 August 1998 Albertson's Inc. and American Stores Company entered into a definitive merger agreement whereby Albertson's would acquire American Stores by exchanging 0.63 shares of Albertson's common stock for each outstanding share of American Stores common stock. The merger was completed on 23 June 1999 with the issuance of approximately 177 million shares of Albertson's common stock. American Stores was a leading food and drug retailer, operating 1,580 stores in 26 states. American Stores principal formats included supermarkets, stand-alone drug stores and combination food/drug stores. American Stores principal markets included California, Illinois, New Jersey, Pennsylvania, Nevada, Indiana, Massachusetts and Arizona.

Safeway Inc / Carr-Gottstein Foods

In April 1998 Safeway acquired Carr-Gottstein Foods for US\$106 million plus assumed all of the company's debt. At the time of acquisition Carr-Gottstein Foods was the leading food and drug retailer in Alaska, with 52 stores primarily located in Anchorage. The company operated a chain of 16 super-combination food, drug and general merchandise stores, nine smaller stores, as well as three neighbourhood food stores in smaller Alaskan communities. The company also operated a chain of 17 wine and liquor stores and seven small tobacco stores.

15.2 Independent Accountant's Report on FAL and PEH financial information and Financial Services Guide



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TRANSACTION ADVISORY SERVICES

GPO Box M939
Perth WA 683

13 September 2005

The Directors
Foodland Associated Limited
218 Bannister Road
CANNING VALE WA 6155

Dear Directors

INDEPENDENT ACCOUNTANT'S REPORT AND FINANCIAL SERVICES GUIDE

PART 1 - INDEPENDENT ACCOUNTANT'S REPORT ON PRO-FORMA HISTORICAL AND FORECAST FINANCIAL INFORMATION

1. Introduction

We have prepared this Independent Accountant's report ("Report") on the Pro-forma historical and forecast financial information at the request of the directors of Foodland Associated Limited and its controlled entities ("FAL") for inclusion in the Booklet to be dated on or about 16 September 2005 relating to the demerger of the FAL Group.

Following the completion of the demerger, the New Zealand Operation will be owned by a new holding company, Progressive Enterprises Holdings Limited ("PEH"). FAL will continue to own the Australian Operation. Existing shareholders will continue to hold shares in FAL and will also hold shares in PEH. Following the completion of the demerger and assuming that the Transfer Scheme does not proceed, FAL will continue to be listed on the ASX and it is intended that PEH will be listed on the ASX and NZX.

Expressions defined in the Booklet have the same meaning in this Report.

The nature of this Report is such that it can only be given by an entity that holds an Australian Financial Services Licence under the Corporations Act 2001. Ernst & Young Transaction Advisory Services Limited holds the appropriate Australian Financial Services Licence.

2. Scope

You have requested Ernst & Young Transaction Advisory Services Limited to prepare an Independent Accountant's Report for inclusion in the Booklet covering the following financial information:

Pro-forma Historical Financial Information

- for the FAL Post-Demerger Group, the Pro-forma Australian Operation Results by Segment (Section 8.2.5 of Part 8 of the Booklet) and the Pro-forma Cash Flow Statements of the Australian Operation (Section 8.5 of Part 8 of the Booklet) for the financial years ended 31 July 2005, 1 August 2004, 3 August 2003 and 4 August 2002 prepared in accordance with applicable Accounting Standards in Australia ("AGAAP");
- for the FAL Post-Demerger Group, the Pro-forma Statement of Financial Position as at 31 July 2005 (Sections 8.4 and 8.7 of the Booklet) prepared in accordance with AGAAP and Australian equivalents to International Financial Reporting Standards ("AIFRS");
- for the PEH Post-Demerger Group, the Pro-forma New Zealand Operation Results by Segment (Section 10.2.7 of Part 10 of the Booklet) and the Pro-forma Cash Flow Statements of the New Zealand Operation (Section 10.5 of Part 10 of the Booklet) for the financial years ended 31 July 2005, 1 August 2004, 3 August 2003 and 4 August 2002 prepared in accordance with AGAAP; and
- for the PEH Post-Demerger Group, the Pro-forma Statement of Financial Position (Sections 10.4 and 10.7 of Part 10 of the Booklet) as at 31 July 2005 prepared in accordance with AGAAP and AIFRS,

(collectively the "Pro-forma Historical Financial Information").

Pro-forma Forecast Financial Information

- for the FAL Post-Demerger Group, the Pro-forma Forecast Statement of Financial Performance (Section 8.6.3 of Part 8 of the Booklet) for the financial year ending 30 July 2006 prepared in accordance with AGAAP and AIFRS ; and
- for the PEH Post-Demerger Group, the Pro-forma Forecast Statement of Financial Performance (Section 10.6.3 of Part 10 of the Booklet) for the financial year ending 30 July 2006 prepared in accordance with AGAAP and AIFRS.

(collectively the "Pro-forma Forecast Financial Information").

The Pro-forma Historical Financial Information has been based on the audited consolidated financial statements of FAL for the years ended 1 August 2004, 3 August 2003 and 4 August 2002 and the reviewed Preliminary Final Report, as set out in Appendix 4E to the Australian Stock Exchange Listing Rules ("Appendix 4E"), of FAL for the year ended 31 July 2005. The consolidated financial statements were audited by Ernst & Young and the Appendix 4E was reviewed by Ernst & Young. Ernst & Young issued unqualified audit opinions on the consolidated financial statements and an unqualified review statement on the Appendix 4E covered by this Report.

The Pro-forma Historical Financial Information incorporates such adjustments as the FAL Directors consider necessary to reflect the impact of the Demerger on the Australian and New Zealand operations. The Pro-forma Historical Financial Information does not purport to present what the results would have been had the FAL Post-Demerger and PEH Post-Demerger Groups operated on a stand-alone basis during the periods covered by the Pro-forma Historical Financial Information. The

Pro-forma adjustments (“Pro-forma Adjustments”) are described more fully in the Booklet as follows:-

- for the FAL Post-Demerger Group, in Sections 8.2.4 and 8.4.1 of Part 8; and
- for the PEH Post-Demerger Group, in Sections 10.2.6 and 10.4.1 of Part 10.

The Pro-forma Results by Segment and Pro-forma Cash Flow Statements incorporate the Pro-forma Adjustments and assume that the Demerger occurred on 30 July 2001. The Pro-forma Statements of Financial Position incorporate the Pro-forma Adjustments and assume that the Demerger occurred on 31 July 2005.

Responsibility

The FAL Directors are responsible for the preparation of the Pro-forma Historical Financial Information, including determination of the pro-forma and AIFRS adjustments. The FAL Directors are also responsible for the preparation and presentation of the Pro-forma Forecast Financial Information, including the best estimate assumptions on which they are based.

It is our responsibility to review the Pro-forma Historical Financial Information and Pro-forma Forecast Financial Information as set out in Parts 8 and 10 of the Booklet and report on it. Our review did not extend to the management discussion and analysis (“MD&A”) set out in Sections 8.3 and 8.5.1 of Part 8 and Sections 10.3 and 10.5.1 of Part 10 of the Booklet. We disclaim any responsibility for any reliance on this Report or the financial information to which it relates for any other purpose other than for that for which it was prepared. This Report should be read in conjunction with the rest of the Booklet.

Review of Pro-forma Historical Financial Information

We have performed a review of the pro-forma Historical Financial Information in order to state whether, on the basis of the procedures described, anything has come to our attention that would cause us to believe that the Pro-forma Historical Financial Information as described above and set out in Parts 8 and 10 of the Booklet, excluding the MD&A, is not presented fairly in accordance with the measurement and recognition requirements (but not all of the disclosure requirements) of applicable Accounting Standards in Australia and AIFRS as applicable.

Our review of the Pro-forma Historical Financial Information was conducted in accordance with Australian Auditing and Assurance Standard AUS 902 *Review of Financial Reports* and included such inquiries and procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- analytical review procedures on the audited consolidated financial statements and the reviewed Appendix 4E for the relevant historical periods;
- a review of work papers, accounting records and other documents;
- a review of the reasonableness of the Pro-forma Adjustments used to compile the Pro-forma Operation results by segment and Pro-forma Statements of Financial Position, and Cash Flow set out in Parts 8 and 10 of the Booklet;
- a comparison to ensure the consistent application of the accounting policies adopted by FAL, as disclosed in their 1 August 2004 financial statements, over the relevant periods covered by the Pro-forma Historical Financial Information;

- a review of the reasonableness of the AIFRS adjustments, described more fully in Section 8.7.1 of Part 8 and Section 10.7.1 of Part 10 of the Booklet, used to compile the Statement of Financial Position at 31 July 2005 prepared in accordance with AIFRS; and
- enquiry of FAL Directors, management of FAL and others.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Review of Pro-Forma Forecast Financial Information

Our review of the Pro-forma Forecast Financial Information, as described above and set out in Parts 8 and 10 of the Booklet, and the best estimate assumptions underlying the Forecast Financial Information was conducted in accordance with the Australian Auditing and Assurance Standard AUS 902 *Review of Financial Reports*, except that the scope of our review was limited. As explained in Parts 8 and 10 of the Booklet, FAL management has yet to complete their AIFRS project with respect to the application of Australian Accounting Standard AASB 139 *Financial Instruments: Recognition and Measurement*. Accordingly, the impact of applying AASB 139 on the Pro-forma Forecast Financial Information has yet to be determined.

The review procedures we conducted consisted primarily of enquiry and comparison and other such analytical review procedures we considered necessary so as to adequately evaluate whether the best estimate assumptions provide a reasonable basis for the Pro-forma Forecast Financial Information.

These procedures, including discussion with the FAL Directors and management of FAL, have been conducted in order to state whether, on the basis of the procedures described, anything has come to our attention that would cause us to believe that:-

- (i) the FAL Directors' best estimate assumptions do not provide a reasonable basis for the Pro-forma Forecast Financial Information;
- (ii) in all material respects the Pro-forma Forecast Financial Information for the financial year ending 30 July 2006 is not properly prepared on the basis of the FAL Directors' best estimate assumptions; and
- (iii) the Pro-forma Forecast Financial Information is not presented fairly in accordance with the recognition and measurement principles (but not all the disclosure requirements) prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, the accounting policies of FAL as disclosed in its 1 August 2004 financial statements, and AIFRS so as to present a view of the FAL Post-Demerger Group and PEH Post-Demerger Group which is not inconsistent with our understanding of the past, current and future operations of the businesses.

The Pro-forma Forecast Financial Information has been prepared by the FAL Directors to provide shareholders with a guide to the potential future financial performance of the FAL Post-Demerger Group and the PEH Post-Demerger Group as separate operations based upon the achievement of certain economic, operating, developmental and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur.

There is a considerable degree of subjective judgement involved in the preparation of the Pro-forma Forecast Financial Information. Actual results may vary materially from the Pro-forma Forecast Financial Information and the variation may be materially positive or negative. Accordingly, FAL

Shareholders should have regard to the business strategy and risk factors set out in Sections 7.4 and 7.5 of Part 7 and Sections 9.4 and 9.6 of Part 9 of the Booklet, and the sensitivity analysis set out in Section 8.6.6 of Part 8 and Section 10.6.6 of Part 10 of the Booklet.

Our review of the Pro-forma Forecast Financial Information was substantially less in scope than an audit examination conducted in accordance with Australian Auditing and Assurance Standards. A review of this nature provides less assurance than an audit. We have not performed an audit and we do not express an audit opinion on the Pro-forma Forecast Financial Information included in the Booklet.

3. Review Statements

Review Statement on Pro-Forma Historical Financial Information

Based on our review of the Pro-forma Historical Financial Information, which was not an audit, nothing has come to our attention to cause us to believe that the Pro-forma Historical Financial Information set out in Parts 8 and 10 of the Booklet, excluding the MD&A, does not present fairly:

- (a) (i) for the FAL Post-Demerger Group, the Pro-forma Australian Operation Results by Segment and the Pro-forma Cash Flow Statements of the Australian Operation for the financial years ended 31 July 2005, 1 August 2004, 3 August 2003 and 4 August 2002;
- (ii) for the FAL Post-Demerger Group, the Pro-forma Statement of Financial Position as at 31 July 2005;
- (iii) for the PEH Post-Demerger Group, the Pro-forma New Zealand Operation Results by Segment and the Pro-forma Cash Flow Statements of the New Zealand Operation for the financial years ended 31 July 2005, 1 August 2004, 3 August 2003 and 4 August 2002; and
- (iv) for the PEH Post Demerger Group, the Pro-forma Statement of Financial Position as at 31 July 2005

in accordance with the measurement and recognition requirements (but not all of the disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and the Pro-forma Adjustments as if the Demerger had occurred at:-

- 30 July 2001, for the Pro-forma Results by Segment and Pro-forma Cash Flow Statements; and
 - 31 July 2005, for the Pro-forma Statements of Financial Position.
- (b) the Pro-forma Statements of Financial Position of the FAL Post-Demerger Group and the PEH Post-Demerger Group as at 31 July 2005 in accordance with the recognition and measurement principles (but not all the disclosure requirements) of AIFRS, and the Pro-forma Adjustments as if the Demerger had occurred at 31 July 2005.

Review Statement on Pro-forma Forecast Financial Information

Except for the effects, if any, of the scope limitation relating to the impact of AASB 139 on the Pro-forma Forecast Financial Information as referred to above, our review of the Pro-forma Forecast Financial Information, which was not an audit, and our investigation of the reasonableness of the FAL Directors' best estimate assumptions giving rise to the Pro-forma Forecast Financial Information has caused nothing to come to our attention that causes us to believe that:

- (a) the FAL Directors' best estimate assumptions set out in Section 8.6.5 of Part 8 and Section 10.6.5 of Part 10 of the Booklet, which are subject to the risks set out in Section 7.5 of Part 7 and Section 9.6 of Part 9 of the Booklet, do not provide a reasonable basis for the Pro forma Forecast Financial Information;
- (b) the Pro-forma Forecast Financial Information for the financial year ending 30 July 2006 is not properly prepared on the basis of the FAL Directors' best estimate assumptions; and
- (c) the Pro-forma Forecast Financial Information is not presented fairly in accordance with the recognition and measurement principles (but not all the disclosure requirements) prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, the accounting policies adopted by FAL as disclosed in its 1 August 2004 financial statements and AIFRS.

The underlying assumptions are subject to significant uncertainties and contingencies that are outside the control of FAL and the FAL Directors. If events do not occur as assumed, actual results achieved by FAL and PEH may vary significantly from the Pro-forma Forecast Financial Information.

Accordingly, we do not confirm or guarantee the achievement of the Pro-forma Forecast Financial Information, as future events, by their very nature, are not capable of independent substantiation. FAL Shareholders should have regard to the business strategy and risk factors detailed in Sections 7.4 and 7.5 of Part 7 and Sections 9.4 and 9.6 of Part 9 of the Booklet and sensitivity analysis set out in Section 8.6.6 of Part 8 and Section 10.6.6 of Part 10 of the Booklet.

4. Inherent limitations regarding AIFRS adjustments

Under AASB 1 *First time adoption of Australian equivalents to International Financial Reporting Standards*, FAL's first AIFRS compliant financial report will be prepared in accordance with the accounting policies effective at the date of its first complete set of AIFRS financial statements, being 30 July 2006. The AIFRS differences identified by the FAL Directors in Parts 8 and 10 of the Booklet are therefore preliminary because there is a possibility that the expected accounting policies may change before the first financial reports are prepared for the year ending 30 July 2006. Accordingly, our review statements are limited to the extent of the expected differences identified in Parts 8 and 10 of the Booklet and the limitations imposed on FAL management as described in Section 8.6.1 of Part 8 and Section 10.6.1 of Part 10 of the Booklet.

5. Subsequent Events

Apart from the matters dealt with in this Report and having regard to the scope of this Report, to the best of our knowledge and belief there have been no material transactions or events outside the ordinary business of FAL subsequent to the completion of our review of the Historical and Forecast Financial Information that have come to our attention and would require comment on, or adjustment to, the information referred to in this Report, or that would cause such information to be misleading or deceptive.

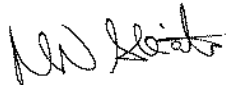
6. Independence or Disclosure of Interest

Ernst & Young Transaction Advisory Services Limited does not have any interest in the outcome of the Schemes, other than in connection with the preparation of this Report. Ernst & Young Transaction Advisory Services Limited will receive a professional fee for the preparation of this Report.

FAL has agreed to indemnify and hold harmless Ernst & Young Transaction Advisory Services Limited and its employees from any claims arising out of misstatement or omission in any material or information supplied by FAL.

Consent to the inclusion of the Independent Accountant's Report in the Booklet in the form and context in which it appears, has been given. At the date of this Report, this consent has not been withdrawn.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited



Martin Alciatiuri
Director and Representative

**THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE
INDEPENDENT ACCOUNTANT'S REPORT**

PART 2 – FINANCIAL SERVICES GUIDE

Issue date: 15 February 2005 (version 3)

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited (“Ernst & Young Transaction Advisory Services” or “we,” or “us” or “our”) has been engaged to provide general financial product advice in the form of an Independent Accountant’s Report (“Report”) in connection with a financial product of another person. The Report is to be included in documentation being sent to you by that person.

2. Financial Services Guide

This Financial Services Guide (“FSG”) provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to

you as a retail client because of your connection to the matters on which we have been engaged to report.

5. Remuneration for our services

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Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, neither Ernst & Young Transaction Advisory Services, nor any of its directors, employees or associated entities receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

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Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the Compliance and Legal Manager and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Industry Complaints Service or the Insurance Brokers Disputes Limited for general insurance product advice.

| | |
|---|--|
| <p>Contacting Ernst & Young Transaction Advisory Services</p> <p>Compliance and Legal Manager Ernst & Young 680 George Street Sydney NSW 2000</p> <p>Telephone: (02) 9248 5555</p> | <p>Contacting the Independent Dispute Resolution Schemes:</p> <p>Financial Industry Complaints Service Limited PO Box 579 – Collins Street West Melbourne VIC 8007 Telephone: 1800 335 405</p> <p>Insurance Brokers Disputes Limited Level 10 99 William Street Melbourne VIC 3000 Telephone 1800 064 169</p> |
|---|--|

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572

Part 16

Merger Implementation
Agreement –
Transfer Scheme

Merger Implementation Agreement - Transfer Scheme

Dated 12 September 2005

Foodland Associated Limited ("**FAL**")
Metcash Trading Limited ("**MTT**")
Woolworths Limited ("**WOW**")
WOW (NZ) Supermarkets Limited ("**WOW NZ**")

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Merger Implementation Agreement - Transfer Scheme

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Merger Implementation Agreement - Transfer Scheme

Details

Interpretation – definitions are at the end of the General terms

| Parties | FAL, MTT, WOW and WOW NZ | |
|----------------|---------------------------------|--|
| FAL | Name | Foodland Associated Limited |
| | ABN | 13 008 667 650 |
| | Address | 218 Bannister Road, Canning Vale, Western Australia 6155 |
| | Telephone | + 61 8 9311 6000 |
| | Fax | + 61 08 9311 6191 |
| | Attention | Company Secretary |
| MTT | Name | Metcash Trading Limited |
| | ABN | 61 000 031 569 |
| | Address | 4 Newington Road, Silverwater, New South Wales 2128 |
| | Telephone | + 61 2 9741 3000 |
| | Fax | + 61 2 9741 3027 |
| | Attention | Company Secretary |
| WOW | Name | Woolworths Limited |
| | ABN | 88 000 014 675 |
| | Address | Level 5, 540 George Street, Sydney, New South Wales 2000 |
| | Telephone | + 61 2 9323 1555 |
| | Fax | + 61 2 9323 1599 |
| | Attention | Company Secretary |

| | | |
|--------------------------|-------------------|---|
| WOW NZ | Name | WOW (NZ) Supermarkets Limited |
| | NZCN | 1686297 |
| | Address | c/o Chapman Tripp Sheffield Young, Level 35 23 - 29 Albert Street, Auckland, New Zealand |
| | Telephone | +64 9 357 9000 |
| | Fax | +64 9 357 9099 |
| | Attention | Company Secretary |
| Recitals | A | FAL is in the process of implementing the New Zealand Demerger, which includes proposing the Demerger Scheme. |
| | B | FAL has agreed in good faith to propose the Transfer Scheme to FAL Shareholders on the basis that the Transfer Scheme will take effect on the Transfer Implementation Date and be implemented immediately after the New Zealand Demerger is completed. The Transfer Scheme will be conditional on the Demerger Scheme but the Demerger Scheme will not be conditional on the Transfer Scheme. |
| | C | FAL, MTT, WOW and WOW NZ have agreed in good faith to implement the Transfer Scheme upon and subject to the terms and conditions of this agreement. |
| Governing law | Western Australia | |
| Date of agreement | See Signing page | |

Merger Implementation Agreement - Transfer Scheme

General terms

1 Agreement to propose Schemes

1.1 Demerger Scheme

- (a) FAL agrees to propose the Demerger Scheme upon and subject to the terms and conditions of this agreement, the Demerger Implementation Deed and the Demerger Scheme of Arrangement.
- (b) FAL agrees with MTT, WOW and WOW NZ to perform its obligations under the Demerger Scheme upon and subject to the terms and conditions of this agreement, the Demerger Implementation Deed and the Demerger Scheme of Arrangement.

1.2 Transfer Scheme

- (a) FAL agrees with MTT, WOW and WOW NZ to propose the Transfer Scheme and to perform its obligations under the Transfer Scheme upon and subject to the terms and conditions of this agreement and the Transfer Scheme of Arrangement.
- (b) MTT agrees with FAL, WOW and WOW NZ to perform, and to procure Metcash to perform, their respective obligations under the Transfer Scheme upon and subject to the terms and conditions of this agreement, the Transfer Scheme of Arrangement and the Metcash Deed Poll.
- (c) WOW and WOW NZ agree with FAL and MTT to perform their obligations under the Transfer Scheme upon and subject to the terms and conditions of this agreement, the Transfer Scheme of Arrangement and the WOW Deed Poll.

2 Conditions precedent

2.1 Conditions precedent for Transfer Scheme - FAL and MTT

The obligations of FAL and MTT to implement the Transfer Scheme are subject to the satisfaction of each of the following conditions precedent (which are subject to clause 2.3) to the extent and in the manner set out in clauses 2.5 and 2.6:

- (a) **Schemes Effective:** That the Demerger Scheme and the Transfer Scheme become Effective by 31 December 2005, or such later date as the parties may agree in writing before 31 December 2005.
- (b) **Orders and injunctions:** That no temporary restraining order, preliminary or permanent injunction or other order issued by any

Merger Implementation Agreement - Transfer Scheme

court of competent jurisdiction or other statutory legal restraint or prohibition preventing the consummation of the Demerger Scheme or the Transfer Scheme shall be in effect at 8.00 a.m. on the Second Court Date.

- (c) **ATO Class Ruling:** That by 8.00 a.m. on the Second Court Date, a class ruling (or class rulings) is published by the ATO confirming that capital gains tax rollover relief will be available for eligible FAL Shareholders in relation to the Demerger Scheme and the Transfer Scheme and confirming that section 45B of the Income Tax Assessment Act 1936 will not apply to the Demerger Scheme.
- (d) **No regulatory intervention:** That between the date of this agreement and 8.00 a.m. on the Second Court Date, no Regulatory Authority (other than the ACCC) has issued an order, decree or ruling permanently enjoining, restraining or otherwise prohibiting the Demerger Scheme or the Transfer Scheme, or taken any other action having that effect, or has refused to do anything necessary to permit the Demerger Scheme or the Transfer Scheme, and such order, decree, ruling, other action or refusal has become final and non-appealable.
- (e) **No breach or termination:** That between the date of this agreement and 8.00 a.m. on the Second Court Date, there has been no material breach or termination of this agreement.
- (f) **Metcash Material Adverse Change:** That between 1 August 2004 and 8.00 a.m. on the Second Court Date, there has been no Metcash Material Adverse Change.
- (g) **No material acquisitions or disposals:** That except for any Metcash Approved Matter, none of the following events occur or has occurred during the period from 24 May 2005 to 8.00 a.m. on the Second Court Date in relation to the Metcash FAL Businesses:
 - (i) FAL or any Subsidiary of FAL acquires, offers to acquire or agrees to acquire or comes under an obligation to acquire any companies, businesses or assets (or an interest in one or more companies, businesses or assets) for an amount in aggregate greater than \$16 million, or makes an announcement in relation to such an acquisition;
 - (ii) FAL or any Subsidiary of FAL disposes of, offers to dispose of, agrees to dispose of, or comes under an obligation to dispose of:
 - (A) one or more companies, businesses or assets (or an interest in one or more companies, businesses or assets), for an amount, or whose book value (as recorded in FAL's balance sheet as at 1 August 2004) is in aggregate, greater than \$16 million; or

Merger Implementation Agreement - Transfer Scheme

(B) any "Action" supermarket (other than a WOW Action Store),

or makes an announcement in relation to such a disposal;

(iii) FAL or any Subsidiary of FAL:

(A) enters into, offers to enter into or announces that it proposes to enter into; or

(B) varies or terminates or announces that it proposes to vary or terminate,

any joint venture, partnership or other similar arrangement, involving a commitment of the FAL Group, in aggregate, greater than \$16 million;

(iv) FAL or any Subsidiary of FAL:

(A) enters into, offers to enter into or announces that it proposes to enter into; or

(B) varies or terminates or announces that it proposes to vary or terminate,

any agreements or arrangements which are or would be, taken together, material in the context of the Metcash FAL Businesses (which includes agreements or arrangements the termination of which together are likely to adversely affect the earnings before interest and tax of the Metcash FAL Businesses by more than \$2 million in aggregate per annum);

(v) FAL or any Subsidiary of FAL incurs or commits to, or grants to another person, a right the exercise of which would involve the FAL Group incurring or committing to any capital expenditure or liability for an amount greater than, in aggregate, \$16 million;

(vi) FAL or any Subsidiary of FAL releases, discharges or modifies any substantial obligation (in the context of the Metcash FAL Businesses) owed to it or agrees to do so; or

(vii) FAL or any Subsidiary of FAL enters into or agrees to enter into any contract of service or varies or agrees to vary any existing contract of service with any director or officer, or pays or agrees to pay any retirement benefit or allowance to any director or officer or makes or agrees to make any substantial change in the basis or the amount of remuneration of any director, officer or other employee (except as required by law, as provided under any superannuation, provident or retirement scheme as in effect on 24 May 2005 or for any payment under an agreement or arrangement with employees

Merger Implementation Agreement - Transfer Scheme

or directors that was entered into in writing prior to 24 May 2005 or as disclosed in the Metcash Disclosed Matters),

and during that period the businesses of the Metcash FAL Businesses are otherwise carried on in accordance with clause 8.1(m).

- (h) **Consent of third parties:** That by 8.00 a.m. on the Second Court Date, every person who has or will have a right or rights (whether subject to conditions or not) under any agreement or arrangement (excluding property leases):
- (i) which is material in the context of the Metcash FAL Businesses (which includes an agreement or arrangement the termination of which is likely to adversely affect the revenues or costs of the Metcash FAL Businesses by more than \$16 million per annum or the earnings before interest and tax of the Metcash FAL Businesses by more than \$2 million per annum);
 - (ii) to which FAL or any controlled entity of FAL is a party; and
 - (iii) which results, or could result, in any such agreement or arrangement being terminated or varied or any action being taken or arising thereunder as a result of MTT acquiring FAL Shares including MTT acquiring or having a relevant interest in any or a specified number or proportion of FAL Shares,

(together, **Metcash Third Party Consents**),

provides their consent to the change in control or an enforceable, irrevocable and unconditional waiver or release in writing of such right or rights to FAL and FAL provides a copy of that waiver or release to MTT.

- (i) **Consents from landlords:** That by 8.00 a.m. on the Second Court Date the landlords of at least 80% of the property leases held by the FAL Group in respect of the Metcash FAL Businesses (**Australian Leases**) under which the acquisition by MTT of FAL Shares would result in a change of control giving rise to a deemed assignment that would require landlords' consent or any other right for the landlords to terminate or vary the terms of the property leases (together, **Australian Lease Consents**) provide their consent in principle subject to customary conditions to the change in control and/or deemed assignment or provide an enforceable and irrevocable waiver of any such right arising as a result of the change of control and/or deemed assignment.
- (j) **Prescribed Occurrence:** That there has been no Prescribed Occurrence between the date of this agreement and 8:00 a.m. on the Second Court Date other than as required or contemplated by this agreement or the Transfer Scheme.

Merger Implementation Agreement - Transfer Scheme

- (k) **FAL representations and warranties:** The representations and warranties of FAL set out in this agreement that are qualified as to materiality shall be true and correct, and the representations and warranties of FAL set out in this agreement that are not so qualified shall be true and correct in all material respects, in each case as of the date of this agreement and as of 5.00 p.m. on the day before the Second Court Date as though made on and as of that time except to the extent any such representation or warranty expressly relates to an earlier date (in which case as of such date).
- (l) **MTT representations and warranties:** The representations and warranties of MTT set out in this agreement that are qualified as to materiality shall be true and correct, and the representations and warranties of MTT set out in this agreement that are not so qualified shall be true and correct in all material respects, in each case as of the date of this agreement and as of 5.00 p.m. on the day before the Second Court Date as though made on and as of that time, except to the extent that any such representation or warranty expressly relates to an earlier date (in which case as of such date).
- (m) **Directors' recommendation:** That between 24 May 2005 and the date of the Scheme Meetings, a majority of the Directors do not change or withdraw their recommendation to FAL Shareholders to vote in favour of the Demerger Scheme or the Transfer Scheme.
- (n) **Multiplex Agreement:** That by 8.00 a.m. on the Second Court Date, Multiplex Developments (NZ) Limited executes an agreement in a form acceptable to MTT that releases each company in the FAL Post-Demerger Group and the PEH Post-Demerger Group from any liability or obligation under the Multiplex Agreement.

2.2 Conditions precedent for Transfer Scheme - FAL, WOW and WOW NZ

The obligations of FAL, WOW and WOW NZ to implement the Transfer Scheme are subject to the satisfaction of each of the following conditions precedent (which are subject to clause 2.3) to the extent and in the manner set out in clauses 2.5 and 2.7:

- (a) **Schemes Effective:** That the Demerger Scheme and the Transfer Scheme become Effective by 31 December 2005, or such later date as the parties may agree in writing before 31 December 2005.
- (b) **Foreign investment approvals:** That by 8.00 a.m. on the Second Court Date:
 - (i) **OIC approval:** any necessary OIC approval for the Transfer Scheme is obtained; and
 - (ii) **Treasurer's approval:**
 - (A) the Treasurer (or his delegate) provides written advice that there are no objections under Australia's foreign

Merger Implementation Agreement - Transfer Scheme

investment policy to the acquisition of PEH Shares by WOW NZ under the Transfer Scheme; or

- (B) following notice of the acquisition of PEH Shares by WOW NZ under the Transfer Scheme having been given to the Treasurer under the Foreign Acquisitions and Takeovers Act 1975 (Cwlth), the Treasurer ceases to be empowered to make any order under Part II of that Act because of lapse of time.
- (c) **ATO Class Ruling:** That by 8.00 a.m. on the Second Court Date, a class ruling (or class rulings) is published by the ATO confirming that capital gains tax rollover relief will be available for eligible FAL Shareholders in relation to the Demerger Scheme and the Transfer Scheme and confirming that section 45B of the Income Tax Assessment Act 1936 will not apply to the Demerger Scheme.
- (d) **No regulatory intervention:** That between the date of this agreement and 8.00 a.m. on the Second Court Date, no Regulatory Authority (other than the ACCC) has issued an order, decree or ruling permanently enjoining, restraining or otherwise prohibiting the Demerger Scheme or the Transfer Scheme, or taken any other action having that effect, or has refused to do anything necessary to permit the Demerger Scheme or the Transfer Scheme, and such order, decree, ruling, other action or refusal has become final and non-appealable.
- (e) **No breach or termination:** That between the date of this agreement and 8.00 a.m. on the Second Court Date, there has been no material breach or termination of this agreement.
- (f) **Orders and injunctions:** That no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other statutory legal restraint or prohibition preventing the consummation of the Demerger Scheme or the Transfer Scheme shall be in effect at 8.00 a.m. on the Second Court Date.
- (g) **WOW Material Adverse Change:** That between 23 May 2005 and 8.00 a.m. on the Second Court Date, there has been no WOW Material Adverse Change.
- (h) **No material acquisitions or disposals:** That except for any WOW Approved Matter, none of the following events occur or has occurred during the period from 23 May 2005 to 8.00 a.m. on the Second Court Date in relation to the Current New Zealand Businesses and the WOW Action Stores (treated as one business for the purposes of this clause 2.2(h)):
 - (i) FAL or any Subsidiary of FAL acquires, offers to acquire or agrees to acquire or comes under an obligation to acquire one or more companies, businesses or assets (or an interest in one

Merger Implementation Agreement - Transfer Scheme

or more companies, businesses or assets) for an amount in aggregate greater than \$50 million, or makes an announcement in relation to such an acquisition;

- (ii) FAL or any Subsidiary of FAL disposes of, offers to dispose of, agrees to dispose of, or comes under an obligation to dispose of one or more companies, businesses or assets (or an interest in one or more companies, businesses or assets) for an amount, or whose book value (as recorded in FAL's balance sheet as at 30 January 2005) is in aggregate, greater than \$50 million, or makes an announcement in relation to such a disposition;

- (iii) FAL or any Subsidiary of FAL:

- (A) enters into, offers to enter into or announces that it proposes to enter into; or
- (B) varies or terminates or announces that it proposes to vary or terminate;

any joint venture, partnership or other similar arrangement, involving a commitment of the FAL Group, in aggregate, greater than \$50 million;

- (iv) FAL or any Subsidiary of FAL:

- (A) enters into, offers to enter into or announces that it proposes to enter into; or
- (B) varies or terminates or announces that it proposes to vary or terminate,

any agreement or arrangement which is or would be material in the context of the business of Current New Zealand Businesses and the WOW Action Stores (treated as one business for the purposes of this clause 2.2(h)(iv)) (which includes, but is not limited to, an agreement or arrangement the termination of which is likely to adversely affect the earnings before interest and tax of the Current New Zealand Businesses and the WOW Action Stores (treated as one business for the purposes of this clause 2.2(h)(iv)) by more than \$5 million in aggregate per annum);

- (v) FAL or any Subsidiary of FAL incurs or commits to, or grants to another person, a right the exercise of which would involve the FAL Group incurring or committing to any capital expenditure or liability for an amount greater than, in aggregate, \$50 million, excluding capital expenditure required to be incurred in accordance with clause 8.1(n)(viii);
- (vi) FAL or any Subsidiary of FAL releases, discharges, or modifies any substantial obligation (in the context of the

Merger Implementation Agreement - Transfer Scheme

Current New Zealand Businesses and the WOW Action Stores (treated as one business for the purposes of this clause 2.2(h)(vi)) owed to it or agrees to do so;

- (vii) FAL or any Subsidiary of FAL enters into or agrees to enter into any contract of service or varies or agrees to vary any existing contract of service with any director or officer, or pays or agrees to pay any retirement benefit or substantial allowance to any director or officer, or makes or agrees to make any substantial change in the basis or the amount of remuneration of any director, officer or other employee (except as required by law, provided under any superannuation, provident or retirement scheme as in effect on the date of this agreement or for any payment under an agreement or arrangement with employees or directors that was entered into in writing prior to 24 May 2005 or as disclosed in the WOW Disclosed Matters); or
- (viii) FAL assigns or novates the Multiplex Agreement to any member of the PEH Post-Demerger Group,

and during that period the businesses of the Current New Zealand Businesses are otherwise carried on in accordance with clause 8.1(n).

- (i) **Consent of third parties:** That by 8.00 a.m. on the Second Court Date, every person who has or will have a right or rights (whether subject to conditions or not) under:
 - (i) any material agreement or arrangement with respect to a WOW Action Store (excluding property leases); or
 - (ii) any agreement or arrangement (excluding property leases):
 - (A) which is material in the context of the Current New Zealand Businesses (which includes an agreement or arrangement the termination of which is likely to adversely affect the revenues of the Current New Zealand Businesses by more than \$50 million per annum or the earnings before interest and tax of the Current New Zealand Businesses by more than \$5 million per annum); and
 - (B) to which FAL or any controlled entity of FAL is a party,

which right or rights result, or could result, in any such agreement or arrangement being terminated or varied or any action being taken or arising thereunder as a result of:

- (iii) any step taken in connection with the implementation of, or preparatory to, the New Zealand Demerger; or

Merger Implementation Agreement - Transfer Scheme

- (iv) WOW NZ acquiring PEH Shares, the Current New Zealand Businesses or the entity which owns the WOW Action Stores, including WOW NZ acquiring or having a relevant interest in any or a specified number or proportion of PEH Shares,

(together, **WOW Third Party Consents**),

provides their consent to the change in control or an enforceable, irrevocable and unconditional waiver or release in writing of such right or rights to FAL and FAL provides a copy of that waiver or release to WOW and WOW NZ.

- (j) **Consents from landlords:** That by 8.00 a.m. on the Second Court Date, the landlords of all of the property leases held by the FAL Group in respect of the Current New Zealand Businesses and the WOW Action Stores (**New Zealand Leases**) under which the acquisition by WOW NZ of PEH Shares would result in a change in control giving rise to a deemed assignment of the New Zealand Leases that would require landlords' consent or any other right for the landlords to terminate or vary the terms of the property leases (together, **New Zealand Lease Consents**) provide their consent in principle subject to customary conditions to the change in control and/or deemed assignment or provide an enforceable and irrevocable waiver of any such right arising as a result of the change of control and/or deemed assignment.
- (k) **Prescribed Occurrence:** There being no Prescribed Occurrence between 23 May 2005 and 8:00 a.m. on the Second Court Date other than as required or contemplated by this agreement or the Transfer Scheme.
- (l) **FAL representations and warranties:** The representations and warranties of FAL set out in this agreement that are qualified as to materiality shall be true and correct, and the representations and warranties of FAL set out in this agreement that are not so qualified shall be true and correct in all material respects, in each case as of the date of this agreement and as of 5.00 p.m. on the day before the Second Court Date as though made on and as of that time except to the extent any such representation or warranty expressly relates to an earlier date (in which case as of such date).
- (m) **WOW and WOW NZ representations and warranties:** The representations and warranties of WOW and WOW NZ set out in this agreement that are qualified as to materiality shall be true and correct, and the representations and warranties of WOW and WOW NZ set out in this agreement that are not so qualified shall be true and correct in all material respects, in each case as of the date of this agreement and as of 5.00 p.m. on the day before the Second Court Date as though made on and as of that time, except to the extent that any such representation or warranty expressly relates to an earlier date (in which case as of such date).

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- (n) **Directors' recommendation:** That between 23 May 2005 and the date of the Scheme Meetings, the majority of the Directors do not change or withdraw their recommendation to FAL Shareholders to vote in favour of the Demerger Scheme or the Transfer Scheme.
- (o) **No disposal of WOW Action Stores:** That during the period from 23 May 2005 to 8.00 a.m. on the Second Court Date, neither FAL nor any Subsidiary of FAL disposes of, offers to dispose of, agrees to dispose of, or comes under an obligation to dispose of any WOW Action Store or makes an announcement in relation to such a disposition.
- (p) **WOW Action Agreement:** That on or prior to the Consideration Determination Date, the WOW Action Agreement is completed without any amendment or variation to or waiver of its terms and conditions (other than any amendment, variation or waiver approved by WOW, such approval not to be unreasonably withheld or delayed, where such amendment, variation or waiver is not adverse to the interests of WOW) such that upon completion the WOW Action Stores which are the subject of that agreement are transferred to Drumstar in accordance with the terms and conditions of that agreement.
- (q) **WOW Action Agreement (Woodvale/Kalgoorlie):** That on or prior to the Transfer Implementation Date, the WOW Action Agreement (Woodvale/Kalgoorlie) is completed without any amendment or variation to or waiver of its terms and conditions (other than any amendment, variation or waiver approved by WOW, such approval not to be unreasonably withheld or delayed, where such amendment, variation or waiver is not adverse to the interests of WOW) such that upon completion the WOW Action Stores which are the subject of that agreement are transferred to Drumstar in accordance with the terms and conditions of that agreement.

2.3 Qualifications to conditions precedent

No act or proposed act by the FAL Group or any event, matter or circumstance:

- (a) other than for the conditions in clauses 2.1 (h) and (i) and clauses 2.2 (i) and (j), which is required or permitted under the terms of the Demerger Deed, the Demerger Implementation Deed or any other Demerger Transaction Document;
- (b) fairly disclosed in the Disclosed Matters;
- (c) which is an Agreed Matter; or
- (d) which is the purchase and sale of stock in trade in the ordinary course,

will result in a breach or failure to satisfy a condition precedent in clause 2.1 or clause 2.2, as appropriate. The financial consequences of any such act or

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proposed act are to be disregarded for the purposes of determining whether the thresholds in clause 2.1 or clause 2.2 have been breached.

For the purposes of clause 2.3(b), an event, matter or circumstance is “fairly disclosed” if the matter is disclosed in sufficient detail so as to enable a reasonable buyer to fairly assess or identify the nature and import of the event, matter or circumstance.

2.4 Inter-conditionality of Schemes

The parties acknowledge and agree that:

- (a) the Demerger Scheme will not be subject to or conditional upon the Transfer Scheme becoming Effective; and
- (b) the Transfer Scheme will be subject to and conditional upon the Demerger Scheme becoming Effective.

2.5 Obligations affected by conditions precedent

- (a) **Obligations of MTT, WOW and WOW NZ to FAL:** The obligations of MTT to FAL under clause 3 and the obligations of WOW and WOW NZ to FAL under clause 4, respectively, are subject to the satisfaction, or waiver in accordance with this agreement, of:
 - (i) each of the conditions precedent in clause 2.1 that are, pursuant to clause 2.6, for MTT's benefit (either alone or together with FAL); and
 - (ii) each of the conditions precedent in clause 2.2 that are, pursuant to clause 2.7, for the benefit of WOW and WOW NZ (either alone or together with FAL).
- (b) **Obligations of FAL to MTT, WOW and WOW NZ:** The obligations of FAL to MTT under clause 3 and the obligations of FAL to WOW and WOW NZ under clause 4 are subject to satisfaction of each of the conditions precedent in clauses 2.1 and 2.2 that are, pursuant to clauses 2.6 and 2.7, for FAL's benefit (either alone or together with MTT, WOW and/or WOW NZ).

2.6 Benefit of certain conditions precedent - FAL and MTT

- (a) **MTT's benefit:** MTT alone has the benefit of the conditions precedent in clauses 2.1 (f), (g), (h), (i), (j), (k), (m) and (n) and any breach or non-fulfilment of any such conditions may be relied upon only by MTT which may at any time and from time to time in its sole and absolute discretion waive the breach or non-fulfilment.
- (b) **FAL's benefit:** FAL alone has the benefit of the condition precedent in clause 2.1 (l) and any breach or non-fulfilment of that condition precedent may be relied upon only by FAL which may at any time and from time to time in its sole and absolute discretion waive the breach or non-fulfilment.

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- (c) **Each party's benefit:** FAL and MTT together have the benefit of the conditions precedent in clauses 2.1 (a), (b), (c), (d) and (e) and any breach or non-fulfilment of these conditions may only be waived with the written consent of FAL and MTT, except that in the case of the condition precedent in clause 2.1(e), any breach or non-fulfilment of this condition may only be waived with the written consent of the party who is not in breach of this agreement.

2.7 Benefit of certain conditions precedent - FAL, WOW and WOW NZ

- (a) **WOW's and WOW NZ's benefit:** WOW and WOW NZ alone have the benefit of the conditions precedent in clauses 2.2 (g), (h), (i), (j), (k), (l), (n), (o), (p) and (q) and any breach or non-fulfilment of any such conditions may be relied upon only by WOW and WOW NZ which may at any time and from time to time in their sole and absolute discretion waive the breach or non-fulfilment.
- (b) **FAL's benefit:** FAL alone has the benefit of the condition precedent in clause 2.2 (m) and any breach or non-fulfilment of that condition precedent may be relied upon only by FAL which may at any time and from time to time in its sole and absolute discretion waive the breach or non-fulfilment.
- (c) **Each party's benefit:** FAL, WOW and WOW NZ together have the benefit of the conditions precedent in clauses 2.2 (a), (b), (c), (d), (e) and (f) and any breach or non-fulfilment of these conditions may only be waived with the written consent of FAL, WOW and WOW NZ, except that in the case of the condition precedent in clause 2.2(e), any breach or non-fulfilment of this condition may only be waived with the written consent of the party who is not in breach of this agreement.

2.8 Best endeavours

- (a) To the extent within its control, FAL agrees to use its best endeavours to:
 - (i) implement the Demerger Scheme as soon as practicable; and
 - (ii) without limiting its obligations under clause 2.8(a)(i), hold the Scheme Meetings by 2 November 2005.
- (b) To the extent within their control, each of FAL, MTT, WOW and WOW NZ agrees to use its best endeavours to implement the Transfer Scheme as soon as practicable and, in particular, to procure that each of the conditions precedent in clause 2.1 and clause 2.2 (as the case may be) is satisfied as soon as practicable after the date of this agreement. In this regard each of WOW and WOW NZ agree to use their best endeavours to promptly apply for any necessary approvals from the OIC and the Treasurer to satisfy the conditions precedent in clauses 2.2(b)(i) and 2.2(b)(ii) respectively.

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2.9 Proceeds of disposals

- (a) If FAL or any Subsidiary of FAL disposes of any company, business or asset comprised in the Metcash FAL Businesses (including, for the avoidance of doubt, the properties, motor vehicles and assets referred to in the Metcash Disclosed Matters (other than the Surplus Assets (which are provided for in clauses 6.3(i) and 6.5(i)) and the disposal of stock in trade in the ordinary course of business), the aggregate proceeds of all such disposals must be retained as cash (or cash equivalent) within the Metcash FAL Businesses and must not be applied by FAL towards extinguishing any liability and shall not be considered to form part of Australian Surplus Cash Balance or Net Assumed Debt.
- (b) FAL agrees that:
 - (i) all proceeds of the repayment of loans made to employees in respect of the FAL Employee Share Ownership Plan; and
 - (ii) the Hedge Book Proceeds,shall be retained as cash (or cash equivalent) within the Metcash FAL Businesses and shall not be applied by FAL towards extinguishing any liability and shall not be considered to form part of the Australian Surplus Cash Balance or Net Assumed Debt.
- (c) All amounts received by FAL or any FAL Subsidiary in relation to the Tax Receivable shall be retained as cash (or cash equivalent) within the Metcash FAL Businesses and shall not be applied by FAL towards extinguishing any liability and shall not be considered to form part of Australian Surplus Cash Balance or Net Assumed Debt.

2.10 Third Party Consents and other consents

- (a) FAL must use its reasonable endeavours to obtain any Metcash Third Party Consents required under clause 2.1(h) and any WOW Third Party Consents required under clause 2.2(i) and must keep MTT, WOW and WOW NZ reasonably informed of progress in obtaining any such Third Party Consents.
- (b) MTT must provide reasonable support to FAL in seeking to obtain any Metcash Third Party Consents and WOW and WOW NZ must provide reasonable support to FAL in seeking to obtain any WOW Third Party Consents, including by consulting with FAL on how to proceed and joining FAL in meetings or negotiations with third parties.
- (c) Nothing in this clause will require FAL to incur any costs or expenses with respect to obtaining the Third Party Consents unless indemnified for such costs or expenses by MTT in relation to the Metcash Third Party Consents or WOW or WOW NZ in relation to the WOW Third Party Consents.

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- (d) WOW will use its best endeavours to obtain the Westpac Release as soon as practicable.

2.11 Lease consents

(a) Australian Lease Consents

Without limiting anything else in this agreement, to the extent within its control, MTT agrees to use its best endeavours to:

- (i) provide any information reasonably required by landlords or landlords' mortgagees;
- (ii) enter into direct property leases with landlords on the same terms as existing property leases or on terms no less favourable to MTT than the terms of existing property leases are to the relevant FAL Group lessee company, or agree to an assignment of existing property leases;
- (iii) provide parent company guarantees or such other forms of guarantee or security as landlords may reasonably require;
- (iv) comply with any other requirements of the landlords as are set out in the Australian Leases and as are required to be complied with by an assignee or transferee; and
- (v) make representatives available, where necessary, to meet with landlords, head landlords or mortgagees to deal with issues arising in relation to the transfer or assignment (or deemed transfer or assignment) of the Australian Leases,

to endeavour to ensure that landlords and, where applicable, head landlords and mortgagees provide their consent to the change in control and/or deemed assignment of the Australian Leases in order to satisfy the condition precedent in clause 2.1(i). FAL will initiate contact with all of the landlords and request that they provide such consents and otherwise cooperate with, and provide reasonable assistance to, MTT to obtain such consents as expeditiously as possible. WOW and WOW NZ agree to, and agree to procure that their Related Entities, act in good faith and not to take any action to oppose MTT obtaining such consents nor any action which may materially prejudice discussions between the landlords, MTT and/or FAL in relation to the landlords providing such consents.

(b) New Zealand Lease Consents

Without limiting anything else in this agreement, to the extent within its control, WOW and WOW NZ agree to use their best endeavours to:

- (i) provide any information reasonably required by landlords or landlords' mortgagees;

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- (ii) either enter into direct property leases with landlords on the same terms as existing property leases or on terms no less favourable to WOW or WOW NZ than the terms of existing property leases are to the relevant FAL Group lessee company, or agree to an assignment of existing property leases;
- (iii) if WOW or WOW NZ proposes assigning a New Zealand Lease to an entity not in the WOW Group, provide parent company guarantees or such other forms of guarantee or security as landlords may reasonably require;
- (iv) provide landlords of the WOW Action Stores with a guarantee in the form set out in the agreed form of Deed of Assignment attached at Annexure D to the WOW Action Agreement as amended in the manner provided for in clause 2.12(b);
- (v) comply with any other requirements of the landlords as are set out in the New Zealand Leases and as are required to be complied with by an assignee or transferee except insofar as those requirements require WOW or WOW NZ to procure that the directors of WOW or WOW NZ provide a guarantee of the obligations of WOW or WOW NZ, as the case may be; and
- (vi) make representatives available, where necessary, to meet with landlords, head landlords or mortgagees to deal with issues arising in relation to the transfer or assignment (or deemed transfer or assignment) of the New Zealand Leases,

to endeavour to ensure that landlords and, where applicable, head landlords and mortgagees provide their consent to the change in control and/or deemed assignment of the New Zealand Leases in order to satisfy the condition precedent in clause 2.2(j). FAL will initiate contact with all of the landlords and request that they provide such consents and otherwise cooperate with, and provide reasonable assistance to, WOW and WOW NZ to obtain such consents as expeditiously as possible. MTT agrees to, and agrees to procure that its Related Entities, act in good faith and not to take any action to oppose WOW or WOW NZ obtaining such consents nor any action which may materially prejudice discussions between the landlords, WOW, WOW NZ and/or FAL in relation to the landlords providing such consents.

2.12 Conduct of FAL in relation to the WOW Action Agreements

- (a) FAL must ensure that no condition precedent to either the WOW Action Agreement or the WOW Action Agreement (Woodvale/Kalgoorlie) is waived by either the seller or buyer thereunder without obtaining the prior written consent of WOW, WOW NZ and MTT to the waiver. FAL will promptly notify WOW,

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WOW NZ and MTT where a condition precedent to either agreement is satisfied or becomes incapable of being satisfied.

- (b) FAL must ensure that Drumstar does not approve the terms of any variation to the agreed form of Deed of Assignment attached at Annexure D to the WOW Action Agreement (**Deed of Assignment**) without obtaining the prior written consent of WOW, WOW NZ and (subject to clause 2.12(i)(i)) MTT to the variation. FAL must ensure that WOW, WOW NZ and MTT are provided with copies of all correspondence between the member of the FAL Group which is a tenant of a WOW Action Store and the landlord in relation to the obtaining of landlord consents required under the WOW Action Agreements.
- (c) Prior to the Transfer Implementation Date, FAL must ensure that Drumstar does not exercise or waive any other right under the WOW Action Agreements without obtaining the prior written consent of WOW and WOW NZ to the exercise or waiver of that right (including, for the avoidance of doubt, any right that Drumstar has pursuant to Annexure B of the WOW Action Agreement).
- (d) FAL must ensure that:
 - (i) each seller and the buyer under the WOW Action Agreements is and remains a member of the same GST Group (as defined in the Australian GST Act) up to and including the date of the Supply (as defined in the Australian GST Act) of assets associated with the WOW Action Stores under that agreement; and
 - (ii) FAL and PEH IP Co are and remain members of the same GST Group up to and including the date of the supply of trade marks to PEH IP Co under the Trade Mark Assignment.
- (e) FAL must allow a representative of WOW and WOW NZ to attend any stocktake carried out under the WOW Action Agreement to enable WOW and WOW NZ to observe the process and check the count, including undertaking spot checks, and have input into whether stock is WOW Action Stock for the purpose of Annexure B to the WOW Action Agreement and must immediately provide WOW and WOW NZ with any information provided to Drumstar in accordance with Annexure B to the WOW Action Agreement.
- (f) FAL must allow a representative of WOW and WOW NZ to attend completion and agrees that, if requested by WOW or WOW NZ, the registration of any transfers relating to a WOW Action Store shall be undertaken as a joint registration.
- (g) Between the date of completion under the WOW Action Agreement or the WOW Action Agreement (Woodvale/Kalgoorlie) (as the case may be) and the Transfer Implementation Date, FAL must ensure that Drumstar does not create any encumbrance over a WOW Action

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Store which has been transferred to Drumstar at completion of the WOW Action Agreement or the WOW Action Agreement (Woodvale/Kalgoorlie) (as the case may be) without obtaining the prior written consent of WOW, WOW NZ and MTT.

(h) Between the date of this agreement and the Transfer Implementation Date, FAL must ensure that:

(i) where a member of the FAL Group is the landlord of a freehold property to be transferred under the WOW Action Agreements, it does not exercise any of the following rights as landlord without obtaining WOW's, WOW NZ's and MTT's prior written consent:

- (A) accepting any surrender of a tenancy;
- (B) terminating a tenancy;
- (C) agreeing any review of the rent payable under a tenancy;
- (D) waiving any material right of the landlord under a tenancy (for these purposes a material right will include (but will not be limited to) a right which could reasonably be expected to result in the relevant landlord ceasing to have the right to receive or foregoing the right to receive an amount in excess of \$50,000);
- (E) agreeing to vary the terms of any tenancy; or
- (F) granting a new tenancy or entering into an agreement to grant a new tenancy,

save where obligated to do so by the terms of the tenancy, in which circumstance the relevant member of the FAL Group must act in accordance with any direction of WOW or WOW NZ that is permitted under the terms of the tenancy unless at that time FAL has notified WOW, WOW NZ and MTT under clause 2.12(a) that a condition precedent under either of the WOW Action Agreements in respect of the freehold premises on which that particular tenancy is situated is incapable of being satisfied, in which event the relevant member of the FAL Group must act in accordance with any direction of MTT that is permitted under the terms of the tenancy; and

(ii) where a member of the FAL Group is the lessee of a WOW Action Store, that it does not agree to any of the following as tenant of the WOW Action Store without obtaining WOW's, WOW NZ's and MTT's consent:

- (A) surrendering the tenancy;

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- (B) agreeing any review of the rent payable under the tenancy;
- (C) waiving any material right of the tenant under the tenancy; or
- (D) agreeing to vary the terms of the tenancy,

save where obligated to do so by the terms of the tenancy, in which circumstance the relevant member of the FAL Group must act in accordance with any direction of WOW or WOW NZ that is permitted under the terms of the tenancy unless at that time FAL has notified WOW, WOW NZ and MTT under clause 2.12(a) that a condition precedent under either of the WOW Action Agreements in respect of the relevant WOW Action Store is incapable of being satisfied, in which event the relevant member of the FAL Group must act in accordance with any direction of MTT that is permitted under the terms of the tenancy.

- (i) Where the consent of WOW, WOW NZ or MTT is required for the purpose of this clause 2.12, each of WOW, WOW NZ and MTT must not unreasonably withhold or delay the giving of the consent. It is agreed that:
 - (i) MTT may not withhold its consent to a variation to the Deed of Assignment in relation to:
 - (A) confirmation that there have been no unremedied breaches of the lease (clause 6.1 of the Deed of Assignment); and
 - (B) release of the tenant from its obligations under the lease (clause 7.1 of the Deed of Assignment); and
 - (ii) without limiting the circumstances where either WOW or WOW NZ will not be acting unreasonably if it withholds its consent, WOW or WOW NZ will not be acting unreasonably if either one withholds its consent to any variation to the Deed of Assignment which provides for:
 - (A) changes to the amount of rental or other monies payable under the relevant tenancy or Deed of Assignment (other than the payment of the landlord's reasonable legal costs in connection with the assignment);
 - (B) waiver of a landlord default; or
 - (C) provision of a guarantee of Drumstar's obligations under the tenancy.

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- (j) FAL agrees not to, and must procure that Drumstar does not, make any amendment or variation to, or waiver of the terms and conditions of, the WOW Action Agreements (other than any amendment, variation or waiver approved by MTT, such approval not to be unreasonably withheld or delayed).

2.13 ACCC

- (a) FAL and WOW agree to cooperate and act in good faith with respect to each other and otherwise assist each other in addressing any matters raised by the ACCC in relation to the Transfer Scheme, including by providing information to the ACCC.
- (b) MTT agrees to act in good faith in relation to, and not to take any action to oppose, the acquisition of control of the WOW Action Stores by the WOW Group as contemplated by this agreement. MTT agrees not to take any action that may materially prejudice discussions between WOW and the ACCC in relation to that acquisition and to provide to the ACCC information requested by the ACCC to address any matters raised by the ACCC in relation to the Transfer Scheme (including in relation to the acquisition of control of the WOW Action Stores by the WOW Group).

2.14 ATO Class Ruling

- (a) FAL must, when reasonably requested by MTT or WOW, discuss with MTT and WOW any matters relevant to the progress of the ATO Class Ruling.
- (b) FAL must give MTT and WOW reasonable opportunity to review and comment on drafts of any material correspondence which it proposes to send to the ATO and to be involved in any discussions with the ATO (including attending any meetings with the ATO) with regard to the ATO Class Ruling and will consult in good faith with MTT and WOW with regard to any such comments and any such dealings with the ATO.
- (c) FAL must promptly inform MTT and WOW of any relevant communication from or the making of any ruling, order or decision by the ATO relating to the ATO Class Ruling and shall promptly provide MTT and WOW with a copy of any documents relating to such communication, notice, ruling, order or decision.

2.15 Certain notices

- (a) **Notice of occurrences:** If, prior to 8.00 a.m. on the Second Court Date, any event, matter or circumstance occurs that will prevent a condition precedent being satisfied, FAL, MTT, WOW or WOW NZ, as the case may be, will immediately give written notice to the other parties of that event. FAL, MTT, WOW or WOW NZ (as the case may be) will give written notice to the other parties as soon as practicable as to whether or not it waives the breach or non-fulfilment

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of any condition of this agreement resulting from the occurrence of that event, specifying the condition in question. A waiver of such breach or non-fulfilment of any other condition of this agreement will not constitute:

- (i) a waiver of breach or non-fulfilment of any other condition of this agreement resulting from the same event; or
 - (ii) a waiver of breach or non-fulfilment of that condition resulting from any other event.
- (b) **Notice of changes:** FAL, MTT, WOW or WOW NZ (as the case may be) must promptly advise the other parties orally and in writing of any change or event causing, or which, insofar as can reasonably be foreseen, would cause, a breach of any of the conditions precedent in clause 2.1 or clause 2.2 (as the case may be).

2.16 Consultation on failure of conditions precedent

- (a) **Consultation:** If a condition precedent contained in clause 2.1 or clause 2.2 (as the case may be) is not satisfied by the date specified in clause 2.1 or clause 2.2 (as the case may be) for satisfaction of that condition precedent or if the Transfer Effective Date has not occurred by the Quit Date, FAL, MTT, WOW and WOW NZ will (unless that non-satisfaction is as a result of the circumstances contemplated by clause 2.16 (b)(ii)) consult and negotiate in good faith:
- (i) with a view to determining whether the Transfer Scheme may proceed by way of alternative means or methods; or
 - (ii) to extend the date for satisfaction of the relevant condition precedent or the Quit Date.
- (b) **Failure to agree:**
- If:
- (i) FAL, MTT, WOW and WOW NZ are unable to reach agreement under clause 2.16(a) within ten Business Days after the relevant date or the Quit Date; or
 - (ii) a condition precedent has not been satisfied as a result of a deliberate action or omission of FAL, MTT, WOW or WOW NZ,

then unless that condition is waived by the relevant party or parties having the benefit of the condition as referred to in clause 2.6 or clause 2.7 (as the case may be), FAL, MTT, WOW or WOW NZ (as the case may) may terminate this agreement without any liability to the other parties by reason of that termination unless the failure of the condition precedent to be satisfied or of the Transfer Effective Date to occur arises out of any antecedent breach by the terminating party of this agreement.

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- (c) **Revision of Transfer Scheme:** If the transfer of any of the WOW Action Stores under the WOW Action Agreements is prevented from occurring by Completion (as that term is defined in the WOW Action Agreements) as a result of the failure of any condition precedent under the WOW Action Agreements or any reason beyond the control of the parties, including:
- (i) a landlord's consent not being obtained under clause 2.2(j); or
 - (ii) any action taken by a Governmental Agency,

then, at the election of WOW, the parties will negotiate to determine whether or not a revised Transfer Scheme can be put for the consideration of the Court. The parties agree to act reasonably, expeditiously and in good faith in negotiating any revision to the Transfer Scheme.

3 Transfer Scheme steps - MTT

3.1 Outline of Transfer Scheme - MTT

FAL agrees to propose the Transfer Scheme to be implemented immediately after the New Zealand Demerger is completed and under which, in addition to the matters set out in clause 4.1, all of the FAL Shares will be transferred to MTT and the Transfer Scheme Participants will be entitled to receive the Metcash Scheme Consideration for each FAL Share held at the Transfer Record Date in accordance with this agreement and the Transfer Scheme of Arrangement.

3.2 Metcash Scheme Consideration

MTT covenants in favour of FAL (in its own right and on behalf of the Transfer Scheme Participants) that in consideration for the transfer to MTT of each FAL Share held by a Transfer Scheme Participant under the terms of the Transfer Scheme on the Transfer Implementation Date:

- (a) **(Metcash Cash Consideration):** MTT will pay the Metcash Cash Consideration to each Transfer Scheme Participant in respect of each FAL Share held at the Transfer Record Date; or
- (b) **(Metcash Share Consideration):** MTT will procure Metcash to issue to each Transfer Scheme Participant the Metcash Share Consideration in respect of each FAL Share held at the Transfer Record Date. Any fractional entitlement of a Transfer Scheme Participant to a part of a Metcash Share will be rounded up or down to the nearest whole number of Metcash Shares with fractions of 0.5 rounded up to the nearest whole number of Metcash Shares,

in accordance with the elections made by Transfer Scheme Participants as contemplated by clause 3.4 and the terms of the Transfer Scheme of Arrangement.

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For the avoidance of doubt, FAL and MTT acknowledge and agree that MTT will not have to pay the Metcash Cash Consideration or procure Metcash to provide the Metcash Share Consideration in respect of any FAL Shares held by MTT or by any person on behalf of or for the benefit of MTT or any of its Related Bodies Corporate.

3.3 Consideration Date

MTT agrees to pay the Metcash Cash Consideration and to procure Metcash to provide the Metcash Share Consideration to Transfer Scheme Participants on the Consideration Date in accordance with the requirements of this agreement, the Transfer Scheme of Arrangement and the Metcash Deed Poll.

3.4 Election mechanism

FAL shall ensure that the Scheme Booklet sent to FAL Shareholders is accompanied by a form of election under which each FAL Shareholder is requested to elect to receive either Metcash Cash Consideration or Metcash Share Consideration in respect of all of their FAL Shares. The form of election must provide that:

- (a) a Transfer Scheme Participant may elect to receive Metcash Cash Consideration or Metcash Share Consideration in respect of all of the Transfer Scheme Participant's FAL Shares and any such election will apply to all of the Transfer Scheme Participant's FAL Shares as at the Transfer Record Date;
- (b) a valid election may be made by a Transfer Scheme Participant by returning the election form before 7.00 p.m. (Perth time) on the last day of trading of FAL Shares on the ASX, or such other date as MTT and FAL agree, (**Election Date**) in writing to an address to be specified by FAL in the Scheme Booklet;
- (c) once made, a valid election by a Transfer Scheme Participant may be varied until the Election Date;
- (d) if a valid election is not made by a Transfer Scheme Participant prior to the Election Date, then that Transfer Scheme Participant will be deemed to have elected to receive Metcash Cash Consideration in respect of all of that Transfer Scheme Participant's FAL Shares; and
- (e) in the manner considered appropriate by FAL (acting reasonably), a Transfer Scheme Participant who holds one or more parcels of FAL Shares as trustee or nominee for, or otherwise on account of, another person, may make separate elections in relation to each of those parcels of FAL Shares,

and shall otherwise be in a form agreed by the parties in writing. FAL must ensure that, to the extent practicable, Transfer Scheme Participants who have acquired FAL Shares after the date of the dispatch of the Scheme Booklet and election form can receive an election form on request to FAL.

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In order to facilitate the provision of the Metcash Scheme Consideration on the Consideration Date FAL must provide, or procure the provision, to MTT, or a nominee of MTT, of:

- (f) a daily update of the elections that have been received for Metcash Scheme Consideration;
- (g) details of the final elections for Metcash Scheme Consideration made by each Transfer Scheme Participant, within four days after the Transfer Record Date; and
- (h) a complete copy of the FAL Register as at the Transfer Record Date, within four days after the Transfer Record Date.

3.5 Metcash Share Adjustment Event

- (a) If between the date of this agreement and the Second Court Date, a Metcash Share Adjustment Event occurs, MTT must promptly notify FAL and the number of Metcash Shares to be issued as Metcash Share Consideration will be adjusted to take into account the dilutive or concentrative effect of such an event or events. FAL and MTT must negotiate in good faith and use reasonable endeavours to reach agreement on an appropriate adjustment as soon as practicable following the occurrence of a Metcash Share Adjustment Event.
- (b) If FAL and MTT cannot reach agreement on an appropriate adjustment under clause 3.5(a) within five Business Days of the occurrence of a Metcash Share Adjustment Event (or any shorter period ending on the Business Day before the Transfer Record Date), FAL and MTT will request the Consideration Expert (acting as an expert, not an arbitrator) to make a binding determination. FAL and MTT must instruct the Consideration Expert to make the binding determination within four Business Days (or any shorter period ending on the date that is two Business Days before the Transfer Implementation Date). In this event, the provisions of clauses 5.3 and 5.4 will apply with the appropriate adjustments.
- (c) MTT agrees to procure that there will be no Metcash Share Adjustment Event in the period from the Second Court Date until the Consideration Date.

3.6 Ineligible Overseas Shareholders

The Metcash Shares to which an Ineligible Overseas Shareholder would otherwise have become entitled will be delivered to a nominee appointed by Metcash who will, in accordance with clause 4.3(b) of the Transfer Scheme, sell those Metcash Shares and pay the amount determined in accordance with clause 4.3(b) of the Transfer Scheme to the Ineligible Overseas Shareholder. Metcash agrees to appoint the nominee at least two weeks prior to the Transfer Scheme Meeting. The identity of the nominee and the terms and conditions of the appointment of the nominee are subject to FAL's prior approval, acting reasonably.

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4 Transfer Scheme steps - WOW

4.1 Outline of Transfer Scheme - WOW

- (a) FAL agrees to propose the Transfer Scheme to be implemented immediately after the New Zealand Demerger is completed and under which, in addition to the matters set out in clause 3.1, all of the PEH Shares will be transferred to WOW NZ and the Transfer Scheme Participants will be entitled to receive for their PEH Shares the WOW Scheme Consideration in accordance with the requirements of this agreement and the Transfer Scheme of Arrangement.
- (b) The total consideration payable by WOW NZ under the terms of the Transfer Scheme comprises a cash pool of \$1,250 million less Net Assumed Debt and 81,592,689 WOW Shares which WOW NZ will procure WOW to issue. The total WOW Scheme Consideration comprises the WOW Cash Consideration, the WOW Share Consideration and the WOW Standard Consideration as defined in clause 7.1. Transfer Scheme Participants may elect to receive one of the WOW Maximum Cash Consideration, the WOW Maximum Share Consideration or the WOW Standard Consideration and will be paid or provided either the WOW Cash Consideration or the WOW Share Consideration or a combination thereof, or the WOW Standard Consideration, in accordance with this clause 4.

4.2 WOW Scheme Consideration

WOW and WOW NZ covenant in favour of FAL (in its own right and on behalf of the Transfer Scheme Participants) that in consideration for the transfer to WOW NZ of each PEH Share held by a Transfer Scheme Participant under the terms of the Transfer Scheme on the Transfer Implementation Date:

- (a) **(WOW Cash Consideration):** WOW NZ will pay the WOW Cash Consideration to each Transfer Scheme Participant in respect of each PEH Share held at the Transfer Record Date in respect of which the WOW Cash Consideration is payable;
- (b) **(WOW Share Consideration):** WOW NZ will procure that WOW will issue to each Transfer Scheme Participant the WOW Share Consideration in respect of each PEH Share held at the Transfer Record Date in respect of which the WOW Share Consideration is payable. Any fractional entitlement of a Transfer Scheme Participant to a part of a WOW Share will be rounded up or down to the nearest whole number of WOW Shares with fractions of 0.5 rounded up to the nearest whole number of WOW Shares; and
- (c) **(WOW Standard Consideration):** WOW NZ will pay and will procure that WOW issues to each Transfer Scheme Participant the WOW Standard Consideration in respect of each PEH Share held at the Transfer Record Date in respect of which the WOW Standard Consideration is payable. Any fractional entitlement of a Transfer

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Scheme Participant to a part of a WOW Share will be rounded up or down to the nearest whole number of WOW Shares with fractions of 0.5 rounded up to the nearest whole number of WOW Shares,

in accordance with the WOW Consideration Election by each Transfer Scheme Participant.

For the avoidance of doubt, FAL and WOW acknowledge and agree that WOW NZ will not have to pay and procure the issue by WOW of the WOW Scheme Consideration in respect of any PEH Shares held by WOW or by any person on behalf of or for the benefit of WOW or any of its Related Bodies Corporate.

4.3 Consideration Date

WOW NZ agrees to pay and procure that WOW issues the WOW Scheme Consideration to Transfer Scheme Participants on the Consideration Date in accordance with the requirements of this agreement, the Transfer Scheme of Arrangement and the WOW Deed Poll.

4.4 Election mechanism

FAL shall ensure that the Scheme Booklet sent to FAL Shareholders is accompanied by a form of election under which each FAL Shareholder is requested to elect one of the WOW Maximum Cash Consideration, the WOW Maximum Share Consideration or the WOW Standard Consideration in respect of all the PEH Shares held by the FAL Shareholder at the Transfer Record Date. The form of election must provide that:

- (a) a Transfer Scheme Participant may only elect one of the WOW Maximum Cash Consideration, the WOW Maximum Share Consideration or the WOW Standard Consideration in respect of all of the Transfer Scheme Participant's PEH Shares or, in the case of a Transfer Scheme Participant who is an Ineligible Overseas Shareholder, the PEH Shares that will be retained by FAL or its nominee for that Ineligible Overseas Shareholder under clause 4.7 of the Demerger Scheme and any such election will apply to all of the Transfer Scheme Participant's PEH Shares as at the Transfer Record Date;
- (b) a valid election may be made by a Transfer Scheme Participant by returning the election form before 7.00 p.m. (Perth time) on the last day of trading of FAL Shares on the ASX, or such other date as FAL and WOW agree, (**Election Date**) in writing to an address to be specified by FAL in the Scheme Booklet;
- (c) once made, a valid election by a Transfer Scheme Participant may be varied until the Election Date;
- (d) if a valid election is not made by a Transfer Scheme Participant prior to the Election Date, then that Transfer Scheme Participant will be deemed to have elected the WOW Standard Consideration in respect of all of that Transfer Scheme Participant's PEH Shares whether

Merger Implementation Agreement - Transfer Scheme

issued to the Transfer Scheme Participant or retained by FAL or its nominee for that Ineligible Overseas Shareholder in accordance with the terms of the Demerger Scheme; and

- (e) in the manner considered appropriate by FAL (acting reasonably), a Transfer Scheme Participant who holds one or more parcels of PEH Shares as trustee or nominee for, or otherwise on account of, another person, may make separate elections in relation to each of those parcels of PEH Shares,

and shall otherwise be in a form agreed by the parties in writing. FAL must ensure that, to the extent practicable, Transfer Scheme Participants who have acquired FAL Shares after the date of the dispatch of the Scheme Booklet and election form can receive an election form on request to FAL.

In order to facilitate the provision by WOW and WOW NZ of the WOW Scheme Consideration on the Consideration Date, FAL must provide, or procure the provision, to WOW, or a nominee of WOW, of:

- (f) a daily update of the WOW Consideration Elections that have been received;
- (g) details of the elections for WOW Scheme Consideration made by or at the direction of each Transfer Scheme Participant, within four days after the Transfer Record Date; and
- (h) a complete copy of the FAL Register as at the Transfer Record Date, within four days after the Transfer Record Date.

4.5 WOW Scheme Consideration elections

(a) WOW Standard Consideration

If a Transfer Scheme Participant elects, or is deemed to have elected, to receive the WOW Standard Consideration then the Transfer Scheme Participant will receive the WOW Standard Consideration in respect of each PEH Share held by the Transfer Scheme Participant at the Transfer Record Date.

(b) WOW Maximum Cash Consideration

- (i) If a Transfer Scheme Participant elects to receive the WOW Maximum Cash Consideration, then the number of PEH Shares held at the Transfer Record Date in respect of which the Transfer Scheme Participant will be entitled to receive the WOW Cash Consideration will be determined in accordance with the WOW Maximum Cash Election Formula (rounded up or down to the nearest whole number of PEH Shares with fractions of 0.5 rounded up to the nearest whole number of PEH Shares) and the Transfer Scheme Participant will be entitled to receive the WOW Share Consideration in respect of the balance of his or her PEH Shares held at the Transfer Record Date.

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- (ii) A Transfer Scheme Participant who elects to receive the WOW Maximum Cash Consideration will be entitled to receive the WOW Cash Consideration for the lesser of the total number of his or her PEH Shares held on the Transfer Record Date and the number determined in accordance with the WOW Maximum Cash Election Formula set out below:

$$((C - N) / A) \times E$$

where:

C is \$1,250 million less Net Assumed Debt (which need not be a whole number);

N is the total amount of cash (which need not be a whole number) which Transfer Scheme Participants who elect, or are deemed to have elected, to receive the WOW Standard Consideration are entitled to receive;

A is the amount of cash (which need not be a whole number) determined as follows:

$$A = \left[\frac{\$2,500 \text{ million} - \text{NAD}}{\text{TPS}} \right] \times \text{MCC}$$

where:

NAD is Net Assumed Debt;

TPS is Total PEH Shares; and

MCC is the total number of PEH Shares to be held on the Transfer Record Date by Transfer Scheme Participants who elect to receive WOW Maximum Cash Consideration; and

E is the number of the Transfer Scheme Participant's FAL Shares held on the Transfer Record Date.

(c) **WOW Maximum Share Consideration**

- (i) If a Transfer Scheme Participant elects to receive the WOW Maximum Share Consideration, then the number of PEH Shares held at the Transfer Record Date in respect of which the Transfer Scheme Participant will be entitled to receive the WOW Share Consideration will be determined in accordance with the WOW Maximum Share Election Formula (rounded up or down to the nearest whole number of PEH Shares with fractions of 0.5 rounded up to the nearest whole number of PEH Shares) and the Transfer Scheme Participant will be entitled to receive the WOW Cash Consideration in respect of

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the balance of his or her PEH Shares held at the Transfer Record Date.

- (ii) A Transfer Scheme Participant who elects to receive the WOW Maximum Share Consideration will be entitled to receive the WOW Share Consideration for the lesser of the total number of his or her PEH Shares held at the Transfer Record Date and the number determined in accordance with the WOW Maximum Share Election Formula set out below:

$$((S - O) / B) \times E$$

where:

S is 81,592,689 WOW Shares;

O is the total number of WOW Shares which Transfer Scheme Participants who elect, or are deemed to have elected, to receive the WOW Standard Consideration are entitled to receive;

B is the number of WOW Shares (which need not be a whole number) determined as follows:

$$B = \left[\frac{\$2500 \text{ million} - \text{NAD}}{15.32 \times \text{TPS}} \right] \times \text{MSC}$$

where:

NAD is Net Assumed Debt;

TPS is Total PEH Shares; and

MSC is the total number of PEH Shares to be held on the Transfer Record Date by Transfer Scheme Participants who elect to receive WOW Maximum Share Consideration; and

E is the number of the Transfer Scheme Participant's FAL Shares held on the Transfer Record Date.

4.6 WOW Share Adjustment Event

- (a) If between the date of this agreement and the Second Court Date, a WOW Share Adjustment Event occurs, WOW NZ must promptly notify FAL and the number of WOW Shares to be issued as WOW Scheme Consideration will be adjusted to take into account the dilutive or concentrative effect of such an event or events. FAL and WOW NZ must negotiate in good faith and use reasonable endeavours to reach agreement on an appropriate adjustment as soon as practicable following the occurrence of a WOW Share Adjustment Event.

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- (b) If FAL and WOW NZ cannot reach agreement on an appropriate adjustment under clause 4.6(a) within five Business Days of the occurrence of a WOW Share Adjustment Event (or any shorter period ending on the Business Day before the Transfer Record Date), FAL and WOW NZ will request the Consideration Expert (acting as an expert, not an arbitrator) to make a binding determination. FAL and WOW NZ must instruct the Consideration Expert to make the binding determination within four Business Days (or any shorter period ending on the date that is two Business Days before the Transfer Implementation Date). In this event, the provisions of clauses 5.3 and 5.4 will apply with the appropriate adjustments.
- (c) WOW and WOW NZ agree that there will be no WOW Share Adjustment Event in the period from the Second Court Date until the Consideration Date.

4.7 Ineligible Overseas Shareholders

The WOW Shares to which an Ineligible Overseas Shareholder would otherwise have become entitled will be delivered to a nominee appointed by WOW who will in accordance with clause 4.4(b) of the Transfer Scheme, sell those WOW Shares and WOW must pay the amount determined in accordance with clause 4.4(b) of the Transfer Scheme to the Ineligible Overseas Shareholder. WOW agrees to appoint the nominee at least two weeks prior to the Transfer Scheme Meeting. The identity of the nominee and the terms and conditions of the appointment of the nominee are subject to FAL's prior approval, acting reasonably.

4.8 WOW Action Stores - right of first refusal

- (a) If the Transfer Scheme is not Effective by the Quit Date and FAL intends to dispose of all the WOW Action Stores (other than the Development Sites) by way of an asset sale to a third party or parties between that date and 31 December 2006, FAL must notify WOW of this intention (**Notice of Intention**).
- (b) WOW will, for a period of 20 Business Days, from the date of the Notice of Intention have the right, but not the obligation, exercisable by written notice to FAL to agree to purchase the WOW Action Stores (other than the Development Sites) for maximum consideration of \$250 million (subject to the customary adjustments) and on the terms and conditions to be agreed by FAL and WOW.
- (c) If WOW does not exercise the right to purchase as set out in clause 4.8(b), FAL may, at the expiry of the 20 Business Day period referred to in that clause, proceed to sell the relevant WOW Action Stores.

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5 Scheme Consideration

5.1 Determination date

The Metcash Scheme Consideration and the WOW Scheme Consideration shall be determined as at the Consideration Determination Date.

5.2 Expert determination

(a) The parties acknowledge and agree that it would be beneficial to the parties and to the FAL Shareholders if the Transfer Scheme Consideration can be agreed by the parties without the involvement of the Consideration Expert. Accordingly, the parties agree, to the extent reasonably practicable, to continue to work together to determine whether any elements of the Transfer Scheme Consideration can be agreed. Nothing in this clause 5.2(a) requires FAL to provide information or documents not required by other clauses of this agreement.

(b) If:

- (i) FAL and MTT have not advised the Consideration Expert that they have agreed the Metcash Scheme Consideration; or
- (ii) FAL and WOW NZ have not advised the Consideration Expert that they have agreed the WOW Scheme Consideration,

by the time that the Consideration Expert advises the parties of the Determination (as that term is defined in clause 5.2(c)), then the Consideration Expert will make the Determination of the Metcash Scheme Consideration, the WOW Scheme Consideration or both (as the case may be) in accordance with this clause 5.2.

(c) The Consideration Expert, acting as an expert, not an arbitrator, must make a determination (**Determination**) as to the following:

- (i) the Metcash Cash Consideration;
- (ii) the Metcash Share Consideration;
- (iii) the Net Assumed Debt;
- (iv) the WOW Cash Consideration;
- (v) the WOW Share Consideration;
- (vi) the WOW Standard Consideration;
- (vii) the Actual Working Capital;
- (viii) the Threshold Working Capital; and

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(ix) the Demerger and Transfer Scheme Costs,

(collectively referred to as the “**Consideration Components**”)

in accordance with the procedures set out in this clause 5, clause 6 and clause 7.

- (d) Where FAL and MTT or FAL and WOW NZ have agreed a particular part (but not all) of the Metcash Scheme Consideration or the WOW Scheme Consideration (as the case may be) and both have advised the Consideration Expert of such an agreement, the Consideration Expert will use that agreed part or parts in the Determination.
- (e) The Consideration Expert must make the Determination within 21 days after the Consideration Determination Date.
- (f) The parties will agree the procedures and processes which the Consideration Expert must apply in calculating and determining each of the Consideration Components, including, for the avoidance of doubt, each of the adjustments to the Metcash Scheme Consideration under clauses 6.3 and 6.5 and the individual components of the formula for Net Assumed Debt. These procedures and processes must be such as to enable the Consideration Expert to form the view that each of the Consideration Components has been properly calculated and determined and, without limiting the foregoing must include procedures and processes which will enable the Consideration Expert:
- (i) to be satisfied that it has been provided with all information which is required for the purpose of calculating and determining each of the Consideration Components and which is necessary for the Consideration Expert to be able to complete the agreed procedures and processes; and
 - (ii) to verify that information.
- (g) In calculating and determining each of the Consideration Components in accordance with clause 5.2(f), the Consideration Expert must apply Australian Accounting Standards as applied to FAL's annual accounts for the year ended 31 July 2004 (and the accounting policies set out in those accounts) except where the parties have agreed otherwise.
- (h) In order to provide the parties with an opportunity to review the Determination process, the Consideration Expert will provide the parties with a draft Determination (**Draft**). For the purposes of preparation of the Draft, the Consideration Expert will specify a date to be treated as the Consideration Determination Date. The Draft must specify each element (including, but not limited to, each element referred to in clause 6.3(i) and clause 6.5(i) and each element in the calculation of Net Assumed Debt in clause 7.2) and include an appropriate explanation of how each element of the Metcash Scheme

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Consideration and the WOW Scheme Consideration was determined. The Draft must be provided to the parties by 22 September 2005.

- (i) A party that disputes the Draft or the process by which the Draft was determined may make a written submission to the Consideration Expert within seven days of the date on which that party received a copy of the Draft. Any submission must also be provided to the other parties.
- (j) Upon receipt of a submission from a party, the Consideration Expert must consider the submission and enter into discussions or correspondence, as the Consideration Expert considers appropriate, with that party in order to understand and take account of the matters raised in the party's submission. The other parties will be entitled to participate in the discussions between the Consideration Expert and the party that has made the submission to the Consideration Expert and must receive copies of all correspondence.
- (k) The Consideration Expert must publish the Determination by the date set out in clause 5.2(e). A copy of the Determination must be provided to each of the parties. The Determination must specify each element including, but not limited to, each element referred to in clause 6.3(i) and clause 6.5(i) and each element in the calculation of Net Assumed Debt in clause 7.2.
- (l) The parties agree that, once published, the Determination will be final and binding on all the parties and that the parties will have no recourse to challenge the Determination.

5.3 Assistance of the parties

- (a) Each party must cooperate with the Consideration Expert and provide the Consideration Expert with any documents, information and assistance the Consideration Expert reasonably requests in connection with the preparation of the Draft and the Determination, including by providing full access to the party's relevant employees and consultants.
- (b) Copies of any documents provided by a party to the Consideration Expert must be provided by that party to the other parties. To the extent that a party provides information to the Consideration Expert that has not been reduced to writing, that party will provide a written summary of the information to the other parties.

5.4 Costs of Consideration Expert

The costs and expenses of the Consideration Expert will be paid by MTT and WOW NZ. The allocation of these costs and expenses between MTT and WOW NZ will be determined by the Consideration Expert on the basis of the time spent respectively by the Consideration Expert determining the Metcash Scheme Consideration and the WOW Scheme Consideration as well as any submissions made by MTT or WOW NZ. MTT and WOW NZ will

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indemnify the Consideration Expert on terms and conditions customary for such an appointment. MTT and WOW NZ indemnify the FAL Group for all such costs, expenses and liability.

5.5 Conduct of FAL between the Consideration Determination Date and the Transfer Implementation Date in relation to the Metcash FAL Businesses

Between the Consideration Determination Date and the Transfer Implementation Date and in relation to the Metcash FAL Businesses:

- (a) neither FAL nor any Subsidiary of FAL may acquire, offer to acquire or agree to acquire or come under an obligation to acquire any companies, businesses or assets (or an interest in one or more companies, businesses or assets), or make an announcement in relation to such an acquisition;
- (b) neither FAL nor any Subsidiary of FAL may dispose of, offer to dispose of, agree to dispose of, or come under an obligation to dispose of, any companies, businesses or assets (or an interest in any companies, businesses or assets), or make an announcement in relation to such a disposition;
- (c) neither FAL nor any Subsidiary of FAL may:
 - (i) enter into, offer to enter into or announce that it proposes to enter into; or
 - (ii) vary or terminate or announce that it proposes to vary or terminate,
any joint venture, partnership or other similar arrangement;
- (d) neither FAL nor any Subsidiary of FAL may:
 - (i) enter into, offer to enter into or announce that it proposes to enter into; or
 - (ii) vary or terminate or announce that it proposes to vary or terminate,
any agreements or arrangements which are or would be, taken together, material in the context of the Metcash FAL Businesses;
- (e) neither FAL nor any Subsidiary of FAL may incur or commit to, or grant to another person, a right the exercise of which would involve the FAL Group incurring or committing to any capital expenditure or liability;
- (f) neither FAL nor any Subsidiary of FAL may release, discharge, or modify any substantial obligation (in the context of the Metcash FAL Businesses) owed to it or agree to do so;

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- (g) neither FAL nor any Subsidiary of FAL may enter into or agree to enter into any contract of service or vary or agree to vary any existing contract of service with any director or officer, or pay or agree to pay any retirement benefit or allowance to any director or officer, or make or agree to make any substantial change in the basis or the amount of remuneration of any director, officer or other employee (except as required by law or provided under any superannuation, provident or retirement scheme as in effect on 24 May 2005);
- (h) without limiting the generality of the New Zealand Demerger Principle (as that term is defined in the Demerger Deed), FAL must ensure, or procure its Subsidiaries to ensure, that:
 - (i) the cash receipts of the FAL Post-Demerger Group and the PEH Post-Demerger Group are held in separate bank accounts; and
 - (ii) no payment will be made or obligation incurred between any company that is or will be part of the FAL Post-Demerger Group and any company that is or will be part of the PEH Post-Demerger Group except for payments or obligations which are agreed to in writing by the parties; and
- (i) no member of the FAL Post-Demerger Group may incur or commit to incur any debt other than in the ordinary course of business,
except:
 - (j) for anything which is required or permitted under the terms of the Demerger Deed, the Demerger Implementation Deed or any other Demerger Transaction Document;
 - (k) as disclosed in the Metcash Disclosed Matters;
 - (l) for the payment of any Demerger and Transfer Scheme Costs for which the Metcash Scheme Consideration has been or will be adjusted under clauses 6.3 or 6.5;
 - (m) for any payment under an agreement or arrangement with employees or directors that was entered into in writing prior to 24 May 2005 or as disclosed in the Metcash Disclosed Matters;
 - (n) to the extent that it is a Metcash Agreed Matter; or
 - (o) the organisation by FAL or a Subsidiary of FAL of any banking facility, or the drawdown of any existing facility, solely for the purposes of making any payments permitted by paragraphs (j) to (n).

FAL must notify MTT immediately of it becoming aware of any non-compliance with this clause 5.5.

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5.6 Conduct of FAL between the Consideration Determination Date and the Transfer Implementation Date in relation to the Current New Zealand Businesses and the WOW Action Stores

Between the Consideration Determination Date and the Transfer Implementation Date and in relation to the Current New Zealand Businesses and the WOW Action Stores:

- (a) neither FAL nor any Subsidiary of FAL may acquire, offer to acquire or agree to acquire or come under an obligation to acquire any companies, businesses or assets (or an interest in one or more companies, businesses or assets), or make an announcement in relation to such an acquisition;
- (b) neither FAL nor any Subsidiary of FAL may dispose of, offer to dispose of, agree to dispose of, or come under an obligation to dispose of, any companies, businesses or assets (or an interest in any companies, businesses or assets), or make an announcement in relation to such a disposition;
- (c) neither FAL nor any Subsidiary of FAL may:
 - (i) enter into, offer to enter into or announce that it proposes to enter into; or
 - (ii) vary or terminate or announce that it proposes to vary or terminate,
any joint venture, partnership or other similar arrangement;
- (d) neither FAL nor any Subsidiary of FAL may:
 - (i) enter into, offer to enter into or announce that it proposes to enter into; or
 - (ii) vary or terminate or announce that it proposes to vary or terminate,
any agreements or arrangements which are or would be, taken together, material in the context of the Current New Zealand Businesses and the WOW Action Stores;
- (e) neither FAL nor any Subsidiary of FAL may incur or commit to, or grant to another person, a right the exercise of which would involve the FAL Group incurring or committing to any capital expenditure or liability;
- (f) neither FAL nor any Subsidiary of FAL may release, discharge, or modify any substantial obligation (in the context of the Current New Zealand Businesses and the WOW Action Stores) owed to it or agree to do so;

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- (g) neither FAL nor any Subsidiary of FAL may enter into or agree to enter into any contract of service or vary or agree to vary any existing contract of service with any director or officer, or pay or agree to pay any retirement benefit or allowance to any director or officer, or make or agree to make any substantial change in the basis or the amount of remuneration of any director, officer or other employee (except as required by law or provided under any superannuation, provident or retirement scheme as in effect on 24 May 2005);
- (h) without limiting the generality of the New Zealand Demerger Principle (as that term is defined in the Demerger Deed), FAL must ensure, or procure its Subsidiaries to ensure, that:
 - (i) the cash receipts of the FAL Post-Demerger Group and the PEH Post-Demerger Group are held in separate bank accounts;
 - (ii) no payment will be made or obligation incurred between any company that is or will be part of the FAL Post-Demerger Group and any company that is or will be part of the PEH Post-Demerger Group except for payments or obligations which are agreed to in writing by the parties; and
- (i) no member of the PEH Post-Demerger Group may incur or commit to incur any debt other than in the ordinary course of business,
except:
 - (j) for anything which is required or permitted under the terms of the Demerger Deed, the Demerger Implementation Deed or any other Demerger Transaction Document;
 - (k) as disclosed in the WOW Disclosed Matters;
 - (l) for the payment of any costs for which the WOW Scheme Consideration has been or will be adjusted under clause 4.5;
 - (m) for any payment under an agreement or arrangement with employees or directors that was entered into in writing prior to 24 May 2005 or as disclosed in the WOW Disclosed Matters;
 - (n) to the extent that it is a WOW Agreed Matter; or
 - (o) the organisation by PEH or a Subsidiary of FAL that will become a Subsidiary of PEH of any banking facility, or the draw down of any existing facility, solely for the purposes of making any payments permitted by paragraphs (j) to (n).

FAL must notify WOW and WOW NZ immediately of it becoming aware of any non-compliance with this clause 5.6.

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5.7 No application to acquisition or disposals of certain assets

The prohibitions contained in clauses 5.5(a) and (b) and clauses 5.6(a) and (b) do not apply in relation to acquisitions or disposals of trading stock in the ordinary course of business.

5.8 Metcash FAL Businesses Liaison Committee

With effect from the Consideration Determination Date, FAL and MTT will establish the Metcash FAL Businesses Liaison Committee comprised of:

- (a) up to four senior FAL executives nominated by the Chief Executive Officer; and
- (b) two senior MTT executives nominated by MTT.

5.9 New Zealand Businesses Liaison Committee

With effect from the Consideration Determination Date, FAL, WOW and WOW NZ will establish the New Zealand Businesses Liaison Committee comprised of:

- (a) up to four senior FAL executives nominated by the Chief Executive Officer (which must include the Managing Director of PEL and the General Manager Finance and Administration of PEL); and
- (b) two senior WOW executives nominated by WOW or WOW NZ.

5.10 WOW Action Stores Liaison Committee

With effect from the Consideration Determination Date, FAL, WOW and WOW NZ will establish the WOW Action Stores Liaison Committee comprised of:

- (a) up to five senior FAL executives nominated by the Chief Executive Officer (which must include the General Manager Action Supermarkets and the Western Australian and Queensland State Managers of Action Supermarkets); and
- (b) two senior WOW executives nominated by WOW or WOW NZ.

5.11 Information to be provided to the Metcash FAL Businesses Liaison Committee

FAL must ensure that members of the Metcash FAL Businesses Liaison Committee receive the normal management reports that are customarily distributed to the Chief Executive Officer and the General Manager Finance of FAL on a periodic basis as soon as practicable but in any event within two Business Days after a report is provided to the relevant FAL executive, together with:

- (a) such other information that:

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- (i) is reasonably requested by MTT to enable it to review and assess the operation of the Metcash FAL Businesses; and
 - (ii) has been customarily produced and usually available for review by the senior management of the Metcash FAL Businesses; and
- (b) such access to personnel that is reasonably requested by MTT and is approved by the Chief Executive Officer (such approval not to be unreasonably withheld) to enable it to review and assess the operations of the Metcash FAL Businesses,

to enable the Metcash FAL Businesses Liaison Committee to:

- (c) review and assess the performance of the Metcash FAL Businesses;
- (d) make the recommendations provided for in clause 5.14; and
- (e) prepare for the transition of the ownership of the Metcash FAL Businesses to MTT,

by meeting twice weekly at such venue in Perth or Sydney and in such manner as determined by the Chief Executive Officer.

Where the Chief Executive Officer has determined not to provide access to personnel requested under clause 5.11(b), MTT may require the Chairman to investigate the circumstances of such a decision and to act in good faith in resolving any disagreement in relation to the relevant issue.

5.12 Information to be provided to the New Zealand Businesses Liaison Committee

FAL must ensure that members of the New Zealand Businesses Liaison Committee receive the normal management reports that are customarily distributed to the Chief Executive Officer, the General Manager Finance of FAL, the Managing Director of PEL and the General Manager Finance and Administration of PEL on a periodic basis as soon as practicable but in any event within two Business Days after a report is provided to the relevant FAL executive, together with:

- (a) such other information that:
 - (i) is reasonably requested by WOW or WOW NZ to enable it to review and assess the operation of the Current New Zealand Businesses; and
 - (ii) has been customarily produced and usually available for review by the Chief Executive Officer, the General Manager Finance of FAL, the Managing Director of PEL and the General Manager Finance and Administration of PEL and the senior management of the Current New Zealand Businesses; and

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- (b) such access to personnel that is reasonably requested by WOW or WOW NZ and is approved by the Chief Executive Officer (such approval not to be unreasonably withheld) to enable it to review and assess the operations of the Current New Zealand Businesses,

to enable the New Zealand Businesses Liaison Committee to:

- (c) review and assess the performance of the Current New Zealand Businesses;
- (d) make the recommendations provided for in clause 5.15; and
- (e) prepare for the transition of the ownership of the Current New Zealand Businesses to WOW NZ,

by meeting twice weekly at such venue in Perth, Sydney or Auckland and in such manner as determined by the Chief Executive Officer, with at least one meeting per fortnight to be held at the head office of PEL in Auckland. Any member of the New Zealand Businesses Liaison Committee who is unable to attend such a meeting in person may participate in the meeting by telephone or video conference.

Where the Chief Executive Officer has determined not to provide access to personnel requested under clause 5.12(b), WOW or WOW NZ may require the Chairman to investigate the circumstances of such a decision and to act in good faith in resolving any disagreement in relation to the relevant issue.

5.13 Information to be provided to the WOW Action Stores Liaison Committee

FAL must ensure that members of the WOW Action Stores Liaison Committee receive the normal management reports that are customarily distributed to the Chief Executive Officer and the General Manager Finance of FAL on a periodic basis as soon as practicable but in any event within two Business Days after a report is provided to the relevant FAL executive, together with:

- (a) such other information that:
 - (i) is reasonably requested by WOW or WOW NZ to enable it to review and assess the operation of the WOW Action Stores; and
 - (ii) has been usually available for review by the senior management of the WOW Action Stores; and
- (b) such access to personnel that is reasonably requested by WOW or WOW NZ and is approved by the Chief Executive Officer (such approval not to be unreasonably withheld) to enable it to review and assess the operations of the WOW Action Stores,

to enable the WOW Action Store Liaison Committee to:

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- (c) review and assess the performance of the WOW Action Stores;
- (d) make the recommendations provided for in clause 5.16; and
- (e) prepare for the transition of the ownership of the WOW Action Stores to WOW NZ,

by meeting twice weekly at such venue in Perth and in such manner as determined by the Chief Executive Officer.

Where the Chief Executive Officer has determined not to provide access to personnel requested under clause 5.13(b), WOW or WOW NZ may require the Chairman to investigate the circumstances of such a decision and to act in good faith in resolving any disagreement in relation to the relevant issue.

5.14 Metcash FAL Businesses Liaison Committee may make recommendations

The Metcash FAL Businesses Liaison Committee may, after reviewing the information provided to it pursuant to clause 5.11 and acting by at least two of its members do any of the following.

- (a) Make recommendations to the Chief Executive Officer about the conduct and management of Metcash FAL Businesses. The recommendations provided for in this clause:
 - (i) where made prior to the Transfer Effective Date may only require the Metcash FAL Businesses to be carried on in accordance with the requirements of this agreement and not otherwise and where made after the Transfer Effective Date may relate to such matters concerning the Metcash FAL Businesses as any two members of the Metcash FAL Businesses Liaison Committee think fit; and
 - (ii) must be implemented by the Chief Executive Officer subject to them being commercially viable and to the duties that the Chief Executive Officer has under the Corporations Act or any necessarily applicable legislation, including his responsibilities to the board of directors of FAL.

Where the Chief Executive Officer has determined not to implement a recommendation on the basis provided in clause 5.14(a)(ii), MTT may require the Chairman to investigate the circumstances of such a decision and to act in good faith in resolving any disagreement in relation to the relevant issue. This clause 5.14(a) does not limit the operation of clause 5.14(b).

- (b) Issue a request to the Chairman to direct the Chief Executive Officer to rectify any non-compliance with clause 5.5 and FAL must procure that the Chairman so directs the Chief Executive Officer and that the Chief Executive Officer complies with that direction and rectifies such non-compliance as soon as practicable.

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For the avoidance of doubt, neither the Metcash FAL Businesses Liaison Committee nor any representative of the Metcash Group (in their capacity as a member of the Metcash FAL Businesses Liaison Committee) are to have any involvement in the determination of the Metcash Scheme Consideration or the WOW Scheme Consideration and may not seek information in respect of that determination or approach the Directors, FAL executives or FAL employees involved in that determination except in accordance with clause 5.2 and 5.3.

5.15 New Zealand Businesses Liaison Committee may make recommendations

The New Zealand Businesses Liaison Committee may, after reviewing the information provided to it pursuant to clause 5.12 and acting by at least two of its members do any of the following.

- (a) Make recommendations to the Chief Executive Officer about the conduct and management of the Current New Zealand Businesses. The recommendations provided for in this clause:
 - (i) where made prior to the Transfer Effective Date may only require the Current New Zealand Businesses to be carried on in accordance with the requirements of this agreement and not otherwise and where made after the Transfer Effective Date may relate to such matters concerning the Current New Zealand Businesses as any two members of the New Zealand Businesses Liaison Committee think fit; and
 - (ii) must be implemented by the Chief Executive Officer subject to them being commercially viable and to the duties that the Chief Executive Officer has under the Corporations Act or any necessarily applicable legislation, including his responsibilities to the board of directors of FAL.

Where the Chief Executive Officer has determined not to implement a recommendation on the basis provided in clause 5.15(a)(ii), WOW or WOW NZ may require the Chairman to investigate the circumstances of such a decision and to act in good faith in resolving any disagreement in relation to the relevant issue. This clause 5.15(a) does not limit the operation of clause 5.15(b).

- (b) Issue a request to the Chairman to direct the Chief Executive Officer to rectify any non-compliance with clause 5.6 and FAL must procure that the Chairman so directs the Chief Executive Officer and that the Chief Executive Officer complies with that direction and rectifies such non-compliance as soon as practicable.

For the avoidance of doubt, neither the New Zealand Businesses Liaison Committee nor any representative of the WOW Group (in their capacity as a member of the New Zealand Businesses Liaison Committee) are to have any involvement in the determination of the Metcash Scheme Consideration or the WOW Scheme Consideration and may not seek information in respect of

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that determination or approach the Directors, FAL executives or FAL employees involved in that determination except in accordance with clause 5.2 and 5.3.

5.16 WOW Action Stores Liaison Committee may make recommendations

The WOW Action Stores Liaison Committee may, after reviewing the information provided to it pursuant to clause 5.13 and acting by at least two of its members, do any of the following.

- (a) Make recommendations to the Chief Executive Officer about the conduct and management of the WOW Action Stores. The recommendations provided for in this clause:
 - (i) where made prior to the Transfer Effective Date may only require the business of the WOW Action Stores to be carried on in accordance with the requirements of this agreement and not otherwise and where made after the Transfer Effective Date may relate to such matters concerning the WOW Action Stores as any two members of the WOW Action Stores Liaison Committee think fit; and
 - (ii) must be implemented by the Chief Executive Officer subject to them being commercially viable and to the duties that the Chief Executive Officer has under the Corporations Act or any necessarily applicable legislation, including his responsibilities to the board of directors of FAL.

Where the Chief Executive Officer has determined not to implement a recommendation on the basis provided in clause 5.16(a)(ii), WOW or WOW NZ may require the Chairman to investigate the circumstances of such a decision and to act in good faith in resolving any disagreement in relation to the relevant issue. This clause 5.16(a) does not limit the operation of clause 5.16(b).

- (b) Issue a request to the Chairman to direct the Chief Executive Officer to rectify any non-compliance with clause 5.6 and FAL must procure that the Chairman so directs the Chief Executive Officer and that the Chief Executive Officer complies with that direction and rectifies such non-compliance as soon as practicable.

For the avoidance of doubt, neither the WOW Action Stores Liaison Committee nor any representative of the WOW Group (in their capacity as a member of the WOW Action Stores Liaison Committee) are to have any involvement in the determination of the Metcash Scheme Consideration or the WOW Scheme Consideration and may not seek information in respect of that determination or approach the Directors, FAL executives or FAL employees involved in that determination except in accordance with clause 5.2 and 5.3.

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6 Metcash Scheme Consideration

6.1 Determination of Metcash Scheme Consideration

The Metcash Scheme Consideration is to be determined in accordance with this clause 6.

6.2 Metcash Cash Consideration

The Metcash Cash Consideration is an amount equal to \$755 million, adjusted in accordance with clause 6.3, divided by the number of FAL Shares on issue on the Transfer Implementation Date.

6.3 Adjustments to Metcash Cash Consideration

The total Metcash Cash Consideration shall be calculated as \$755 million:

- (a) **(Surplus cash)** either:
- (i) **less** the amount by which the Australian Surplus Cash Balance as at the close of business on the Consideration Determination Date is less; or
 - (ii) **plus** the amount by which the Australian Surplus Cash Balance as at the close of business on the Consideration Determination Date is more,
- than \$18 million;
- (b) **(Working capital)** less an amount calculated in accordance with the following formula:

$$(\text{TWC} \times (92/100)) - \text{AWC}$$

Where:

TWC is Threshold Working Capital; and

AWC is Actual Working Capital.

For the avoidance of doubt, if the Actual Working Capital is greater than or equal to 92% of the Threshold Working Capital, then no adjustment shall be made under this clause 6.3(b);

- (c) **(Development Sites)** less \$1.3 million;
- (d) **(Tax Receivable)**
- (i) **plus** any amount:
 - (A) received by FAL or a Subsidiary of FAL before the Consideration Determination Date for the Tax Receivable; or

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- (B) which the ATO has agreed unconditionally and irrevocably in writing to provide FAL or a Subsidiary of FAL for the Tax Receivable; and
- (ii) less any ATO Expenditure Amount;
- (e) (Terminated WOW contracts) less \$6 million;
- (f) (External Debt) less any External Debt;
- (g) (Metcash Agreed Amount) plus any payment by the FAL Group that is a Metcash Agreed Amount;
- (h) (Demerger and Transfer Scheme Costs)
 - (i) less the Demerger and Transfer Scheme Costs which have not been paid by FAL or any of its Subsidiaries on the Consideration Determination Date; and
 - (ii) plus \$14 million; and
- (i) (Surplus Assets and capital expenditure)
 - (i) less the amount that is the greater of:
 - (A) the amount received by the FAL Post-Demerger Group for the Disposal of any Surplus Assets and which as at the Consideration Determination Date is not retained as cash (or cash equivalent) within the Metcash FAL Businesses. (For the avoidance of doubt any such cash (or cash equivalent) must not have been applied towards extinguishing any liabilities of the FAL Post-Demerger Group and does not form part of Australian Surplus Cash Balance); or
 - (B) the value attributed in the column entitled "Allocated Value" of schedule 5 to the Surplus Asset so Disposed; and
 - (ii) plus the aggregate capital expenditure paid by the FAL Post-Demerger Group after 1 February 2005 and prior to the Consideration Determination Date (both dates inclusive) on the properties set out in schedule 5.

6.4 Metcash Share Consideration

The Metcash Share Consideration will be determined as follows:

$$MSC = 2.09 + \frac{A}{\$3.38 \times FS}$$

Where:

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MSC = Metcash Share Consideration per FAL Share;

FS = the total number of FAL Shares on issue on the Transfer Implementation Date; and

A = the amount determined in accordance with clause 6.5.

6.5 Adjustments to Metcash Share Consideration

The amount "A" in the formula in clause 6.4 shall be calculated as follows:

- (a) **(Surplus cash)** either:
- (i) the amount by which the Australian Surplus Cash Balance as at the close of business on the Consideration Determination Date is less than \$18 million (the result being expressed as a negative amount); or
 - (ii) the amount by which the Australian Surplus Cash Balance as at the close of business on the Consideration Determination Date is more than \$18 million (the result being expressed as a positive amount);

- (b) **(Working capital)** less an amount calculated in accordance with the following formula:

$$(\text{TWC} \times (92/100)) - \text{AWC}$$

Where:

TWC is Threshold Working Capital; and

AWC is Actual Working Capital.

For the avoidance of doubt, if the Actual Working Capital is greater than or equal to 92% of the Threshold Working Capital, then no adjustment shall be made under this clause 6.5(b);

- (c) **(Development Sites)** less \$1.3 million;
- (d) **(Tax Receivable)**
- (i) **plus** any amount:
 - (A) received by FAL or a Subsidiary of FAL before the Consideration Determination Date for the Tax Receivable; or
 - (B) which the ATO has agreed unconditionally and irrevocably in writing to provide FAL or a Subsidiary of FAL for the Tax Receivable; and
 - (ii) **less** any ATO Expenditure Amount;

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- (e) **(Terminated WOW contracts) less** \$6 million;
- (f) **(External Debt) less** any External Debt;
- (g) **(Metcash Agreed Amount) plus** any payment by the FAL Group that is a Metcash Agreed Amount;
- (h) **(Demerger and Transfer Scheme Costs)**
 - (i) **less** the Demerger and Transfer Scheme Costs which have not been paid by FAL or any of its Subsidiaries on the Consideration Determination Date; and
 - (ii) **plus** \$14 million; and
- (i) **(Surplus Assets and capital expenditure)**
 - (i) **less** the amount that is the greater of:
 - (A) the amount received by the FAL Post-Demerger Group for the Disposal of any Surplus Assets and which as at the Consideration Determination Date is not retained as cash (or cash equivalent) within the Metcash FAL Businesses. (For the avoidance of doubt any such cash (or cash equivalent) must not have been applied towards extinguishing any liabilities of the FAL Post-Demerger Group and does not form part of Australian Surplus Cash Balance); or
 - (B) the value attributed in the column entitled "Allocated Value" of schedule 5 to the Surplus Asset so Disposed; and
 - (ii) **plus** the aggregate capital expenditure paid by the FAL Post-Demerger Group after 1 February 2005 and prior to the Consideration Determination Date (both dates inclusive) on the properties set out in schedule 5.

6.6 Demerger and Transfer Scheme Costs

FAL must, at least two weeks before the Consideration Determination Date, advise any third party who may have Demerger and Transfer Scheme Costs that:

- (a) they must render a final account (**Final Account**) to FAL (for matters related to the Metcash FAL Businesses) or PEH (for matters relating to the Current New Zealand Businesses and the WOW Action Stores) which takes into account all anticipated Demerger and Transfer Scheme Costs in relation to the finalisation of their role up to and including the Transfer Implementation Date; and
- (b) that no account other than the Final Account will be paid by FAL or PEH other than with the consent of MTT for any account other than a

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Final Account rendered to FAL or with the consent of WOW and WOW NZ for any account other than a Final Account rendered to PEH.

6.7 Tax Receivable

- (a) If there has been no adjustment to the Metcash Cash Consideration under clause 6.3(d)(i) or the Metcash Share Consideration under clause 6.5(d)(i), MTT agrees and covenants in favour of the Transfer Scheme Participants that it will use its reasonable endeavours to procure that FAL and AHPL shall pursue the ATO Claim against the ATO in a proper and prudent manner. For the purposes of this clause, the obligation on MTT to use its reasonable endeavours:
- (i) will be satisfied by MTT expending up to \$1 million (**ATO Expenditure Amount**) on the reasonable costs of external legal and taxation advisers (including their out of pocket expenses); but
 - (ii) will not require MTT to appeal or challenge the decision of any court, arbitrator or expert made with respect to the ATO Claim in the absence of manifest error and if the ATO Expenditure Amount has been expended.
- (b) MTT covenants in favour of the Transfer Scheme Participants to pay an additional sum to Transfer Scheme Participants (based on their relative proportional holdings of FAL Shares as at the Transfer Record Date):
- (i) within 28 days after receipt by FAL, AHPL or MTT of the total amount recovered with respect to the ATO Claim; and
 - (ii) equal to the amount (if any) recovered by FAL, AHPL or MTT from the ATO in respect of the ATO Claim (including interest and costs) and any unexpended portion of the ATO Expenditure Amount.

The benefit of this clause 6.7 and the right to enforce it extends to Transfer Scheme Participants.

7 WOW Scheme Consideration

7.1 WOW Scheme Consideration

The WOW Scheme Consideration comprises:

- (a)
$$\frac{\$2,500 \text{ million} - \text{Net Assumed Debt}}{\text{Total PEH Shares}}$$

(**WOW Cash Consideration**) cash for each PEH Share in respect of which the WOW Cash Consideration is payable;

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$$(b) \quad \frac{\$2,500 \text{ million} - \text{Net Assumed Debt}}{15.32 \times \text{Total PEH Shares}}$$

(WOW Share Consideration) WOW Shares for each PEH Share in respect of which the WOW Share Consideration is payable; and

$$(c) \quad \frac{\$1,250 \text{ million} - \text{Net Assumed Debt}}{\text{Total PEH Shares}} + \frac{81,592,689 \text{ WOW Shares}}{\text{Total PEH Shares}}$$

(WOW Standard Consideration) cash and WOW Shares for each PEH Share in respect of which the WOW Standard Consideration is payable,

as determined by the Consideration Expert in accordance with this agreement.

7.2 Net Assumed Debt

In making the Determination of the WOW Cash Consideration, the WOW Share Consideration and the WOW Standard Consideration, the Consideration Expert will calculate and determine the Net Assumed Debt as at the close of business on the Consideration Determination Date, in accordance with the following formula:

$$\mathbf{NAD = B - (C + WBP + SD) + (UC + D + Ex + UnC + Inv + O)}$$

Where:

NAD is Net Assumed Debt;

B is the aggregate amount of Finance Debt as at the close of business on the Consideration Determination Date of the PEH Post-Demerger Group;

C is the amount as at the close of business on the Consideration Determination Date of cash or cash equivalents including but not limited to:

- (a) cash floats (being cash amounts held in-store comprising till floats and the cashier's recoup float which is used to top up coin shortages in till floats at the time of clearing each morning);
- (b) retail EFTPOS clearing, being EFTPOS sales transactions which are yet to be processed by the bank as at the close of business of the relevant store;
- (c) cash on hand, being cash takings which are in the store safe as at the close of business of the relevant store;

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(d) cash in transit (being cash takings which have left the store premises but have not yet been recognised by the bank (takings with Armourguard/Chubb and takings being processed by the bank)) as at the close of business of the relevant store; and

(e) government bonds,

of the PEH Post-Demerger Group but excluding any cash or cash equivalents held in the WOW Action Stores which are included in the WOW Balancing Payment;

WBP is the amount of the WOW Balancing Payment;

SD is the amount of any stamp duty (and any related fines, interest and penalties that have become due and payable) paid by FAL on the matters listed in clause 16.2(b)(i) to (iv) prior to the close of business on the Consideration Determination Date and which MTT has confirmed in writing to FAL and WOW that it is satisfied, acting reasonably, that such amount has been paid and which WOW has confirmed in writing to FAL and MTT that it is satisfied, acting reasonably, that such amount has been paid;

UC is the amount as at the close of business on the Consideration Determination Date of any trade creditors of the PEH Post-Demerger Group that were not paid but should have been paid on or before the close of business on the Consideration Determination Date in accordance with the normal practices, policies and payment cycle of the Demerged New Zealand Businesses in respect of that creditor or class of creditors;

D is the amount received in the period commencing on 23 May 2005 and ending at close of business on the Consideration Determination Date by any member of the FAL Group for or in connection with the disposal of:

(a) any interest in any real property that forms part of or relates to the Current New Zealand Business or the WOW Action Stores other than the properties listed in schedule 7; or

(b) any other asset (excluding trading stock sold in the ordinary course of business) that forms part of or relates to the Current New Zealand Business or the WOW Action Stores where the consideration was greater than \$500,000 for an individual asset or, where the asset was sold as part of the sale of a portfolio of assets, the consideration for the portfolio was greater than \$1.5 million;

Ex is the total as at the close of business on the Consideration Determination Date of all external costs incurred or anticipated to be incurred by the PEH Post-Demerger Group as a consequence of or in response to the MTT Offer or in undertaking the Demerger Scheme

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and the Transfer Scheme including (excluding, for the avoidance of doubt, Tax and stamp duty):

- (a) payments that are owing or will become owing to employees as a consequence of the MTT Offer, the Demerger Scheme or the Transfer Scheme including any retention payments referred to in the WOW Disclosed Matters and those parts of the incentive or bonus payments referred to in the WOW Disclosed Matters that relate to the period prior to the Consideration Determination Date;
- (b) shareholder communications, including advertising and the printing and distribution of FAL's Target's Statement in response to the Metcash Offer and the Scheme Booklet and communicating with shareholders in relation to the MTT Offer, FAL's Target's Statement in response to the MTT Offer, the Scheme Booklet, the Demerger Scheme and the Transfer Scheme; and
- (c) obtaining financial, legal, accounting and other specialist and expert advice, opinions and reports in relation to the MTT Offer, FAL Target's Statement in response to the MTT Offer, the Scheme Booklet, the Demerger Scheme and the Transfer Scheme;

UnC is the amount by which the aggregate capital expenditure paid by the FAL Group in relation to the PEH Post-Demerger Group in the period commencing on 23 May 2005 and ending at the close of business on the Consideration Determination Date (both dates inclusive) including capital expenditure paid on the properties and for other business purposes set out in schedule 6 is less than NZ\$88,775,000 (**Target CAPEX Amount**) provided that if any capital expenditure on any such property or in relation to any such business purpose has not been incurred during that period due to the occurrence of Events Outside of FAL's Control (**Unincurred Capital Expenditure**), then the Target CAPEX Amount will be reduced by the amount of the Unincurred Capital Expenditure;

Inv is the amount by which the Average Inventory of the Current New Zealand Businesses as at the close of business on the Consideration Determination Date is less than NZ\$226.2 million; and

O is the aggregate amount as at the close of business on the Consideration Determination Date of any expense relating to rent and other outgoings under leases, information technology licences, utilities (including water, electricity and gas), wages and salaries, advertising and taxation of the PEH Post-Demerger Group that would or should have been paid on or before the Consideration Determination Date, determined in accordance with the following:

- (a) in the case of rent and other outgoings under leases, the provisions of the applicable leases and the normal practices,

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policies and payment cycles of the Demerged New Zealand Businesses;

- (b) in the case of information technology licences, the normal practices, policies and payment cycles of the Demerged New Zealand Businesses;
- (c) in the case of utilities (including water, electricity and gas), the normal practices, policies and payment cycles of the Demerged New Zealand Businesses;
- (d) in the case of advertising, the normal practices, policies and payment cycles of the Demerged New Zealand Businesses;
- (e) in the case of Tax, where payment had fallen due in accordance with the applicable statutory payment timetable or an assessment notice, demand or other document issued by a Governmental Agency; and
- (f) in the case of wages and salaries, group tax and superannuation, the normal policies, practices and payment cycles of the Demerged New Zealand Businesses,

but is not paid at the close of business on the Consideration Determination Date. Aggregate unpaid amounts in respect of any category of matter referred to in (a) to (f) above (both inclusive) which are less than \$1 million for that category will be ignored for the purposes of this definition.

8 Implementation

8.1 FAL's obligations

FAL must execute all documents and do all acts and things necessary for the implementation and performance of the Demerger Scheme and the Transfer Scheme as expeditiously as practicable, including the following:

- (a) **Scheme Booklet:** Prepare the Scheme Booklet in respect of the Demerger Scheme and the Transfer Scheme, which complies with all applicable laws (and in particular, the Corporations Act and the Corporations Regulations), the Listing Rules and applicable ASIC Policy Statements (and in particular PS 60 and PS 142) and includes a statement that:
 - (i) in the absence of an alternative proposal on superior terms, a majority of the Directors recommend that FAL Shareholders vote in favour of the Demerger Scheme;

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- (ii) in the absence of an alternative proposal on superior terms, a majority of the Directors recommend that FAL Shareholders vote in favour of the Transfer Scheme;
 - (iii) MTT will ensure that any employees of the Metcash FAL Businesses who are made redundant or whose employment is otherwise terminated within twelve months after the Transfer Implementation Date will receive all payments and other benefits in accordance with the policies of, and their contractual arrangements with, the FAL Group as at the date of this agreement, unless such employees have agreed to other arrangements with MTT; and
 - (iv) WOW or WOW NZ will ensure that any employees of the Current New Zealand Businesses or the WOW Action Stores who are made redundant or whose employment is otherwise terminated within twelve months after the Transfer Implementation Date will receive all payments and other benefits in accordance with the policies of, and their contractual arrangements with, the FAL Group as at the date of this agreement, unless such employees have agreed to other arrangements with WOW or WOW NZ.
- (b) **Independent Expert:** Appoint the Independent Expert to advise on whether the Demerger Scheme and the Transfer Scheme are in the interests of FAL Shareholders.
- (c) **Consideration Expert:** Appoint the Consideration Expert to make the Determination under clause 5 and the determinations under clause 3.5(b) and clause 4.6(b), if required.
- (d) **ATO Class Ruling:** Apply to the ATO for a class ruling (or class rulings), in a form reasonably satisfactory to MTT and WOW, confirming that capital gains tax rollover relief will be available for eligible FAL Shareholders in relation to the Demerger Scheme and the Transfer Scheme and confirming that section 45B of the Income Tax Assessment Act 1936 will not apply to the Demerger Scheme.
- (e) **Documents relating to the Schemes:** Consult with MTT, WOW and WOW NZ on an ongoing basis in good faith in relation to the Scheme Booklet and other draft documentation relating to the implementation of the Demerger Scheme and the Transfer Scheme, and any changes to these documents, until those documents are in a final form and, acting in good faith, take account of any comments made by MTT, WOW or WOW NZ, including by incorporating any changes reasonably requested by MTT, WOW or WOW NZ. It is acknowledged that none of the parties will have any right to determine the form and content of the Independent Expert's report to be included in the Scheme Booklet.

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- (f) **Section 411(17)(b) statement:** Apply to the ASIC for the production of a statement pursuant to section 411(17)(b) of the Corporations Act stating that the ASIC has no objection to the Transfer Scheme.
- (g) **Regulatory matters:** Keep MTT, WOW and WOW NZ informed of any matters raised by ASIC in relation to the Scheme Booklet or any matters raised by any other Regulatory Authority in relation to the Schemes, and use all reasonable endeavours and co-operate with MTT, WOW and WOW NZ to resolve any such matters.
- (h) **Dispatch of materials:** Dispatch the completed Scheme Booklet to the FAL Shareholders within time to satisfy any notice period for the Scheme Meetings.
- (i) **Scheme Meetings:** Apply to the Court for an order to convene the Scheme Meetings.
- (j) **Court approval:** Apply to the Court for orders approving the Demerger Scheme and the Transfer Scheme, forthwith after:
 - (i) the passing of the resolutions submitted to the Scheme Meetings by the requisite majorities; and
 - (ii) provided that all other conditions to be satisfied by that date are satisfied other than the obtaining of Court approval.

If the resolutions submitted to the Scheme Meetings and all other conditions have been satisfied for the Demerger Scheme but not for the Transfer Scheme, then FAL will apply to the Court for orders in respect of the Demerger Scheme.

- (k) **Notify ASX of Court order:** Immediately notify ASX of the Court order approving any Scheme.
- (l) **Lodge copy of Court order:** Lodge with the ASIC a certified copy of the Court order approving any Scheme no later than the Business Day after the Court order is made and as soon as practicable thereafter lodge a copy of that document with ASX.
- (m) **Conduct of Metcash FAL Businesses by FAL:** During the period commencing on 23 May 2005 to the Transfer Implementation Date, FAL agrees with MTT that it will, and will ensure that each of its relevant Subsidiaries will, unless MTT otherwise approves by providing its prior written consent, carry on the Metcash FAL Businesses in the ordinary course of business consistent with the business practices of the FAL Group and not otherwise (except as may be disclosed in the Metcash Disclosed Matters, or for any Metcash Agreed Matter or to the extent of any inconsistency with the requirements of clause 5.5, in which event, the requirements of clause 5.5 prevail), including:
 - (i) paying creditors in the ordinary course and consistent with past practice of paying creditors;

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- (ii) using best endeavours to obtain and maintain in full force and effect all material Authorisations required for the conduct of the Metcash FAL Businesses;
- (iii) complying with all material laws binding on it or affecting the Metcash FAL Businesses;
- (iv) not transferring any asset between the Current New Zealand Businesses and the Current Australian Businesses, except to the extent that doing so is required or permitted under the Demerger Deed, the Demerger Implementation Deed or the Demerger Transaction Documents;
- (v) meeting liabilities of the Metcash FAL Businesses as they fall due in the ordinary course and consistent with past practice and making no change to its policy or manner of collection of receivables;
- (vi) not disposing or agreeing to dispose of any real property without the prior written consent of MTT; and
- (vii) purchasing and selling stock in trade in the ordinary course.

The parties agree that notwithstanding anything else in this agreement (other than this clause 8.1(m)), the FAL Group will not be required to expend, or incur any commitment to expend, any amount on capital expenditure or operating expenditure other than such amounts as may be required for the Metcash FAL Businesses to meet:

- (i) customary operational levels, including meeting occupational health and safety standards; and
 - (ii) levels of expenditure to support the general trading requirements, needs and daily operations of the businesses.
- (n) **Conduct of Current New Zealand Businesses and WOW Action Stores by FAL:** During the period commencing on 23 May 2005 to the Transfer Implementation Date, FAL agrees with WOW and WOW NZ that it will, and will ensure that each of its relevant Subsidiaries will, unless WOW and WOW NZ otherwise approves by providing their prior written consent, carry on the Current New Zealand Businesses and the WOW Action Stores in the ordinary course of business consistent with the business practices of the FAL Group and not otherwise (except as may be disclosed in the WOW Disclosed Matters, or for any WOW Agreed Matter or to the extent of any inconsistency with the requirements of clause 5.6, in which event, the requirements of clause 5.6 prevail), including:
- (i) paying creditors in the ordinary course and consistent with past practice of paying creditors;
 - (ii) using best endeavours to obtain and maintain in full force and effect all material Authorisations required for the conduct of

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the Current New Zealand Businesses and the WOW Action Stores;

- (iii) complying with all material laws binding on it or affecting the Current New Zealand Businesses and the WOW Action Stores;
- (iv) not transferring any asset between the Current New Zealand Businesses and the Current Australian Businesses, except to the extent that doing so is required or permitted under the Demerger Deed, the Demerger Implementation Deed or the Demerger Transaction Documents;
- (v) meeting liabilities of the Current New Zealand Businesses and the WOW Action Stores as they fall due in the ordinary course and consistent with past practice and making no change to its policy or manner of collection of receivables;
- (vi) not disposing or agreeing to dispose of any real property without the prior written consent of WOW and WOW NZ;
- (vii) not acquiring or agreeing to acquire or entering into or agreeing to enter into any lease of any real property;
- (viii) using its best endeavours to carry on those businesses in a manner that the aggregate capital expenditure of the FAL Group on the properties and for other business purposes set out in schedule 6 is incurred subject only to an occurrence of any Event Outside of FAL's Control; and
- (ix) ordering, purchasing and selling stock in trade in the ordinary course.

The parties agree that notwithstanding anything else in this agreement (other than this clause 8.1(n)), the FAL Group will not be required to expend, or incur any commitment to expend, any amount on capital expenditure or operating expenditure other than amounts required for the Current New Zealand Businesses and the WOW Action Stores to meet:

- (i) customary operational levels, including meeting occupational health and safety standards; and
 - (ii) levels of expenditure to support the general trading requirements, needs and daily operations of the businesses.
- (o) **FAL Information:** FAL will, as a continuing obligation, provide to FAL Shareholders all such further new information which may arise after the Scheme Booklet has been dispatched until the Second Court Date which may be necessary to ensure that the FAL Information does not contain any material statement which is misleading or deceptive in any respect (whether by omission or otherwise).

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- (p) **Actions:** Not (and procure that the Directors, FAL's officers and management do not) take any action that would result in, or be likely to result in, the Scheme Booklet containing a material statement that is misleading or deceptive or would result in the Scheme Booklet containing a material omission.
- (q) **No dividend:** Not to declare or pay any dividend, return of capital or other distribution to FAL Shareholders prior to the Transfer Implementation Date.
- (r) **Resignation of directors:** Procure the written resignation of all directors and secretaries of FAL, each member of the FAL Post-Demerger Group and PEH to be effective from the close of the board meetings to be held on the Transfer Implementation Date as contemplated by clause 8.1(s).
- (s) **Board meetings:** Procure that meetings of the directors of FAL, each member of the FAL Post-Demerger Group and PEH are convened on or before the Transfer Implementation Date to approve the appointment of:
 - (i) the nominees of MTT as directors and secretary of FAL and each member of the FAL Post-Demerger Group in place of the existing directors and secretary of FAL and each member of the FAL Post-Demerger Group; and
 - (ii) the nominees of WOW NZ as directors and secretary of PEH in place of the existing directors and secretary of PEH.
- (t) **Dealings with personnel - MTT:** In consultation with MTT to the extent considered appropriate by FAL, acting reasonably, as soon as practicable after the date of this agreement, arrange and facilitate meetings to be coordinated by FAL between MTT and FAL Group employees relevant to the Metcash FAL Businesses (as FAL deems appropriate, acting reasonably) to discuss the operation of the Metcash FAL Businesses following the Transfer Implementation Date and to enable MTT to negotiate retention or other bonuses with such employees as MTT may deem appropriate. Where MTT is of the opinion (acting reasonably) that there has been insufficient cooperation under this clause, it may require the Chairman to investigate the circumstances and to act in good faith in resolving any disagreement in relation to the relevant issue.
- (u) **Dealings with personnel - WOW and WOW NZ:** In consultation with WOW and WOW NZ to the extent considered appropriate by FAL, acting reasonably, as soon as practicable after the date of this agreement, arrange and facilitate meetings to be coordinated by FAL between WOW, WOW NZ and FAL Group employees relevant to the Demerged New Zealand Businesses (as FAL deems appropriate, acting reasonably) to discuss the operation of the Demerged New Zealand Businesses following the Transfer Implementation Date and for WOW or WOW NZ to negotiate retention or other bonuses with

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such employees as WOW or WOW NZ may deem appropriate. Where WOW or WOW NZ are of the opinion (acting reasonably) that there has been insufficient cooperation under this clause, it may require the Chairman to investigate the circumstances and to act in good faith in resolving any disagreement in relation to the relevant issue.

- (v) **Consultation with MTT on collective arrangement negotiations:** Consult with MTT in good faith in relation to any proposed negotiations with any trade union or other employee organisation on changes to any enterprise bargaining agreement, Australian Workplace Agreement or any similar agreement relating to, or affecting in any way, the Metcash FAL Businesses.
- (w) **Consultation with WOW and WOW NZ on collective arrangement negotiations:** Consult with WOW and WOW NZ in good faith in relation to any proposed negotiations with any trade union or other employee organisation on changes to any enterprise bargaining agreement or any similar agreement relating to, or affecting in any way, the Demerged New Zealand Businesses.
- (x) **Termination of employment:** Without limiting the generality of clauses 8.1(m) and 8.1(n), not encourage any employees of the FAL Group to terminate their employment with the FAL Group.
- (y) **Cooperation - MTT:** Arrange and facilitate a meeting between the respective chief executive officers of FAL and MTT to discuss in good faith appropriate procedures to enable MTT to communicate with customers, franchisees and suppliers of FAL and its Related Entities in relation to the operation of the Metcash FAL Businesses after the Transfer Implementation Date. Where MTT is of the opinion (acting reasonably) that there has been insufficient cooperation under this clause, it may require the Chairman to investigate the circumstances and to act in good faith in resolving any disagreement in relation to the relevant issue.
- (z) **Cooperation - WOW and WOW NZ:** Arrange and facilitate a meeting between the respective chief executive officers of FAL and WOW to discuss in good faith appropriate procedures to enable WOW or WOW NZ to communicate with customers and suppliers of FAL and its Related Entities in relation to the operation of the Current New Zealand Businesses and the WOW Action Stores after the Transfer Implementation Date. Where WOW or WOW NZ are of the opinion (acting reasonably) that there has been insufficient cooperation under this clause, it may require the Chairman to investigate the circumstances and to act in good faith in resolving any disagreement in relation to the relevant issue.
- (aa) **Hedge book:** Close out all of the FAL Pre-Demerger Group's remaining (if any) interest rate swap arrangements effected to hedge its borrowings.

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(bb) **Access to information - MTT:** Provide to MTT the normal management reports in relation to the performance of the Metcash FAL Businesses that are customarily distributed to the Chief Executive Officer and the General Manager Finance of FAL on a periodic basis as soon as practicable but in any event within five Business Days of a report being provided to the relevant FAL executive or where such report is customarily approved by the Directors, within two Business Days of that report being approved by the Directors.

(cc) **Access to information - WOW and WOW NZ:** Provide to WOW and WOW NZ:

(i) the normal management reports in relation to the performance of the Current New Zealand Businesses that are customarily distributed to the Chief Executive Officer, the General Manager Finance of FAL, the Managing Director of PEL and the General Manager Finance and Administration of PEL on a periodic basis; and

(ii) the normal management reports in relation to the WOW Action Stores that are customarily distributed to the Chief Executive Officer and the General Manager Finance of FAL on a periodic basis,

as soon as practicable but in any event within five Business Days of a report being provided to the relevant FAL executive or where such report is customarily approved to the Directors, within two Business Days of that report being approved by the Directors.

(dd) **Information technology systems - MTT:**

(i) Ensure that MTT is provided with reasonable access as soon as practicable to:

(A) those FAL Group personnel with knowledge and skills relating to the information technology systems of the FAL Group; and

(B) all documentation and information in FAL's possession relating to the information technology systems of the FAL Group; and

(ii) provide MTT with all other technical assistance that is reasonably required by MTT,

to assist MTT in:

(iii) developing a transition plan to MTT's information technology systems;

(iv) preparing for compliance with its obligations under the TTSA.

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(ee) **Information technology systems - WOW:**

- (i) Ensure that WOW is provided with reasonable access as soon as practicable to:
 - (A) those PEH Group personnel with knowledge and skills relating to the information technology systems of the PEH Group; and
 - (B) all documentation and information in FAL's possession relating to the information technology systems of the PEH Group; and
- (ii) provide WOW with all other technical assistance that is reasonably required by WOW,

to assist WOW in developing and commencing the implementation of a transition plan for Migration. FAL and WOW will use all reasonable endeavours to enable WOW to commence Migration on the Transfer Implementation Date.

8.2 MTT's obligations

MTT must execute all documents and do all acts and things necessary within its control for the implementation and performance of the Transfer Scheme, as expeditiously as practicable, including:

- (a) **Letter to FAL Shareholders:** The parties acknowledge that MTT has written to FAL Shareholders:
 - (i) recommending that they do not accept the MTT Offer;
 - (ii) confirming that MTT supports the New Zealand Demerger and the Transfer Scheme;
 - (iii) recommending that FAL Shareholders that have already accepted the MTT Offer withdraw their acceptances under the terms of the MTT Offer; and
 - (iv) confirming that the purpose of keeping the MTT Offer open is to maintain the Metcash Group's flexibility in its financing arrangements,

and MTT agrees not to, and agrees to procure that Metcash will not, further communicate with FAL Shareholders in a manner that is inconsistent with the matters set out above, unless otherwise expressly contemplated by this agreement.

- (b) **Representation:** Procuring that MTT and Metcash are represented by counsel at the Court hearings convened for the purposes of section 411 of the Corporations Act, at which, through its counsel, MTT will, and procure that Metcash will, undertake (if requested by the Court) to do all such things and take all such steps within its power as may

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be necessary in order to ensure the fulfilment of its obligations under this agreement and the Transfer Scheme.

- (c) **Deed Poll:** Prior to the dispatch of the Scheme Booklet, execute the Metcash Deed Poll and procure Metcash to execute the Metcash Deed Poll under which MTT and Metcash covenant in favour of the Transfer Scheme Participants to perform MTT's obligations under this agreement and to perform Metcash's obligations under the Transfer Scheme.
- (d) **Metcash Information:** Provide the Metcash Information to FAL in reasonable time and in a suitable form to enable FAL to prepare the final form of the Scheme Booklet in accordance with this agreement and provide to FAL any further new information which may arise after the Scheme Booklet has been dispatched until the Second Court Date which may be necessary to ensure that the Metcash Information authorised by MTT for inclusion in the Scheme Booklet does not contain any material statement which is misleading or deceptive in any respect (whether by omission or otherwise).
- (e) **Independent Expert information:** MTT must provide any assistance or information reasonably requested by FAL or by the Independent Expert in connection with the preparation of the Independent Expert's report to be included in the Scheme Booklet.
- (f) **Directors:** procure written consents to act from the persons nominated by MTT to be the directors and secretary of FAL following the Transfer Implementation Date.

8.3 Obligations of WOW and WOW NZ

WOW and WOW NZ must execute all documents and do all acts and things necessary within its control for the implementation and performance of the Transfer Scheme, as expeditiously as practicable, including:

- (a) **Representation:** Procuring that WOW and WOW NZ are represented by counsel at the Court hearings convened for the purposes of section 411 of the Corporations Act, at which, through its counsel, WOW and WOW NZ will undertake (if requested by the Court) to do all such things and take all such steps within their power as may be necessary in order to ensure the fulfilment of their obligations under this agreement and the Transfer Scheme.
- (b) **Deed Poll:** Prior to the dispatch of the Scheme Booklet, execute the WOW Deed Poll under which WOW and WOW NZ covenant in favour of the Transfer Scheme Participants to perform their obligations under this agreement and the Transfer Scheme.
- (c) **WOW Information:** Provide the WOW Information to FAL in reasonable time and in a suitable form to enable FAL to prepare the final form of the Scheme Booklet in accordance with this agreement and provide to FAL any further new information which may arise

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after the Scheme Booklet has been dispatched until the Second Court Date which may be necessary to ensure that the WOW Information authorised by WOW for inclusion in the Scheme Booklet does not contain any material statement which is misleading or deceptive in any respect (whether by omission or otherwise).

- (d) **Independent Expert information:** WOW or WOW NZ must provide any assistance or information reasonably requested by FAL or by the Independent Expert in connection with the preparation of the Independent Expert's report to be included in the Scheme Booklet.
- (e) **Directors:** procure written consents to act from the persons nominated by WOW NZ to be the directors and secretary of PEH following the Transfer Implementation Date.

8.4 General obligations of the parties

- (a) The parties agree to co-operate with and to act in good faith in respect of each other, and provide all assistance, including attending any meetings, which the other parties reasonably require in connection with the Transfer Scheme.
- (b) Without limiting clause 8.4(a), the parties agree that anything required to be done by them will be done as expeditiously as possible and that any approval and agreement required to be given will not be unreasonably withheld or delayed.

8.5 Appeal process

If the Court refuses to make any orders convening the Scheme Meetings or approving the Demerger Scheme or the Transfer Scheme, the parties will consult together in good faith to determine whether to appeal the Court's decision and, in making any such determination, FAL will have due regard to the advice of its Senior Counsel if he or she indicates that, in his or her opinion, an appeal would have a reasonable prospect of success. Nothing will oblige FAL to proceed with an appeal if there is a bona fide alternative offer which in the view of the Directors must be recommended in preference to the Demerger Scheme or the Transfer Scheme in order to ensure that the Directors comply with their fiduciary obligations.

9 Termination

9.1 Right to terminate by any party

Without prejudice to any other rights of termination under this agreement but subject to clause 9.3, this agreement may be terminated by any of the parties at any time prior to the Second Court Date if:

- (a) any Court or Governmental Agency has issued an order, decree or ruling or taken any other action permanently enjoining, restraining or otherwise prohibiting the Demerger Scheme or the Transfer Scheme, or has refused to do anything necessary to permit the Demerger

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Scheme or the Transfer Scheme, and such order, decree, ruling, other action or refusal has become final and non-appealable;

- (b) any of the resolutions submitted to the Scheme Meetings are not passed by the requisite majority; or
- (c) any party is in material breach of any clause of this agreement (other than a warranty in clause 10 which is qualified by a materiality test, in which case any breach shall suffice) before the Second Court Date provided that the terminating party has given notice to the other parties setting out the relevant circumstances and stating an intention to terminate and, if the relevant circumstances continue to exist seven Business Days (or any shorter period ending at 12.00 p.m. on the day before the Second Court Date) from the time such notice is given, the terminating party may, in its absolute discretion, terminate this agreement by a further notice in writing to the other parties.

9.2 Right to terminate by MTT, WOW or WOW NZ

Without prejudice to any other rights of termination under this agreement, this agreement may be terminated by MTT, WOW or WOW NZ at any time prior to the Second Court Date if a majority of the Directors:

- (a) fail to recommend the Demerger Scheme or the Transfer Scheme in the Scheme Booklet; or
- (b) having recommended the Demerger Scheme or the Transfer Scheme in the Scheme Booklet, adversely change or withdraw their recommendation of the Demerger Scheme or the Transfer Scheme.

9.3 Agreements in relation to termination

The parties agree that:

- (a) a party may not terminate this agreement as a result of its own breach of this agreement; and
- (b) neither MTT, WOW nor WOW NZ may terminate this agreement for breach by the other unless that breach would have a material adverse impact on MTT, WOW or WOW NZ as the case may be.

9.4 Breach or representations and warranties

Notwithstanding any other provision of this agreement, a breach of the warranties and representations given by FAL in clause 10 will not entitle MTT, WOW or WOW NZ (as the case may be) to terminate this agreement unless such breach results in or discloses anything which would amount to a Metcash Material Adverse Change or a WOW Material Adverse Change, as appropriate.

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9.5 Effect of termination

In the event of termination of this agreement by a party in accordance with this clause 9, except to the extent that such termination results from a wilful breach by any party of its obligations under this agreement, this agreement will become void and have no effect, without any liability or obligation on the part of the parties other than the provisions of clauses 10 and 14.

10 Representations and warranties

10.1 MTT representations

- (a) MTT represents and warrants to FAL (in its own right and separately as trustee or nominee for each of the FAL Indemnified Parties) and WOW (in its own right and separately as trustee or nominee for each of the WOW Indemnified Parties) each of the matters set out in clause 10.1(b), as at the date of this agreement, the date of the Transfer Scheme Meeting, the Business Day immediately before the Second Court Date and the Transfer Implementation Date. The benefit of this clause 10.1(a) and the right to enforce it extends to each of the FAL Indemnified Parties and the WOW Indemnified Parties, who may enforce their rights either directly or through FAL, WOW or WOW NZ, as appropriate.
- (b) MTT represents and warrants that:
 - (i) it is an existing corporation registered under the laws of its place of incorporation;
 - (ii) on the Transfer Implementation Date, it will be a wholly owned subsidiary of Metcash for the purposes of Division 975 of the Income Tax Assessment Act 1997 and that Metcash is not a wholly owned subsidiary of any other entity for the purposes of that Division;
 - (iii) as at the date of this agreement, Metcash's issued equity securities comprise 429,718,874 Metcash Shares and 9,902,160 options, and neither Metcash nor any of its Subsidiaries are under any obligation to issue and have not granted any person the right to call for the issue of any shares or other securities in Metcash or any of its Subsidiaries except:
 - (A) in respect of rights in respect of Metcash Shares to employees of the Metcash Group;
 - (B) for obligations or rights arising under MTT's or Metcash's dividend reinvestment plan or MTT's or Metcash's dividend reinvestment plan underwriting deed; and

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- (C) in accordance with the terms of MTT's CULS and CUPS.
- (iv) the execution and delivery of this agreement by MTT has been properly authorised by all necessary corporate action and MTT has full corporate power and lawful authority to execute and deliver this agreement and to perform or cause to be performed its obligations under this agreement;
- (v) (subject to laws generally affecting creditors' rights and the principles of equity) this agreement constitutes legal, valid and binding obligations on it and execution and performance of this agreement will not result in a breach of or default under MTT's by-laws or any agreement or deed or any writ, order or injunction, rule or regulation to which Metcash or any of its Subsidiaries is a party or to which they are bound (except for such breaches or defaults as would not have a material adverse effect on the consolidated financial position of MTT);
- (vi) the Metcash Shares to be issued as Metcash Share Consideration in accordance with clause 3.2(b) will be duly authorised and validly issued, fully paid, free of all Security Interests and third party rights and will rank equally with all other Metcash Shares then on issue, except that they will not participate in the interim dividend declared by Metcash in respect of the expected interim dividend in respect of the period 1 May 2005 to a date in September or October 2005;
- (vii) Metcash Shares are listed for trading by ASX and, to the knowledge of MTT, no proceeding is pending or threatened that could result in delisting of Metcash Shares;
- (viii) application will be made before the Transfer Implementation Date for the Metcash Shares to be issued to Transfer Scheme Participants be quoted as of the Consideration Date by ASX;
- (ix) the Metcash Information provided to FAL for inclusion in the Scheme Booklet authorised by MTT for inclusion in the Scheme Booklet will comply with all applicable legal requirements and MTT will otherwise comply with clause 8.2(d); and
- (x) any documents and information provided by MTT and its employees and consultants to the Consideration Expert in connection with the preparation of the Determination under clause 5 are accurate and complete for the purpose for which they were provided and are not misleading.

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10.2 MTT's indemnities

MTT agrees with FAL (in its own right and separately as trustee or nominee for each of the other FAL Indemnified Parties) and WOW (in its own right and separately as trustee or nominee for each of the other WOW Indemnified Parties) to indemnify and keep indemnified the FAL Indemnified Parties and the WOW Indemnified Parties (as the case may be) from and against all claims, liabilities and loss which any of the FAL Indemnified Parties or the WOW Indemnified Parties (as the case may be) may suffer or incur by reason of any breach of any of the representations and warranties in clause 10.1(b). The benefit of this clause 10.2 and the right to enforce it extends to each of the FAL Indemnified Parties and the WOW Indemnified Parties, who may enforce their rights either directly or through FAL, WOW or WOW NZ, as appropriate.

10.3 WOW and WOW NZ representations

- (a) WOW and WOW NZ represent and warrant to FAL (in its own right and separately as trustee or nominee for each of the FAL Indemnified Parties) and MTT (in its own right and separately as trustee or nominee for each of the Metcash Indemnified Parties) each of the matters set out in clause 10.3(b), as at the date of this agreement, the date of the Transfer Scheme Meeting, the Business Day immediately before the Second Court Date and the Transfer Implementation Date. The benefit of this clause 10.3(a) and the right to enforce it extends to each of the FAL Indemnified Parties and the Metcash Indemnified Parties, who may enforce their rights either directly or through FAL or MTT, as appropriate.
- (b) WOW and WOW NZ represent and warrant that:
 - (i) they are existing corporations registered under the laws of their places of incorporation;
 - (ii) WOW NZ is a wholly owned subsidiary of WOW for the purposes of Division 975 of the Income Tax Assessment Act 1997 and that WOW is not a wholly owned subsidiary of any other entity for the purposes of that Division;
 - (iii) as at the date of this agreement WOW's issued equity securities comprise 1,062,792,150 WOW Shares, and neither WOW nor any of its Subsidiaries are under any obligation to issue and have not granted any person the right to call for the issue of any shares or other securities in WOW or any of its Subsidiaries other than for obligations or rights arising under WOW's dividend reinvestment plan, WOW's dividend reinvestment plan underwriting deed or any WOW directors, employee or incentive share or option plan;
 - (iv) the execution and delivery of this agreement by WOW and WOW NZ has been properly authorised by all necessary corporate action and WOW and WOW NZ have full corporate power and lawful authority to execute and deliver

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this agreement and to perform or cause to be performed their obligations under this agreement;

- (v) (subject to laws generally affecting creditors' rights and the principles of equity) this agreement constitutes legal, valid and binding obligations on them and execution and performance of this agreement will not result in a breach of or default under WOW's nor WOW NZ's by-laws or any agreement or deed or any writ, order or injunction, rule or regulation to which WOW or any of its Subsidiaries is a party or to which they are bound (except for such breaches or defaults as would not have a material adverse effect on the consolidated financial position of WOW);
 - (vi) the WOW Shares to be issued as WOW Share Consideration in accordance with clause 4.2(b) or WOW Standard Consideration in accordance with clause 4.2(c) will when issued be duly authorised and validly issued, fully paid and free of all Security Interests and third party rights and will rank equally with all other WOW Shares then on issue, except that they will not participate in the final dividend declared by WOW in respect of the financial year ended 26 June 2005;
 - (vii) WOW Shares are listed for trading by ASX and, to the knowledge of WOW, no proceeding is pending or threatened that could result in delisting of WOW Shares;
 - (viii) application will be made before the Transfer Implementation Date for the WOW Shares to be issued to Transfer Scheme Participants to be quoted as of the Consideration Date by ASX;
 - (ix) the WOW Information authorised by WOW for inclusion in the Scheme Booklet will comply with all applicable legal requirements and WOW will otherwise comply with clause 8.3(c); and
 - (x) any documents and information provided by WOW or WOW NZ and their employees and consultants to the Consideration Expert in connection with the preparation of the Determination under clause 5 are accurate and complete for the purpose for they were provided and are not misleading.
- (c) WOW represents and warrants to MTT (in its own right and separately as trustee or nominee for each of the Metcash Indemnified Parties) as at the date of this agreement, the date of the Transfer Scheme Meeting, the Business Day immediately before the Second Court Date and the Transfer Implementation Date that the contracts listed in schedule 3:

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- (i) are all of the contracts between the WOW Group and the FAL Group which are to be varied with effect from the Transfer Implementation Date to remove supply obligations between WOW or any Subsidiary of WOW and FAL or any Subsidiary of FAL; and
- (ii) are all of the contracts between the FAL Group and the WOW Group under which the FAL Group provides supplies to WOW Group stores.

The benefit of this clause 10.3(c) and the right to enforce it extends to each of the Metcash Indemnified Parties, who may enforce their rights either directly or through MTT.

10.4 Indemnities of WOW and WOW NZ

WOW and WOW NZ agree with FAL (in its own right and separately as trustee or nominee for each of the other FAL Indemnified Parties) and MTT (in its own right and separately as trustee or nominee for each of the other Metcash Indemnified Parties) to indemnify and keep indemnified the FAL Indemnified Parties and the Metcash Indemnified Parties (as the case may be) from and against all claims, liabilities and loss which any of the FAL Indemnified Parties or the Metcash Indemnified Parties (as the case may be) may suffer or incur by reason of any breach of any of the representations and warranties in clause 10.3(b) or 10.3(c) (as relevant). The benefit of this clause 10.4 and the right to enforce it extends to each of the FAL Indemnified Parties and the Metcash Indemnified Parties, who may enforce their rights either directly or through FAL or MTT, as appropriate.

10.5 FAL representations

- (a) FAL represents and warrants to MTT (in its own right and separately as trustee or nominee for each of the Metcash Indemnified Parties) and WOW (in its own right and separately as trustee or nominee for each of the WOW Indemnified Parties) each of the matters set out in clause 10.5(b) as at the date of this agreement, the date of the Transfer Scheme Meeting, the Business Day immediately before the Second Court Date and the Transfer Implementation Date. The benefit of this clause 10.5(a) and the right to enforce it extends to each of the Metcash Indemnified Parties and the WOW Indemnified Parties, who may enforce their rights either directly or through MTT, WOW or WOW NZ, as appropriate.
- (b) FAL represents and warrants that:
 - (i) it is a validly existing corporation registered under the laws of its place of incorporation;
 - (ii) as at the date of this agreement FAL's issued equity securities comprise 117,828,603 FAL Shares, and neither FAL nor any of its Subsidiaries are under any obligation to issue and have

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not granted any person the right to call for the issue of any shares or other securities in FAL or any of its Subsidiaries;

- (iii) the execution and delivery of this agreement by FAL has been properly authorised by all necessary corporate action and FAL has full corporate power and lawful authority to execute and deliver this agreement and to perform or cause to be performed its obligations under this agreement;
- (iv) (subject to laws generally affecting creditors' rights and the principles of equity) this agreement constitutes legal, valid and binding obligations on it and execution and performance of this agreement will not result in a breach of or default under FAL's constitution or any agreement or deed or any writ, order or injunction, rule or regulation to which FAL or any of its Subsidiaries is a party or to which they are bound (except for such breaches or defaults as would not have a material adverse effect on the consolidated financial position of FAL) or require any consent, approval, authorisation or permit from any Governmental Agency;
- (v) any documents and information provided by FAL and its employees and consultants to the Consideration Expert in connection with the preparation of the Determination under clause 5 are accurate and complete for the purpose for which they were provided and are not misleading;
- (vi) the FAL Information authorised by FAL for inclusion in the Scheme Booklet will comply with all applicable legal requirements and FAL will otherwise comply with clause 8.1(o);
- (vii) the Disclosed Matters are accurate and complete for the purpose for which they were provided and are not misleading;
- (viii) all of the Australian Lease Consents required for the Australian Leases and all of the New Zealand Lease Consents required for the New Zealand Leases are set out in schedule 2;
- (ix) all of the Third Party Consents are set out in schedule 4;
- (x) the Current Australian Businesses represents all of the businesses, operations or other activities carried on by FAL or any of its Subsidiaries other than the Current New Zealand Businesses and the WOW Action Stores;
- (xi) the Current New Zealand Businesses and the WOW Action Stores represents all of the businesses, operations or other activities carried on by FAL or any of its Subsidiaries other than the Current Australian Businesses; and

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- (xii) to the best of its knowledge and belief, there are no facts or circumstances that would give rise to a right for any company in the FAL Post-Demerger Group to make a claim against any insurance policy issued by FAL Insurance Limited.

10.6 FAL's indemnities

FAL agrees with MTT (in its own right and separately as trustee or nominee for each of the other Metcash Indemnified Parties) and WOW (in its own right and separately as trustee or nominee for each of the other WOW Indemnified Parties) to indemnify and keep indemnified the Metcash Indemnified Parties and the WOW Indemnified Parties (as the case may be) from and against all claims, liabilities and loss which any of the Metcash Indemnified Parties or the WOW Indemnified Parties (as the case may be) may suffer or incur by reason of any breach of any of the representations and warranties in clause 10.5(b). The benefit of this clause 10.6 and the right to enforce it extends to each of the Metcash Indemnified Parties and the WOW Indemnified Parties, who may enforce their rights either directly or through MTT, WOW or WOW NZ, as appropriate.

10.7 Limitation on claims

Provided that MTT has complied with its obligations under clause 3.3 and that WOW and WOW NZ have complied with their obligations under clause 4.3, from 6.00 p.m. on the Consideration Date:

- (a) no party will be liable for, and no party may make a claim against another party for, a breach of this agreement (including a warranty given in this clause 10) unless that breach is a breach of:
 - (i) clause 3.5(c) ("Metcash Share Adjustment Event");
 - (ii) clause 4.6(c) ("WOW Share Adjustment Event");
 - (iii) clause 4.8 ("WOW Action Stores - right of first refusal");
 - (iv) clause 6.7(b) ("Tax Receivable");
 - (v) clause 9.3 ("Agreements in relation to termination");
 - (vi) clause 9.5 ("Effect of termination");
 - (vii) clause 11 ("Public announcements");
 - (viii) clause 14 ("Confidentiality");
 - (ix) clause 15 ("Notices");
 - (x) clause 16.1 ("Further acts");
 - (xi) clause 16.2 ("Stamp duty");
 - (xii) clause 16.3 ("Expenses");

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- (xiii) clause 16.4 (“Jurisdiction”);
- (xiv) clause 16.5 (“Amendments”);
- (xv) clause 16.6 (“Assignment”);
- (xvi) clause 16.7 (“Waiver”);
- (xvii) clause 16.8 (“Consents”);
- (xviii) clause 16.10 (“Entire agreement”);
- (xix) clause 16.14 (“Australian GST”);
- (xx) clause 16.15 (“New Zealand GST”); and
- (xxi) clause 17 (“Interpretation”),

or any matter the subject of an indemnity contained in this agreement;
and

- (b) each party irrevocably and unconditionally releases each other party from any claim (including any claim made before that time) for any breach of this agreement (including a warranty given under clause 10) other than in respect of any breach of those matters in clause 10.7(a)(i) to (xxi) inclusive.

11 Public announcements

11.1 Public announcements

- (a) Providing FAL can comply with its disclosure obligations under the Listing Rules or any law, FAL will give each of MTT, WOW and WOW NZ at least one Business Day’s notice of any public announcement, release or advertisement which it proposes to make in relation to the Demerger Scheme or the Transfer Scheme.
- (b) Providing MTT and Metcash can comply with their disclosure obligations under the Listing Rules or any law, MTT will and will procure that Metcash will (as applicable) give each of FAL and WOW and WOW NZ at least one Business Day’s notice of any public announcement, release or advertisement which it proposes to make in relation to the Demerger Scheme or the Transfer Scheme.
- (c) Providing WOW and WOW NZ can comply with their disclosure obligations under the Listing Rules or any law, WOW or WOW NZ (as the case may be) will give each of FAL and MTT at least one Business Day’s notice of any public announcement, release or advertisement which it proposes to make in relation to the Demerger Scheme or the Transfer Scheme.

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11.2 Statements on termination

In the event that this agreement is terminated for any reason, the parties will act in good faith and use all reasonable efforts to issue an agreed statement or statements in respect of such termination and MTT, FAL, WOW and WOW NZ will make no statements or disclosure in respect of such termination except in accordance with this clause 11.

11.3 Agreed Form communications

Within five Business Days after the date of this agreement, FAL will, at the request and cost of WOW and to the extent it has not already done so, dispatch letters to its suppliers, customers, franchisees and employees in the Agreed Form.

12 New Zealand Demerger

12.1 New Zealand Demerger process

Subject to the matters set out in this agreement, the parties acknowledge that it has been agreed that FAL will implement the New Zealand Demerger according to the principles set out in clause 2.2 of the Demerger Deed.

12.2 New Zealand Demerger implementation

FAL undertakes to MTT, WOW and WOW NZ the following:

- (a) FAL will implement the New Zealand Demerger in accordance with the Demerger Transaction Documents prior to or on the Demerger Implementation Date and in the order specified in the Demerger Implementation Deed;
- (b) FAL agrees to consult with WOW in relation to the financing arrangements for PEH; and
- (c) FAL will terminate the FAL Employee Share Ownership Plan prior to the Demerger Implementation Date.

12.3 No amendment or waiver

The parties agree that the Demerger Transaction Documents can only be amended, or a term and condition of the Demerger Transaction Documents waived (other than with respect to a waiver under the WOW Action Agreements for which clause 2.12 will apply), with the written consent of MTT, WOW and WOW NZ (which consent will not be unreasonably be withheld). This clause will cease to apply if the Transfer Scheme is not approved by the requisite majorities at the Transfer Scheme Meeting.

12.4 Termination of supply arrangements

FAL will, and WOW will procure that its relevant Subsidiary, enter into the Deeds of Variation of Sub-Lease which terminate, with effect from the

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Transfer Implementation Date, the arrangements set out in schedule 3 under which FAL provides supplies to WOW stores.

12.5 External borrowings

On the Transfer Implementation Date:

- (a) Metcash will procure the payment to FAL of sufficient funds to repay and satisfy all outstanding borrowings of the FAL Post-Demerger Group to persons other than companies in the FAL Group as at the Transfer Implementation Date; and
- (b) WOW and WOW NZ will procure the payment to FNZHL of sufficient funds to repay and satisfy all outstanding borrowings of the PEH Post-Demerger Group to persons other than companies in the FAL Group as at the Transfer Implementation Date.

FAL will procure the termination of the Negative Pledge and the cancellation of the facility agreements under which the external borrowings have been provided, immediately following the payments in paragraphs (a) and (b) above but before the nominees of MTT are appointed to the FAL board of directors.

12.6 Review of documents

FAL will not, and it will procure that its Subsidiaries do not, execute any material agreements relating to the New Zealand Demerger except such agreements as are in the Agreed Form.

12.7 New Zealand Demerger completion process

FAL undertakes to MTT, WOW and WOW NZ the following:

- (a) FAL will notify MTT and WOW or WOW NZ at least three Business Days before the proposed completion date of any Demerger Transaction Document of the impending completion of the transaction effected under that document.
- (b) The representatives and advisers of each of MTT, WOW and WOW NZ (**Attendees**) may be in attendance on each occasion that there is to be completion of a transaction contemplated by any Demerger Transaction Document.
- (c) While in attendance on each such occasion, the Attendees may request and review, and FAL must provide to the Attendees:
 - (i) all documents, correspondence and materials which evidence the completion of the relevant transaction and the performance of the obligations of the parties to the relevant Demerger Transaction Document which relates to that transaction; and

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- (ii) such other documents, correspondence and materials reasonably requested by the Attendees,

to enable the Attendees to be satisfied that:

- (iii) the transaction is being completed and the obligations of the parties under the Demerger Transaction Document which relates to the transaction are being performed, each in accordance with the terms of the relevant Demerger Transaction Document; and
- (iv) where the transaction is a step contemplated by Annexure A of the Demerger Implementation Deed, the step is being performed in accordance with the sequence and timing of steps required by Annexure A of the Demerger Implementation Deed.

13 Alternative proposals

13.1 No solicitation

During the No-Shop Period, the parties must not and they must procure (to the extent that they are able to do so) that their employees, officers, advisers and associates do not, directly or indirectly solicit or initiate any negotiations or discussions, or communicate any intention to do any of these things, with any person other than MTT, Metcash, WOW or WOW NZ (as appropriate) to (whether directly or indirectly) acquire or become the holder of (whether by share purchase, scheme of arrangement, capital reconstruction, purchase of assets, tender offer or otherwise), or otherwise have an economic interest in all or a substantial part of:

- (a) the Current Australian Businesses;
- (b) the Current New Zealand Businesses; or
- (c) the WOW Action Stores,

provided that nothing in the foregoing prevents the parties continuing to make normal presentations to, and to respond to enquiries from, brokers, portfolio investors and analysts in the ordinary course or prevents MTT from soliciting buyers for the FAL Group's Action branded stores prior to the Transfer Implementation Date. For the avoidance of doubt, the obligations in this clause do not prevent the parties from responding to and dealing with contact initiated by third parties. If MTT solicits buyers for the FAL Group's Action branded stores, MTT must use reasonable endeavours to ensure that such prospective buyers do not disrupt the ongoing business of any of those stores or contact employees of the FAL Group without FAL's prior written consent.

13.2 Unsolicited offer for the Metcash FAL Businesses

- (a) FAL agrees that if FAL receives an unsolicited offer (**Unsolicited Offer**) from a third party for the Metcash FAL Businesses which it

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proposes to accept or recommend to FAL Shareholders (as the case may be), FAL must immediately notify MTT of the Unsolicited Offer and its proposed terms and conditions.

- (b) Within seven Business Days of receiving the notice from FAL, MTT may, by written notice to FAL, elect to match the offer to acquire the Metcash FAL Businesses (as the case may be) on the same terms and conditions as the Unsolicited Offer.

14 Confidentiality

14.1 Disclosure of Confidential Information

No Confidential Information may be disclosed by the Receiving Party to any person except:

- (a) to representatives of the Receiving Party or its Related Entities requiring the information for the purposes of this agreement;
- (b) with the consent of the Disclosing Party;
- (c) if the Receiving Party is required to do so by law, a stock exchange or any regulatory authority; or
- (d) if the Receiving Party is required to do so in connection with legal proceedings relating to this agreement.

14.2 Disclosure by Receiving Party of Confidential Information

If the Receiving Party discloses information under clause 14.1(a) or (b) it must use all reasonable endeavours to ensure that persons receiving Confidential Information from it do not disclose the information except in the circumstances permitted in clause 14.1.

14.3 Use of Confidential Information

The Receiving Party must not use any Confidential Information except for the purpose of performing its obligations, or enforcing its rights, under this agreement.

14.4 Excluded Information

Clauses 14.1, 14.2, 14.3 and 14.5 do not apply to Excluded Information.

14.5 Delivery of Materials

- (a) Subject to clause 14.5(b), the Receiving Party must, on the request of the Disclosing Party after the termination of this agreement, immediately deliver to the Disclosing Party all documents or other materials containing or referring to Confidential Information which are in its possession, power or control or in the possession, power or

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control of persons who have received Confidential Information from it under clause 14.1(a) or (b).

- (b) The Receiving Party and any persons who have received Confidential Information from it under clause 14.1(a) or (b), are entitled to retain copies of any Confidential Information to the extent that they are required in accordance with any applicable laws or regulations or the Listing Rules, binding on them, or would be required to in accordance with good corporate governance.

14.6 Existing Confidentiality Agreements

Nothing in the agreement affects the obligations of the parties under the Existing Confidentiality Agreements.

14.7 Insider trading

The parties acknowledge that section 1043A of the Corporations Act imposes prohibitions on "insider trading" and agree to observe and comply with those prohibitions.

14.8 Survival of termination

This clause 14 will survive termination of this agreement.

15 Notices

15.1 Form

Unless expressly stated otherwise in this agreement, all notices, certificates, consents, approvals, waivers and other communications (**Notices**) in connection with this agreement must be in writing, signed by an Authorised Officer of the sender and marked for the attention of the person identified in the Details or, if the recipient has notified otherwise, then marked for attention in the last way notified.

15.2 Delivery

Notices must be:

- (a) left at the address set out or referred to in the Details;
- (b) sent by prepaid ordinary post (airmail if appropriate) to the address set out or referred to in the Details;
- (c) sent by fax to the fax number set out or referred to in the Details; or
- (d) given in any other way permitted by law.

15.3 When effective

Notices take effect from the time they are received unless a later time is specified.

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15.4 Deemed receipt - postal

If sent by post, Notices are taken to be received three days after posting (or seven days after posting if sent to or from a place outside Australia).

15.5 Deemed receipt - fax

If sent by fax, Notices are taken to be received at the time shown in the transmission report as the time that the whole fax was sent.

15.6 Deemed receipt - general

Despite clauses 15.4 and 15.5, if Notices are received after 5.00 p.m. in the place of receipt or on a non-Business Day, they are to be taken to be received at 9.00 a.m. on the next Business Day.

16 General

16.1 Further acts

Up to and including the Transfer Implementation Date, each party will promptly do and perform all further acts and execute and deliver all further documents (in form and content reasonably satisfactory to that party) required by law or reasonably requested by any other party to give effect to this agreement.

16.2 Stamp duty

- (a) Subject to paragraphs (b) and (c) of this clause, FAL will pay and indemnify each of the other parties for all stamp duties and any related fines, interest and penalties in respect of this agreement and the performance of this agreement and each transaction effected by or made under or pursuant to the Demerger Scheme.
- (b) Subject to the Demerger Scheme and the Transfer Scheme becoming Effective and clause 16.2(c), WOW will pay all stamp duties and any related fines, interest and penalties that have become due and payable on or in connection with any instrument or transaction in respect of:
 - (i) the transfer of the WOW Action Stores to Drumstar;
 - (ii) the transfer of all issued shares in Drumstar to PEH;
 - (iii) any transfer of intellectual property from FAL to PEH IP Co; and
 - (iv) the transfer of the PEH Shares to the FAL Shareholders and the subsequent transfer of the PEH Shares to WOW NZ,

within ten Business Days of being requested to do so in writing by FAL.

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- (c) The amount of stamp duty (and any related fines, interest and penalties that have become due and payable) that WOW is obliged to pay under clause 16.2(b) is reduced by that amount of stamp duty (and any related fines, interest and penalties that have become due and payable) paid by FAL on the matters listed in clause 16.2(b)(i) to (iv) prior to the close of business on the Consideration Determination Date that is taken into account in the calculation and determination of the Net Assumed Debt in accordance with clause 7.2, including for the avoidance of doubt where:
 - (i) MTT has confirmed in writing to FAL and WOW that it is satisfied, acting reasonably, that such stamp duty has been paid; and
 - (ii) WOW has confirmed in writing to FAL and MTT that it is satisfied, acting reasonably, that such stamp duty has been paid.
- (d) To the extent that any stamp duty (and any related fines, interest and penalties that have become due and payable) is paid by FAL on the matters listed in clause 16.2(b)(i) to (iv) prior to the close of business on the Consideration Determination Date, FAL will fund such payment by the drawdown of an intercompany loan from PEH.
- (e) Subject to clause 16.2(c), WOW agrees to indemnify the FAL Group against any liability arising from a failure to comply with clause 16.2(b).

16.3 Expenses

Except as otherwise provided in this agreement, each party will pay its own costs and expenses in connection with the negotiation, preparation, execution, and performance of this agreement.

16.4 Jurisdiction

- (a) Each party irrevocably submits to the non-exclusive jurisdiction of the courts of Western Australia and the Federal Court of Australia, and the courts competent to determine appeals from those courts, with respect to any proceedings which may be brought at any time relating in any way to this agreement.
- (b) Each party irrevocably waives any objection it may now or in the future have to the venue of any proceedings, and any claim it may now or in the future have that any proceedings have been brought in an inconvenient forum, where that venue falls within clause 16.4(a).

16.5 Amendments

This agreement may only be varied by a document signed by or on behalf of each of the parties.

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16.6 Assignment

A party cannot assign, novate or otherwise transfer any of its rights or obligations under this agreement without the prior written consent of the other parties.

16.7 Waiver

- (a) Failure to exercise or enforce or a delay in exercising or enforcing or the partial exercise or enforcement of any right, power or remedy provided by law or under this agreement by any party will not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement of that or any other right, power or remedy provided by law or under this agreement.
- (b) Any waiver or consent given by any party under this agreement will only be effective and binding on that party if it is given or confirmed in writing by that party.
- (c) No waiver of a breach of any term of this agreement will operate as a waiver of another breach of that term or of a breach of any other term of this agreement.

16.8 Consents

Any consent referred to in, or required under, this agreement from any party may not be unreasonably withheld, unless this agreement expressly provides for that consent to be given in that party's absolute discretion.

16.9 Counterparts

This agreement may be executed in any number of counterparts and by the parties on separate counterparts. Each counterpart constitutes the agreement of each party who has executed and delivered that counterpart.

16.10 Entire agreement

To the extent permitted by law, in relation to the subject matter of this agreement, this agreement and the Demerger Transaction Documents:

- (a) embody the entire understanding of the parties and constitutes the entire terms agreed upon between the parties; and
- (b) supersede any prior agreement (whether or not in writing) between the parties.

16.11 No representation or reliance

- (a) Each party acknowledges that no party (nor any person acting on its behalf) has made any representation or other inducement to it to enter into this agreement, except for representations or inducements expressly set out in this agreement.

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- (b) Each party acknowledges and confirms that it does not enter into this agreement in reliance on any representation or other inducement by or on behalf of any other party, except for any representation or inducement expressly set out in this agreement.
- (c) Each party acknowledges and confirms that paragraphs (a) and (b) above do not prejudice any rights a party may have in relation to information which had been filed by any other party with the ASIC or ASX.

16.12 No merger

The rights and obligations of the parties will not merge on completion of any transaction under this agreement.

16.13 Inconsistency with Demerger Deed

This agreement prevails to the extent of any inconsistency with the Demerger Deed. Accordingly, the performance of any obligation under this agreement, or the enjoyment of any right under this agreement, must not be limited or frustrated by the terms of the Demerger Deed and the parties must procure that no obligation or right is so limited or frustrated.

16.14 Australian GST

- (a) Notwithstanding any other provision of this agreement, if any amount payable, whether pursuant to an indemnity or otherwise, under or in connection with this agreement is calculated by reference to a cost, expense, liability, loss or amount paid or incurred by a party to this agreement, that cost, expense, liability, loss or amount will be reduced by an amount equal to any Input Tax Credits to which that party is entitled in respect of that cost, expense, liability, loss or amount.
- (b) If Australian GST becomes payable by the supplier on any supply it makes under or in connection with this agreement:
 - (i) any amount payable or consideration to be provided under or in connection with this agreement for that supply (**Agreed Amount**) is exclusive of Australian GST unless expressly stated to be GST inclusive;
 - (ii) if the Agreed Amount is not expressed to be GST inclusive, an additional amount equal to the Australian GST payable on the supply will be payable by the party providing consideration for that supply (**Supply Recipient**), and the additional amount so calculated shall be payable at the same time, in cash and otherwise in the same manner as for the Agreed Amount; and
 - (iii) the supplier will provide a tax invoice to the recipient in respect of that supply, no later than the time at which the

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Agreed Amount for that supply is to be provided under this agreement.

- (c) Without limiting the generality of the expression, a supply under or in connection with this agreement includes any supply made for a consideration comprising any payment made or other consideration provided to the supplier pursuant to any indemnity under this agreement.
- (d) If, for any reason, the Australian GST payable by the supplier in respect of a supply it makes under this agreement (incorporating any increasing adjustments or decreasing adjustments relating to that supply) varies from the additional amount it has received from the Supply Recipient under clause 16.14(b) in respect of that supply (incorporating any previous adjustments to that amount under this paragraph), the additional amount will be adjusted accordingly. The supplier will, in the case of a refund or credit, as soon as practicable after the refund has been received from the ATO or where there is no refund, the credit has been offset against another GST or Tax liability, provide a refund or credit to the Supply Recipient. Where a further additional amount is payable, the supplier will be entitled to receive the amount of this variation from the Supply Recipient within seven days of notifying the Supply Recipient in writing of the adjustment. The supplier will issue an adjustment note to the recipient in respect of a supply within 14 days after becoming aware of an adjustment event occurring and in any case prior to making any demand for payment by the Supply Recipient.
- (e) If the Supply Recipient is dissatisfied with any calculation to be made by the supplier under this clause, the Supply Recipient may, either at the expense of the supplier in the case of manifest error by the supplier or a failure by the supplier to exercise its duty of care, or in any other case at its own expense, and after notifying the supplier accordingly, refer the matter to an independent expert nominated by the President of the Institute of Chartered Accountants for expert determination, which will be final and binding on all parties. The expert will act as an expert and not as an arbitrator and will take into account the terms of this agreement, the matters required to be taken into account by the supplier under this clause and any other matter considered by the expert to be relevant to the determination.
- (f) Terms used in this clause 16.14 that are not defined in this agreement have any meaning used in the Australian GST Act.
- (g) Any reference in this clause 16.14 to Australian GST payable by the supplier includes any Australian GST payable by the representative member of any GST group of which the supplier is a member.
- (h) Any reference in this clause 16.14 to any Input Tax Credit to which a party is entitled includes any Input Tax Credit to which the representative member of any GST group of which the party is a member is entitled.

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- (i) For the avoidance of doubt, this clause 16.14 does not apply to any supply made under or in connection with a Demerger Transaction Document. Any such supply will be governed by the provisions relating to Australian GST, if any, in that Demerger Transaction Document.

16.15 New Zealand GST

- (a) Notwithstanding any other provision of this agreement, if any amount payable, whether pursuant to an indemnity or otherwise, under or in connection with this agreement is calculated by reference to a cost, expense, liability, loss or amount paid or incurred by a party to this agreement, that cost, expense, liability, loss or amount will be reduced by an amount equal to any NZ Input Tax to which that party is entitled in respect of that cost, expense, liability, loss or amount.
- (b) If NZ GST becomes payable by the supplier on any supply it makes under or in connection with this agreement:
 - (i) any amount payable or consideration to be provided under or in connection with this agreement for that supply (**Agreed Amount**) is stated exclusive of NZ GST unless expressly stated to be GST inclusive;
 - (ii) if the Agreed Amount is not expressed to be GST inclusive, an additional amount equal to the NZ GST charged on the supply will be payable by the party providing consideration for that supply (**Supply Recipient**) and the additional amount so calculated shall be payable at the same time, in cash and otherwise in the same manner as the Agreed Amount; and
 - (iii) the supplier will provide a tax invoice to the recipient in respect of that supply, no later than the time at which the Agreed Amount for that supply is to be provided under this agreement.
- (c) Without limiting the generality of the expression, a supply under or in connection with this agreement includes any supply made for a consideration comprising any payment made or other consideration provided to the supplier pursuant to any indemnity under this agreement.
- (d) If, for any reason, the NZ GST payable by the supplier in respect of a supply it makes under this agreement (incorporating any adjustments) varies from the additional amount it has received from the Supply Recipient under clause 16.15(b) in respect of that supply (incorporating any previous adjustments to that amount under this paragraph), the additional amount will be adjusted accordingly. The supplier will, in the case of a refund or credit, as soon as practicable after the refund has been received from the New Zealand Inland Revenue Department, or where there is no refund, the credit has been offset against another GST or Tax liability, provide a refund or credit

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to the Supply Recipient. Where a further additional amount is payable, the supplier will be entitled to receive the amount of this variation from the Supply Recipient within seven days of notifying the Supply Recipient in writing of the adjustment. The supplier will issue a debit note or credit note (as appropriate) to the Supply Recipient within 14 days after becoming aware that the amount of NZ GST has varied and in any case prior to making any demand for payment by the Supply Recipient.

- (e) If the Supply Recipient is dissatisfied with any calculation to be made by the supplier under this clause, the Supply Recipient may, either at the expense of the supplier in the case of manifest error by the supplier or a failure by the supplier to exercise its duty of care, or in any other case at its own expense, and after notifying the supplier accordingly, refer the matter to an independent expert nominated by the President of the Institute of Chartered Accountants for expert determination, which will be final and binding on all parties. The expert will act as an expert and not as an arbitrator and will take into account the terms of this agreement, the matters required to be taken into account by the supplier under this clause and any other matter considered by the expert to be relevant to the determination.
- (f) Terms used in this clause 16.15 that are not defined in this agreement have any meaning used in the NZ GST Act.
- (g) Any reference in this clause 16.15 to NZ GST payable by the supplier includes any NZ GST payable by the representative member of any GST group of which the supplier is a member.
- (h) Any reference in this clause 16.15 to any NZ Input Tax to which a party is entitled includes any NZ Input Tax to which the representative member of any GST group of which the party is a member is entitled.
- (i) For the avoidance of doubt, this clause 16.15 does not apply to any supply made under or in connection with a Demerger Transaction Document. Any such supply will be governed by the provisions relating to NZ GST, if any, in that Demerger Transaction Document.

17 Interpretation

17.1 Definitions

These meanings apply unless the contrary intention appears:

ACCC means the Australian Competition and Consumer Commission.

Action Supermarkets means Action Supermarkets Pty Ltd ABN 43 008 882 488.

Actual Working Capital is calculated in accordance with the following formula:

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WC - IWAS + RP

Where:

WC is the Working Capital of the Current Australian Businesses as at the close of business on the Consideration Determination Date;

IWAS is the inventory of the WOW Action Stores as at the close of business on the Consideration Determination Date; and

RP is the amount of Rental Prepayments as at the close of business on the Consideration Determination Date.

Agreed Form means, in relation to any document, such document in the form agreed between the parties to this agreement and initialled by a representative of each of them for the purposes of identification.

Agreed Matters means the Metcash Agreed Matters and the WOW Agreed Matters, and Agreed Matter means either of them.

AHPL means Action Holdings Pty Ltd ABN 23 009 113 535.

ASIC means the Australian Securities and Investments Commission.

ASX means Australian Stock Exchange Limited ABN 98 008 624 691.

ATO means the Australian Taxation Office.

ATO Claim means the Federal Court action W250 of 2003 commenced by FAL against the Commissioner of Taxation and Federal Court action W251 of 2003 commenced by AHPL against the Commissioner of Taxation by which FAL and AHPL seek orders reducing the income tax payable by them for the 1993 / 1994 financial year.

ATO Class Ruling means the ruling or rulings referred to in clause 2.1(c) and clause 2.2(c).

ATO Expenditure Amount has the meaning given in clause 6.7(a).

Attendees has the meaning given in clause 12.7(b).

Australian GST has the same meaning as GST in the Australian GST Act.

Australian GST Act means the "A New Tax System (Goods and Services Tax) Act 1999 (Cwlth)".

Australian Leases means the property leases held by the FAL Group with respect to the Metcash FAL Businesses, as defined in clause 2.1(i).

Australian Lease Consents has the meaning given in clause 2.1(i).

Australian Surplus Cash Balance means:

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- (a) cash floats (being cash amounts held in-store comprising till floats and the cashier's recoup float which is used to top up coin shortages in till floats at the time of clearing each morning) as at the close of business of the supermarkets, stores and other outlets to be owned and operated by the FAL Post-Demerger Group after the Transfer Implementation Date (which does not include, for the avoidance of doubt, the WOW Action Stores) on the Consideration Determination Date;
- (b) retail EFTPOS clearing, being EFTPOS sales transactions which are yet to be processed by the bank as at the close of business of the supermarkets, stores and other outlets to be owned and operated by the FAL Post-Demerger Group after the Transfer Implementation Date (which does not include, for the avoidance of doubt, the WOW Action Stores) on the Consideration Determination Date;
- (c) cash on hand, being cash takings which are in the store safe as at the close of business of the supermarkets, stores and other outlets to be owned and operated by the FAL Post-Demerger Group after the Transfer Implementation Date (which does not include, for the avoidance of doubt, the WOW Action Stores) on the Consideration Determination Date; and
- (d) cash in transit (being cash takings which have left the store premises but have not yet been recognised by the bank (takings with Armaguard/Chubb and takings being processed by the bank)) as at the close of business of the supermarkets, stores and other outlets to be owned and operated by the FAL Post-Demerger Group after the Transfer Implementation Date (which does not include, for the avoidance of doubt, the WOW Action Stores) on the Consideration Determination Date,

and for the avoidance of doubt excludes:

- (e) any proceeds of the Tax Receivable; and
- (f) the proceeds referred to in clauses 2.9(a) and 2.9(b).

Authorisation includes any authorisation, approval, consent, licence, permit, franchise, permission, notification, filing, registration, lodgement, agreement, notarisation, certificate, authority, resolution, direction, declaration or exemption from, by or with a Governmental Agency.

Authorised Officer means a person appointed by a party to act as an authorised officer for the purposes of this agreement.

Average Inventory means the opening stock plus the closing stock divided by two extracted from the "Monthly Stock turnover (days) and Average Monthly Stock holding report" for September 2005 for the operations of the Current New Zealand Businesses (prepared using practices and principles and otherwise in a manner consistent with prior months for the 2005 calendar year).

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Business Day means a day other than a Saturday, Sunday or public holiday in Perth, Western Australia, or Sydney, New South Wales.

Chairman means the Chairman of FAL.

Chief Executive Officer means the Group Managing Director and Chief Executive Officer of FAL.

Completion means completion of the New Zealand Demerger on the Demerger Implementation Date.

Confidential Information means all information (regardless of its Material Form) disclosed to the Receiving Party by the Disclosing Party or any Related Entity or representative of the Disclosing Party under or in connection with this agreement, including:

- (a) information which, either orally or in writing, is designated or indicated as being the proprietary or confidential information of the Disclosing Party or any of its Related Entities;
- (b) information concerning the Scheme and the negotiations and discussions leading to the Scheme;
- (c) information derived or produced partly or wholly from the information including any calculation, conclusion, summary or computer modelling;
- (d) trade secrets or information which is capable of protection at law or equity as confidential information; and
- (e) documents, information and summaries provided under clause 5.3, whether the information was disclosed:
 - (f) orally, in writing or in electronic or machine readable form;
 - (g) before, on or after the date of this agreement;
 - (h) as a result of discussions between the parties concerning or arising out of the Schemes; or
 - (i) by the Disclosing Party or any of its representatives, any of its Related Entities, any representatives of its Related Entities or by any third person.

Consideration Components has the meaning given in clause 5.2(c).

Consideration Date means seven days after the Transfer Implementation Date, or such other date as may be agreed by the parties.

Consideration Determination Date means 2 October 2005.

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Consideration Expert means KPMG in Perth or in the event KPMG in Perth is unwilling or unable to act, such other independent accounting firm as FAL, MTT and WOW or WOW NZ approve for the purposes of clause 8.1(c).

Corporations Act means the Corporations Act 2001 (Cwlth).

Corporations Regulations means the Corporations Regulations 2001 (Cwlth).

Court means a court of competent jurisdiction under the Corporations Act.

CULS means the convertible, redeemable, subordinated, unsecured loan notes issued by MTT on 19 March 2005.

CUPS means the convertible, undated preference shares issued by MTT on 6 April 2005.

Current Australian Businesses means the following supermarket and franchise and supply businesses as carried on by various entities forming part of the FAL Pre-Demerger Group in Australia and any activity directly related to them in Australia:

- (a) the wholesale business conducted from distribution centres and/or support office complexes (located at Canning Vale, Malaga, Herdsman, Richlands and Rocklea) providing ambient groceries, frozen and chilled groceries, fresh foods and general merchandise to Action supermarkets, QuickStop convenience stores and the franchised supermarkets operating under the names "Dewsons", "Dewson's Express", "QuickStop", "SupaValue", and "Eziway" and other independent customers, and associated relevant assets, including all intellectual property;
- (b) the business of franchising and coordinating the marketing and promotional activities of franchised supermarket businesses in Australia, including those operating under the names of "Dewsons", "Dewson's Express", "SupaValue" and "Eziway", and associated relevant assets, including all intellectual property;
- (c) the "Cash & Carry" branches located at Canning Vale and Balcatta and the regional cities of Kalgoorlie and Bunbury, and associated relevant assets, including all intellectual property;
- (d) the food services business trading as "FoodLink" and located at O'Connor, and associated relevant assets, including all intellectual property;
- (e) the supermarket business operating under the name "Action Supermarkets", and associated relevant assets, including all intellectual property;
- (f) the "QuickStop" convenience store and fuel retailing business, and associated relevant assets, including all intellectual property;

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- (g) property development and management activities including head leases and the asset management of the FAL Property Trust;
- (h) any other business operated by the FAL Pre-Demerger Group to the extent it is exclusively or predominantly carried out in Australia; and
- (i) head office and support functions.

Current New Zealand Businesses means the following supermarket and franchise and supply businesses as carried on by various entities forming part of the FAL Pre-Demerger Group in New Zealand and any activity directly related to them in New Zealand:

- (a) the supermarket businesses operating under the names of “Foodtown”, “Countdown” and “Woolworths”, and associated relevant assets (including all intellectual property including logos, trademarks, domain names and client lists used in those businesses in New Zealand);
- (b) the supply chain businesses conducted from distribution centres and/or support office complexes located at Favona Road, Mangere (a suburb of Auckland), Palmerston North and Christchurch, together with meat processing plants in Otahuhu (a suburb of Auckland) and Malvern (a suburb of Christchurch), produce handling centres located in Mt Wellington (a suburb of Auckland), Wellington and Christchurch, chilled and frozen storage facilities in Auckland, Palmerston North and Christchurch, and a seafood preparation facility located at Penrose (a suburb of Auckland), and associated relevant assets (including all intellectual property including logos, trademarks, domain names and client lists used in those businesses in New Zealand);
- (c) the online shopping business operating under the names “www.woolworths.co.nz” and www.foodtown.co.nz”, and associated relevant assets (including all intellectual property including logos, trademarks, domain names and client lists used in those businesses in New Zealand);
- (d) the convenience store network and micro market business trading as “Woolworths Micro” and “Woolworths QuickStop”, and associated relevant assets (including all intellectual property including logos, trademarks, domain names and client lists used in those businesses in New Zealand);
- (e) the business of franchising and co-ordinating the marketing and promotional activities of franchised supermarket businesses in New Zealand operating under the names “Fresh Choice” and “SuperValue”, and associated relevant assets (including all intellectual property including logos, trademarks, domain names and client lists used in those businesses in New Zealand);

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- (f) the exclusive right to use the product names and logos for “SR Signature Range”, “B Basics” and “Fresh Zone” in New Zealand;
- (g) the stock, fixtures and fittings, contractual arrangements and other assets of those businesses referred to in this definition of “Current New Zealand Businesses” and, to the extent owned by a member of the FAL Pre-Demerger Group in New Zealand, any land and buildings associated with or used in connection with those businesses;
- (h) the “one-card” loyalty scheme including all the membership and customer information relating to that scheme in New Zealand;
- (i) supermarket fit out and management of activities relating to head leases and owned properties;
- (j) any other business operated by the FAL Pre-Demerger Group to the extent that it is exclusively or predominantly carried out in New Zealand; and
- (k) head office and support functions (to the extent physically located in New Zealand).

Dairyfarm Establishment Novation Agreement means the agreement of that name between PEH, FAL and Dairyfarm Establishment in the Agreed Form.

Deed of Release - FAL Insurance Limited means the deed of that name under which each member of the FAL Pre-Demerger Group and the responsible entity for the FAL Property Trust releases and discharges FAL Insurance Limited from any liability, claim, action or cause of action relating to or in connection with the policies of insurance issued by FAL Insurance Limited in the Agreed Form.

Deeds of Variation of Sub-Lease means the deeds entitled:

- (a) the Deed of Variation of Sub-Lease - Advantage Supermarket, Lakeside Joondalup Shopping City in the Agreed Form; and
- (b) the Deed of Variation of Sub-Lease - Advantage Supermarket, Rockingham City Shopping Centre in the Agreed Form.

Demerged Australian Businesses means the Current Australian Businesses immediately following Completion, including the corporate entities owning or operating such businesses. If the Transfer Scheme becomes Effective, the Demerged Australian Businesses do not include the WOW Action Stores or the corporate entities owning or operating the WOW Action Stores immediately following Completion.

Demerged New Zealand Businesses means the Current New Zealand Businesses immediately following Completion, including the corporate entities owning or operating such businesses. If the Transfer Scheme becomes Effective, the Demerged New Zealand Businesses includes the

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WOW Action Stores and the corporate entities owning or operating the WOW Action Stores immediately following Completion.

Demerger and Transfer Scheme Costs means the total of all external costs incurred or anticipated to be incurred by the FAL Group in undertaking the Demerger Scheme and the Transfer Scheme in relation to:

- (a) shareholder communications, including advertising and the printing and distribution of the Scheme Booklet and communicating with shareholders in relation to the Scheme Booklet, the Demerger Schemes and the Transfer Scheme;
- (b) obtaining financial, legal, accounting and other specialist and expert advice, opinions and reports; and
- (c) board redundancy costs, redundancy costs for any FAL personnel above the General Manager of Action and the General Manager of Wholesale and Franchise & Supply.

Demerger Deed means the deed of that name between FAL and PEH to be dated on or after the date of this agreement in relation to the implementation of the New Zealand Demerger in the Agreed Form.

Demerger Effective Date means the date on which the Demerger Scheme becomes Effective.

Demerger Implementation Date means ten Business Days after the Demerger Effective Date, or such other date as may be agreed by the parties.

Demerger Implementation Deed means the deed of that name between FAL and PEH to be dated on or after the date of this agreement in relation to the implementation of the New Zealand Demerger and the Demerger Scheme in the Agreed Form.

Demerger Record Date means 5.00 p.m. on the fifth Business Day after the Demerger Effective Date, or, if the Transfer Scheme does not become Effective, such other date as may be permitted by ASX.

Demerger Scheme means the scheme of arrangement under Part 5.1 of the Corporations Act to implement the New Zealand Demerger.

Demerger Scheme of Arrangement means the scheme of arrangement between FAL and Demerger Scheme Participants relating to the New Zealand Demerger in the Agreed Form.

Demerger Scheme Participants means FAL Shareholders as at the Demerger Record Date.

Demerger Transaction Documents means those transaction documents required to implement the New Zealand Demerger, being:

- (a) the Demerger Implementation Deed;

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- (b) the Demerger Deed;
- (c) the Transitional Technology Services Agreement;
- (d) the Trade Mark Assignment;
- (e) the Dairyfarm Establishment Novation Agreement;
- (f) the Escrow Agreement;
- (g) the WOW Action Agreement;
- (h) the WOW Action Agreement (Woodvale/Kalgoorlie);
- (i) the Deeds of Variation of Sub-Lease;
- (j) the Deed of Release - FAL Insurance Limited;
- (k) the Drumstar Share Transfer; and
- (l) the Share Sale Agreements.

Details means the section of this agreement headed "Details".

Determination has the meaning given in clause 5.2(c).

Development Sites means the following WOW Action Stores:

- (a) Kalgoorlie, WA;
- (b) Caloundra, QLD; and
- (c) Woodvale, WA.

Directors means the directors of FAL.

Disclosed Matters means the Metcash Disclosed Matters and the WOW Disclosed Matters.

Disclosing Party means the party disclosing Confidential Information.

Dispose means, in relation to an asset, any dealing with the asset, including but not limited to, a sale, transfer, assignment, trust, encumbrance, option, swap, lease, licence, any alienation of all or any part of the rights attaching to the asset or interest in the asset, and includes any attempt to so deal or the taking of any steps for the purpose of so dealing, and "Disposed" and "Disposal" have corresponding meanings.

Draft has the meaning given in clause 5.2(h).

Drumstar means Drumstar Pty Ltd ABN 90 085 415 032.

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Drumstar Share Transfer means the instrument of transfer relating to the transfer of all of the shares in Drumstar from FAL to PEH in the Agreed Form.

Effective when used in relation to the Demerger Scheme or the Transfer Scheme, means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under sections 411(4)(b) and 411(6) in relation to that Scheme.

Election Date has the meaning given in clauses 3.4(b) and 4.4(b).

Escrow Agreement means the agreement of that name between FAL and PEH which will regulate access by FAL and PEH to the FAL Group's computer back-up tapes in the Agreed Form.

Events Outside of FAL's Control means in relation to capital expenditure, events outside the control of FAL and its Subsidiaries which FAL and its Subsidiaries are not able to prevent or overcome by the exercise of reasonable care, including but not limited to:

- (a) an escalation in project costs that would affect the economic outcome of the relevant project;
- (b) a failure of any person to obtain or grant any regulatory consents or approvals;
- (c) a failure of a third party including a builder, architect or other adviser to complete tasks being undertaken by them;
- (d) limitations caused by lease terms or difficulties in obtaining access to the work site,

and provided that where such an event occurs FAL and its Subsidiaries use all reasonable means to remedy or abate the event as expeditiously as possible.

Excluded Information means Confidential Information which:

- (a) is in or becomes part of the public domain otherwise than through breach of this agreement or an obligation of confidence owed to the Disclosing Party or any Related Entity of the Disclosing Party;
- (b) the Receiving Party can prove by contemporaneous written documentation was already known to it at the time of disclosure by the Disclosing Party or its Representatives (unless such knowledge arose from disclosure of information in breach of an obligation of confidentiality);
- (c) the Receiving Party acquires from a source other than the Disclosing Party or any Related Entity or Representative of the Disclosing Party where such source is entitled to disclose it; or

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- (d) has been required to be disclosed by law, or under any order of any Governmental Agency, or the rules of any stock exchange.

Existing Confidentiality Agreements means:

- (a) the confidentiality agreement between FAL and Metcash dated 17 May 2005; and
- (b) the confidentiality agreement between FAL and WOW dated 15 February 2005.

External Debt means the net external borrowings and Finance Debt (which excludes, for the avoidance of doubt, operating leases) of the FAL Post-Demerger Group (which, for the avoidance of doubt, excludes intercompany loans from or to any member of the PEH-Post Demerger Group) as at the close of business on the Consideration Determination Date.

FAL Employee Share Ownership Plan means any employee share ownership plan or similar plan made available to any employees of the FAL Pre-Demerger Group.

FAL Group means FAL and its Subsidiaries.

FAL Indemnified Parties means each member of the FAL Group and their respective directors, employees and advisers and the Transfer Scheme Participants.

FAL Information means the Scheme Booklet other than:

- (a) the Metcash Information;
- (b) the WOW Information;
- (c) the report included in the Scheme Booklet prepared by the Independent Expert;
- (d) the report included in the Scheme Booklet prepared by the Independent Accountant; and
- (e) the report included in the Scheme Booklet in relation to tax prepared by Ernst & Young.

FAL Post-Demerger Group means FAL and its Subsidiaries immediately following Completion (which will exclude PEH and its Subsidiaries).

FAL Pre-Demerger Group means FAL and its Subsidiaries immediately prior to Completion.

FAL Register means FAL's register of members.

FAL Share means a fully paid ordinary share in the capital of FAL.

FAL Shareholder means a holder of FAL Shares.

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Finance Debt means any indebtedness in respect of moneys borrowed or raised, any indebtedness under or in respect of a financial (including negotiable) instrument of any kind (whether interest bearing or not), redeemable or re-purchasable share or stock, preference shares, bills of exchange, promissory notes, bonds or debentures, discounting arrangements, finance or capital leases or similar agreement (discounted to their net present value).

FNZHL means Foodland (N.Z.) Holdings Limited.

Foodchain means Foodchain Holdings Pty Ltd ABN 90 008 871 716.

Foodland Property means Foodland Property Holdings Pty Ltd ABN 22 009 139 904.

Governmental Agency means any foreign or Australian government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia, any State or Territory of the Commonwealth of Australia or New Zealand.

GST means Australian GST and NZ GST.

Hedge Book Proceeds means the proceeds (if any) from closing out all of the FAL Pre-Demerger Group's interest rate swap arrangement to hedge its borrowings.

Independent Expert means Grant Samuel & Associates Pty Limited ABN 28 050 036 372.

Ineligible Overseas Shareholder means an FAL Shareholder whose address as shown in the register of members of FAL on the Demerger Record Date is in a jurisdiction other than Australia or its external territories or New Zealand, unless FAL otherwise determines after being satisfied in discussion with MTT, WOW and WOW NZ that it is not unlawful, not unduly onerous and not unduly impracticable to transfer PEH Shares to an FAL Shareholder in that jurisdiction pursuant to the terms of the Demerger Scheme.

Input Tax Credit has the same meaning as in the Australian GST Act.

Listing Rules means the official listing rules of ASX.

Material Form in relation to information, includes any form (whether visible or not) of storage from which the information can be reproduced and any form in which the information is reproduced, embodied or encoded.

Metcash means Metcash Limited ABN 32 112 073 480.

Metcash Agreed Amount means the agreed cost of the Metcash Agreed Matters.

Metcash Agreed Matter means in relation to the Metcash FAL Businesses, an act incurring a liability or commitment that has been done with MTT's

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prior written approval or at MTT's request, and which FAL and Metcash agree is a "Metcash Agreed Matter" for the purposes of this agreement.

Metcash Approved Matters means in relation to the Metcash FAL Businesses:

- (a) purchasing and selling stock in trade in the ordinary course;
- (b) renewing store leases and agreeing rent reviews as disclosed in the Metcash Disclosed Matters;
- (c) incurring or committing capital expenditure to ensure that the FAL Group's supermarkets, cash and carry stores, franchisees, wholesale business and food services businesses are able to operate in the ordinary course and which is disclosed in the Metcash Disclosed Matters;
- (d) increasing employee remuneration and benefits but only to the extent disclosed in the Metcash Disclosed Matters; and
- (e) paying creditors in the ordinary course and consistent with past practice of paying creditors.

Metcash Cash Consideration means the cash amount to be paid by MTT to each Transfer Scheme Participant in respect of each FAL Share held at the Transfer Record Date, as determined by the Consideration Expert in accordance with clauses 6.2 and 6.3.

Metcash Deed Poll means the deed poll to be executed by MTT and Metcash in favour of Transfer Scheme Participants, undertaking to perform certain obligations under this agreement and the Transfer Scheme of Arrangement, in the Agreed Form.

Metcash Disclosed Matters means the matters (including proposals) in relation to the Metcash FAL Businesses disclosed to MTT by FAL in a disclosure letter provided to MTT prior to the date of this agreement including in relation to:

- (a) renewing store leases;
- (b) increasing employee remuneration and paying termination benefits;
- (c) dealing with non-trading assets; and
- (d) incurring or committing to incur capital expenditure to ensure that the FAL Group's supermarkets, cash and carry stores, franchisees, wholesale business and food services businesses are able to operate in the ordinary course; and
- (e) any specific customer arrangements or supply arrangements impacted by the public announcement of the Schemes.

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Metcash FAL Businesses means the Current Australian Businesses excluding the WOW Action Stores.

Metcash FAL Businesses Liaison Committee means the committee established under clause 5.8.

Metcash Group means Metcash and its Subsidiaries.

Metcash Indemnified Parties means each member of the Metcash Group and their respective directors, employees and advisors.

Metcash Information means such information regarding MTT and Metcash to enable the Scheme Booklet to comply with all applicable legal requirements (including under the Corporations Act or Corporations Regulations or as may be appropriate under PS 60 or PS 142).

Metcash Material Adverse Change means an event having occurred, been announced or becoming known to MTT (whether or not becoming public), change or condition that has had, or could reasonably be expected to have, a material adverse effect on the business, financial or trading position, assets or liabilities, or profitability or prospects of the Metcash FAL Businesses, including where it becomes known to MTT that information publicly filed by FAL or any of its Subsidiaries is, or is likely to be, incomplete, incorrect, untrue or misleading, except for such events, changes or conditions disclosed in public filings by FAL or any of its Subsidiaries prior to 27 May 2005 or as a Metcash Disclosed Matter. For the avoidance of doubt, without limitation, it will be a "Metcash Material Adverse Change" if there is a diminution of the value of the Metcash FAL Businesses, of \$27 million or more.

Metcash Scheme Consideration means in respect of the Transfer Scheme, the Metcash Cash Consideration and the Metcash Share Consideration.

Metcash Share means a fully paid ordinary share in the capital of Metcash.

Metcash Share Adjustment Event means the occurrence of any of the following:

- (a) Metcash:
 - (i) declaring, paying or distributing any:
 - (A) dividend;
 - (B) reserve;
 - (c) bonus, where such bonus is payable in shares or in kind; or
 - (ii) agreeing to return any capital to its shareholders,
- other than any distribution or dividend declared or announced prior to the Consideration Date consistent with customary levels of final dividends paid by MTT or Metcash;

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- (b) Metcash amending the terms of, splitting or combining any of its Metcash Shares;
- (c) Metcash authorising or proposing the issuance of any other securities in respect of, or in lieu of, or in substitution for Metcash Shares other than:
 - (i) the issue of Metcash Shares or options or rights in respect of Metcash Shares to employees or directors of the Metcash Group;
 - (ii) the conversion of the CUPS;
 - (iii) the conversion of the CULS;
 - (iv) any shares issued under Metcash's dividend reinvestment plan for the expected interim dividend in respect of the period 1 May 2005 to a date in September or October 2005 or MTT's or Metcash's dividend reinvestment plan underwriting deed; and
- (d) Metcash resolving to reduce its share capital in any way.

Metcash Share Consideration means that number of Metcash Shares to be issued to each Transfer Scheme Participant for each FAL Share held at the Transfer Record Date, as determined by the Consideration Expert in accordance with clause 6.4 or as agreed by FAL and MTT as contemplated by clause 5.2.

Metcash Third Party Consents has the meaning given in clause 2.1(h).

Migration has the meaning given to it in the Transitional Technology Services Agreement.

MTT Offer means the off-market takeover offer by MTT for all the FAL Shares dated 7 February 2005, including any amendments to that offer.

Multiplex Agreement means the agreement entitled "First Right to Supermarket Sites in New Zealand - Heads of Agreement" between FAL and Multiplex Developments (NZ) Limited dated 30 August 2004.

Negative Pledge means the negative pledge deed dated 15 July 2004 between FAL, each company listed in schedule 1 to the Negative Pledge, ANZ National Bank Limited, Australia and New Zealand Banking Group Limited, BNP Paribas, BNPP (NZ) Finance Limited, Bank of New Zealand, National Australia Bank Limited and Westpac Banking Corporation.

Net Assumed Debt is as calculated using the formula in clause 7.2.

New Zealand Businesses Liaison Committee means the committee established under clause 5.9.

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New Zealand Demerger means the divestment by FAL of the Demerged New Zealand Businesses by way of the transfer of the Demerged New Zealand Businesses to PEH, the issue of PEH Shares to FAL, an equal reduction of capital of the FAL Shares, the payment of a demerger dividend and the application of that capital and demerger dividend in consideration for the transfer of the PEH Shares to FAL Shareholders (or to a nominee on behalf of Ineligible Overseas Shareholders), to be implemented in accordance with the terms of the Demerger Scheme.

New Zealand Leases means the property leases held by the FAL Group with respect to the Current New Zealand Businesses and the WOW Action Stores, as defined in clause 2.2(j).

New Zealand Lease Consents has the meaning given in clause 2.2(j).

No-Shop Period means the period from 23 May 2005 until the Quit Date.

Notices has the meaning given in clause 15.1.

NZ GST means tax imposed under the NZ GST Act.

NZ GST Act means the New Zealand Goods and Services Tax Act 1985.

NZ Input Tax means a deduction from output tax under the NZ GST Act.

OIC means a Governmental Agency from whom approval is required to be sought under the New Zealand Overseas Investment Act 1973 or the New Zealand Overseas Investment Act 2005.

PEH means Progressive Enterprises Holdings Limited ABN 93 113 919 878, being the Australian company that has been incorporated for the purpose of holding the Demerged New Zealand Businesses following the New Zealand Demerger.

PEH Group means PEH and its Subsidiaries immediately prior to Completion.

PEH IP Co means PEH (NZ IP) Pty Ltd ACN 115 841 337.

PEH Post-Demerger Group means PEH and its Subsidiaries immediately following Completion.

PEH Share means a fully paid ordinary share in the capital of PEH.

PEL means Progressive Enterprises Limited.

Prescribed Occurrence means:

- (a) FAL converting all or any of its shares into a larger or smaller number of shares;
- (b) FAL or any material Subsidiary of FAL:

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- (i) entering into a buy-back agreement; or
- (ii) resolving to approve the terms of a buy-back agreement under the Corporations Act or the Companies Act 1993 (NZ);
- (c) FAL or any material Subsidiary of FAL resolving to reduce its share capital in any way or make any distribution of its assets to its members;
- (d) FAL making an allotment of, or granting an option to subscribe for, any shares or securities convertible into shares or agreeing to make such an allotment or to grant such an option;
- (e) FAL or a Subsidiary of FAL issuing, or agreeing to issue, convertible notes or other debt securities (other than the issue of non-convertible debt securities in the ordinary course of business);
- (f) FAL or any material Subsidiary of FAL creating, or agreeing to create, any Security Interest over the whole, or a substantial part, of its business or property otherwise than in the ordinary course of business;
- (g) FAL or any material Subsidiary of FAL resolving that it be wound up or liquidated;
- (h) the appointment of a liquidator, provisional liquidator or administrator of FAL or of any material Subsidiary of FAL;
- (i) the making of an order by a Court for the winding up of FAL or liquidation of any material Subsidiary of FAL;
- (j) FAL or any material Subsidiary of FAL executing a deed of company arrangement;
- (k) the appointment of a receiver or a receiver and manager, in relation to the whole, or a substantial part, of the property of FAL or of any material Subsidiary of FAL; or
- (l) the declaration or payment of any dividend by FAL or PEH prior to the Transfer Implementation Date.

For the purposes of this definition a material Subsidiary includes any Subsidiary which has assets of more than \$500,000 or annual income of more than \$500,000.

Prior Six Months End means the following dates:

- (a) 1 May 2005, being the April 2005 month end;
- (b) 29 May 2005, being the May 2005 month end;
- (c) 3 July 2005, being the June 2005 month end;

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- (d) 31 July 2005, being the July 2005 month end;
- (e) 28 August 2005, being the August 2005 month end; and
- (f) 2 October 2005, being the September 2005 month end.

PS 60 means Policy Statement 60 issued by the ASIC on 4 August 1999.

PS 142 means Policy Statement 142 issued by the ASIC on 4 August 1999.

Quit Date means 31 December 2005 or such later date as is agreed by the parties.

Receiving Party means the recipient of Confidential Information.

Regulatory Authority means a Governmental Agency, any regulatory organisation established under statute and the ASX.

Related Body Corporate of an entity has the same meaning as "related body corporate" has in the Corporations Act.

Related Entity of an entity has the same meaning as "related entity" has in the Corporations Act.

Rental Prepayments means, where rent has been paid in advance in relation to the Current Australian Businesses and where that rent relates to a period part of which is before the Consideration Determination Date and part of which is after the Consideration Determination Date, the amount of that rent which relates to the period up to and including the Consideration Determination Date, calculated in accordance with the usual accounting policies, practices and procedures of the FAL Group.

Schemes means the Demerger Scheme and the Transfer Scheme and **Scheme** means either one of them.

Scheme Booklet means a document which is to be dispatched to FAL Shareholders in relation to the Demerger Scheme and the Transfer Scheme and which must include explanatory statements complying with all applicable legal requirements (including, under the Corporations Act and the Corporations Regulations or as may be appropriate under PS 60 or PS 142), the Demerger Scheme and the Transfer Scheme, notices of meeting, proxy forms and the report of the Independent Expert.

Scheme Meeting means a meeting to be convened by the Court pursuant to the Demerger Scheme or the Transfer Scheme, as the case may be.

Second Court Date means the first day of hearing of an application made to the Court for orders pursuant to sections 411(4)(b) and 411(6) of the Corporations Act approving the Demerger Scheme or the Transfer Scheme, as the case may be.

Security Interest includes any mortgage, pledge, lien or charge or any security or preferential interest or arrangement of any kind (including,

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without limitation, retention of title and any deposit of money by way of security, but excluding any charge or lien arising in favour of any Governmental Agency by operation of statute provided there is no default in payment of moneys owing under such lien or charge).

Share Sale Agreements means:

- (a) the FNZHL Share Sale Agreement;
- (b) the FNZFL (AHPL) Share Sale Agreement;
- (c) the FNZFL (FAL) Share Sale Agreement;
- (d) the Drumstar Share Sale Agreement; and
- (e) the PEH (NZ IP) Co Share Sale Agreement,

which have the same meaning given to them in the Demerger Deed, in each case in the Agreed Form.

Subsidiary of an entity means another entity which is a subsidiary of the first within the meaning of part 1.2 division 6 of the Corporations Act or section 5(1) of the Companies Act 1993 (New Zealand) (as the case may be) or is a subsidiary or otherwise controlled by the first within the meaning of any approved accounting standard.

Surplus Assets means the assets in schedule 5.

Tax means any tax, levy, charge, impost, duty, fee, deduction, compulsory loan or withholding, which is assessed, levied, imposed or collected by any Governmental Agency and includes, but is not limited to any interest, fine, penalty, charge, fee or any other amount imposed on, or in respect of any of the above.

Tax Receivable means the amount in dispute under the ATO Claim plus any additional interest and costs.

Threshold Working Capital is calculated in accordance with the following formula:

$AWC - AIWAS + ARP$

Where:

AWC is the average of the Working Capital of the Current Australian Businesses as at the close of business at each of the dates set out in the definition of Prior Six Months End;

AIWAS is the average of the inventory of the WOW Action Stores as at the close of business at each of the dates set out in the definition of Prior Six Months End; and

Merger Implementation Agreement - Transfer Scheme

ARP is the average Rental Prepayments as at the close of business at each of the dates set out in the definition of Prior Six Months End.

Third Party Consents means the Metcash Third Party Consents and the WOW Third Party Consents.

Total PEH Shares means the total number of PEH Shares on issue immediately following the New Zealand Demerger.

Trade Mark Assignment means the agreement of that name between FAL and PEH under which FAL assigns certain New Zealand trade mark registrations to PEH in the Agreed Form.

Transfer Effective Date means the date on which the Transfer Scheme becomes Effective.

Transfer Implementation Date means ten Business Days after the Transfer Effective Date, or such other date as may be agreed by the parties.

Transfer Record Date means 5.00 pm on the fifth Business Day after the Transfer Effective Date, or such other date as may be agreed by the parties.

Transfer Scheme means a scheme of arrangement under Part 5.1 of the Corporations Act for the transfer of FAL Shares to MTT and PEH Shares to WOW NZ.

Transfer Scheme Consideration means the Metcash Scheme Consideration and the WOW Scheme Consideration.

Transfer Scheme of Arrangement means the scheme of arrangement between FAL and Transfer Scheme Participants relating to the Transfer Scheme in the Agreed Form.

Transfer Scheme Participant means a FAL Shareholder on the Transfer Record Date.

Transitional Technology Services Agreement means the agreement of that name between FAL and PEH dealing with transitional information technology support for the PEH Group and the FAL Post-Demerger Group following the New Zealand Demerger in the Agreed Form.

Treasurer means the Treasurer of the Commonwealth of Australia.

Unsolicited Offer has the meaning given in clause 13.2(a).

Westpac Agreement means the agreement between FAL, Foodland Properties Pty Ltd, Action Supermarkets, Action Projects Pty Ltd and Westpac Funds stamped on 19 December 2003.

Westpac Funds means Westpac Funds Management Limited ABN 28 085 352 405.

Merger Implementation Agreement - Transfer Scheme

Westpac Release means a release by Westpac Funds of FAL, Foodland Properties Pty Ltd, Action Supermarkets, Action Projects Pty and any Vendors Associates (as that term is defined in Westpac Agreement) of any rights under the Westpac Agreement, including, for the avoidance of doubt, clause 16 of the Westpac Agreement, in relation to the transfer of any properties under the WOW Action Agreements, including the Development Sites.

Working Capital means:

- (a) trade receivables;
- (b) (plus) inventory; and
- (c) (less) trade creditors,

where each of the elements listed in (a) to (c) are calculated in accordance with the usual accounting policies, practices and procedures of the FAL Group. For the avoidance of doubt, Australian GST payable or receivable will be included in the calculation of Working Capital.

WOW Action Agreement means the agreement of that name between various members of the FAL Group and Drumstar for the transfer of the WOW Action Stores to Drumstar other than the land to be sold under the WOW Action Agreement (Woodvale/Kalgoorlie) in the Agreed Form.

WOW Action Agreements means the WOW Action Agreement and the WOW Action Agreement (Woodvale/Kalgoorlie).

WOW Action Agreement (Woodvale/Kalgoorlie) means the agreement of that name between Drumstar and Foodland Property which relates to the sale of certain land to Drumstar in the Agreed Form.

WOW Action Stores means those "Action" branded supermarkets and associated liquor outlets and sites and the Development Sites (or agreements for lease in respect of Development Sites (as the case may be)) set out in the tables in schedule 1.

WOW Action Stores Liaison Committee means the committee established under clause 5.10.

WOW Agreed Matter means in relation to the Current New Zealand Businesses and the WOW Action Stores, an act incurring a liability or commitment that has been done with the prior written approval of WOW and WOW NZ or at the prior written request of WOW and WOW NZ, and which FAL, WOW and WOW NZ agree is a "WOW Agreed Matter" for the purposes of this agreement.

WOW Approved Matters means in relation to the Current New Zealand Businesses and the businesses conducted by the WOW Action Stores:

- (a) purchasing and selling stock in trade in the ordinary course;

Merger Implementation Agreement - Transfer Scheme

- (b) renewing store leases and agreeing rent reviews as disclosed in the WOW Disclosed Matters;
- (c) the incurring or committing of capital expenditure to ensure that the FAL Group's supermarkets, cash and carry stores, franchisees, wholesale business and food services businesses are able to operate in the ordinary course and which are disclosed in the WOW Disclosed Matters;
- (d) increasing employee remuneration and benefits but only to the extent disclosed in the WOW Disclosed Matters; and
- (e) paying creditors in the ordinary course and consistent with past practice of paying creditors.

WOW Balancing Payment means the sum of the WOW Balancing Payments provided for under each of the WOW Action Agreements.

WOW Cash Consideration has the meaning given to that expression in clause 7.1(a).

WOW Consideration Election means an election in accordance with clause 4.4 by a Transfer Scheme Participant to receive in respect of the Transfer Scheme either the WOW Maximum Cash Consideration, the WOW Maximum Share Consideration or the WOW Standard Consideration.

WOW Deed Poll means the deed poll to be executed by WOW and WOW NZ in favour of the Transfer Scheme Participants, undertaking to perform certain obligations under this agreement and the Transfer Scheme of Arrangement, in the Agreed Form.

WOW Disclosed Matters means the matters (including proposals) in relation to the Current New Zealand Businesses and the WOW Action Stores disclosed to WOW and WOW NZ by FAL in a disclosure letter provided to WOW and WOW NZ prior to the date of this agreement including in relation to:

- (a) renewing store leases;
- (b) increasing employee remuneration and paying termination benefits;
- (c) dealing with non-trading assets;
- (d) incurring or committing to incur capital expenditure to ensure that the FAL Group's supermarkets, cash and carry stores, franchisees, wholesale business and food services businesses are able to operate in the ordinary course; and
- (e) any specific customer arrangements or supply arrangements impacted by the public announcement of the Schemes.

WOW Group means WOW and its Subsidiaries.

Merger Implementation Agreement - Transfer Scheme

WOW Indemnified Parties means each member of the WOW Group and their respective directors, employees and advisers.

WOW Information means information regarding WOW and WOW NZ to enable the Scheme Booklet to comply with all applicable legal requirements (including under the Corporations Act or Corporations Regulations or as may be appropriate under PS 60 or PS 142).

WOW Material Adverse Change means an event having occurred, been announced or becoming known to WOW and WOW NZ (whether or not becoming public), change or condition that has had, or could reasonably be expected to have, a material adverse effect on the business, financial or trading position, assets or liabilities, profitability or prospects of the Current New Zealand Businesses and the WOW Action Stores (treated as one business for the purposes of this definition), including where it becomes known to WOW and WOW NZ that information publicly filed by FAL or any of its Subsidiaries is, or is likely to be, incomplete, incorrect, untrue or misleading except for such events, changes or conditions disclosed in public filings by FAL or any of its Subsidiaries prior to 23 May 2005 or as a WOW Disclosed Matter. For the avoidance of doubt, without limitation, it will be a "WOW Material Adverse Change" if there is a diminution of the value of the Current New Zealand Businesses and the WOW Action Stores (treated as one business for the purposes of this definition), of \$80 million or more.

WOW Maximum Cash Consideration means the total WOW Cash Consideration a Transfer Scheme Participant who has elected to receive the WOW Maximum Cash Consideration is entitled to receive, as determined in accordance with clause 4.5(b).

WOW Maximum Cash Election Formula means the formula specified in clause 4.5(b)(ii).

WOW Maximum Share Consideration means the total WOW Share Consideration a Transfer Scheme Participant who has elected to receive the WOW Maximum Share Consideration is entitled to receive, as determined in accordance with clause 4.5(c).

WOW Maximum Share Election Formula means the formula specified in clause 4.5(c)(ii).

WOW Scheme Consideration means in respect of the Transfer Scheme, the WOW Cash Consideration, the WOW Share Consideration and the WOW Standard Consideration payable under the Transfer Scheme as specified in this agreement.

WOW Share means a fully paid ordinary share in the capital of WOW.

WOW Share Adjustment Event means the occurrence of any of the following:

- (a) WOW:
 - (i) declaring, paying or distributing any:

Merger Implementation Agreement - Transfer Scheme

- (A) dividend;
- (B) reserve;
- (c) bonus, where such bonus is payable in shares or in kind; or

(ii) agreeing to return any capital to its shareholders,

other than any distribution or dividend declared or announced prior to the date of this agreement and the final dividend declared by WOW in respect of the financial year ending 26 June 2005;

- (b) WOW amending the terms of, splitting or combining any of its WOW Shares;
- (c) WOW authorising or proposing the issuance of any other securities in respect of, or in lieu of, or in substitution for WOW Shares other than for any shares issued under WOW's dividend reinvestment plan in respect of the final dividend for the financial year ending 26 June 2005 and WOW's underwriting arrangements in respect of that plan and any shares arising on the exercise of options issued under any WOW directors, employee or incentive share or option plan in existence at the date of this agreement; and
- (d) WOW resolving to reduce its share capital in any way, other than via WOW's existing and already approved buy-back programme.

WOW Share Consideration has the meaning given to that expression in clause 7.1(b).

WOW Standard Consideration has the meaning given to that expression in clause 7.1(c).

WOW Third Party Consents has the meaning given in clause 2.2(i).

17.2 References to certain general terms

Unless the contrary intention appears a reference in this agreement to:

- (a) **(variations or replacement)** a document (including this agreement) includes any variation or replacement of it;
- (b) **(clauses, annexures and schedules)** a clause, annexure or schedule is a reference to a clause, annexure or schedule to this agreement;
- (c) **(reference to statutes)** a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (d) **(singular includes plural)** the singular includes the plural and vice versa;

Merger Implementation Agreement - Transfer Scheme

- (e) **(person)** the word “person” includes an individual, a firm, a body corporate, a partnership, joint venture, an unincorporated body or association, or any Governmental Agency;
- (f) **(executors, administrators, successors)** a particular person includes a reference to the person’s executors, administrators, successors, substitutes (including, persons taking by novation) and assigns;
- (g) **(calculation of time)** if a period of time dates from a given day or the day of an act or event, it is to be calculated exclusive of that day;
- (h) **(reference to a day)** a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later;
- (i) **(dollars)** Australian dollars, dollars, AUD, A\$ or \$ is a reference to the lawful currency of Australia;
- (j) **(next Business Day)** if an event under this agreement must occur on a stipulated day which is not a Business Day then the stipulated day will be taken to be the next Business Day;
- (k) **(time of day)** a time of day is a reference to Perth time;
- (l) **(reference to anything)** anything (including any amount) is a reference to the whole and each part of it; and
- (m) **(including)** “includes”, “including” or any similar term means includes or including but not limited to.

17.3 Headings

Headings are for convenience only and do not affect the interpretation of this agreement.

EXECUTED as an agreement

Merger Implementation Agreement - Transfer Scheme

Schedule 1 - WOW Action Stores

| Store | Landlord | Tenant | Leasehold / Freehold |
|--------------------------|--|---------------------|----------------------|
| <i>New South Wales</i> | | | |
| Kingscliff | Chen-Yu Pty Ltd | Action Supermarkets | Leasehold |
| <i>Queensland</i> | | | |
| Birkdale | Trust Company of Australia Ltd | Action Supermarkets | Leasehold |
| Highfield | Lauder Pty Ltd | Action Supermarkets | Leasehold |
| Mermaid Waters | Jen Retail Properties Ltd | Action Supermarkets | Leasehold |
| Mudgeeraba | Maxivista Pty Ltd & Koms Pty Ltd | Action Supermarkets | Leasehold |
| <i>Western Australia</i> | | | |
| Alexander Heights | Alexander Heights Shopping Centre Pty Ltd | Action Supermarkets | Leasehold |
| Balga (Stirling) | Darwil Pty Ltd | Action Supermarkets | Leasehold |
| Bassendean | Hawaiian Investments Pty Ltd | Foodchain | Leasehold |
| Booragoon | AMP Life Ltd & Westfield Management Ltd | Action Supermarkets | Leasehold |
| Broome | Amberlee Nominees Pty Ltd | Action Supermarkets | Leasehold |
| Broome Liquor | Amberlee Nominees Pty Ltd | Action Supermarkets | Leasehold |
| Clarkson (Ocean Keys) | Clarkson Shopping Centre Pty Ltd | Action Supermarkets | Leasehold |
| Dogswamp | Westpac Funds | Action Supermarkets | Leasehold |
| Kalamunda | Haran Pty Ltd, Birmingham Properties Pty Ltd and Ladriff Pty Ltd | Action Supermarkets | Leasehold |
| Maddington | Woodford Pty Ltd | Action Supermarkets | Leasehold |

Merger Implementation Agreement - Transfer Scheme

| Store | Landlord | Tenant | Leasehold / Freehold |
|---------------------------------------|--|---|---|
| Mundaring | Skiptar Pty Ltd and Pukeko Nominees Pty Ltd | Action Supermarkets | Leasehold |
| Noranda | Hawaiian Investments Pty Ltd | Action Supermarkets | Leasehold |
| Palmyra | J Stammers Pty Ltd, Padstow Heights Pty Ltd, CA Fay, K Fay, DM Lewis, RJ Lewis, WJ Stammers, A Stammers, HM Woods, KA Woods | FAL | Leasehold |
| Palmyra Liquor | J Stammers Pty Ltd, Padstow Heights Pty Ltd, CA Fay, K Fay, DM Lewis, RJ Lewis, WJ Stammers, A Stammers, HM Woods, KA Woods | FAL | Leasehold |
| Port Hedland and Port Headland Liquor | SF Slee, PD Giumelli, WH Dilley, IR Chapman, SL Chapman, Tandar Pty Ltd, KR Gibellini, M Furfaro, A Furfaro, L Furfaro, MAJ Furfaro, AE Noakes, R Brooks, JD Robson, KR Robson, Monad Corporation Pty Ltd and J Gascoine | FAL is tenant. Foodchain is subtenant. | Leasehold |
| Port Hedland (manager's residence) | Foodchain Holdings Ltd | | Freehold - Lot 1224 on Deposited Plan 214561 and being the whole of the land contained in Certificate of Title Volume 1641 Folio 546. |
| Willeton (Southlands) | South Perth Finance Services Pty Ltd and Perpetual Trustee Company Ltd | FAL | Leasehold |
| Woodvale | Foodland Property | Action Supermarkets | Freehold - Register number 6/P18092 being Lot 6 on Plan 18092 and being the whole of the land contained in Certificate of Title Volume 1906 Folio 712. Leasehold |
| Development Sites | | | |
| Caloundra Development | Foodland Property | Development Site | Freehold - Lot 181 on Crown Plan CG638. |

Merger Implementation Agreement - Transfer Scheme

| Store | Landlord | Tenant | Leasehold / Freehold |
|------------|-------------------|------------------|---|
| Site | | | <p>County of Canning, Parish of Bribie being the land contained in title reference 13486118</p> <p>Lot 182 on Crown Plan CG638, County of Canning, Parish of Bribie being the land contained in title reference 12100228</p> <p>Lot 183 on Crown Plan CG638, County of Canning, Parish of Bribie being the land contained in title reference 11255118</p> <p>Lot 674 on Crown Plan CG4665, County of Canning, Parish of Bribie being the land contained in title reference 50099978</p> <p>Lot 675 on Crown Plan CG4665, County of Canning, Parish of Bribie being the land contained in title reference 50256887</p> <p>Lot 676 on Crown Plan CG4665, County of Canning, Parish of Bribie being the land contained in title reference 50257513</p> <p>Lot 677 on Crown Plan CG4665, County of Canning, Parish of Bribie being the land contained in title reference 50273162</p> |
| Kalgoorlie | Foodland Property | Development Site | Freehold being Lot 3422 on Deposited Plan 168487 and being the whole of the land contained in Certificate of Title Volume 1996 Folio 930. |

Merger Implementation Agreement - Transfer Scheme

Schedule 2 - Lease Consents

1 Australian Lease Consents

| Location | Landlord | Description |
|----------------|--|--------------------|
| Armadale | Perpetual Trustees WA Ltd | Supermarket Action |
| Belmont | Belmont Forum Shopping Centre Pty Ltd | Supermarket Action |
| Cannington | Toa Wan Pty Ltd | Supermarket Action |
| Carindale | Suncorp Metway Insurance Ltd and Perpetual Trustee Company Limited | Supermarket Action |
| Duncraig | Varadi Pty Ltd | Supermarket Action |
| Forest Lakes | DRH Property Investments and RDC Projects (WA) Pty Ltd | Supermarket Action |
| Gateways | Perron Investments Pty Ltd | Supermarket Action |
| Halls Head | CPT Manager Ltd | Supermarket Action |
| Innaloo | CPT Custodian Pty Ltd | Supermarket Action |
| Leda | Carcione Nominees Pty Ltd | Supermarket Action |
| Lynwood | Lynwood Village Shopping Centre Pty Ltd | Supermarket Action |
| McKay | Suncorp Metway Investment Management Limited | Supermarket Action |
| Mindarie | Sanori Developments Pty Ltd | Quickstop |
| Mirrabooka | Perron Investments Pty Ltd | Supermarket Action |
| Port Macquarie | Perpetual Trustee Company Limited | Supermarket Action |
| Redbank | Yu Feng Pty Ltd and Yuan Chieh Pty Ltd | Supermarket Action |
| Rocklea | Brisbane Market Authority | Rocklea F&V Dist |
| Whitfords | Westfield Management Ltd and Permanent Trustee Australia | Supermarket Action |

Merger Implementation Agreement - Transfer Scheme

2 New Zealand Lease Consents

2.1 WOW Action Stores

| Location | Landlord | Description |
|-------------------|---|--------------------|
| Alexander Heights | Alexander Heights Shopping Centre Pty Ltd | Supermarket Action |
| Bassendean | Hawaiian Investments Pty Ltd | Supermarket Action |
| Birkdale | Trust Company of Australia Ltd | Supermarket Action |
| Booragoon | AMP Life & Westfield Management Ltd | Supermarket Action |
| Broome | Amberlee Nominees Pty Ltd | Supermarket Action |
| Broome Liquor | Amberlee Nominees Pty Ltd | Liquor |
| Dogswamp | Westpac Funds | Supermarket Action |
| Highfields | Lauder Pty Ltd | Supermarket Action |
| Kalamunda | Haran Pty Ltd, Birmingham Properties Pty Ltd and Ladrift Pty Ltd | Supermarket Action |
| Kingscliff | Chen-Yu Pty Ltd | Supermarket Action |
| Maddington | Woodford Pty Ltd | Supermarket Action |
| Mermaid Waters | Jen Retail Properties Ltd | Supermarket Action |
| Mudgeeraba | Maxivista Pty Ltd & Koms Pty Ltd | Supermarket Action |
| Mundaring | Skiptar Pty Ltd and Pukeko Nominees Pty Ltd | Supermarket Action |
| Noranda | Hawaiian Investments Pty Ltd | Supermarket Action |
| Ocean Keys | Clarkson Shopping Centre Pty Ltd | Supermarket Action |
| Palmyra | J Stammers Pty Ltd, Padstow Heights Pty Ltd, CA Fay, K Fay, DM Lewis, RJ Lewis, WJ Stammers, A Stammers, HM Woods, KA Woods | Supermarket Action |
| Palmyra Liquor | J Stammers Pty Ltd, Padstow Heights Pty Ltd, CA Fay, K Fay, DM Lewis, RJ Lewis, WJ Stammers, A Stammers, HM Woods, KA Woods | Liquor |

Merger Implementation Agreement - Transfer Scheme

| Location | Landlord | Description |
|------------------------|--|--------------------|
| Port Hedland | SF Slec, PD Giumelli, WH Dilley, IR Chapman, SL Chapman, Tandar Pty Ltd, KR Gibellini, M Furfaro, L Furfaro, A Furfaro, MAJ Furfaro, AE Noakes, R Brooks, JD Robson, KR Robson, Monad Corporation Pty Ltd and J Gascoine | Supermarket Action |
| Southlands (Willetton) | South Perth Finance Services Pty Ltd and Perpetual Trustee Company Ltd | Supermarket Action |
| Stirling (Balga) | Darwil Pty Ltd | Supermarket Action |
| Woodvale | Foodland Property | Supermarket Action |

2.2 New Zealand Stores

| Location | Landlord | Description |
|-----------------|----------------------------------|-------------|
| Airport | Auck Int Airport Ltd | Foodtown |
| Bayfair | Tower Pty Nmes (Livingstones) | Countdown |
| Bethlehem | FH Thompson & Sons Ltd | Countdown |
| Browns Bay | Perpetual Trustees Aus Ltd | Foodtown |
| Bush Inn | Bush Inn Corp Ltd | Woolworths |
| Christchurch | Perpetual Trustees Aus Ltd | Countdown |
| Dunedin Central | Perpetual Trustees Aus Ltd | Countdown |
| Eastgate | Eastgate Shopping Centre Limited | Countdown |
| Greenlane | Perpetual Trustees Aus Ltd | Foodtown |
| Grey Lynn | Perpetual Trustees Aus Ltd | Foodtown |
| Hawera | UT Developments Ltd | Countdown |
| Highland Park | Perpetual Trustees Aus Ltd | Countdown |
| Invercargill | Perpetual Trustees Aus Ltd | Countdown |
| Kerikeri | Kericrest Ppties Ltd | Woolworths |
| Lower Hutt | Perpetual Trustees Aus Ltd | Countdown |
| Lynnmall | AMP Property Retail Ltd | Woolworths |
| Mangere | Perpetual Trustees Aus Ltd | Foodtown |

Merger Implementation Agreement - Transfer Scheme

| Location | Landlord | Description |
|--------------------------|-----------------------------|-------------|
| Milford | Milford Shopping Centre Ltd | Woolworths |
| Morrinsville | Perpetual Trustees Aus Ltd | Countdown |
| New Plymouth | SBT Investments Ltd | Countdown |
| Newmarket | Westfield NZ Ltd | Foodtown |
| Northcote (Ground Lease) | North Shore City Council | Woolworths |
| Orewa | Orewa Pacific Ltd | Countdown |
| Palmerston North | Perpetual Trustees Aus Ltd | Countdown |
| Palmerston North | Goh Realty Ltd | Georgie Pie |
| Papakura | Perpetual Trustees Aus Ltd | Countdown |
| Queenstown | Perpetual Trustees Aus Ltd | Freshchoice |
| Rotorua | Pukeroa Oruwhata Hldgs Ltd | Woolworths |
| St Lukes | Westfield NZ Ltd | Foodtown |
| Taupo | Sun Court Properties Ltd | Georgie Pie |
| Timaru | Perpetual Trustees Aus Ltd | Countdown |
| Wanganui | Urbus Properties Ltd | Countdown |

Merger Implementation Agreement - Transfer Scheme

Schedule 3 - WOW/FAL contracts to be varied

- The sub-lease of Shop 79, Rockingham City Shopping Centre, Western Australia made between the Prudential Assurance Company Limited and Westgate Property Investments Pty Ltd as head lessors, FAL as lessee, Rockingham Supermarkets Pty Ltd (now Advantage Supermarkets Pty Ltd) as lessee and Neville Aleck Gale and John Lawrence Simpson as guarantors dated 11 January 1990 and registered at the Department of Land Information as document number E368112.
- The sub-lease of Shop M3, Lakeside Joondalup Shopping City, Western Australia made between Perpetual Trustees WA Ltd and Western Australian Land Authority as head lessors, FAL as lessee, Advantage Supermarkets Pty Ltd as sub-lessee and Barry Robert Howson, Neville Aleck Gale and John Lawrence Simpson as guarantors undated and registered at the Department of Land Information as document number G347156.

Merger Implementation Agreement - Transfer Scheme

Schedule 4 - Third Party Consents

Metcash Third Party Consents

To the best of FAL's knowledge other than as disclosed in the Metcash Disclosed Matters, nil.

WOW Third Party Consents

To the best of FAL's knowledge other than as disclosed in the WOW Disclosed Matters, nil.

Merger Implementation Agreement - Transfer Scheme

Schedule 5 - Surplus / additional properties

| Property | Owning Entity | Allocated Value (\$000) |
|--|-------------------|-------------------------|
| Action Supermarkets - Western Australia | | |
| <i>Development Sites</i> | | |
| Albany | Foodland Property | 2,368 |
| Geraldton | Foodland Property | 4,609 |
| Mandurah | Foodland Property | 231 |
| Action Supermarkets - Queensland | | |
| <i>Shopping Centres</i> | | |
| Clontarf | Foodland Property | 2,368 |
| Noosa Junction | Foodland Property | 4,609 |
| Rochedale | Foodland Property | 231 |
| <i>Development Sites</i> | | |
| Beenleigh | Foodland Property | 5,269 |
| Service Stations - Western Australia | | |
| QuickStop Hepburn Heights | Quickstop Pty Ltd | 3,606 |
| <i>Development Sites</i> | | |
| Dewsons Express - Mount Lawley | FAL | 2,368 |
| Dewsons Express - Mosman Park | FAL | 4,609 |
| Dewsons Express - Halls Head | Foodland Property | 231 |

Merger Implementation Agreement - Transfer Scheme

Schedule 6 - Agreed CAPEX spend relating to the Current New Zealand Businesses

| Properties on which there has been capital expenditure for the period June - September 2005 |
|--|
| <i>New & Expansion:</i> |
| Cdwn Albany |
| Cdwn Greerton |
| Cdwn Huntly |
| Cdwn Kaitaia |
| Cdwn Levin |
| Cdwn Manukau |
| Cdwn Moorhouse |
| Cdwn New Lynn |
| Cdwn New Plymouth |
| Cdwn Stoke |
| Cdwn Te Rapa |
| Cdwn Whakatane |
| Cdwn Westgate |
| Ftwn Chartwell |
| Ftwn Howick (Fitout) |
| Ftwn Sylvia Park |
| Ftwn Waiheke |
| Wwth Fielding |
| Wwth Horsham Downs |

Merger Implementation Agreement - Transfer Scheme

| |
|------------------------|
| Wwth Lower Hutt |
| Wwth Papamoa |
| Wwth Wakefield |
| Property: |
| Albany |
| Pernik Portfolio |
| Takaka Land |
| Takaka F/Choice |
| Wakefield Street |
| Wanganui |
| Refurbishments: |
| Cdwn Bayfair |
| Ftwn Mt Eden |
| Wwth Dinsdale |
| Wwth Karori |
| Wwth Kilbirnie |
| Wwth New Plymth |
| Wwth Para'umu |
| Wwth Taupo |
| Wwth Waikanae |
| Wwth Wanganui |
| Rebranding : |
| Ftwn Mairangi Bay |
| Wwth Glenfield |
| Wwth Lynmall |

Merger Implementation Agreement - Transfer Scheme

| |
|--|
| Aggregate capital expenditure for properties for the period June - September 2005: NZ\$82,468,000 |
| |
| Aggregate capital expenditure for information technology, stay in business, maintenance, development and other business matters for the period June - September 2005: NZ\$6,307,000 |
| |
| Total aggregate capital expenditure for the period June - September 2005: NZ\$88,775,000 |

Merger Implementation Agreement - Transfer Scheme

Schedule 7 - Permitted disposals of real property relating to the Current New Zealand Businesses

- Howick supermarket
- Johnsonville supermarket
- Tauranga property
- Stoke property
- Halswell property
- Wiri property

Merger Implementation Agreement - Transfer Scheme

Signing page

DATED: 12 September 2005

SIGNED by **TREVOR**)
MARWOOD COATES as attorney)
for **FOODLAND ASSOCIATED**)
LIMITED under power of attorney)
dated 31 August 2005 in the presence)
of:)

SGD Adam Jacob Levine)

.....)
Signature of witness)

Adam Jacob Levine)

.....)
Name of witness (block letters))

SGD Trevor Marwood Coates)

.....)
By executing this agreement the)
attorney states that the attorney has)
received no notice of revocation of)
the power of attorney)

EXECUTED by **METCASH**)
LIMITED in accordance with section)
127(1) of the Corporations Act 2001)
(Cwlth) by authority of its directors:)

SGD A.E. (Ted) Harris)

.....)
Signature of director)

A.E. (Ted) Harris)

.....)
Name of director (block letters))

SGD Edwin M Jankelewitz)

.....)
Signature of director/company)
secretary*)

*delete whichever is not applicable)

Edwin M Jankelewitz)

.....)
Name of director/company secretary*)
(block letters))

*delete whichever is not applicable)

Merger Implementation Agreement - Transfer Scheme

| | | |
|---|---|---------------------------------------|
| EXECUTED by WOOLWORTHS |) | |
| LIMITED in accordance with section |) | |
| 127(1) of the Corporations Act 2001 |) | |
| (Cwlth) by authority of its directors: |) | |
| |) | |
| SGD Roger Campbell Corbett |) | SGD Rohan K Jeffs |
| |) | |
| Signature of director |) | Signature of director/company |
| |) | secretary* |
| Roger Campbell Corbett |) | *delete whichever is not applicable |
| |) | Rohan K Jeffs |
| Name of director (block letters) |) | |
| |) | Name of director/company secretary* |
| |) | (block letters) |
| |) | *delete whichever is not applicable |
| SIGNED by: |) | |
| Philip John England |) | |
| as attorney for WOW (NZ) |) | |
| SUPERMARKETS LIMITED |) | |
| under power of attorney dated: |) | |
| 5 September 2005 |) | |
| in the presence of: |) | |
| |) | |
| SGD Clinton Shane Ng Lawgun |) | SGD Philip John England |
| |) | |
| Signature of witness |) | By executing this agreement the |
| |) | attorney states that the attorney has |
| Clinton Shane Ng Lawgun |) | received no notice of revocation of |
| |) | the power of attorney |
| Name of witness (block letters) |) | |

Part 17

Deeds Poll

| | Page |
|---------------------------|------|
| 17.1 Woolworths Deed Poll | 591 |
| 17.2 Metcash Deed Poll | 603 |
| 17.3 PEH Deed Poll | 615 |

MALLESONS STEPHEN JAQUES

Woolworths Deed Poll

Dated 12 September 2005

Mallesons Stephen Jaques

Level 10

Central Park

152 St George's Terrace

Perth WA 6000

T +61 8 9269 7000

F +61 8 9269 7999

www.mallesons.com

AJL:NRH:09-5123-8431

Woolworths Deed Poll

Details

Interpretation – definitions are at the end of the General terms.

| | |
|-----------|---|
| BY | Woolworths Limited (ABN 88 000 014 675) (WOW) of level 5, 540 George Street, Sydney, New South Wales |
| | and |
| | WOW (NZ) Supermarkets Limited (NZCN 1686297) (WOW NZ) of c/o Chapman Tripp Sheffield Young, Level 25, 23 - 29 Albert Street, Auckland |

| | |
|-------------------------|----------------------------------|
| IN FAVOUR OF | The Transfer Scheme Participants |
|-------------------------|----------------------------------|

| | | |
|-----------------|----------|--|
| Recitals | A | The directors of FAL consider that it is in the interests of FAL that the Transfer Scheme Participants should consider approving the Transfer Scheme. |
| | B | Accordingly, the directors of FAL have resolved that FAL should propose the Transfer Scheme. |
| | C | The effect of the Transfer Scheme will be that: (a) all PEH Shares transferred to the Transfer Scheme Participants under the Demerger Scheme on the “Demerger Implementation Date” (as defined in the Demerger Scheme); and (b) all PEH Shares retained by FAL or its nominee under clause 4.7(a) of the Demerger Scheme will be transferred to WOW NZ. |
| | D | On 12 September 2005, FAL, Metcash Trading, Woolworths and Woolworths NZ entered into the MIA to implement the Demerger Scheme and the Transfer Scheme. |

- E** Under the MIA and the Transfer Scheme:
- (a) WOW NZ will acquire the all of the PEH Shares from:
- (i) the Transfer Scheme Participants; and
- (ii) FAL or its nominee (in the case of PEH Shares retained under clause 4.7(a) of the Demerger Scheme).
- (b) WOW NZ will pay the cash component of the WOW Scheme Consideration and WOW will provide the WOW Scheme Consideration to the Transfer Scheme Participants,
- subject to the satisfaction of certain conditions and in accordance with the Transfer Scheme.
- F** WOW and WOW NZ are entering into this Deed Poll for the purpose of covenanting in favour of each Transfer Scheme Participant that they will perform their obligations under the MIA and the Transfer Scheme, including paying and providing the WOW Scheme Consideration.

Governing law Western Australia

Date of agreement See Signing page

Woolworths Deed Poll

General terms

1 Conditions

1.1 Obligations under clause 2

The obligations of WOW and WOW NZ under clause 2 are subject to the Transfer Scheme becoming binding on the Transfer Scheme Participants in accordance with sections 411(4), 411(6) and 411(10) of the Corporations Act.

1.2 Obligations under clause 3

The obligations of WOW and WOW NZ under clause 3 are subject to the Transfer Scheme becoming binding on the Transfer Scheme Participants in accordance with sections 411(4), 411(6) and 411(10) of the Corporations Act.

1.3 Termination

The obligations of WOW and WOW NZ under this Deed Poll will automatically terminate if the Demerger Scheme does not become binding on the Demerger Scheme Participants and the Transfer Scheme does not become binding on the Transfer Scheme Participants in accordance with sections 411(4), 411(6) and 411(10) of the Corporations Act on or before 31 December 2005, or such later date as the parties to the MIA otherwise agree.

1.4 Consequences of termination

If this Deed Poll is terminated under clause 1.3, then in addition and without prejudice to any other rights, powers or remedies available to them, WOW and WOW NZ are released from their obligations to further perform this Deed Poll except those obligations contained in clause 9.7.

2 Acquisition of PEH Shares and timing of WOW Scheme Consideration

2.1 Provision of WOW Scheme Consideration

Subject to clause 1, in consideration for the provision to WOW NZ of all of the PEH Shares and all rights and entitlements attaching to them, by FAL or its nominee (in the case of PEH Shares retained by FAL or if nominee under clause. 4.7(a) of the Demerger Scheme) and by each Transfer Scheme Participant, WOW and WOW NZ will provide the WOW Scheme Consideration to the Transfer Scheme Participants in accordance with the provisions of the MIA and the Transfer Scheme.

Nothing in the Deed Poll requires WOW or WOW NZ to provide the WOW Scheme Consideration to a Transfer Scheme Participant that is:

- (a) WOW;

- (b) a related body corporate of WOW; or
- (c) a person who holds PEH Shares on behalf of or for the benefit of WOW or a related body corporate of WOW.

2.2 Form of WOW Scheme Consideration

Pursuant and subject to the Transfer Scheme and subject to clause 1 and this clause 2:

- (a) each of the Transfer Scheme Participants may elect to receive:
 - (i) WOW Maximum Cash Consideration;
 - (ii) WOW Maximum Share Consideration; or
 - (iii) WOW Standard Considerationin respect of all of the Transfer Scheme Participant's PEH Shares;
- (b) in respect of each Transfer Scheme Participant, WOW and WOW NZ will, subject to clause 3.4, have a corresponding obligation to pay and provide:
 - (i) the WOW Maximum Cash Consideration;
 - (ii) the WOW Maximum Share Consideration; or
 - (iii) the WOW Standard Considerationin accordance with a valid election made by that Transfer Scheme Participant; and
- (c) in respect of each Transfer Scheme Participant, WOW and WOW NZ will have an obligation to pay and provide the WOW Standard Consideration if the Transfer Scheme Participant does not make a valid election.

2.3 Timing

Subject to clause 1, in consideration of the transfer by Transfer Scheme Participant of all of their PEH Shares on the Transfer Implementation Date to WOW NZ, WOW and WOW NZ will, subject to clause 3.4, pay and provide the WOW Scheme Consideration to each Transfer Scheme Participant on the Consideration Date, in accordance with the provisions of the MIA and the Transfer Scheme.

3 Provision of WOW Scheme Consideration

3.1 Manner of payment of WOW Cash Consideration

The obligation of WOW NZ to pay the WOW Cash Consideration will be satisfied by WOW NZ complying with its obligations in accordance with clause 5.2(a) of the Transfer Scheme.

3.2 Provision of WOW Share Consideration

The obligation of WOW to provide the WOW Share Consideration will be satisfied by WOW complying with its obligations in accordance with clause 5.2(c) of the Transfer Scheme.

3.3 Provision of WOW Standard Consideration

The obligation of WOW and WOW NZ to pay and provide the WOW Standard Consideration will be satisfied by WOW complying with its obligations in accordance with clause 5.2(b) of the Transfer Scheme.

3.4 Provision of share component of WOW Scheme Consideration to Ineligible Overseas Shareholders

In the case of each Transfer Scheme Participant who is an Ineligible Overseas Shareholder, the obligation of WOW to provide the share component of the WOW Scheme Consideration will be satisfied by WOW complying with its obligations in accordance with clause 4.4 of the Transfer Scheme.

4 WOW warranties

WOW represents and warrants that:

- (a) it is a corporation validly existing under the laws of its place of incorporation;
- (b) it has the corporate power to enter into and perform its obligations under this Deed Poll and to carry out the transactions contemplated by this Deed Poll;
- (c) it has taken all necessary corporate action to authorise its entry into this Deed Poll and has taken or will take all necessary corporate action to authorise the performance of this Deed Poll and to carry out the transactions contemplated by this Deed Poll;
- (d) this Deed Poll is valid and binding upon it; and
- (e) WOW Shares are quoted for trading by ASX and, to the knowledge of WOW, no proceeding is pending or threatened that could result in the termination of quotation of WOW Shares.

5 WOW NZ warranties

WOW NZ represents and warrants that:

- (a) it is a corporation validly existing under the laws of its place of incorporation;
- (b) it has the corporate power to enter into and perform its obligations under this Deed Poll and to carry out the transactions contemplated by this Deed Poll;

- (c) it has taken all necessary corporate action to authorise its entry into this Deed Poll and has taken or will take all necessary corporate action to authorise the performance of this Deed Poll and to carry out the transactions contemplated by this Deed Poll; and
- (d) this Deed Poll is valid and binding upon it.

6 Continuing obligations

This Deed Poll is irrevocable and, subject to clause 1, remains in full force and effect until WOW and WOW NZ have completely performed their obligations under this Deed Poll or the earlier termination of this Deed Poll under clause 1.3.

7 General

7.1 Transfer Scheme

Without limiting anything in clause 2 or clause 3, each of WOW and WOW NZ will be bound by and will comply with all provisions of the Transfer Scheme including in particular the following clauses of the Transfer Scheme:

- (a) clause 4.2(b);
- (b) clause 4.4;
- (c) clause 4.6;
- (d) clause 5.2;
- (e) clause 5.4;
- (f) clause 5.5;
- (g) clause 5.6; and
- (h) clause 7.4.

7.2 Further acts

WOW and WOW NZ will promptly do and perform all further acts and execute and deliver all further documents (in form and content reasonably satisfactory to that party) required by law or reasonably requested by any other party to give effect to this Deed Poll.

7.3 Notices

Any communication under or in connection with this Deed Poll:

- (a) must be in writing;
- (b) must be addressed as shown below:

To WOW:

Name: Woolworths Limited
Address: Level 5 540 George Street
Sydney NSW 2000
Fax no: (02) 9323 1599
For the attention of: Company Secretary

To WOW NZ:

Name: WOW (NZ) Supermarkets Limited
Address: c/o Chapman Tripp Sheffield Young
Level 35
23 - 29 Albert Street,
Auckland, New Zealand
Fax no: +64 9 357 9099
For the attention of: Company Secretary

- (c) must be signed by the person making the communication or (on its behalf) by the solicitor for, or by any attorney, director, secretary, or authorised agent of, that person;
- (d) must be delivered or posted by prepaid post to the address, or sent by fax to the number, of the addressee, in accordance with clause 7.3(b); and
- (e) will be deemed to be received by the addressee:
 - (i) (in the case of prepaid post) on the third Business Day after the date of posting to an address within Australia, and on the fifth Business Day after the date of posting to an address outside Australia;
 - (ii) (in the case of fax) at the local time (in the place of receipt of that fax) which then equates to the time at which that fax is sent as shown on the transmission report which is produced by the machine from which that fax is sent and which confirms transmission of that fax in its entirety, unless that local time is a non-Business Day, or is after 5.00 pm on a Business Day, when that communication will be deemed to be received at 9.00 am on the next Business Day; and
 - (iii) (in the case of delivery by hand) on delivery at the address of the addressee as provided in clause 7.3(b), unless that delivery is made on a non-Business Day, or after 5.00 pm on a Business Day, when that communication will be deemed to be received at 9.00 am on the next Business Day.

7.4 Cumulative rights

The rights, powers and remedies of WOW, WOW NZ and Transfer Scheme Participants under this Deed Poll are cumulative with the rights, powers or remedies provided by law independently of this Deed Poll.

7.5 Variation

A provision of this Deed Poll may not be varied unless:

- (a) before the Second Court Date, the variation is consented to by FAL; or
- (b) on or after the Second Court Date, the variation is consented to by FAL and is approved by the Court,

in which event WOW and WOW NZ will enter into a further deed poll in favour of the Transfer Scheme Participants giving effect to such amendment.

7.6 Waiver

- (a) Failure to exercise or enforce or a delay in exercising or enforcing or the partial exercise or enforcement of any right, power or remedy provided by law or under this Deed Poll by WOW, WOW NZ or a Transfer Scheme Participant will not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement of that or any other right, power or remedy provided by law or under this Deed Poll.
- (b) Any waiver or consent given by WOW, WOW NZ or a Transfer Scheme Participant will only be effective and binding on that person if it is given or confirmed in writing by that person.

7.7 Stamp duty

WOW and WOW NZ must:

- (a) pay all stamp duties and any related fines and penalties in respect of this Deed Poll, the performance of this Deed Poll and each transaction effected by or made under or pursuant to this Deed Poll; and
- (b) indemnify each Transfer Scheme Participant against any liability arising from failure to comply with clause 7.7(a).

7.8 Governing law and jurisdiction

- (a) WOW and WOW NZ irrevocably submit to the non-exclusive jurisdiction of the courts of Western Australia and the Court and the courts competent to determine appeals from those courts, with respect to any proceedings which may be brought at any time relating in any way to this Deed Poll.
- (b) WOW and WOW NZ irrevocably waive any objection they may now or in the future have to the venue of any proceedings, and any claim they may now or in the future have that any proceedings have been brought in an inconvenient forum, where that venue falls within clause 7.8(a).

7.9 Assignment

The rights and obligations of WOW, WOW NZ and Transfer Scheme Participants under this Deed Poll are personal. They cannot be assigned,

charged or otherwise dealt with, and no person will attempt or purport to do so.

8 Definitions and interpretations

8.1 Definitions

These meanings apply unless the contrary intention appears:

Deed Poll means this deed poll.

MIA means the Merger Implementation Agreement as defined in the Transfer Scheme.

Second Court Date has the same meaning as in the MIA.

Transfer Scheme Participant has the same meaning as “Transfer Scheme Shareholder” in the Transfer Scheme.

WOW Maximum Cash Consideration has the same meaning as “Woolworths Maximum Cash Consideration” in the Transfer Scheme.

WOW Maximum Share Consideration has the same meaning as “Woolworths Maximum Share Consideration” in the Transfer Scheme.

WOW Scheme Consideration has the same meaning as “Woolworths Scheme Consideration” in the Transfer Scheme.

WOW Shares has the same meaning as “WOW Shares” in the Transfer Scheme.

WOW Standard Consideration has the same meaning as “Woolworths Standard Consideration” in the Transfer Scheme.

8.2 Interpretation

In this Deed Poll, unless the context otherwise requires:

- (a) words and phrases (other than those defined in clause 8.1) have the same meaning given to them in the Transfer Scheme;
- (b) headings are for convenience and do not affect interpretation;
- (c) the singular includes the plural and vice versa;
- (d) each gender includes every other gender;
- (e) the word “person” includes a body corporate, a partnership, a joint venture, an unincorporated body or association, or any government agency;
- (f) a reference to a person includes a reference to the person’s executors, administrators, successors, substitutes and assigns;

- (g) words and phrases have the same meaning (if any) given to them in the Corporations Act;
- (h) references to any legislation or regulations include any statutory modification of or substitution for such legislation or regulations;
- (i) references to agreements or deeds are to agreements or deeds as amended from time to time;
- (j) a reference to a clause, party, annexure, exhibit or schedule is a reference to a clause of, and a party to, this Deed Poll;
- (k) references to a currency are to Australian currency; and
- (l) a reference to time is a reference to time in Perth, Western Australia.

8.3 Nature of Deed Poll

WOW and WOW NZ acknowledge that this Deed Poll may be relied on and enforced by any Transfer Scheme Participant in accordance with its terms even though the Transfer Scheme Participant is not party to it.

EXECUTED as a Deed Poll

Signing page

DATED: 12 September 2005

EXECUTED by **WOOLWORTHS LIMITED** in accordance with section 127(1) of the Corporations Act 2001 (Cwlth) by authority of its directors:

SGD Roger Campbell Corbett
Signature of director
Roger Campbell Corbett
Name of director (block letters)

SGD Rohan K Jeffs
Signature of director/company secretary*
*delete whichever is not applicable
Rohan K Jeffs
Name of director/company secretary* (block letters)
*delete whichever is not applicable

SIGNED by:
Philip John England
as attorney for **WOW (NZ) SUPERMARKETS LIMITED**
under power of attorney dated:
5 September 2005
in the presence of:

SGD Clinton Shane Ng Lawgun
Signature of witness
Clinton Shane Ng Lawgun
Name of witness (block letters)

SGD Philip John England
By executing this agreement the attorney states that the attorney has received no notice of revocation of the power of attorney

MALLESONS STEPHEN JAQUES

Metcash Deed Poll

Dated 15 September 2005

Mallesons Stephen Jaques

Level 10

Central Park

152 St George's Terrace

Perth WA 6000

T +61 8 9269 7000

F +61 8 9269 7999

www.mallesons.com

AJL:NRH:09-5123-8431

Metcash Deed Poll

Details

Interpretation – definitions are at the end of the General terms.

BY Metcash Trading Limited (ABN 61 000 031 569) of 4 Newington Road, Silverwater, New South Wales (**MTT**)

and

Metcash Limited (ABN 32 112 073 480) of 4 Newington Road, Silverwater, New South Wales (**Metcash**)

IN FAVOUR OF The Transfer Scheme Participants

- Recitals**
- A** The directors of FAL consider that it is in the interests of FAL that the Transfer Scheme Participants should consider approving the Transfer Scheme.
- B** Accordingly, the directors of FAL have resolved that FAL should propose the Transfer Scheme.
- C** The effect of the Transfer Scheme will be that all FAL Shares will be transferred to MTT.
- D** On 12 September 2005, FAL, Metcash Trading, Woolworths and Woolworths NZ entered into the MIA to implement the Demerger Scheme and the Transfer Scheme.
- E** Under the MIA and the Transfer Scheme, MTT will:
- (a) acquire all of the FAL Shares from the Transfer Scheme Participants;
 - (b) pay the Metcash Cash Consideration to the Transfer Scheme Participants; and
 - (c) procure Metcash to issue the Metcash Share Consideration to the Transfer Scheme Participants,
- subject to the satisfaction of certain conditions and in accordance with the Transfer Scheme.
- F** MTT and Metcash are entering into this Deed Poll for the purpose of covenanting in favour of each Transfer Scheme Participant that they will perform their obligations under the MIA and the Transfer Scheme, including paying and providing the Metcash Scheme Consideration.

| | |
|----------------------|-------------------|
| Governing law | Western Australia |
|----------------------|-------------------|

| | |
|--------------------------|------------------|
| Date of agreement | See Signing page |
|--------------------------|------------------|

Metcash Deed Poll

General terms

1 Conditions

1.1 Obligations under clause 2

The obligations of MTT and Metcash under clause 2 are subject to the Transfer Scheme becoming binding on the Transfer Scheme Participants in accordance with sections 411(4), 411(6) and 411(10) of the Corporations Act.

1.2 Obligations under clause 3

The obligations of MTT and Metcash under clause 3 are subject to the Transfer Scheme becoming binding on the Transfer Scheme Participants in accordance with sections 411(4), 411(6) and 411(10) of the Corporations Act.

1.3 Obligations under clause 4

The obligations of MTT under clause 4 are subject to the Transfer Scheme becoming binding on the Transfer Scheme Participants in accordance with sections 411(4), 411(6) and 411(10) of the Corporations Act.

1.4 Termination

The obligations of MTT and Metcash under this Deed Poll will automatically terminate if the Demerger Scheme does not become binding on the Demerger Scheme Participants and the Transfer Scheme does not become binding on the Transfer Scheme Participants in accordance with sections 411(4), 411(6) and 411(10) of the Corporations Act on or before 31 December 2005, or such later date as parties to the MIA otherwise agree.

1.5 Consequences of termination

If this Deed Poll is terminated under clause 1.4, then in addition and without prejudice to any other rights, powers or remedies, MTT and Metcash are released from their respective obligations to further perform this Deed Poll except those obligations contained in clause 8.7.

2 Acquisition of FAL Shares and timing of Metcash Scheme Consideration

2.1 Provision of Metcash Scheme Consideration

Subject to clause 1, in consideration for the provision to MTT of all of the FAL Shares and all rights and entitlements attaching to them, by each Transfer Scheme Participant, Metcash and MTT (as applicable) will provide the Metcash Scheme Consideration to the Transfer Scheme Participants in accordance with the provisions of the MIA and the Transfer Scheme.

Nothing in the Deed Poll requires MTT or Metcash to provide the Metcash Scheme Consideration to a Transfer Scheme Participant that is:

- (a) Metcash;
- (b) a related body corporate of Metcash; or
- (c) a person who holds FAL Shares on behalf of or for the benefit of Metcash or a related body corporate of Metcash.

2.2 Form of Metcash Scheme Consideration

Pursuant and subject to the Transfer Scheme and subject to clause 1 and this clause 2:

- (a) each of the Transfer Scheme Participants may elect to receive either:
 - (i) Metcash Cash Consideration; or
 - (ii) Metcash Share Considerationin respect of all of the Transfer Scheme Participant's FAL Shares;
- (b) in respect of each Transfer Scheme Participant, MTT and Metcash will, subject to clause 3.3, have a corresponding obligation to pay and provide:
 - (i) the Metcash Cash Consideration; or
 - (ii) the Metcash Share Consideration,in accordance with a valid election made by that Transfer Scheme Participant; and
- (c) in respect of each Transfer Scheme Participant, MTT and Metcash will, subject to clause 3.3, have a corresponding obligation to provide the Metcash Cash Consideration if that Transfer Scheme Participant does not make a valid election.

2.3 Timing

Subject to clause 1, in consideration of the transfer by Transfer Scheme Participants of all of their FAL Shares on the Transfer Implementation Date to MTT, MTT and Metcash will, subject to clause 3.3, pay and provide the Metcash Scheme Consideration to each Transfer Scheme Participant on the Consideration Date, in accordance with the provisions of the MIA and the Transfer Scheme.

3 Provision of Metcash Scheme Consideration

3.1 Manner of payment of Metcash Cash Consideration

The obligation of MTT to pay the Metcash Cash Consideration will be satisfied by MTT in accordance with clause 5.1(a) of the Transfer Scheme.

3.2 Provision of Metcash Share Consideration

The obligation of Metcash to provide the Metcash Share Consideration will be satisfied by Metcash in accordance with clause 5.1(b) of the Transfer Scheme.

3.3 Provision of Metcash Share Consideration to Ineligible Overseas Shareholders

In the case of each Transfer Scheme Participant who is an Ineligible Overseas Shareholder, the obligation of Metcash to provide the Metcash Share Consideration will be satisfied by Metcash in accordance with clause 4.3 of the Transfer Scheme.

4 Tax Receivable

Subject to clause 1.3, if there has been no adjustment under the MIA to the Metcash Scheme Consideration in respect of the Tax Receivable, MTT will:

- (a) use its reasonable endeavours to procure that FAL and AHPL shall pursue the ATO Claim against the ATO in a proper and prudent manner. For the purposes of this clause, the obligation on MTT to use its reasonable endeavours:
 - (i) will be satisfied by MTT expending the ATO Expenditure Amount on the reasonable costs of external legal and taxation advisers (including their out of pocket expenses); but
 - (ii) will not require it to appeal or challenge the decision of any court, arbitrator or expert made with respect to the ATO Claim in the absence of manifest error and if the ATO Expenditure Amount has been expended; and
- (b) pay an additional sum to Transfer Scheme Participants based on their respective proportional holdings of FAL Shares as at the Transfer Record Date:
 - (i) within 28 days after receipt by FAL, AHPL or MTT of the total amount recovered with respect to the ATO Claim; and
 - (ii) equal to the amount (if any) recovered by FAL, AHPL or MTT from the ATO in respect of the ATO Claim (including interest and costs) and any unexpended portion of the ATO Expenditure Amount.

5 MTT warranties

MTT represents and warrants that:

- (a) it is a corporation validly existing under the laws of its place of incorporation;

- (b) it has the corporate power to enter into and perform its obligations under this Deed Poll and to carry out the transactions contemplated by this Deed Poll;
- (c) it has taken all necessary corporate action to authorise its entry into this Deed Poll and has taken or will take all necessary corporate action to authorise the performance of this Deed Poll and to carry out the transactions contemplated by this Deed Poll; and
- (d) this Deed Poll is valid and binding upon it.

6 Metcash warranties

Metcash represents and warrants that:

- (a) it is a corporation validly existing under the laws of its place of incorporation;
- (b) it has the corporate power to enter into and perform its obligations under this Deed Poll and to carry out the transactions contemplated by this Deed Poll;
- (c) it has taken all necessary corporate action to authorise its entry into this Deed Poll and has taken or will take all necessary corporate action to authorise the performance of this Deed Poll and to carry out the transactions contemplated by this Deed Poll;
- (d) this Deed Poll is valid and binding upon it; and
- (e) Metcash Shares are quoted for trading by ASX and, to the knowledge of Metcash, no proceeding is pending or threatened that could result in the termination of the quotation of Metcash Shares.

7 Continuing obligations

This Deed Poll is irrevocable and, subject to clause 1, remains in full force and effect until MTT and Metcash have completely performed their obligations under this Deed Poll or the earlier termination of this Deed Poll under clause 1.4.

8 General

8.1 Transfer Scheme

Without limiting anything in clauses 2, 3 and 4 each of MTT and Metcash will be bound by and will comply with all provisions of the Transfer Scheme applicable to them including in particular the following clauses of the Transfer Scheme:

- (a) clause 4.1(b);
- (b) clause 4.3;

- (c) clause 4.5;
- (d) clause 5.1;
- (e) clause 5.3;
- (f) clause 5.5;
- (g) clause 5.6; and
- (h) clause 7.3.

8.2 Further acts

MTT and Metcash will promptly do and perform all further acts and execute and deliver all further documents (in form and content reasonably satisfactory to that party) required by law or reasonably requested by any other party to give effect to this Deed Poll.

8.3 Notices

Any communication under or in connection with this Deed Poll:

- (a) must be in writing;
- (b) must be addressed as shown below:

To MTT:

Name: Metcash Trading Limited
 Address: 4 Newington Road
 Silverwater NSW 2128
 Fax no: (02) 9741 3027
 For the attention of: Company Secretary

To Metcash:

Name: Metcash Limited
 Address: 4 Newington Road
 Silverwater NSW 2128
 Fax no: (02) 9741 3027
 For the attention of: Company Secretary

- (c) must be signed by the person making the communication or (on its behalf) by the solicitor for, or by any attorney, director, secretary, or authorised agent of, that person;
- (d) must be delivered or posted by prepaid post to the address, or sent by fax to the number, of the addressee, in accordance with clause 8.3(b); and
- (e) will be deemed to be received by the addressee:
 - (i) (in the case of prepaid post) on the third Business Day after the date of posting to an address within Australia, and on the

fifth Business Day after the date of posting to an address outside Australia;

- (ii) (in the case of fax) at the local time (in the place of receipt of that fax) which then equates to the time at which that fax is sent as shown on the transmission report which is produced by the machine from which that fax is sent and which confirms transmission of that fax in its entirety, unless that local time is a non-Business Day, or is after 5.00 pm on a Business Day, when that communication will be deemed to be received at 9.00 am on the next Business Day; and
- (iii) (in the case of delivery by hand) on delivery at the address of the addressee as provided in clause 8.3(b), unless that delivery is made on a non-Business Day, or after 5.00 pm on a Business Day, when that communication will be deemed to be received at 9.00 am on the next Business Day.

8.4 Cumulative rights

The rights, powers and remedies of MTT, Metcash and Transfer Scheme Participants under this Deed Poll are cumulative with the rights, powers or remedies provided by law independently of this Deed Poll.

8.5 Variation

A provision of this Deed Poll may not be varied unless:

- (a) before the Second Court Date, the variation is consented to by FAL; or
- (b) on or after the Second Court Date, the variation is consented to by FAL and is approved by the Court,

in which event MTT and Metcash will enter into a further deed poll in favour of the Transfer Scheme Participants giving effect to such amendment.

8.6 Waiver

- (a) Failure to exercise or enforce or a delay in exercising or enforcing or the partial exercise or enforcement of any right, power or remedy provided by law or under this Deed Poll by MTT, Metcash or a Transfer Scheme Participant will not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement of that or any other right, power or remedy provided by law or under this Deed Poll.
- (b) Any waiver or consent given by MTT, Metcash or a Transfer Scheme Participant will only be effective and binding on that person if it is given or confirmed in writing by that person.

8.7 Stamp duty

MTT and Metcash must:

- (a) pay all stamp duties and any related fines and penalties in respect of this Deed Poll, the performance of this Deed Poll and each transaction effected by or made under or pursuant to this Deed Poll; and
- (b) indemnify each Transfer Scheme Participant against any liability arising from failure to comply with clause 8.7(a).

8.8 Governing law and jurisdiction

- (a) MTT and Metcash irrevocably submit to the non-exclusive jurisdiction of the courts of Western Australia and the Court and the courts competent to determine appeals from those courts, with respect to any proceedings which may be brought at any time relating in any way to this Deed Poll.
- (b) MTT and Metcash irrevocably waive any objection they may now or in the future have to the venue of any proceedings, and any claim they may now or in the future have that any proceedings have been brought in an inconvenient forum, where that venue falls within clause 8.7(a).

8.9 Assignment

The rights and obligations of MTT, Metcash and the Transfer Scheme Participants under this Deed Poll are personal. They cannot be assigned, charged or otherwise dealt with, and no person will attempt or purport to do so.

9 Definitions and interpretations

9.1 Definitions

These meanings apply unless the contrary intention appears:

AHPL has the same meaning as in the MIA.

ATO has the same meaning as in the MIA.

ATO Claim has the same meaning as in the MIA.

ATO Expenditure Amount has the same meaning as in the MIA.

Consideration Determination Date has the same meaning as in the MIA.

Deed Poll means this deed poll.

MIA means the Merger Implementation Agreement as defined in the Transfer Scheme.

Second Court Date has the same meaning as in the MIA.

Tax Receivable has the same meaning as in the MIA.

Transfer Scheme Participant has the same meaning as "Transfer Scheme Shareholder" in the Transfer Scheme.

9.2 Interpretation

In this Deed Poll, unless the context otherwise requires:

- (a) words and phrases (other than those defined in clause 9.1) have the same meaning given to them in the Transfer Scheme;
- (b) headings are for convenience and do not affect interpretation;
- (c) the singular includes the plural and vice versa;
- (d) each gender includes every other gender;
- (e) the word "person" includes a body corporate, a partnership, a joint venture, an unincorporated body or association, or any government agency;
- (f) a reference to a person includes a reference to the person's executors, administrators, successors, substitutes and assigns;
- (g) words and phrases have the same meaning (if any) given to them in the Corporations Act;
- (h) references to any legislation or regulations include any statutory modification of or substitution for such legislation or regulations;
- (i) references to agreements or deeds are to agreements or deeds as amended from time to time;
- (j) a reference to a clause, party, annexure, exhibit or schedule is a reference to a clause of, and a party to, this Deed Poll;
- (k) references to a currency are to Australian currency; and
- (l) a reference to time is a reference to time in Perth, Western Australia.

9.3 Nature of Deed Poll

MTT and Metcash acknowledge that this Deed Poll may be relied on and enforced by any Transfer Scheme Participant in accordance with its terms even though the Transfer Scheme Participant is not party to it.

EXECUTED as a Deed Poll

Signing page

DATED: 15 September 2005

EXECUTED by METCASH)
TRADING LIMITED in accordance)
with section 127(1) of the)
Corporations Act 2001 (Cwlth) by)
authority of its directors:)

SGD Bernard Hale)
.....)
Signature of director)
Bernard Hale)
.....)
Name of director (block letters)

SGD John Randall
.....
Signature of director/company
secretary*
*delete whichever is not applicable
John Randall
.....
Name of director/company secretary*
(block letters)
*delete whichever is not applicable

EXECUTED by METCASH)
LIMITED in accordance with section)
127(1) of the Corporations Act 2001)
(Cwlth) by authority of its directors:)

SGD Bernard Hale)
.....)
Signature of director)
Bernard Hale)
.....)
Name of director (block letters)

SGD John Randall
.....
Signature of director/company
secretary*
*delete whichever is not applicable
John Randall
.....
Name of director/company secretary*
(block letters)
*delete whichever is not applicable

MALLESONS STEPHEN JAQUES

PEH Deed Poll

Dated 13 September 2005

Mallesons Stephen Jaques

Level 10

Central Park

152 St George's Terrace

Perth WA 6000

T +61 8 9269 7000

F +61 8 9269 7999

www.mallesons.com

AJL:NRH:09-5123-8431

PEH Deed Poll

Details

Interpretation – definitions are at the end of the General terms.

| | |
|--------------------------|---|
| BY | Progressive Enterprises Holdings Limited (ABN 93 113 919 878) of 218 Bannister Road, Canning Vale, Western Australia (PEH) |
| IN FAVOUR OF | The Demerger Scheme Participants |
| Recitals | <p>A The FAL Board considers that it is in the interests of FAL that Demerger Scheme Participants should consider approving the Demerger Scheme.</p> <p>B Accordingly, the FAL Board has resolved that FAL should propose the Demerger Scheme.</p> <p>C On 12 September 2005, FAL and PEH entered into the Demerger Implementation Deed to implement, amongst other things, the Capital Reduction and the Demerger Scheme.</p> <p>D The effect of the Capital Reduction and the Demerger Scheme will be the divestment by FAL of the Demerged New Zealand Businesses to PEH (which at the date of this Deed Poll is wholly owned by FAL).</p> <p>E In the Demerger Implementation Deed, PEH agreed, amongst other things and subject to the satisfaction of certain conditions, to issue PEH Shares to FAL, in consideration of FAL cancelling the Intercompany Debt.</p> <p>F PEH is entering into this Deed Poll for the purpose of covenanting in favour of each Demerger Scheme Participant that it will perform its obligations under the Demerger Implementation Deed and the Demerger Scheme, including issuing the PEH Shares to FAL.</p> |
| Governing law | Western Australia |
| Date of agreement | See Signing page |

PEH Deed Poll

General terms

1 Conditions

1.1 Obligations under clause 2

PEH's obligations under clause 2 are subject to the Demerger Scheme becoming binding on the Demerger Scheme Participants in accordance with sections 411(4), 411(6) and 411(10) of the Corporations Act.

1.2 Obligations under clause 3

PEH's obligations under clause 3 are subject to the Demerger Scheme becoming binding on the Demerger Scheme Participants and the Transfer Scheme becoming binding on the Transfer Scheme Participants in accordance with sections 411(4), 411(6) and 411(10) of the Corporations Act.

1.3 Obligations under clause 4

PEH's obligations under clause 4 are subject to the Demerger Scheme becoming binding on the Demerger Scheme Participants and the Transfer Scheme not becoming binding on the Transfer Scheme Participants in accordance with sections 411(4), 411(6) and 411(10) of the Corporations Act.

1.4 Termination

The obligations of PEH under this Deed Poll will automatically terminate if the Demerger Scheme does not become binding on the Demerger Scheme Participants in accordance with sections 411(4), 411(6) and 411(10) of the Corporations Act on or before 31 December 2005, or such later date as FAL otherwise determines.

1.5 Consequences of termination

If this Deed Poll is terminated under clause 1.4, then in addition and without prejudice to any other rights, powers or remedies available to it PEH is released from its obligations to further perform this Deed Poll except those obligations contained in clause 7.7.

2 Issue of PEH Shares

Subject to clause 1, in consideration of FAL cancelling the Intercompany Debt, PEH will issue to FAL the number of PEH Shares, equal to the number of FAL Shares on issue on the Demerger Record Date minus one, in accordance with the provisions of the Demerger Implementation Deed and the Demerger Scheme.

3 Provision of PEH Shares if the Transfer Scheme is approved

Subject to clause 1.2, if the Transfer Scheme is approved by FAL Shareholders, the obligation of PEH to issue the PEH Shares to FAL will be satisfied by PEH satisfying its obligations in accordance with the Demerger Implementation Deed and the Demerger Scheme.

4 Provision of PEH Shares if the Transfer Scheme is not approved

Subject to clause 1.3, if the Transfer Scheme is not approved by FAL Shareholders, the obligation of PEH to issue the PEH Shares to FAL will be satisfied by PEH in accordance with the Demerger Implementation Deed and the Demerger Scheme.

5 Warranties

PEH represents and warrants that:

- (a) it is a corporation validly existing under the laws of its place of incorporation;
- (b) it has the corporate power to enter into and perform its obligations under this Deed Poll and to carry out the transactions contemplated by this Deed Poll;
- (c) it has taken all necessary corporate action to authorise its entry into this Deed Poll and has taken or will take all necessary corporate action to authorise the performance of this Deed Poll and to carry out the transactions contemplated by this Deed Poll; and
- (d) this Deed Poll is valid and binding upon it.

6 Continuing obligations

This Deed Poll is irrevocable and subject to clause 1 remains in full force and effect until PEH has completely performed its obligations under this Deed Poll or the earlier termination of this Deed Poll under clause 1.4.

7 General

7.1 Demerger Scheme

Without limiting anything in clauses 2, 3 and 4, PEH will be bound by and will comply with all provisions of the Demerger Scheme including in particular the following clauses of the Demerger Scheme:

- (a) clause 4.1;
- (b) clause 4.6;

- (c) clause 4.8;
- (d) clause 4.9(b); and
- (d) clause 4.10.

7.2 Further acts

PEH will promptly do and perform all further acts and execute and deliver all further documents (in form and content reasonably satisfactory to that party) required by law or reasonably requested by any other party to give effect to this Deed Poll.

7.3 Notices

Any communication under or in connection with this Deed Poll:

- (a) must be in writing;
- (b) must be addressed as shown below:

| | |
|-----------------------|--|
| Name: | Progressive Enterprises Holdings Limited |
| Address: | 218 Bannister Road Canning Vale WA 6155 |
| Fax no: | (08) 9311 6013 |
| For the attention of: | The Company Secretary |
- (c) must be signed by the person making the communication or (on its behalf) by the solicitor for, or by any attorney, director, secretary, or authorised agent of, that person;
- (d) must be delivered or posted by prepaid post to the address, or sent by fax to the number, of the addressee, in accordance with clause 7.3(b); and
- (e) will be deemed to be received by the addressee:
 - (i) (in the case of prepaid post) on the third Business Day after the date of posting to an address within Australia, and on the fifth Business Day after the date of posting to an address outside Australia;
 - (ii) (in the case of fax) at the local time (in the place of receipt of that fax) which then equates to the time at which that fax is sent as shown on the transmission report which is produced by the machine from which that fax is sent and which confirms transmission of that fax in its entirety, unless that local time is a non-Business Day, or is after 5.00 pm on a Business Day, when that communication will be deemed to be received at 9.00 am on the next Business Day; and
 - (iii) (in the case of delivery by hand) on delivery at the address of the addressee as provided in clause 7.3(b), unless that delivery is made on a non-Business Day, or after 5.00 pm on

a Business Day, when that communication will be deemed to be received at 9.00 am on the next Business Day.

7.4 Cumulative rights

The rights, powers and remedies of PEH and Demerger Scheme Participants under this Deed Poll are cumulative with the rights, powers or remedies provided by law independently of this Deed Poll.

7.5 Variation

A provision of this Deed Poll may not be varied unless the variation is agreed to by FAL in which event PEH will enter into a further deed poll in favour of Demerger Scheme Participants giving effect to such amendment.

7.6 Waiver

- (a) Failure to exercise or enforce or a delay in exercising or enforcing or the partial exercise or enforcement of any right, power or remedy provided by law or under this Deed Poll by PEH or a Demerger Scheme Participant will not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement of that or any other right, power or remedy provided by law or under this Deed Poll.
- (b) Any waiver or consent given by PEH or a Demerger Scheme Participant will only be effective and binding on that person if it is given or confirmed in writing by that person.

7.7 Stamp duty

PEH must:

- (a) pay all stamp duties and any related fines and penalties in respect of this Deed Poll, the performance of this Deed Poll and each transaction effected by or made under or pursuant to this Deed Poll; and
- (b) indemnify each Demerger Scheme Participant against any liability arising from failure to comply with clause 7.7(a).

7.8 Governing law and jurisdiction

- (a) PEH irrevocably submits to the non-exclusive jurisdiction of the courts of Western Australia and the Court and the courts competent to determine appeals from those courts, with respect to any proceedings which may be brought at any time relating in any way to this Deed Poll.
- (b) PEH irrevocably waives any objection it may now or in the future have to the venue of any proceedings, and any claim it may now or in the future have that any proceedings have been brought in an inconvenient forum, where that venue falls within clause 7.8(a).

7.9 Assignment

The rights and obligations of PEH and Demerger Scheme Participants under this Deed Poll are personal. They cannot be assigned, charged or otherwise dealt with, and no person will attempt or purport to do so.

8 Definitions and interpretations

8.1 Definitions

These meanings apply unless the contrary intention appears:

Deed Poll means this deed poll.

Demerged New Zealand Businesses has the same meaning as in the Merger Implementation Agreement.

Demerger Scheme Participant has the same meaning as “Demerger Scheme Shareholder” in the Demerger Scheme.

Intercompany Debt has the same meaning as in the Demerger Implementation Deed.

8.2 Interpretation

In this Deed Poll, unless the context otherwise requires:

- (a) words and phrases (other than those defined in clause 8.1) have the same meaning given to them in the Demerger Scheme Deed;
- (b) headings are for convenience and do not affect interpretation;
- (c) the singular includes the plural and vice versa;
- (d) each gender includes every other gender;
- (e) the word “person” includes a body corporate, a partnership, a joint venture, an unincorporated body or association, or any government agency;
- (f) a reference to a person includes a reference to the person’s executors, administrators, successors, substitutes and assigns;
- (g) words and phrases have the same meaning (if any) given to them in the Corporations Act;
- (h) references to any legislation or regulations include any statutory modification of or substitution for such legislation or regulations;
- (i) references to agreements or deeds are to agreements or deeds as amended from time to time;
- (j) a reference to a clause or party is a reference to a clause of, and a party to, this Deed Poll;

- (k) references to a currency are to Australian currency; and
- (l) a reference to time is a reference to time in Perth, Western Australia.

8.3 Nature of Deed Poll

PEH acknowledges that this Deed Poll may be relied on and enforced by any Demerger Scheme Participant in accordance with its terms even though the Scheme Participant is not party to it.

EXECUTED as a Deed Poll

| | | |
|--|---|--|
| SIGNED, SEALED AND |) | |
| DELIVERED by |) | |
| Trevor Marwood Coates |) | |
| _____ as |) | |
| attorney for PROGRESSIVE |) | |
| ENTERPRISES HOLDINGS |) | |
| LIMITED under power of attorney |) | |
| dated 31 August 2005 in the presence |) | |
| of: |) | |
| |) | SGD Trevor Marwood Coates |
| SGD Stephen Minns |) | |
| |) | By executing this deed the attorney |
| Signature of witness |) | states that the attorney has received no |
| Stephen Minns |) | notice of revocation of the power of |
| |) | attorney |
| Name of witness (block letters) |) | |

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Part 18

Explanatory Statements and Schemes of Arrangement

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| 18.2 Transfer Scheme | 625 |
| 18.3 Explanatory Statement for Demerger Scheme | 638 |
| 18.4 Demerger Scheme | 638 |

18 Explanatory Statements and Schemes of Arrangement

18.1 Explanatory Statement for Transfer Scheme

The Explanatory Statement for the Transfer Scheme incorporates all parts of this Booklet other than this Part 18 and the notices of meetings in Part 19 of this Booklet.

18.2 Transfer Scheme

This Part 18.2 sets out the terms of the Transfer Scheme. The Transfer Scheme is pursuant to section 411 of the Corporations Act and is between FAL and each FAL Shareholder.

The terms of the Transfer Scheme are as follows:

1 Interpretation

1.1 Definitions

In this Transfer Scheme, unless the contrary intention appears or the context requires otherwise:

ASIC means the Australian Securities and Investments Commission.

ASX means Australian Stock Exchange Limited or the market operated by it, as the context requires.

Booklet means the booklet containing the explanatory statement as required by Part 5.1 of the Corporations Act relating to this Transfer Scheme and the Demerger Scheme, notices of meeting in relation to the Capital Reduction Resolution, this Transfer Scheme and the Demerger Scheme and other information (including any supplementary information) relating to any or all of the above matters and distributed to FAL Shareholders.

Business Day means a day other than a Saturday, Sunday or public holiday in Perth, Western Australia or Sydney, New South Wales.

Capital Reduction means the reduction of the share capital of FAL in accordance with the Capital Reduction Resolution.

Capital Reduction Resolution means an ordinary resolution in the form set out in the notice of general meeting included in the Booklet.

CHESS has the same meaning as in the Listing Rules.

Consideration Date has the same meaning as in the Merger Implementation Agreement.

Consideration Expert has the same meaning as in the Merger Implementation Agreement.

Corporations Act means the Corporations Act 2001 (Cwlth).

Court means the Federal Court of Australia.

Deeds Poll means the Metcash Deed Poll and the Woolworths Deed Poll.

Demerger has the same meaning as "New Zealand Demerger" in the Merger Implementation Agreement.

Demerger Implementation Deed has the same meaning as in the Merger Implementation Agreement.

Demerger Scheme means the scheme of arrangement under section 411 of the Corporations Act between FAL and FAL Shareholders to implement the Demerger.

Demerger Scheme Meeting means the meeting of FAL Shareholders convened by the Court pursuant to section 411 of the Corporations Act to consider and, if thought fit, to approve the Demerger Scheme.

Demerger Scheme Order means the order of the Court under section 411 of the Corporations Act approving the Demerger Scheme, with or without modification.

Determination has the same meaning as in the Merger Implementation Agreement.

FAL means Foodland Associated Limited (ABN 13 008 667 650).

FAL Register means the register of shareholders in FAL.

FAL Share means a fully paid ordinary share in the capital of FAL.

FAL Shareholder means a person who is registered in the FAL Register from time to time as the holder of an FAL Share.

Financial Services Guide has the same meaning as in section 761A of the Corporations Act.

Ineligible Overseas Shareholder means a Transfer Scheme Shareholder who is an Ineligible Overseas Shareholder for the purpose of the Demerger Scheme.

Listing Rules means the official listing rules of the ASX.

Merger Implementation Agreement means the agreement dated 12 September 2005 and called "Merger Implementation Agreement - Transfer Scheme" between FAL, Metcash Trading, Woolworths and Woolworths NZ relating to the implementation of this Transfer Scheme.

Metcash means Metcash Limited (ABN 32 112 073 480).

Metcash Cash Consideration has the same meaning as in the Merger Implementation Agreement.

Metcash Deed Poll means the deed poll dated on or about 12 September 2005 executed by Metcash Trading and Metcash in favour of Transfer Scheme Shareholders, undertaking to perform certain obligations under the Merger Implementation Agreement and this Transfer Scheme in the form agreed between the parties to the Merger Implementation Agreement.

Metcash Scheme Consideration has the same meaning as in the Merger Implementation Agreement.

Metcash Share means a fully paid ordinary share in the capital of Metcash.

Metcash Share Consideration has the same meaning as in the Merger Implementation Agreement.

Metcash Trading means Metcash Trading Limited (ABN 61 000 031 569).

PEH means Progressive Enterprise Holdings Limited (ABN 93 113 919 878).

PEH Register means the register of shareholders in PEH.

PEH Demerger Scheme Share means a PEH Share transferred to a Transfer Scheme Shareholder under the Demerger Scheme, a PEH Share that is retained by FAL or its nominee under clause 4.7(a) of the Demerger Scheme and the PEH Share that is held by FAL referred to in clause 2.2(b) of the Demerger Scheme.

PEH Share means a fully paid ordinary share in PEH.

Second Court Hearing means the hearing of the application made to the Court for an order pursuant to section 411 of the Corporations Act approving this Transfer Scheme.

Subsidiary of an entity means another entity which is a subsidiary of the first within the meaning of part 1.2 division 6 of the Corporations Act or is a subsidiary or otherwise controlled by the first within the meaning of any approved accounting standard.

Transfer Effective Date means the date on which an office copy of the Transfer Scheme Order is lodged with ASIC.

Transfer Implementation Date means the tenth Business Day after the Transfer Effective Date (or such other date as may be agreed by the parties to the Merger Implementation Agreement).

Transfer Record Date means the fifth Business Day after the Transfer Effective Date (or such other date as may be agreed by the parties to the Merger Implementation Agreement). All references to the Transfer Record Date are to 5.00pm on the Transfer Record Date.

Transfer Scheme means this scheme under section 411 of the Corporations Act between FAL and FAL Shareholders subject to any alterations or conditions made or required by the Court pursuant to section 411 of the Corporations Act.

Transfer Scheme Meeting means the meeting of FAL Shareholders convened pursuant to section 411 of the Corporations Act to consider and, if thought fit, to approve this Transfer Scheme.

Transfer Scheme Order means the order of the Court under section 411 of the Corporations Act approving this Transfer Scheme, with or without modification.

Transfer Scheme Share means an FAL Share on issue at the Transfer Record Date.

Transfer Scheme Shareholder means each person who is entered in the FAL Register as the holder of an FAL Share on the Transfer Record Date.

Woolworths means Woolworths Limited (ABN 88 000 014 675).

Woolworths Cash Consideration has the same meaning as "WOW Cash Consideration" in the Merger Implementation Agreement.

Woolworths Deed Poll means the deed poll dated on or about 12 September 2005 executed by Woolworths and Woolworths NZ in favour of Transfer Scheme Shareholders, undertaking to perform certain obligations under the Merger Implementation Agreement and this Transfer Scheme in the form agreed between the parties to the Merger Implementation Agreement.

Woolworths Maximum Cash Consideration has the same meaning as "WOW Maximum Cash Consideration" in the Merger Implementation Agreement.

Woolworths Maximum Share Consideration has the same meaning as "WOW Maximum Share Consideration" in the Merger Implementation Agreement.

Woolworths NZ means WOW (NZ) Supermarkets Limited.

Woolworths Scheme Consideration has the same meaning as "WOW Scheme Consideration" in the Merger Implementation Agreement.

Woolworths Share means a fully paid ordinary share in the capital of Woolworths.

Woolworths Share Consideration has the same meaning as "WOW Share Consideration" in the Merger Implementation Agreement.

Woolworths Standard Consideration has the same meaning as "WOW Standard Consideration" in the Merger Implementation Agreement.

1.2 Interpretation

In this Transfer Scheme, unless the contrary intention appears or the context requires otherwise:

- (a) words and phrases (other than those defined in clause 1.1) have the same meaning given them in the Corporations Act;
- (b) the singular include the plural and vice versa;
- (c) each gender includes every other gender;
- (d) a reference to a clause is a reference to a clause of this Transfer Scheme;
- (e) a reference to a statute, ordinance, code or other law or rule includes regulations and other instruments under it and consolidation, amendments, re-enactments or replacement;
- (f) a reference to a document includes all amendments or supplements to, or replacements or novations of, that document;
- (g) the word person includes a firm, body corporate, a partnership, a joint venture, an unincorporated body or association, or any government agency;
- (h) a reference to a person includes a reference to a person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (i) the words "include", "including", "for example" or "such as" are not used as, nor are they to be interpreted as, words of limitation, and, when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind;
- (j) a reference to time is a reference to the time in Perth, Western Australia;
- (k) a reference to a holder includes a joint holder; and
- (l) headings are only for the convenience of the reader and are to be disregarded in the interpretation of substantive provisions.

2 Preliminary

2.1 FAL

- (a) FAL is a public company incorporated in Australia and is a company limited by shares. It has its registered office at 218 Bannister Road, Canning Vale, Western Australia, 6155.
- (b) At 19 September 2005, there were 117,828,603 FAL Shares on issue.
- (c) FAL is a company admitted to the ASX official list and FAL Shares are quoted on ASX.

2.2 Metcash

- (a) Metcash is a public company incorporated in Australia and is a company limited by shares. It has its registered office at 4 Newington Road, Silverwater, New South Wales, 2128.
- (b) Metcash is a company admitted to the ASX official list and Metcash Shares are quoted on ASX.

2.3 Metcash Trading

- (a) Metcash Trading is a public company incorporated in Australia and is a company limited by shares. It has its registered office at 4 Newington Road, Silverwater, New South Wales, 2128.
- (b) On the Transfer Implementation Date, Metcash Trading will be a wholly owned Subsidiary of Metcash.

2.4 Woolworths

- (a) Woolworths is a public company incorporated in Australia and is a company limited by shares. It has its registered office at Level 5, 540 George St, Sydney, New South Wales, 2000.
- (b) Woolworths is a company admitted to the ASX official list and Woolworths Shares are quoted on ASX.

2.5 Woolworths NZ

- (a) Woolworths NZ is a company incorporated in New Zealand and is a company limited by shares. It has its registered office at C/o Chapman Tripp Sheffield Young, Level 25, 23-29 Albert Street, Auckland.
- (b) Woolworths NZ is a wholly owned Subsidiary of Woolworths.

2.6 Merger Implementation Agreement

FAL, Metcash, Metcash Trading, Woolworths and Woolworths NZ have entered into the Merger Implementation Agreement under which:

- (a) FAL agrees in good faith to propose the Transfer Scheme to FAL Shareholders on the basis that the Transfer Scheme will be implemented immediately after the Demerger is completed; and
- (b) FAL, Metcash, Metcash Trading, Woolworths and Woolworths NZ agree in good faith to implement the Transfer Scheme upon and subject to the terms and conditions of the Merger Implementation Agreement.

2.7 Deeds Poll

- (a) Metcash and Metcash Trading have entered into the Metcash Deed Poll in favour of Transfer Scheme Shareholders pursuant to which:
 - (i) Metcash has, among other things, covenanted to provide the Metcash Share Consideration; and
 - (ii) Metcash Trading has covenanted to provide the Metcash Cash Consideration,in accordance with this Transfer Scheme, in each case subject to this Transfer Scheme becoming binding on Transfer Scheme Shareholders in accordance with sections 411(4), 411(6) and 411(10) of the Corporations Act.

- (b) Woolworths and Woolworths NZ have entered into the Woolworths Deed Poll in favour of Transfer Scheme Shareholders pursuant to which Woolworths has, among other things, covenanted to provide:
- (i) the Woolworths Share Consideration;
 - (ii) the Woolworths Standard Consideration; and
 - (iii) the Woolworths Cash Consideration,

in accordance with this Transfer Scheme, subject to this Transfer Scheme becoming binding on Transfer Scheme Shareholders in accordance with sections 411(4), 411(6) and 411(10) of the Corporations Act.

2.8 Capital Reduction

The Capital Reduction is to be voted on by FAL Shareholders at a general meeting following the meeting at which this Transfer Scheme is being voted on and prior to the Demerger Scheme Meeting.

2.9 Demerger Scheme

The Demerger Scheme is to be voted on by FAL Shareholders at a meeting following the general meeting to vote on the Capital Reduction. If this Transfer Scheme is approved by the requisite majority of FAL Shareholders, the provisions of the Demerger Scheme relating to the listing of PEH on the ASX will not take effect.

2.10 Inter-conditionality of Schemes

- (a) The Demerger Scheme is conditional on (among other things) the Capital Reduction Resolution being passed by the requisite majority of FAL Shareholders at the general meeting referred to in clause 2.8.
- (b) This Transfer Scheme is conditional on (among other things) the Demerger Scheme being approved by the requisite majority of FAL Shareholders at the Demerger Scheme Meeting.

3 Conditions precedent to this Transfer Scheme

3.1 Conditions precedent

The conditions precedent to this Transfer Scheme are:

- (a) **(no termination of Merger Implementation Agreement or Deeds Poll)** none of the Merger Implementation Agreement, the Metcash Deed Poll or the Woolworths Deed Poll is terminated before the Court makes the Transfer Scheme Order;
- (b) **(conditions precedent under the Merger Implementation Agreement)** all of the conditions precedent set out in clause 2.1 and clause 2.2 of the Merger Implementation Agreement are satisfied or waived in accordance with the Merger Implementation Agreement by the times set out in the Merger Implementation Agreement;
- (c) **(determination by Consideration Expert)** the Consideration Expert makes a Determination under the Merger Implementation Agreement;
- (d) **(Demerger Scheme approval)** the Demerger Scheme is approved by FAL Shareholders in accordance with section 411 of the Corporations Act at the Demerger Scheme Meeting;
- (e) **(approval of this Transfer Scheme)** this Transfer Scheme is approved by FAL Shareholders in accordance with section 411 of the Corporations Act at the Transfer Scheme Meeting;
- (f) **(Court approval of Demerger Scheme)** the Court makes the Demerger Scheme Order;
- (g) **(Court approval of this Transfer Scheme)** the Court makes the Transfer Scheme Order; and
- (h) **(lodgment with ASIC)** the Transfer Scheme Order and the Demerger Scheme Order are lodged with ASIC.

3.2 *Effect of conditions precedent*

The satisfaction or waiver in accordance with the Merger Implementation Agreement of each condition precedent in clause 3.1 (other than the condition precedent in clause 3.1(h)) at the same time or before the Court making the Transfer Scheme Order is a condition precedent to this Transfer Scheme having effect.

3.3 *Certificate*

FAL must provide to the Court at the Second Court Hearing a certificate, or such other evidence as the Court requests, confirming whether or not the conditions precedent to this Transfer Scheme set out in clause 3.1 (other than the conditions precedent in clauses 3.1(f), 3.1(g) and 3.1(h)) are satisfied. The certificate constitutes conclusive evidence that the conditions precedent (other than Court approval) are satisfied.

3.4 *Effective Date*

This Transfer Scheme takes effect for all purposes on the Transfer Effective Date.

3.5 *End Date*

This Transfer Scheme lapses and has no further force or effect if the Transfer Effective Date is not on or before 31 December 2005 (or such later date as FAL, Metcash and Woolworths determine).

4 *Implementation of this Transfer Scheme*

4.1 *Transfer of and consideration for FAL Shares*

- (a) On the Transfer Implementation Date:
- (i) all of the FAL Shares must be transferred to Metcash Trading without the need for any further act by any Transfer Scheme Shareholder (other than any acts performed by FAL or its directors or officers as attorney or agent for Transfer Scheme Shareholders under clause 8.7); and
 - (ii) FAL must deliver to Metcash Trading duly completed and executed share transfer forms (or a master share transfer form) to transfer all of the FAL Shares to Metcash Trading.
- (b) On the Consideration Date, in consideration for the transfer of the FAL Shares to Metcash Trading:
- (i) Metcash Trading must provide the Metcash Cash Consideration to each Transfer Scheme Shareholder who has validly elected to receive the Metcash Cash Consideration in accordance with clause 3.4 of the Merger Implementation Agreement and this Transfer Scheme and to any Transfer Scheme Shareholder to whom clause 4.1(c) applies; and
 - (ii) subject to clauses 4.3(a) and 4.3(b), Metcash must provide the Metcash Share Consideration to each Transfer Scheme Shareholder who has validly elected to receive Metcash Share Consideration in accordance with clause 3.4 of the Merger Implementation Agreement and this Transfer Scheme.
- (c) Any Transfer Scheme Shareholder who has not made a valid election in accordance with clause 3.4 of the Merger Implementation Agreement and the provisions of this Transfer Scheme before 7.00pm on the date immediately preceding the date on which the Second Court Hearing occurs, is for the purposes of this Transfer Scheme deemed to have validly elected to receive the Metcash Cash Consideration.

4.2 *Transfer of and consideration for PEH Demerger Scheme Shares*

- (a) On the Transfer Implementation Date:
- (i) all of the PEH Demerger Scheme Shares must be transferred to Woolworths NZ without the need for any further act by any Transfer Scheme Shareholder (other than any acts performed by FAL or its directors or officers as attorney or agent for Transfer Scheme Shareholders under clause 8.7); and
 - (ii) FAL must deliver to Woolworths NZ duly completed and executed share transfer forms (or a master share transfer form) to transfer all of the PEH Demerger Scheme Shares to Woolworths NZ.

- (b) Subject to clauses 4.4(a) and 4.4(b), on the Consideration Date, in consideration for the transfer of the PEH Demerger Scheme Shares to Woolworths NZ, Woolworths must provide:
- (i) the Woolworths Cash Consideration to each Transfer Scheme Shareholder whose valid election has given them an entitlement to receive the Woolworths Cash Consideration in accordance with clause 4.4 of the Merger Implementation Agreement and this Transfer Scheme;
 - (ii) the Woolworths Standard Consideration to each Transfer Scheme Shareholder whose valid election has given them an entitlement to receive the Woolworths Standard Consideration in accordance with clause 4.4 of the Merger Implementation Agreement and this Transfer Scheme and to whom clause 4.2(c) applies; and
 - (iii) the Woolworths Share Consideration to each Transfer Scheme Shareholder whose valid election has given them an entitlement to receive the Woolworths Share Consideration in accordance with clause 4.4 of the Merger Implementation Agreement and this Transfer Scheme.
- (c) Any Transfer Scheme Shareholder who has not made an election in accordance with clause 4.4 of the Merger Implementation Agreement and this Transfer Scheme before 7.00pm on the date immediately preceding the date on which the Second Court Hearing occurs is for the purposes of this Transfer Scheme deemed to have validly elected to receive the Woolworths Standard Consideration.

4.3 *Ineligible Overseas Shareholders - Metcash Consideration*

- (a) Metcash is under no obligation to issue and allot the Metcash Share Consideration to Ineligible Overseas Shareholders who have elected to receive Metcash Share Consideration.
- (b) Metcash must instead issue and allot the Metcash Shares that, but for clause 4.3(a), the Ineligible Overseas Shareholders would have been entitled to have issued and allotted to them in accordance with this Transfer Scheme and any valid election that they may have made in accordance with clause 3.4 of the Merger Implementation Agreement, to a nominee appointed by Metcash and approved by FAL in accordance with clause 3.6 of the Merger Implementation Agreement which must sell those Metcash Shares as soon as reasonably practicable (and in any event within 20 Business Days after the Consideration Date) and pay each of the Ineligible Overseas Shareholders an amount equal to the average net proceeds of sale (after deduction of any applicable brokerage, taxes and charges) of all Metcash Shares sold under this clause multiplied by the number of Metcash Shares to which that Ineligible Overseas Shareholder would have been entitled but for the operation of clause 4.3(a). Payment is to be made by cheque in Australian currency drawn on an Australian Bank and is to be sent by post to the Ineligible Overseas Shareholder within 25 Business Days after the Consideration Date.
- (c) Metcash Trading must pay the Metcash Cash Consideration to each Ineligible Overseas Shareholder who has validly elected to receive the Metcash Cash Consideration in accordance with clause 3.4 of the Merger Implementation Agreement and this Transfer Scheme and to each Ineligible Overseas Shareholder to whom clause 4.1(c) applies, in accordance with clause 5.1(a).
- (d) Payment in accordance with this clause fully satisfies and discharges Metcash Trading's obligations to Ineligible Overseas Shareholders in relation to this Transfer Scheme.

4.4 *Ineligible Overseas Shareholders - Woolworths Consideration*

- (a) Woolworths is under no obligation to issue and allot the Woolworths Shares to Ineligible Overseas Shareholders.
- (b) Woolworths must instead issue and allot the Woolworths Shares that, but for clause 4.4(a), the Ineligible Overseas Shareholders would have been entitled to have issued and allotted to them in accordance with this Transfer Scheme and any valid election that they may have made in accordance with clause 4.4 of the Merger Implementation Agreement, to a nominee appointed by Woolworths in accordance with clause 4.7 of the Merger Implementation Agreement which must sell those Woolworths Shares as soon as reasonably practicable (and in any event within 20 Business Days after the Consideration Date) and Woolworths must pay each of the Ineligible Overseas Shareholders referred to in clause 4.4(a) an amount equal to the average net proceeds of sale (after deduction of any applicable brokerage, taxes and charges) of all Woolworths Shares sold under this clause multiplied by the number of Woolworths Shares to which that Ineligible Overseas Shareholder would have been entitled but for the operation of clause 4.4(a). Payment is to be made by cheque in Australian currency drawn on an Australian Bank and is to be sent by post to the Ineligible Overseas Shareholder within 25 Business Days after the Consideration Date.

- (c) Woolworths must pay the cash component of the:
 - (i) Woolworths Maximum Cash Consideration;
 - (ii) Woolworths Standard Consideration; and
 - (iii) Woolworths Maximum Share Consideration

to each Ineligible Overseas Shareholder who has validly elected to receive the Woolworths Maximum Cash Consideration or the Woolworths Standard Consideration or the Woolworths Maximum Share Consideration respectively in accordance with clause 4.4 of the Merger Implementation Agreement and this Transfer Scheme and to each Ineligible Overseas Shareholder to whom clause 4.2(c) applies, in accordance with clause 5.2(a).

- (d) Payment in accordance with this clause fully satisfies and discharges Woolworths' obligations to Ineligible Overseas Shareholders in relation to this Transfer Scheme.

4.5 Registration of FAL transfers

- (a) Metcash Trading must execute the share transfer forms (or a master share transfer form) referred to in clauses 4.1(b) and must deliver the share transfer forms (or a master share transfer form) to FAL for registration.
- (b) As soon as practicable after the completion of the share transfer forms in respect of the FAL Shares, FAL must enter the name of Metcash Trading in the FAL Register in respect of the FAL Shares.

4.6 Registration of PEH transfers

- (a) Woolworths NZ must execute the share transfer forms (or a master share transfer form) referred to in clause 4.2(b) and must deliver the share transfer forms (or a master share transfer form) to PEH for registration.
- (b) As soon as practicable after the completion of the share transfer forms in respect of the PEH Demerger Scheme Shares, FAL must procure PEH to enter the name of Woolworths NZ in the PEH Register in respect of the PEH Demerger Scheme Shares.

5 Transfer Scheme consideration

5.1 Satisfaction of obligation to provide the Metcash Consideration by Metcash

The obligations of Metcash and Metcash Trading to provide the Metcash Consideration must be satisfied by:

- (a) **(Metcash Cash Consideration)** on the Consideration Date, Metcash Trading sending a cheque drawn on an Australian bank in Australian dollars to each Transfer Scheme Shareholder who has validly elected to receive Metcash Cash Consideration for the Metcash Cash Consideration payable to that Transfer Scheme Shareholder in respect of their Transfer Scheme Shares in accordance with this Transfer Scheme by prepaid post to their address recorded in the FAL Register at the Transfer Record Date;
- (b) **(Metcash Share Consideration)**
 - (i) on the Consideration Date, Metcash entering the name of each Transfer Scheme Shareholder who has validly elected to receive Metcash Share Consideration (other than the Ineligible Overseas Shareholders) on the register of members of Metcash in respect of the Metcash Share Consideration to be provided to that Transfer Scheme Shareholder in respect of their Transfer Scheme Shares in accordance with this Transfer Scheme; and
 - (ii) on or prior to the Consideration Date, Metcash dispatching to each Transfer Scheme Shareholder who has validly elected to receive Metcash Share Consideration (other than the Ineligible Overseas Shareholders) by prepaid post to their address recorded in the FAL Register at the Transfer Record Date, a holding statement in the name of that Transfer Scheme Shareholder representing the total number of Metcash Shares issued to that Transfer Scheme Shareholder in accordance with this Transfer Scheme.

5.2 Satisfaction of obligation to provide the Woolworths Consideration by Woolworths

The obligations of Woolworths to provide the Woolworths Consideration must be satisfied by Woolworths:

- (a) **(Woolworths Cash Consideration)** on the Consideration Date, sending a cheque drawn on an Australian bank in Australian dollars to each Transfer Scheme Shareholder who is entitled to receive Woolworths Cash Consideration under clause 4.5 of the Merger Implementation Agreement and this Transfer Scheme for the Woolworths Cash Consideration payable to that Transfer Scheme Shareholder by prepaid post to their address recorded in the FAL Register at the Transfer Record Date;
- (b) **(Woolworths Standard Consideration)** on the Consideration Date:
 - (i) sending a cheque drawn on an Australian bank in Australian dollars to each Transfer Scheme Shareholder who is entitled to receive the Woolworths Standard Consideration under clause 4.5 of the Merger Implementation Agreement and this Transfer Scheme for the cash component of the Woolworths Standard Consideration payable to that Transfer Scheme Shareholder by prepaid post to their address recorded in the FAL Register at the Transfer Record Date; and
 - (ii) entering the name of each Transfer Scheme Shareholder who is entitled to receive the Woolworths Standard Consideration under clause 4.5 of the Merger Implementation Agreement and this Transfer Scheme (other than Ineligible Overseas Shareholders) on the register of members of Woolworths in respect of the Woolworths Shares component of the Woolworths Standard Consideration to be provided to that Transfer Scheme Shareholder; and
 - (iii) dispatching to each Transfer Scheme Shareholder who is entitled to receive the Woolworths Standard Consideration under clause 4.5 of the Merger Implementation Agreement and this Transfer Scheme (other than Ineligible Overseas Shareholders) by prepaid post their address recorded in the FAL Register at the Transfer Record Date, a holding statement in the name of that Transfer Scheme Shareholder representing the total number of Woolworths Shares issued to that Transfer Scheme Shareholder.
- (c) **(Woolworths Share Consideration)**
 - (i) on the Consideration Date entering the name of each Transfer Scheme Shareholder who is entitled to receive Woolworths Share Consideration under clause 4.5 of the Merger Implementation Agreement and this Transfer Scheme (other than the Ineligible Overseas Shareholders) on the register of members of Woolworths in respect of the Woolworths Share Consideration to be provided to that Transfer Scheme Shareholder; and
 - (ii) on or prior to the Consideration Date, dispatching to each Transfer Scheme Shareholder who is entitled to receive Woolworths Share Consideration under clause 4.5 of the Merger Implementation Agreement and this Transfer Scheme (other than the Ineligible Overseas Shareholders) by prepaid post to their address recorded in the FAL Register at the Transfer Record Date, a holding statement in the name of that Transfer Scheme Shareholder representing the total number of Woolworths Shares issued to that Transfer Scheme Shareholder.

5.3 Issue of Metcash Shares

- (a) The Metcash Shares must be:
 - (i) duly and validly issued;
 - (ii) fully paid; and
 - (iii) ranked pari passu in all respects with all other ordinary Metcash Shares then issued and outstanding except for any interim dividend declared by Metcash in respect of the six month period to 31 October 2005.
- (b) Metcash must procure that the Metcash Shares be listed for quotation on ASX on and from the Consideration Date.

5.4 *Issue of Woolworths Shares*

- (a) The Woolworths Shares must be:
 - (i) duly and validly issued;
 - (ii) fully paid; and
 - (iii) ranked *pari passu* in all respects with all other ordinary Woolworths Shares then issued and outstanding except for the final dividend declared by Woolworths in respect of the financial year ended 26 June 2005.
- (b) Woolworths must procure that the Woolworths Shares be listed for quotation on ASX on and from the Consideration Date.

5.5 *Joint holders*

In the case of Transfer Scheme Shares held in joint names:

- (a) any cheque required to be paid to Transfer Scheme Shareholders by Metcash Trading or Woolworths must be in Australian dollars drawn on an Australian bank and must be payable to the joint holders and be forwarded to the holder whose name appears first in the FAL Register at the Transfer Record Date; and
- (b) holding statements for Metcash Shares and Woolworths Shares issued to Transfer Scheme Shareholders must be issued in the names of the joint holders and sent to the holder whose name appears first in the FAL Register at the Transfer Record Date.

5.6 *Fractional entitlements*

- (a) If the number of FAL Shares held by a Transfer Scheme Shareholder is such that the aggregate entitlement of that Transfer Scheme Shareholder to Metcash Shares and/or to Woolworths Shares is not a whole number, then the entitlement in each case must be rounded up or down to the nearest whole number, with fractions of 0.5 being rounded up.
- (b) If FAL considers that an FAL Shareholding has been split to result in an increased number of fractional entitlements and therefore an increased number of Metcash Shares, FAL must provide details of the relevant shareholdings to Metcash and Metcash may aggregate the relevant FAL Shareholdings for the purpose of determining the entitlement and issue the additional Metcash Share to whichever FAL Shareholder it considers appropriate.
- (c) If FAL considers that an FAL Shareholding may have been split to result in an increased number of fractional entitlements and therefore an increased number of Woolworths Shares, FAL must provide details of the relevant shareholdings to Woolworths and Woolworths may aggregate the relevant FAL Shareholdings for the purpose of determining the entitlement and issue the additional Woolworths Share to whichever FAL Shareholder it considers appropriate.

5.7 *Payment of Transfer Scheme consideration to related bodies corporate*

Nothing in this Transfer Scheme requires:

- (a) Metcash to provide Metcash Cash Consideration or Metcash Share Consideration to a Transfer Scheme Shareholder that is:
 - (i) Metcash;
 - (ii) a related body corporate of Metcash; or
 - (iii) a person who holds FAL Shares on behalf of or for the benefit of Metcash or a related body corporate of Metcash; or
- (b) Woolworths to provide Woolworths Cash Consideration, Woolworths Standard Consideration or Woolworths Share Consideration to a Transfer Scheme Shareholder who is:
 - (i) Woolworths;
 - (ii) a related body corporate of Woolworths; or
 - (iii) a person who holds PEH Demerger Scheme Shares on behalf of or for the benefit of Woolworths or a related body corporate of Woolworths.

6 Dealings in FAL Shares

6.1 Entitlement to participate

Every FAL Shareholder entered on the FAL Register as the holder of an FAL Share on the Transfer Record Date is entitled to participate in this Transfer Scheme.

6.2 Recognised dealings

For the purposes of determining who is a Transfer Scheme Shareholder on the Transfer Record Date, dealings in FAL Shares must only be recognised if:

- (a) in the case of dealings of the type to be effected in using CHESS, the transferee is registered in the FAL Register as holder of the relevant FAL Shares on or before the Transfer Record Date; and
- (b) in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received on or before the Transfer Record Date at the place where the FAL Register is kept.

6.3 FAL's obligation to register

FAL must register any transmission application or transfer received in accordance with clause 6.2(b) by the Transfer Record Date.

6.4 Transfer requests received after Transfer Record Date

- (a) FAL must not accept for registration or recognise for any purpose any transmission application or transfer in respect of FAL Shares received after the Transfer Record Date, other than a transfer to Metcash in accordance with this Transfer Scheme.
- (b) FAL must procure that PEH not accept for registration or recognise for any purpose any transmission application or transfer in respect of PEH Shares other than in accordance with this Transfer Scheme.

6.5 Maintaining the Register

For the purpose of determining entitlements to participate in this Transfer Scheme, FAL must, until the Metcash Consideration and the Woolworths Consideration have been provided, maintain the FAL Register in accordance with the provisions of this clause 6 and the FAL Register in this form solely determines entitlements to the Metcash Consideration and the Woolworths Consideration.

6.6 Statements of holding cease to have any effect

All statements of holding for FAL Shares cease to have any effect from the Transfer Record Date as documents relating to title in respect of those shares. As from the Transfer Record Date, each entry current at that date on the FAL Register ceases to be of any effect other than as evidence of entitlement to the Metcash Consideration and the Woolworths Consideration in respect of the Transfer Scheme Shares relating to that entry.

6.7 Provision of information

- (a) FAL must procure that by 5.00pm on the fourth day following the Transfer Record Date, details of:
 - (i) the names, registered addresses and holdings of FAL Shares of every FAL Shareholder as shown in the FAL Register at the Transfer Record Date;
 - (ii) the election (if any) of each FAL Shareholder to receive Metcash Cash Consideration or Metcash Share Consideration; and
 - (iii) the names and registered addresses of every Ineligible Overseas Shareholder at the Transfer Record Date;are available to Metcash and (except the information in (ii)) to Woolworths in such form or forms as Metcash and Woolworths respectively may reasonably require.

- (b) FAL must procure that by 5.00pm on the fourth day following the Transfer Record Date, details of:
- (i) the names, registered addresses and holdings of PEH Shares of every PEH Shareholder as shown in the PEH Register at the Transfer Record Date;
 - (ii) the election (if any) of each FAL Shareholder to receive Woolworths Maximum Cash Consideration, Woolworths Standard Consideration or Woolworths Maximum Share Consideration; and
 - (iii) the names and registered addresses of every Ineligible Overseas Shareholder at the Transfer Record Date;
- are available to Woolworths in such form or forms as Woolworths may reasonably require.

7 Actions regarding quotation of FAL Shares, Metcash Shares and Woolworths Shares

7.1 Suspension of trading of FAL Shares

It is expected that trading in FAL Shares on the ASX will be suspended no later than the Business Day following the day on which FAL notifies the ASX of the granting of the Transfer Scheme Order.

7.2 Quotation of FAL Shares

On the first Business Day after the Consideration Date, FAL will apply for termination of the official quotation of FAL Shares on ASX.

7.3 Quotation of Metcash Shares

Metcash must procure the Metcash Shares comprising the Metcash Share Consideration to be listed for quotation on ASX on and from the Consideration Date.

7.4 Quotation of Woolworths Shares

Woolworths must procure the Woolworths Shares comprising the Woolworths Share Consideration to be listed for quotation on ASX on and from the Consideration Date.

8 General provisions

8.1 Lodgment of the Transfer Scheme Order with ASIC

FAL must lodge with ASIC an office copy of the Transfer Scheme Order by 5.00pm on the first Business Day after the day on which the Court approves this Transfer Scheme at the Second Court Hearing.

8.2 Alterations or conditions

If the Court proposes to approve this Transfer Scheme subject to any alterations or conditions, FAL may by its counsel or solicitors consent on behalf of all persons concerned to any alterations or conditions.

8.3 Agreement to transfer FAL Scheme Shares and acceptance of Metcash Shares

- (a) The Transfer Scheme Shareholders agree to the transfer of their FAL Scheme Shares to Metcash Trading in accordance with the terms of this Transfer Scheme and the Demerger Scheme.
- (b) Each Transfer Scheme Shareholder who has validly elected to receive the Metcash Share Consideration must accept the Metcash Shares issued by way of the Metcash Share Consideration, agrees to become a member of Metcash and be bound by the constitution of Metcash as in force from time to time. This clause does not apply to Ineligible Overseas Shareholders.

8.4 *Agreement to transfer PEH Shares and acceptance of Woolworths Shares*

- (a) The Transfer Scheme Shareholders agree to the transfer of their PEH Demerger Scheme Shares to Woolworths NZ in accordance with the terms of this Transfer Scheme and the Demerger Scheme.
- (b) Each Transfer Scheme Shareholder must accept the Woolworths Shares issued by way of the Woolworths Share Consideration, agrees to become a member of Woolworths and be bound by the constitution of Woolworths as in force from time to time. This clause does not apply to Ineligible Overseas Shareholders.
- (c) FAL agrees to transfer the PEH Demerger Scheme Shares that it holds to Woolworths NZ in accordance with the terms of this Transfer Scheme.

8.5 *Free of encumbrances*

- (a) The FAL Shares transferred to Metcash Trading and the PEH Demerger Scheme Shares transferred to Woolworths NZ under this Transfer Scheme must be transferred free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise.
- (b) Each Transfer Scheme Shareholder is deemed to have warranted to Metcash and Metcash Trading that all their FAL Shares (including any rights attaching to those shares) that are transferred to Metcash Trading under this Transfer Scheme are, at the date of transfer, fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that they have full power and capacity to sell and to transfer their Transfer Scheme Shares together with any rights attaching to those shares.
- (c) Each Transfer Scheme Shareholder and FAL (in respect of the one PEH Share referred to in clause 2.2(b) of the Demerger Scheme and the PEH Shares it or its nominee retains under clause 4.7(a) of the Demerger Scheme) is deemed to have warranted to Woolworths and Woolworths NZ that all their PEH Demerger Scheme Shares (including any rights attaching to those shares) that are transferred to Woolworths NZ under this Transfer Scheme are, at the date of transfer, fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that they have full power and capacity to sell and to transfer their FAL Shares together with any rights attaching to those shares.

8.6 *Beneficial ownership pending registration*

- (a) Metcash Trading is beneficially entitled to the Transfer Shares transferred to it under this Transfer Scheme pending registration by FAL of Metcash Trading in the FAL Register as the holder of the Transfer Scheme Shares.
- (b) Woolworths NZ is beneficially entitled to the PEH Demerger Scheme Shares transferred to it under the Transfer Scheme pending registration by PEH of Woolworths NZ in the PEH Register as the holder of the PEH Demerger Scheme Shares.

8.7 *FAL to act on behalf of Transfer Scheme Shareholders*

Each Transfer Scheme Shareholder, without the need for any further act, appoints FAL and any of its directors or officers (jointly and severally) as its attorney and agent for the purposes of receiving one or more Financial Services Guides and for the purpose of executing any document necessary or desirable to give effect to this Transfer Scheme or taking any other act necessary to give effect to this Transfer Scheme, including a proper instrument of transfer of their Transfer Scheme Shares and their PEH Demerger Scheme Shares which in each case may be a master transfer of all of the shares.

8.8 *Further assurances*

FAL must execute documents and do all things and acts necessary or expedient in order to implement this Transfer Scheme.

8.9 Authority of FAL

Each of the Transfer Scheme Shareholders consents to FAL doing all things necessary for or incidental to the implementation of this Transfer Scheme.

8.10 Transfer Scheme binding

This Transfer Scheme binds FAL and all Transfer Scheme Shareholders from time to time (including those who do not attend the Transfer Scheme Meeting to approve this Transfer Scheme or do not vote at the Transfer Scheme Meeting). To the extent of inconsistency between this Transfer Scheme and FAL's constitution, this Transfer Scheme overrides FAL's constitution.

8.11 Notices

Where a notice, transfer, transmission application or other communication referred to in this Transfer Scheme is sent by post to FAL, it is not deemed to be received in the ordinary course of post or on a date other than the date (if any) on which it is actually received at FAL's registered office or at the FAL share registry.

8.12 Governing Law

The governing law of this Transfer Scheme is the law in force in the State of Western Australia.

8.13 Fees and charges

FAL must pay all filing, application or similar fees due in relation to this Transfer Scheme.

8.14 No liability when acting in good faith

None of FAL, Metcash, Metcash Trading, Woolworths or Woolworths NZ nor any officer of any of those companies is liable for anything done or omitted to be done in the performance of this Transfer Scheme in good faith.

18.3 Explanatory Statement for Demerger Scheme

The Explanatory Statement for the Demerger Scheme incorporates all parts of this Booklet other than this Part 18 and the notices of meetings in Part 19 of this Booklet.

18.4 Demerger Scheme

This Part 18.4 sets out the terms of the Demerger Scheme. The Demerger Scheme is pursuant to section 411 of the Corporations Act and is between FAL and each FAL Shareholder.

The terms of the Demerger Scheme are as follows:

1 Interpretation

1.1 Definitions

In this Demerger Scheme, unless the contrary intention appears or the context requires otherwise:

ASIC means the Australian Securities and Investments Commission.

ASX means Australian Stock Exchange Limited or the market operated by it, as the context requires.

Booklet means the booklet containing the explanatory statement as required by Part 5.1 of the Corporations Act relating to this Demerger Scheme and the Transfer Scheme, notices of meeting in relation to the Capital Reduction Resolution, this Demerger Scheme and the Transfer Scheme and other information (including any supplementary information) relating to any or all of the above matters and distributed to FAL Shareholders.

Business Day means a day other than a Saturday, Sunday or public holiday in Perth, Western Australia or Sydney, New South Wales.

Capital Reduction means the reduction of the share capital of FAL in accordance with the Capital Reduction Resolution.

Capital Reduction Entitlement means, in relation to a Demerger Scheme Shareholder, so much of the amount allocated to the Demerger Scheme Shareholder under the Capital Reduction Resolution as is attributable to the Demerger Scheme Shares held by that Demerger Scheme Shareholder.

Capital Reduction Resolution means an ordinary resolution in the form set out in the notice of general meeting included in the Booklet.

CHESS has the same meaning as in the Listing Rules.

Corporations Act means the Corporations Act 2001 (Cwlth).

Court means the Federal Court of Australia.

Demerger Dividend means an amount per Demerger Scheme Share equal to:

(a) an amount determined as follows:

$$DD = \frac{NZO - (\$4.12 \times FS)}{FS}$$

where:

DD is the Demerger Dividend;

NZO is the New Zealand Operation Value;

FS is the number of FAL Shares at the time of payment of the Demerger Dividend;

or

(b) if the Maximum Dividend is less than the amount in (a), the Maximum Dividend.

Demerger Dividend Resolution means the resolution by the FAL Board to declare and pay the Demerger Dividend.

Demerger Effective Date means the date on which an office copy of the Demerger Scheme Order is lodged with ASIC.

Demerger Entitlement means, in relation to each Demerger Scheme Shareholder, the aggregate of the Demerger Dividend and the Capital Reduction Entitlement payable to that Demerger Scheme Shareholder.

Demerger Implementation Date means the tenth Business Day after the Demerger Effective Date or, if the Transfer Scheme takes effect, the same day as the Transfer Implementation Date under the Transfer Scheme.

Demerger Implementation Deed means the deed between FAL and PEH dated on or about 12 September 2005 and described in clause 2.3.

Demerger Record Date means the fifth Business Day after the Demerger Effective Date or, if the Transfer Scheme does not take effect, such other date as permitted by ASX. All references to the Demerger Record Date are to 5.00pm on the Demerger Record Date.

Demerger Scheme means this scheme under section 411 of the Corporations Act between FAL and FAL Shareholders subject to any alterations or conditions made or required by the Court pursuant to section 411 of the Corporations Act.

Demerger Scheme Meeting means the meeting of FAL Shareholders convened pursuant to section 411 of the Corporations Act to consider and, if thought fit, to approve this Demerger Scheme.

Demerger Scheme Order means the order of the Court under section 411 of the Corporations Act approving this Demerger Scheme, with or without modification.

Demerger Scheme Share means an FAL Share on issue at the Demerger Record Date.

Demerger Scheme Shareholder means each person who is entered in the FAL Register as the holder of an FAL Share on the Demerger Record Date.

FAL means Foodland Associated Limited (ABN 13 008 667 650).

FAL Board means the board of directors of FAL.

FAL Register means the register of shareholders in FAL.

FAL Share means a fully paid ordinary share in the capital of FAL.

FAL Shareholder means a person who is registered in the FAL Register from time to time as the holder of an FAL Share.

Financial Services Guide has the same meaning as in section 761A of the Corporations Act.

Ineligible Overseas Shareholder means a Demerger Scheme Shareholder whose address in the FAL Register is in a jurisdiction other than Australia or its external territories or New Zealand unless FAL otherwise determines after being satisfied in discussion with Metcash Trading, Woolworths and Woolworths NZ that it is not unlawful, not unduly onerous and not unduly impracticable to transfer PEH Shares to an FAL Shareholder in that jurisdiction.

Listing Date means the date (if any) on which trading in PEH Shares (on a deferred settlement basis or otherwise) commences on the ASX.

Listing Rules means the official listing rules of the ASX.

Maximum Dividend means the maximum amount per FAL Share that, as at the time of payment, FAL may pay as a dividend under section 254T of the Corporations Act.

Merger Implementation Agreement means the agreement dated on or about 12 September 2005 between FAL, Metcash Trading, Woolworths and Woolworths NZ relating to the implementation of the Transfer Scheme.

Metcash Trading means Metcash Trading Limited (ABN 61 000 031 569).

New Zealand Operation has the same meaning as "Current New Zealand Business" in the Merger Implementation Agreement.

New Zealand Operation Value means \$2.2 billion or such other amount determined by FAL as the fair market value of the New Zealand Operation.

NZX means New Zealand Exchange Limited.

PEH means Progressive Enterprises Holdings Limited (ABN 93 113 919 878).

PEH Deed Poll means the deed poll dated on or about 12 September 2005 executed by PEH in favour of Demerger Scheme Shareholders.

PEH Share means a fully paid ordinary share in PEH.

Registered Address means, in relation to an FAL Shareholder, the address shown in the FAL Register.

Second Court Hearing means the hearing of the application made to the Court for an order pursuant to section 411 of the Corporations Act approving this Demerger Scheme.

Transfer Scheme means the scheme of arrangement under Part 5.1 of the Corporations Act between FAL and FAL Shareholders for the transfer of FAL Shares to Metcash Trading and for the transfer of PEH Shares to Woolworths NZ.

Woolworths means Woolworths Limited (ABN 88 000 014 675).

Woolworths Action Stores has the same meaning as "WOW Action Stores", in the Merger Implementation Agreement.

Woolworths NZ means WOW (NZ) Supermarkets Limited, a company incorporated in New Zealand.

WOW Action Agreement has the same meaning as in the Merger Implementation Agreement.

WOW Action Stores has the same meaning as in the Merger Implementation Agreement.

1.2 Interpretation

In this Demerger Scheme, unless the contrary intention appears or the context requires otherwise:

- (a) words and phrases (other than those defined in clause 1.1) have the same meaning given to them in the Corporations Act;
- (b) the singular includes the plural and vice versa;
- (c) each gender includes every other gender;
- (d) a reference to a clause is a reference to a clause of this Demerger Scheme;
- (e) a reference to a statute, ordinance, code or other law or rule includes regulations and other instruments under it and consolidation, amendments, re-enactments or replacement;
- (f) a reference to a document includes all amendments or supplements to, or replacements or novations of, that document;
- (g) the word person includes a firm, body corporate, a partnership, a joint venture, an unincorporated body or association, or any government agency;
- (h) a reference to a person includes a reference to a person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (i) the words "include", "including", "for example" or "such as" are not used as, nor are they to be interpreted as, words of limitation, and, when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind;
- (j) a reference to time is a reference to the time in Perth, Western Australia;
- (k) a reference to a holder includes a joint holder; and
- (l) headings are only for the convenience of the reader and are to be disregarded in the interpretation of substantive provisions.

2 Preliminary

2.1 FAL

- (a) FAL is a public company incorporated in Australia and is a company limited by shares. It has its registered office at 218 Bannister Road, Canning Vale, Western Australia, 6155.
- (b) At 19 September 2005, there are 117,828,603 FAL Shares on issue.
- (c) FAL is a company admitted to the ASX official list and FAL Shares are quoted on ASX.

2.2 PEH

- (a) PEH is a public company incorporated in Australia and is a company limited by shares. It has its registered office at 218 Bannister Road, Canning Vale, Western Australia, 6155.
- (b) At 19 September 2005, there was one PEH Share on issue which was held by FAL.

2.3 Demerger Implementation Deed

FAL and PEH have entered into the Demerger Implementation Deed to facilitate, among other things, the implementation of this Demerger Scheme and the Capital Reduction. In particular:

- (a) FAL has agreed that it will perform all of its obligations under this Demerger Scheme and do everything within its power that is necessary or expedient to give effect to this Demerger Scheme and the Capital Reduction, including payment to FAL Shareholders of the Demerger Dividend; and
- (b) PEH has agreed that it will perform all of its obligations under this Demerger Scheme and do everything within its power that is necessary or expedient to give full effect to this Demerger Scheme.

2.4 *PEH Deed Poll*

PEH has entered into the PEH Deed Poll in favour of Demerger Scheme Shareholders pursuant to which it has, among other things, covenanted to:

- (a) issue PEH Shares to FAL in accordance with the provisions of this Demerger Scheme;
- (b) cause the name of each Demerger Scheme Shareholder (other than Ineligible Overseas Shareholders) to be entered on the PEH share register as holder of the PEH Shares to which the Demerger Scheme Shareholder is entitled under this Demerger Scheme; and
- (c) cause a nominee to be entered on the PEH share register as holder of PEH Shares to which Ineligible Overseas Shareholders would be entitled under this Demerger Scheme but for the operation of clause 4.7,

subject to this Demerger Scheme becoming binding on Demerger Scheme Shareholders in accordance with sections 411(4), 411(6) and 411(10) of the Corporations Act.

2.5 *Transfer Scheme*

The Transfer Scheme is to be voted on by FAL Shareholders at a meeting prior to the Demerger Scheme Meeting. The Transfer Scheme is conditional on, among other things, this Demerger Scheme being approved by the requisite majority of FAL Shareholders. If the Transfer Scheme is approved by the requisite majority of FAL Shareholders and takes effect for the purposes of section 411(10) of the Corporations Act, the provisions of this Demerger Scheme relating to the listing of PEH on the ASX will not take effect.

2.6 *Capital Reduction*

The Capital Reduction Resolution is to be voted on by FAL Shareholders at a general meeting following the meeting at which the Transfer Scheme is being voted on and prior to the Demerger Scheme Meeting. This Demerger Scheme is conditional on the Capital Reduction Resolution being passed at that general meeting.

3 *Conditions Precedent to this Demerger Scheme*

3.1 *Conditions Precedent*

The conditions precedent to this Demerger Scheme are:

- (a) **(no termination of Demerger Implementation Deed or PEH Deed Poll)** neither the Demerger Implementation Deed nor the PEH Deed Poll are terminated before the Court makes the Demerger Scheme Order;
- (b) **(Capital Reduction approved)** the Capital Reduction Resolution is passed by the requisite majority of FAL Shareholders;
- (c) **(approval of this Scheme)** this Demerger Scheme is approved by FAL Shareholders in accordance with section 411 of the Corporations Act at the Demerger Scheme Meeting;
- (d) **(Court approval of this Scheme)** the Court makes the Demerger Scheme Order;
- (e) **(lodgment with ASIC)** the Demerger Scheme Order is lodged with ASIC; and
- (f) **(ASX approval)** ASX approves the admission of PEH to the official list of ASX and grants permission for official quotation of PEH Shares on ASX, subject only to the Demerger Scheme taking effect and such other conditions (including the provision of information required by the ASX and other customary pre-quotation conditions) as are acceptable to PEH.

3.2 *Effect of conditions precedent*

The satisfaction or waiver in accordance with the Merger Implementation Agreement of each condition precedent in clause 3.1 (other than the condition precedent in clause 3.1(e)) at the same time or before the Court making the Demerger Scheme Order is a condition precedent to this Demerger Scheme having effect.

3.3 *Certificate*

FAL must provide to the Court at the Second Court Hearing a certificate, or such other evidence as the Court requests, confirming whether or not the conditions precedent to this Demerger Scheme set out in clause 3.1 (other than the condition precedent in clause 3.1(d)) are satisfied. The certificate constitutes conclusive evidence that the conditions precedent (other than Court approval) are satisfied.

3.4 *Effective Date*

This Demerger Scheme takes effect for all purposes on the Demerger Effective Date.

3.5 *End Date*

This Demerger Scheme lapses and has no further force or effect if the Demerger Effective Date is not on or before 31 December 2005 (or such later date as FAL determines).

4 *Implementation of this Demerger Scheme*

4.1 *Issue of PEH Shares to FAL*

In consideration for FAL cancelling amounts owed by PEH to FAL under intercompany loans, PEH will issue the number of PEH Shares specified in clause 2.1 of the PEH Deed Poll to FAL in accordance with the terms of the Demerger Implementation Deed. The PEH Shares must:

- (a) be duly and validly issued;
- (b) be fully paid; and
- (c) rank pari passu in all respects with all other ordinary PEH Shares then issued and outstanding.

4.2 *Demerger Dividend*

The FAL Board must, on or before the Demerger Implementation Date, pass the Demerger Dividend Resolution.

4.3 *Capital Reduction*

FAL must reduce its capital in accordance with the Capital Reduction Resolution.

4.4 *Demerger Entitlement*

Each Demerger Scheme Shareholder (other than Ineligible Overseas Shareholders) directs FAL to apply and FAL must apply the Demerger Entitlement of that Demerger Scheme Shareholder as consideration for the transfer by FAL to that Demerger Scheme Shareholder of the number of PEH Shares equal to the number of their Demerger Scheme Shares.

4.5 *Transfer of PEH Shares*

FAL must execute a transfer or transfers of all the PEH Shares to the Demerger Scheme Shareholders (other than Ineligible Overseas Shareholders) in the numbers determined in accordance with clause 4.4 and deliver the transfer or transfers to PEH for registration on the Demerger Implementation Date.

4.6 *Registration of transfers*

On the Demerger Implementation Date, PEH must register the transfers delivered to it under clause 4.5 by entering the Demerger Scheme Shareholders in its register of members in accordance with the Corporations Act and the Demerger Implementation Deed.

4.7 *Ineligible Overseas Shareholders*

- (a) FAL or its nominee must retain the PEH Shares that would otherwise be transferred to that Ineligible Overseas Shareholder but for the fact that they are Ineligible Overseas Shareholders.
- (b) If the Transfer Scheme is approved by the requisite majority of FAL Shareholders and takes effect, the PEH Shares referred to in clause 4.7(a) must then be transferred in accordance with the terms of the Transfer Scheme.
- (c) If the Transfer Scheme is not approved by the requisite majority of FAL Shareholders, FAL (or the nominee of FAL, as the case may be) must as soon as practicable (and in any event within 20 Business Days after the Demerger Implementation Date) sell those PEH Shares on the ASX and pay each of the Ineligible Overseas Shareholders an amount equal to the average net proceeds of sale (after deduction of any applicable brokerage, taxes and charges) of all PEH Shares sold under this clause multiplied by the number of PEH Shares to which that Ineligible Overseas Shareholder would have been entitled but for the operation of this clause 4.7. Payment is to be made by cheque in Australian currency drawn on an Australian Bank and is to be sent by post to the Ineligible Overseas Shareholder within 25 Business Days after the Demerger Implementation Date.
- (d) Payment in accordance with this clause fully satisfies and discharges all FAL's obligations to Ineligible Overseas Shareholders in relation to the Capital Reduction, the Demerger Dividend and this Demerger Scheme.

4.8 *Listing PEH on ASX and NZX*

- (a) If the Transfer Scheme is not approved by the requisite majority of FAL Shareholders, PEH must use its best endeavours to be admitted to the official list of ASX and to have the PEH Shares listed for quotation on the ASX on and from the Demerger Implementation Date.
- (b) If the Transfer Scheme is not approved by the requisite majority of FAL Shareholders, PEH must use its best endeavours to be listed on the NZX as an "overseas listed issuer" and to have the PEH Shares listed for quotation on the NZX on and from the Demerger Implementation Date.

4.9 *Dispatch of holding statements*

- (a) If the Transfer Scheme is approved by the requisite majority of FAL Shareholders, no share certificates or holding statements are to be sent to Demerger Scheme Shareholders for the PEH Shares issued to them under this Demerger Scheme.
- (b) If the Transfer Scheme is not approved by the requisite majority of FAL Shareholders, as soon as practicable after the later of the Listing Date or the Demerger Implementation Date, PEH must, in accordance with the Listing Rules, forwards to the Demerger Scheme Shareholders, other than Ineligible Overseas Shareholders, CHESS holding statements for PEH Shares to which they are entitled under this Demerger Scheme by prepaid post to the Demerger Scheme Shareholder at their Registered Address.

4.10 *Joint holders*

In the case of Demerger Scheme Shares held in joint names, if the Transfer Scheme is not approved by the requisite majority of FAL Shareholders, CHESS holding statements for PEH Shares issued to Demerger Scheme Shareholders must be issued in the names of the joint holders and forwarded to the holder whose name appears first in the FAL Register at the Demerger Record Date.

5 *Dealings in FAL Shares*

5.1 *Entitlement to participate*

Every FAL Shareholder entered on the FAL Register as the holder of an FAL Share on the Demerger Record Date is entitled to participate in this Demerger Scheme.

5.2 *Recognised dealings*

For the purposes of determining who is a Demerger Scheme Shareholder on the Demerger Record Date, dealings in FAL Shares must only be recognised if:

- (a) in the case of dealings of the type to be effected in using CHESS, the transferee is registered in the FAL Register as holder of the relevant FAL Shares on or before the Demerger Record Date; and
- (b) in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received on or before the Demerger Record Date at the place where the FAL Register is kept.

5.3 *FAL's obligation to register*

FAL must register any transmission application or transfer received in accordance with clause 5.2(b) on or before the Demerger Record Date.

5.4 *Transfer request received after Demerger Record Date*

FAL must not accept for registration or recognise for any purpose any transmission application or transfer in respect of FAL Shares received after the Demerger Record Date.

5.5 *Maintaining the Register*

For the purpose of determining entitlements to participate in this Demerger Scheme, FAL must, until the PEH Shares have been issued to Demerger Scheme Shareholders, maintain the FAL Register in accordance with the provisions of this clause 5 and the FAL Register in this form solely determines entitlements to the PEH Shares.

6 *General provisions*

6.1 *Lodgment of the Demerger Scheme Order with ASIC*

FAL must lodge with ASIC an office copy of the Demerger Scheme Order by 5.00pm on the first Business Day after the day on which the Court approves this Demerger Scheme at the Second Court Hearing.

6.2 *Alterations or conditions*

If the Court proposes to approve this Demerger Scheme subject to any alterations or conditions, FAL may by its counsel or solicitors consent on behalf of all persons concerned to any alterations or conditions.

6.3 *Acceptance of PEH Shares*

Each Demerger Scheme Shareholder agrees to become a member of PEH and to be bound by the constitution of PEH as in force from time to time. This clause does not apply to Ineligible Overseas Shareholders.

6.4 *Free of encumbrances*

- (a) The Demerger Scheme Shares transferred to Demerger Scheme Shareholders under this Demerger Scheme must be transferred free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise.
- (b) FAL is deemed to have warranted to each Demerger Scheme Shareholder that all the PEH Demerger Scheme Shares (including any rights attaching to those shares) that are transferred to that Demerger Scheme Shareholder under this Demerger Scheme are, at the date of transfer, fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that FAL has full power and capacity to transfer the PEH Demerger Scheme Shares together with any rights attaching to those shares to the Demerger Scheme Shareholder.

6.5 *FAL to act on behalf of Demerger Scheme Shareholders*

Each Demerger Scheme Shareholder, without the need for any further act, appoints FAL and any of its directors or officers (jointly and severally) as its attorney and agent for the purposes of receiving one or more Financial Services Guides and for the purpose of executing any document necessary or desirable to give effect to this Demerger Scheme or taking any other act necessary to give effect to this Demerger Scheme.

6.6 *Further assurances*

FAL must execute documents and do all things and acts necessary or expedient in order to implement this Demerger Scheme.

6.7 *Authority of FAL*

Each of the Demerger Scheme Shareholders consents to FAL doing all things necessary for or incidental to the implementation of this Demerger Scheme.

6.8 *Demerger Scheme binding*

This Demerger Scheme binds FAL and all Demerger Scheme Shareholders from time to time (including those who do not attend the Demerger Scheme Meeting or do not vote at the Demerger Scheme Meeting or vote against the Demerger Scheme at the Demerger Scheme Meeting). To the extent of inconsistency between the Demerger Scheme and FAL's constitution, the Demerger Scheme overrides FAL's constitution.

6.9 *Notices*

Where a notice, transfer, transmission application or other communication referred to in this Demerger Scheme is sent by post to FAL, it is not deemed to be received in the ordinary course of post or on a date other than the date (if any) on which it is actually received at FAL's registered office or at the FAL share registry.

6.10 *Governing Law*

The governing law of this Demerger Scheme is the law in force in the State of Western Australia.

6.11 *Fees and charges*

FAL must pay all filing, application or similar fees due in relation to this Demerger Scheme.

6.12 *No liability when acting in good faith*

None of FAL, PEH or any officer of either of those companies is liable for anything done or omitted to be done in the performance of this Demerger Scheme in good faith.

6.13 *Instructions to FAL*

Except for a Demerger Scheme Shareholder's tax file number, any binding instructions or notifications between a Demerger Scheme Shareholder and FAL relating to Demerger Scheme Shares or a Demerger Scheme Shareholder's status as a FAL Shareholder (including, without limitation, any instructions relating to payment of dividends, or to communications from FAL) will, from the Demerger Implementation Date, be deemed, by reason of this Demerger Scheme, to be a similarly binding instruction or notification to, and accepted by, PEH in respect of PEH Shares transferred to Demerger Scheme Shareholders until that instruction or notification is revoked or amended in writing addressed to PEH at its share registry.

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Part 19

Notices of Meetings

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NOTICE OF COURT ORDERED MEETING OF HOLDERS OF ORDINARY SHARES - TRANSFER SCHEME

By an Order of the Federal Court of Australia made on 16 September 2005 pursuant to section 411(1) of the Corporations Act, a meeting of the holders of fully paid ordinary shares in FAL will be held in the Plaza Ballroom East at the Burswood International Resort Casino, Perth (201 Great Eastern Highway, Burswood, Western Australia), on 2 November 2005 at 10.00am Perth time.

The Court has also directed that Len Bieasel act as chairman of the meeting (unless the members at the meeting elect some other person to act as chairman of the meeting) and has directed the chairman to report the result of the meeting to the Court.

Terms used in this notice have the same meaning as set out in the Dictionary in Part 20 of this Booklet.

PURPOSE OF THE MEETING

The purpose of the meeting is to consider and, if thought fit, to agree (with or without modification) to a scheme of arrangement proposed to be made between FAL and FAL Shareholders.

To enable you to make an informed voting decision, information on the Transfer Scheme is set out in this Booklet. A copy of the Transfer Scheme is set out in Part 18.2 of this Booklet and its purpose and effect are discussed throughout this Booklet.

RESOLUTION - TRANSFER SCHEME APPROVAL

To consider and, if thought fit, pass the following resolution:

"That subject to and conditional on:

- (i) the Capital Reduction Resolution being approved by FAL Shareholders, (namely, the reduction on the Demerger Implementation Date by an equal reduction in FAL's share capital under section 256B of the Corporations Act, of an amount of \$4.12 for each FAL Share on issue at the Close of Registers, with the reduction being effected and satisfied by appropriating such amount for the benefit of FAL Shareholders at the Close of Registers and applied in accordance with the Demerger Scheme);
- (ii) the Demerger Scheme (namely, the scheme of arrangement between FAL and the holders of its fully paid ordinary shares referred to as the "Demerger Scheme", as contained and described in the Booklet) being approved by the Court, with or without modification; and
- (iii) an office copy of the orders of the Court approving the Demerger Scheme being lodged with ASIC,

pursuant to, and in accordance with, the provisions of section 411 of the Corporations Act, the Transfer Scheme (namely, the scheme of arrangement proposed between FAL and the holders of its ordinary shares, designated the "Transfer Scheme", as contained and described in the Booklet accompanying the notice convening this meeting) is agreed to with or without modification as approved by the Court (terms in this resolution having the same meaning as in the Booklet)."

VOTING

How to vote

You can vote in either of two ways:

- by attending the meeting and voting in person or by attorney or, in the case of corporate shareholders, by corporate representative; or
- by appointing a proxy to attend and vote on your behalf by using the Proxy Form enclosed with this Booklet.

Voting in person (or by attorney)

If you or your attorney intend to attend the meeting, you or they are asked to arrive at the venue 30 minutes prior to the time designated for the meeting so that we may check the shareholding against the FAL Share Register and note attendances. Attorneys should bring with them original or certified copies of the power of attorney under which they have been authorised to attend and vote at the meeting.

In order to vote in person at the meeting, a corporation which is a FAL Shareholder may appoint an individual to act as its representative. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the meeting evidence of their appointment, including any authority under which it is signed, unless previously given to FAL's Share Registry.

Voting by proxy

- You are entitled to appoint not more than two proxies. Each proxy will have the right to vote on the poll and also to speak at the meeting.
- The appointment of a proxy may specify the proportion or the number of votes that the proxy may exercise. Where two proxies are appointed, and unless the appointment specifies the proportion or number of your votes each proxy may exercise, each proxy may exercise half of the votes.
- A proxy need not be an FAL Shareholder.
- If you do not direct your proxy how to vote on an item of business, the proxy may vote, or abstain from voting, as that person thinks fit.
- If you instruct your proxy to abstain from voting on any item of business, that person is directed not to vote on the FAL Shareholder's behalf on the poll, and the shares the subject of the proxy appointment will not be counted in computing the required majority.
- If you return your Proxy Forms with a direction how to vote but without nominating the identity of your proxy, you will be taken to have appointed the chairman of the meeting as your proxy to vote on your behalf. If a Proxy Form is returned but the nominated proxy does not attend the meeting, the chairman of the meeting will act in place of the nominated proxy and vote in accordance with any instructions. Proxy appointments in favour of the chairman of the meeting, the secretary or any director which do not contain a direction will be used to vote FOR the Transfer Scheme Resolution.
- A vote given in accordance with the terms of a proxy is valid despite the revocation of the proxy, unless notice in writing of the revocation has been received by FAL before commencement of this meeting.
- Completed Proxy Forms should be returned in one of the reply paid envelopes enclosed with this Booklet, or otherwise delivered to FAL's Share Registry at the following addresses:

In person:

Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace
PERTH WA 6000
AUSTRALIA

By mail:

Computershare Investor Services Pty Ltd
GPO Box D182
PERTH WA 6840
AUSTRALIA

- To be valid for all Meetings, Proxy Forms should be lodged by 10.00am Perth time on 31 October 2005 i.e. at least 48 hours before the commencement of this meeting.

Alternatively, Proxy Forms may be lodged by facsimile and must be received by the time referred to above. The facsimile numbers are:

To FAL's Share Registry:

08 9323 2033 (within Australia)
+61 8 9323 2033 (outside of Australia)

To FAL:

08 9311 6011 (within Australia)
+61 8 9311 6011 (outside of Australia)

Both Sides of the Proxy Form must be transmitted. You can fax the Proxy Form to **either** of the above numbers. You should not send it to both numbers.

You or your attorney must sign the Proxy Form. Proxies given by corporations must be executed in accordance with the Corporations Act. Where the appointment of a proxy is signed by your attorney, a certified copy of the power of attorney, or the power itself, should be received by FAL at either of the above addresses or by facsimile transmission and by 10.00am Perth time on 31 October 2005. If facsimile transmission is used, the power of attorney must be certified.

FAL SHAREHOLDERS WHO ARE ENTITLED TO VOTE

In accordance with section 1074E of the Corporations Act and regulation 7.11.37 of the Corporations Regulations, the FAL Board has determined, and the Court orders, that a person's entitlement to vote at the Court ordered meeting to consider the Transfer Scheme will be the entitlement of that person set out in the FAL Share Register as at 5.00pm Perth time on 31 October 2005.

COURT APPROVAL

In accordance with section 411(4)(b) of the Corporations Act, the Transfer Scheme (with or without modification) must be approved by an order of the Court. If the Capital Reduction Resolution is passed at the General Meeting and the Demerger Scheme Resolution is passed at the Demerger Scheme Meeting, FAL intends to apply to the Court on 9 November 2005 for the necessary orders to give effect to the Transfer Scheme and the Demerger Scheme.

C E Bennett
Company Secretary

16 September 2005

NOTICE OF GENERAL MEETING OF FAL - CAPITAL REDUCTION

Notice is given that a general meeting of the shareholders of FAL will be held in the Plaza Ballroom East at the Burswood International Resort Casino, Perth (201 Great Eastern Highway, Burswood, Western Australia), on 2 November 2005 at 10.30am Perth time or as soon thereafter as the Court ordered meeting, ordered pursuant to section 411(1) of the Corporations Act to consider the Transfer Scheme has concluded or been adjourned, for the purpose of transacting the following business.

Terms used in this notice have the same meaning as set out in the Dictionary in Part 20 of this Booklet.

PURPOSE OF THE GENERAL MEETING

The purpose of the meeting is to consider and, if thought fit, pass the Capital Reduction Resolution set out below as an ordinary resolution.

To enable you to make an informed decision, information on the Capital Reduction is set out in this Booklet.

RESOLUTION - CAPITAL REDUCTION APPROVAL

"That subject to and conditional on:

- (i) the Demerger Scheme (namely, the scheme of arrangement between FAL and FAL Shareholders referred to as the "Demerger Scheme", as contained in and more particularly described in the Booklet) being approved by the Court with or without modification; and
- (ii) an office copy of the orders of the Court approving the Demerger Scheme being lodged with ASIC,

the Capital Reduction (namely, the reduction in FAL's share capital on the Demerger Implementation Date under section 256B of the Corporations Act, of an amount of \$4.12 for each FAL Share on issue at the Close of Registers, with the reduction being effected and satisfied by appropriating such amount for the benefit of FAL Shareholders at the Close of Registers and applied in accordance with the Demerger Scheme) is approved (terms in this resolution having the same meaning as in the Booklet)."

VOTING

How to vote

You can vote in either of two ways:

- by attending the meeting and voting in person or by attorney or, in the case of corporate shareholders, by corporate representative; or
- by appointing a proxy to attend and vote on your behalf, using the Proxy Form enclosed with this Booklet.

Voting in person (or by attorney)

If you or your attorney intend to attend the meeting, you or they are asked to arrive at the venue 30 minutes prior to the time designated for the meeting so that we may check the shareholding against the FAL Share Register and note attendances. Attorneys should bring with them: original or certified copies of the power of attorney under which they have been authorised to attend and vote at the meeting.

In order to vote in person at the meeting, a corporation which is a FAL Shareholder may appoint an individual to act as its representative. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the meeting evidence of their appointment, including any authority under which it is signed, unless previously given to FAL's Share Registry.

Voting by proxy

- You are entitled to appoint not more than two proxies. Each proxy will have the right to vote on the poll and also to speak at the meeting.
- The appointment of a proxy may specify the proportion or the number of votes that the proxy may exercise. Where two proxies are appointed, and unless the appointment specifies the proportion or number of your votes each proxy may exercise, each proxy may exercise half of the votes.
- A proxy need not be an FAL Shareholder.
- If you do not direct your proxy how to vote on an item of business, the proxy may vote or abstain from voting, as that person thinks fit.
- If you instruct your proxy to abstain from voting on any item of business, that person is directed not to vote on the FAL Shareholder's behalf on the poll and the shares the subject of the proxy appointment will not be counted in computing the required majority.
- If you return your Proxy Form with a direction how to vote but without nominating the identity of your proxy, you will be taken to have appointed the chairman of the meeting as your proxy to vote on your behalf. If a Proxy Form is returned but the nominated proxy does not attend the meeting, the chairman of the meeting will act in place of the nominated proxy and vote in accordance with any instructions. Proxy appointments in favour of the chairman of the meeting, the secretary or any director which do not contain a direction will be used to vote FOR the Capital Reduction Resolution.
- A vote given in accordance with the terms of a proxy is valid despite the revocation of the proxy, unless notice in writing of the revocation has been received by FAL before commencement of this meeting.
- Completed Proxy Forms should be returned in one of the reply paid envelopes enclosed with this Booklet, or otherwise delivered to FAL's Share Registry at the following addresses:

In person:

Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace
PERTH WA 6000
AUSTRALIA

By mail:

Computershare Investor Services Pty Ltd
GPO Box D182
PERTH WA 6840
AUSTRALIA

- To be valid for all Meetings, FAL requests that Proxy Forms are received by 10.00am Perth time on 31 October 2005. Proxies for this meeting must be lodged at least 48 hours before the commencement of the meeting.

- Alternatively, Proxy Forms may be lodged by facsimile and must be received by the time referred to above. The facsimile numbers are:

To FAL's Share Registry:

08 9323 2033 (within Australia)

+61 8 9323 2033 (outside of Australia)

To FAL:

08 9311 6011 (within Australia)

+61 8 9311 6011 (outside of Australia)

Both sides of the Proxy Form must be transmitted. You can fax the Proxy Form to **either** of the above numbers. You should not send it to both numbers.

- You or your attorney must sign the Proxy Form. Proxies given by corporations must be executed in accordance with the Corporations Act. Where the appointment of a proxy is signed by your attorney, a certified copy of the power of attorney, or the power itself, should be received by FAL at either of the above addresses or by facsimile transmission and by 10.00am Perth time on 31 October 2005. If facsimile transmission is used, the power of attorney must be certified.

FAL SHAREHOLDERS WHO ARE ENTITLED TO VOTE

In accordance with section 1074E of the Corporations Act and regulation 7.11.37 of the Corporations Regulations, the FAL Board has determined that a person's entitlement to vote at the General Meeting will be the entitlement of that person set out in the FAL Share Register as at 5.00pm Perth time on 31 October 2005.

By Order of the Board

C E Bennett
Company Secretary

16 September 2005

EXPLANATORY NOTES ON THE BUSINESS TO BE CONDUCTED AT THE GENERAL MEETING

These notes explain the items of business to be considered at the meeting. If you would like any more information please call the FAL Shareholder Information Line on 1800 068 729 (within Australia) or +61 3 9415 4125 (outside of Australia), Monday to Friday between 9.00am and 7.00pm AEST.

Terms used in this notice have the same meaning as set out in the Dictionary in Part 20 of this Booklet.

The Capital Reduction Resolution is being put to FAL Shareholders to obtain approval under section 256C of the Corporations Act to an equal reduction in FAL's share capital under section 256B of the Corporations Act, of an amount of \$4.12 for each FAL Share on issue at the Close of Registers. The reduction is to be effected by appropriating such amount for the benefit of FAL Shareholders at the Close of Registers and will be applied in accordance with the Demerger Scheme.

The Capital Reduction Resolution is being proposed in connection with the Demerger Scheme and the Demerger Scheme is dependent on the passing of the Capital Reduction Resolution.

The impact, financial and otherwise, on FAL and FAL Shareholders if the Capital Reduction Resolution is passed, together with all other factors which are material to the making of a decision by FAL Shareholders whether to approve the Capital Reduction Resolution, is as described in this Booklet.

If the Capital Reduction Resolution is passed by the requisite majority of FAL Shareholders present and voting at the General Meeting (whether in person or by proxy), it will take effect on the Demerger Implementation Date, provided the Demerger Scheme is approved by the requisite majority of FAL Shareholders and by the Court and all other conditions relating to the Demerger Scheme are satisfied.

The FAL Directors believe that, taking into account all relevant matters, the Demerger Scheme is in the best interests of FAL Shareholders and FAL, and will not have a materially adverse impact on the interests of FAL's creditors.

Each FAL Director recommends that you vote in favour of the Demerger (including the Capital Reduction and the Demerger Scheme), and intends to vote all FAL Shares controlled (if any) by them in favour of the Demerger.

NOTICE OF COURT ORDERED MEETING OF HOLDERS OF ORDINARY SHARES - DEMERGER SCHEME

By an Order of the Federal Court of Australia made on 16 September 2005 pursuant to section 411(3) of the Corporations Act, a meeting of the holders of fully paid ordinary shares in FAL will be held in the Plaza Ballroom East at the Burswood International Resort Casino, Perth (201 Great Eastern Highway, Burswood, Western Australia), on 2 November 2005 at 11.00am Perth time or as soon thereafter as the General Meeting of FAL has concluded or been adjourned.

The Court has also directed that Len Bleasel act as chairman of the meeting (unless the members at the meeting elect some other person to act as chairman of the meeting) and has directed the chairman to report the result of the meeting to the Court.

Terms used in this notice have the same meaning as set out in the Dictionary in Part 20 of this Booklet.

PURPOSE OF THE MEETING

The purpose of the meeting is to consider and, if thought fit, to agree (with or without modification) to a scheme of arrangement proposed to be made between FAL and FAL Shareholders.

To enable you to make an informed voting decision, information on the Demerger Scheme is set out in this Booklet. A copy of the Demerger Scheme is set out in Part 18.4 of this Booklet and its purpose and effect are discussed throughout the Booklet.

RESOLUTION - DEMERGER SCHEME APPROVAL

To consider and, if thought fit, pass the following resolution:

"That subject to and conditional on the Capital Reduction Resolution being approved by FAL Shareholders, (namely, the reduction on the Demerger Implementation Date in FAL's share capital under section 256B of the Corporations Act, of an amount of \$4.12 for each FAL Share on issue at the Close of Registers, with the reduction being effected and satisfied by appropriating such amount for the benefit of FAL Shareholders at the Close of Registers and applied in accordance with the Demerger Scheme), pursuant to, and in accordance with, the provisions of section 411 of the Corporations Act, the Demerger Scheme (namely, the scheme of arrangement proposed between FAL and the FAL Shareholders, designated the "Demerger Scheme", as contained in and more particularly described in the Booklet accompanying the notice convening this meeting) is agreed to with or without modification as approved by the Court (terms in this resolution having the same meaning as in the Booklet)."

VOTING

How to vote

You can vote in either of two ways:

- by attending the meeting and voting in person or by attorney or, in the case of corporate shareholders, by corporate representative; or
- by appointing a proxy to attend and vote on your behalf by using the Proxy Form enclosed with this Booklet.

Voting in person (or by attorney)

If you or your attorney intend to attend the meeting, you or they are asked to arrive at the venue 30 minutes prior to the time designated for the meeting so that we may check the shareholding against the FAL Share Register and note attendances. Attorneys should bring with them: original or certified copies of the power of attorney under which they have been authorised to attend and vote at the meeting.

In order to vote in person at the meeting, a corporation which is a FAL Shareholder may appoint an individual to act as its representative. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the meeting evidence of their appointment, including any authority under which it is signed, unless previously given to FAL's Share Registry.

Voting by proxy

- You are entitled to appoint not more than two proxies. Each proxy will have the right to vote on the poll and also to speak at the meeting.
- The appointment of a proxy may specify the proportion or the number of votes that the proxy may exercise. Where two proxies are appointed, and unless the appointment specifies the proportion or number of your votes each proxy may exercise, each proxy may exercise half of the votes.
- A proxy need not be an FAL Shareholder.
- If you do not direct your proxy how to vote on an item of business, the proxy may vote, or abstain from voting, as that person thinks fit.
- If you instruct your proxy to abstain from voting on any item of business, that person is directed not to vote on the FAL Shareholder's behalf on the poll, and the shares the subject of the proxy appointment will not be counted in computing the required majority.
- If you return your Proxy Forms with a direction how to vote but without nominating the identity of your proxy, you will be taken to have appointed the chairman of the meeting as your proxy to vote on your behalf. If a Proxy Form is returned but the nominated proxy does not attend the meeting, the chairman of the meeting will act in place of the nominated proxy and vote in accordance with any instructions. Proxy appointments in favour of the chairman of the meeting, the secretary or any director which do not contain a direction will be used to vote FOR the Demerger Scheme Resolution.
- A vote given in accordance with the terms of a proxy is valid despite the revocation of the proxy, unless notice in writing of the revocation has been received by FAL before the commencement of this meeting.
- Completed Proxy Forms should be returned in one of the reply paid envelopes enclosed with this Booklet, or otherwise delivered to FAL's Share Registry at the following addresses:

In person:

Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace
PERTH WA 6000
AUSTRALIA

By mail:

Computershare Investor Services Pty Ltd
GPO Box D182
PERTH WA 6840
AUSTRALIA

- To be valid for all Meetings, Proxy Forms should be lodged by 10.00am Perth time on 31 October 2005. Proxies for this meeting must be lodged at least 48 hours before the commencement of the meeting.

Alternatively, Proxy Forms may be lodged by facsimile and must be received by the time referred to above. The facsimile numbers are:

To FAL's Share Registry:

08 9323 2033 (within Australia)
+61 8 9323 2033 (outside of Australia)

To FAL:

08 9311 6011 (within Australia)
+61 8 9311 6011 (outside of Australia)

Both sides of the Proxy Form must be transmitted. You can fax the Proxy Form to **either** of the above numbers. You should not send it to both numbers.

You or your attorney must sign the Proxy Form. Proxies given by corporations must be executed in accordance with the Corporations Act. Where the appointment of a proxy is signed by your attorney, a certified copy of the power of attorney, or the power itself, should be received by FAL at either of the above addresses or by facsimile transmission and by 10.00am Perth time on 31 October 2005. If facsimile transmission is used, the power of attorney must be certified.

FAL SHAREHOLDERS WHO ARE ENTITLED TO VOTE

In accordance with section 1074E of the Corporations Act and regulation 7.11.37 of the Corporations Regulations, the FAL Board has determined, and the Court orders, that a person's entitlement to vote at the Court ordered meeting to consider the Demerger Scheme will be the entitlement of that person set out in the FAL Share Register as at 5.00pm Perth time on 31 October 2005.

COURT APPROVAL

In accordance with section 411(4)(b) of the Corporations Act, the Demerger Scheme (with or without modification) must be approved by an order of the Court. If the Capital Reduction Resolution is passed at the General Meeting, FAL intends to apply to the Court on 9 November 2005 for the necessary orders to give effect to the Demerger Scheme.

C E Bennett
Company Secretary

16 September 2005

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Part 20

Dictionary

A

| | |
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| AASB | Australian Accounting Standards Board. |
| ACCC | Australian Competition and Consumer Commission. |
| Action | the Action Supermarkets division of the Australian Operation. |
| Actual Working Capital | is an amount (AWC) calculated in accordance with the following formula: $AWC = WC - IWAS + RP$ where: WC is the Working Capital of the Australian Operation as at the close of business on the Consideration Determination Date; IWAS is the inventory of the Woolworths Action Stores as at the close of business on the Consideration Determination Date; and RP is the amount of Rental Prepayments as at the close of business on the Consideration Determination Date. |
| AEST | Australian Eastern Standard Time. |
| AFSL | Australian Financial Services Licence issued under Chapter 7 of the Corporations Act. |
| AGAAP | Australian Generally Accepted Accounting Principles. |
| AHPL | Action Holdings Pty Ltd. |
| AIFRS | Australian Equivalents to International Financial Reporting Standards. |
| ALH | Australian Leisure and Hospitality Group Limited, a Subsidiary of Woolworths. |
| ALM | Australian Liquor Marketers, an operating division of Metcash. |
| ANZ | Australia and New Zealand Banking Group Limited. |
| ASIC | Australian Securities and Investments Commission. |
| ASTC | ASX Settlement and Transfer Corporation Pty Ltd. |
| ASTC Settlement Rules | the rules of ASTC. |
| ASX | Australian Stock Exchange Limited or the market operated by it, as the context requires. |
| ATO | Australian Taxation Office. |
| ATO Claim | the Federal Court action W250 of 2003 commenced by FAL against the Deputy Commissioner of Taxation and Federal Court action W251 of 2003 commenced by AHPL against the Deputy Commissioner of Taxation by which FAL and AHPL seek orders reducing the income tax payable by them for the 1993/1994 financial year. |
| Australian FAL Shareholders | FAL Shareholders whose address as shown in the register of members of FAL at the relevant time is in Australia. |

Australian Operation

where used in the context where the relevant time is prior to the Demerger Implementation Date or where the relevant time is after the Demerger Implementation Date but the Transfer Scheme has not become Effective, the following supermarket and franchise and supply businesses as carried on by various entities forming part of the FAL Group in Australia prior to the Demerger and any activity directly related to them in Australia:

- (a) the wholesale business conducted from distribution centres and/or support office complexes (located at Canning Vale, Malaga, Herdsman, Richlands and Rocklea) providing ambient groceries, frozen and chilled groceries, fresh foods and general merchandise to Action Supermarkets, Quickstop convenience stores and the franchised supermarkets operating under the names "Dewsons", "Dewsons Express", "Quickstop", "Supa Valu", and "Eziway" and other independent customers, and associated relevant assets including all intellectual property;
- (b) the business of franchising and coordinating the marketing and promotional activities of franchised supermarket businesses in Australia including those operating under the names of "Dewsons", "Dewsons Express", "Supa Valu" and "Eziway", and associated relevant assets including all intellectual property;
- (c) the "Cash & Carry" business located at Canning Vale, Balcatta and in the regional cities of Kalgoorlie and Bunbury, and associated relevant assets including all intellectual property;
- (d) the food service business trading as "FoodLink" and located at O'Connor, and associated relevant assets including all intellectual property;
- (e) the supermarket business operating under the name "Action Supermarkets", and associated relevant assets including all intellectual property;
- (f) the Quickstop convenience store and fuel retailing business, and associated relevant assets including all intellectual property;
- (g) property development and management activities including head leases and the asset management of the FAL Property Trust;
- (h) any other business operated by the FAL Group prior to the Demerger to the extent it is exclusively or predominantly carried out in Australia; and
- (i) head office and support functions; or

where used in the context where the relevant time is on or after the Demerger Implementation Date and the Transfer Scheme has become Effective, the businesses referred to in paragraphs (a) to (i) of this definition of Australian Operation except the Woolworths Action Stores transferred to Drumstar pursuant to the WOW Action Agreement.

Australian Surplus Cash Balance

the amount referred to in Part 3.3.2.1(a) of this Booklet

Awards

a cash award to a Woolworths executive under the Woolworths 2004 LTIP as described in Part 5.6.5.3(c) of this Booklet.

B

Bidder's Statement

Metcash's Bidder's Statement in respect of its off-market takeover offer for FAL, lodged with ASIC on 21 January 2005.

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| Booklet | this booklet which includes: <ul style="list-style-type: none"> (a) the Transfer Scheme; (b) the Demerger Scheme; (c) the Explanatory Statements on the Schemes; (d) the reports of Grant Samuel, Ernst & Young, E&Y TAS, Deloitte Touche Tohmatsu and PWCS; (e) the notice of meeting for the Transfer Scheme; (f) the notice of meeting for the Capital Reduction; (g) the notice of meeting for the Demerger Scheme; and (h) Proxy Form for the Meetings. |
| Bruandwo | Bruandwo Pty Limited. |
| Business Day | a day other than a Saturday, Sunday or public holiday in Perth or Sydney. |
| C | |
| C-Store Distribution | has the meaning it has in Part 6.1.3.3 of this Booklet. |
| Capital Gains Tax | relates to capital gains and losses provided for in Part 3-1 and Part 3-3 of the Income Tax Assessment Act 1997 (Cwlth). |
| Capital Reduction | the reduction of the share capital of FAL by the Capital Reduction Amount per Scheme Share, in accordance with the terms of the Capital Reduction Resolution. |
| Capital Reduction Amount | \$4.12 per Scheme Share. |
| Capital Reduction Resolution | an ordinary resolution in the form set out in the notice of General Meeting dated 19 September 2005 sent to FAL Shareholders in Part 19 of this Booklet. |
| Cash flow from operations | is before borrowing costs and income tax and includes receipts from customers, payments to suppliers and employees and the payment of taxes and government charges (excluding income tax). It excludes all cash flows associated with financing activities (including interest income and borrowing costs) and investing activities. |
| CCC | Campbells Cash & Carry, an operating division of Metcash. |
| CGT | Capital Gains Tax. |
| Change of Election Form | a form (able to be obtained from the FAL Share Registry by calling the FAL Shareholder Information Line on 1800 068 729 (within Australia) or +61 3 9415 4125 (outside of Australia), Monday to Friday between 9.00am and 7.00pm AEST under which FAL Shareholders can change an existing Election in relation to the Woolworths Consideration and/or the Metcash Consideration. |
| CHESS | the Clearing House Electronic Sub-register System. |
| Citibank | Citibank N.A., Sydney Branch. |
| Close of Registers | the Transfer Record Date, unless the Transfer Scheme does not become Effective, in which case it is the Demerger Record Date. |
| Coles Myer | Coles Myer Ltd. |
| Completion | the completion of the Demerger on the Demerger Implementation Date. |
| Consideration Date | seven days after the Transfer Implementation Date, or such other date as may be agreed by the parties to the Merger Implementation Agreement. |
| Consideration Determination Date | 2 October 2005. |

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| Consideration Expert | KPMG, referred to in Part 3.5 of this Booklet, appointed to determine components of the Transfer Scheme Consideration, or in the event that KPMG is unwilling or unable to act such other independent accounting firm as FAL, Metcash Trading and Woolworths or Woolworths NZ approve. |
| Corporations Act | Corporations Act 2001 (Cwlth). |
| Corporations Regulations | Corporations Regulations 2001 (Cwlth). |
| Cost of Doing Business | selling, general and administrative expenses plus rent, plus depreciation, plus amortisation of goodwill less other non-operating revenue from ordinary activities and equity accounted profit of associates. It excludes interest and taxes. |
| Court | the Federal Court of Australia or a court of competent jurisdiction under the Corporations Act. |
| CULS | convertible, redeemable, subordinated, unsecured loan notes issued by Metcash Trading as described in Part 6.5.5 of this Booklet. |
| CUPS | the convertible, undated preference shares issued by Metcash Trading on 6 April 2005. |
| | |
| D | |
| \$ or cents | except where otherwise indicated, the lawful currency of Australia. |
| DC | distribution centre. |
| Demerger | the divestment by FAL of the New Zealand Operation by way of the transfer of the New Zealand Operation to PEH, the issue of PEH Shares to FAL, an equal reduction of capital per FAL Share, the payment of the Demerger Dividend and the application of the Capital Reduction Amount and Demerger Dividend in consideration for the transfer of the PEH Shares to FAL Shareholders (to be implemented in accordance with the terms of the Demerger Scheme and in the manner as more fully described in this Booklet). |
| Demerger and Transfer Scheme Costs | the total of all external costs incurred or anticipated to be incurred by the FAL Group in undertaking the Demerger Scheme and the Transfer Scheme in relation to: <ul style="list-style-type: none"> (a) shareholder communications, including advertising and the printing and distribution of this Booklet and communicating with shareholders in relation to this Booklet, the Transfer Scheme, the Capital Reduction and the Demerger Scheme; (b) obtaining financial, legal, accounting and other specialist and expert advice, opinions and reports; and (c) board redundancy costs, redundancy costs for any FAL personnel above the General Manager of Wholesale and Franchise & Supply. |
| Demerger Deed | the deed referred to in Part 14.16.2.2 of this Booklet. |

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| Demerger Dividend | <p>an amount per Scheme Share equal to:</p> <p>(a) an amount determined as follows:</p> $DD = \frac{NZO - (\$4.12 \times FS)}{FS}$ <p>where:</p> <p>DD is the Demerger Dividend;</p> <p>NZO is the New Zealand Operation Value;</p> <p>FS is the number of FAL Shares at the time of payment of the Demerger Dividend;</p> <p>or</p> <p>(b) if the Maximum Dividend is less than the amount in (a), the Maximum Dividend.</p> |
| Demerger Effective Date | the date on which the Demerger Scheme becomes Effective. |
| Demerger Implementation Date | ten Business Days after the Demerger Effective Date (or such later date as may be agreed by the parties to the Merger Implementation Agreement) and is the date on which the legal separation of the PEH Post-Demerger Group from FAL takes effect. |
| Demerger Implementation Deed | the deed referred to in Part 14.16.2.1 of this Booklet. |
| Demerger Record Date | 5.00pm Perth time on the fifth Business Day following the Demerger Effective Date (or if the Transfer Scheme does not take effect, such other date permitted by ASX). |
| Demerger Scheme | the scheme of arrangement under Part 5.1 of the Corporations Act to implement the Demerger, the terms of which are set out in Part 18.4 of this Booklet. |
| Demerger Scheme Meeting | the meeting to be convened by the Court pursuant to the Demerger Scheme. |
| Demerger Scheme Resolution | the resolution of FAL Shareholders at the Demerger Scheme Meeting to approve the Demerger Scheme. |
| Drumstar | Drumstar Pty Ltd, being the company to which the Woolworths Action Stores are proposed to be transferred under the WOW Action Agreements described in Part 14.16.2.5 of this Booklet. |
| E | |
| E&Y TAS | Ernst & Young Transaction Advisory Services Limited. |
| EBIT | earnings before borrowing costs, income tax and significant items. |
| EBITA | earnings before goodwill amortisation, borrowing costs, income tax and significant items. |
| EBITDA | earnings before depreciation, amortisation, borrowing costs, income tax and significant items. |
| EBITDAR | earnings before interest, tax, depreciation, amortisation and rent. |

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| Effective | when used in relation to the Demerger Scheme or the Transfer Scheme, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under sections 411(4)(b) and 411(6) in relation to the Demerger Scheme or the Transfer Scheme (as the case may be). |
| Election | an election made by FAL Shareholders in relation to their choice of the Woolworths Consideration and/or the Metcash Consideration. |
| Election Form | the form accompanying this Booklet, under which FAL Shareholders can make an election in relation to the Woolworths Consideration and the Metcash Consideration. |
| EPS | earnings per share. |
| Ernst & Young TAS | Ernst & Young Transaction Advisory Services Limited. |
| Escrow Agreement | the agreement referred to in Part 14.16.2.7 of this Booklet. |
| Escrow Agent | the escrow agent under the Escrow Agreement. |
| Explanatory Statement | has the meaning given to it in Part 5.1 of the Corporations Act. |
| External Debt of FAL | the amount referred to in Part 3.3.2.1(f) of this Booklet. |

F

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| FAL | Foodland Associated Limited or, where the context requires, Foodland Associated Limited and its Subsidiaries at the relevant time or, where the context requires, one or more of the Subsidiaries of Foodland Associated Limited at the relevant time. |
| FAL Board | the board of directors of FAL. |
| FAL Director | a director of FAL. |
| FAL Employee Share Plan | the incentive scheme adopted by FAL which provides certain FAL employees the option to undertake non-recourse (except in New Zealand) interest free loans to acquire FAL Shares. |
| FAL Group | FAL and its Subsidiaries at the relevant time. |
| FAL Post-Demerger Group | FAL and its Subsidiaries immediately following Completion (which will exclude PEH and its Subsidiaries). |
| FAL Share | a fully paid ordinary share in the capital of FAL. |
| FAL Shareholder | a holder of one or more FAL Shares, and where the context requires, on the Transfer Record Date. |
| FAL Shareholder Information Line | the information line for FAL Shareholders on 1800 068 729 (within Australia) or +61 3 9415 4125 (outside of Australia), Monday to Friday between 9.00am and 7.00pm AEST. |
| FAL Share Register | the register of FAL Shareholders maintained under section 169 of the Corporations Act. |
| FAL Share Registry | Computershare Investor Services Pty Limited. |
| Financial Services Guide | a financial services guide prepared in accordance with Chapter 7 of the Corporations Act. |
| Fixed Charges | interest and property and equipment rentals. |

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| Fixed Charge Cover Ratio | EBITDAR as a ratio of Fixed Charges. |
| FNZFL | Foodland N.Z. Finance Limited. |
| FNZHL | Foodland (N.Z.) Holdings Limited, a company incorporated in New Zealand. |
| FSG | a Financial Services Guide. |
| Funds Employed | net assets, excluding net tax balances (being current tax liabilities, deferred tax assets and deferred tax liabilities) net repayable debt (being current and non-current interest bearing liabilities, less cash on hand, cash at bank and cash on short term deposit) and provision for dividends. |
| FY | financial year. |
| G | |
| General Meeting | the general meeting of FAL to be held on 2 November 2005 to consider and, if thought fit, to approve the Capital Reduction Resolution. |
| Government Agency | any foreign or Australian government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia, any State of the Commonwealth of Australia or New Zealand. |
| Grant Samuel | Grant Samuel & Associates Pty Limited. |
| GST | Goods and Services Tax (and has the meaning it has in A New Tax System (Goods and Services Tax) Act 1999 (Cwlth)). |
| I | |
| IASB | International Accounting Standards Board. |
| IBA | Independent Brands Australia, an operating division of Metcash. |
| IGA Distribution | IGA Distribution, an operating division of Metcash. |
| Independent Expert | Grant Samuel. |
| Independent Expert's Report | the report of Grant Samuel included in Part 15.1 of this Booklet. |
| Ineligible Overseas Shareholder | an FAL Shareholder whose address as shown in the register of members of FAL is in a jurisdiction other than Australia or its external territories or New Zealand and whose entitlement to PEH Shares is dealt with as described in Part 13.4 of this Booklet and/or whose entitlement to Woolworths Shares is dealt with in accordance with Part 13.5 of this Booklet and/or whose entitlement to Metcash Shares is dealt with in accordance with Part 13.6 of this Booklet. |
| IT | Information Technology. |
| K | |
| KPMG | the Perth office of KPMG. |

L

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| Listing Date | the date (if any) on which trading in PEH Shares (on a deferred settlement basis or otherwise) commences on the ASX. |
| Listing Rules | the official listing rules of the ASX. |

M

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| Maximum Dividend | the maximum amount per FAL Share that, as at the time of payment, FAL may pay as a dividend under section 254T of the Corporations Act. |
| Meetings | the Transfer Scheme Meeting, the General Meeting and the Demerger Scheme Meeting. |
| Meetings Date | the date on which the Meetings are held. |
| MEOP | the Metcash Limited Employee Option Plan described in Part 6.5.8 of this Booklet. |
| Merger Implementation Agreement | the agreement referred to in Part 14.16.4 of this Booklet and set out in Part 16 of this Booklet. |
| Metcash | Metcash Limited or, where the context requires, Metcash Limited and its Subsidiaries at the relevant time or, where the context requires, one or more of the Subsidiaries of Metcash Limited at the relevant time. In relation to historical statements relating to the period before the schemes of arrangement under which the group holding entity was changed from Metcash Trading Limited to Metcash Limited, Metcash refers to Metcash Trading Limited. |
| Metcash Agreed Amounts | the amount referred to in Part 3.3.2.1(g) of this Booklet. |
| Metcash Board | the board of directors of Metcash. |
| Metcash Capital Reorganisation | the capital reorganisation described in Part 6.1.2 of this Booklet. |
| Metcash Cash Consideration | the consideration described in Part 3.3.2.1 of this Booklet. |
| Metcash Consideration | the consideration described in Part 3.3 of this Booklet. |
| Metcash Director | a director of Metcash. |
| Metcash DRP | the dividend reinvestment plan established by Metcash and described in Part 6.5.7 of this Booklet. |
| Metcash Finance Documents | includes the Metcash Syndicated Facility Agreement and otherwise has the same meaning as "Finance Documents" in the Metcash Syndicated Facility Agreement. |
| Metcash Group | Metcash and its Subsidiaries at the relevant time. |
| Metcash Material Adverse Effect | means a material adverse effect on: <ul style="list-style-type: none">(a) the ability of a Metcash Obligor to perform a material obligation under the Metcash Syndicated Facility Agreement and other Metcash Finance Documents;(b) the business, assets, financial condition or prospects of the Metcash Group taken as a whole; and(c) the Metcash Finance Documents which results in them not being legal, valid or binding or enforceable against a Metcash Obligor which is considered to be materially adverse to the interests of ANZ or the other financiers. |
| Metcash Obligors | Metcash, Metcash Trading and each of the Subsidiaries of Metcash which is required to be a guarantor under the Metcash Syndicated Facility. |

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| Metcash Options | options issued by Metcash. |
| Metcash Optionholder | a holder of Metcash Options. |
| Metcash Post Acquisition | Metcash, as described in Part 6.8 of this Booklet. |
| Metcash Share | a fully paid ordinary share in the capital of Metcash. |
| Metcash Share Adjustment Event | an event summarised in Part 3.4 of this Booklet and set out in the Merger Implementation Agreement. |
| Metcash Share Consideration | the consideration described in Part 3.3.2.2 of this Booklet. |
| Metcash Shareholder | a holder of Metcash Shares. |
| Metcash stand alone | has the meaning given to it in Part 6.3.1 of this Booklet. |
| Metcash Syndicated Facility | the finance facility established by Metcash described in Part 6.10.4.2 of this Booklet. |
| Metcash Syndicated Facility Agreement | the agreement referred to in Part 6.10.4.1 of this Booklet. |
| Metcash Takeover Offer | Metcash's takeover offer for FAL announced on 6 December 2004 and made by Metcash in the Bidder's Statement and Supplementary Bidder's Statements. |
| Metcash Trading | Metcash Trading Limited, the wholly owned subsidiary of Metcash which will acquire all of the FAL Shares on issue pursuant to the Transfer Scheme. |
| Metoz | Metoz Holdings Limited. |
| MGW | MGW Hotels Pty Limited. |
| N | |
| Net Assumed Debt | the net external debt of the PEH Post-Demerger Group as at the Consideration Determination Date adjusted by certain matters and as calculated using the formula in Part 3.2.6 of this Booklet. |
| New Zealand FAL Shareholders | FAL Shareholders whose address, as shown in the register of members of FAL, is in New Zealand. |
| New Zealand Operation | where used in the context where the relevant time is prior to the Demerger Implementation Date or where the relevant time is after the Demerger Implementation Date but the Transfer Scheme has not become Effective, the following supermarket and franchise and supply businesses as carried on by various entities forming part of the FAL Group in New Zealand prior to the Demerger and any activity directly related to them in New Zealand: <ul style="list-style-type: none"> (a) the supermarket businesses operating under the names of "Foodtown", "Countdown" and "Woolworths", and associated relevant assets (including all intellectual property including logos, trademarks, domain names and client lists used in those businesses in New Zealand); (b) the supply chain businesses conducted from distribution centres and/or support office complexes located in Favona Road, Mangere (a suburb of Auckland), Palmerston North and Christchurch, together with meat processing plants in Otahuhu (a suburb of Auckland) and Malvern (a suburb of Christchurch), produce handling centres located in Mt Wellington (a suburb of Auckland), Wellington and Christchurch, chilled and frozen storage facilities in Auckland, Palmerston North and Christchurch, and a seafood preparation facility located in Penrose (a suburb of Auckland), and associated relevant assets (including all intellectual property including logos, trademarks, domain names and client lists used in those businesses in New Zealand); |

- (c) the online shopping businesses operating under the names of “www.woolworths.co.nz” and “www.foodtown.co.nz”, and associated relevant assets (including all intellectual property including logos, trademarks, domain names and client lists used in those businesses in New Zealand);
- (d) the convenience store network and micro market business trading as “Woolworths Micro” and “Woolworths Quickstop”, and associated relevant assets (including all intellectual property including logos, trademarks, domain names and client lists used in those businesses in New Zealand);
- (e) the business of franchising and coordinating the marketing and promotional activities of franchised supermarket businesses in New Zealand operating under the names of “Fresh Choice” and “SuperValue”, and associated relevant assets (including all intellectual property including logos, trademarks, domain names and client lists used in those businesses in New Zealand);
- (f) the exclusive right to use the product name “Fresh Zone” and the product names and logos for “SR Signature Range” and “B Basics” in New Zealand;
- (g) the stock, fixtures and fittings, contractual arrangements and other assets of those businesses referred to in this definition of “New Zealand Operation” and, to the extent owned by a member of the FAL Group in New Zealand, any land and buildings associated with or used in connection with those businesses;
- (h) the “onecard” loyalty scheme including all the membership and customer information relating to that scheme in New Zealand;
- (i) supermarket fit out and management of activities relating to head leases and owned properties;
- (j) any other business operated by the FAL Group prior to the Demerger to the extent that it is exclusively or predominantly carried out in New Zealand; and
- (k) head office and support functions (to the extent physically located in New Zealand); or

where used in the context where the relevant time is on or after the Demerger Implementation Date and the Transfer Scheme has become Effective, the businesses referred to in paragraphs (a) to (k) of this definition of “New Zealand Operation” and the Woolworths Action Stores transferred to Drumstar pursuant to the WOW Action Agreements.

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|------------------------------------|---|
| New Zealand Operation Value | \$2.2 billion or such other amount determined by FAL as the fair market value of the New Zealand Operation. |
| New Zealand Stores | means the property leases held by the FAL Group in respect of the New Zealand Operation. |
| NPAT | net profit after tax. |
| NZIRD | New Zealand Inland Revenue Department |
| NZX | New Zealand Exchange Limited. |

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| PEH | Progressive Enterprises Holdings Limited, the company which, after the Demerger, will be the ultimate holding company of each of the entities owning the businesses comprising the New Zealand Operation. |
| PEH Board | the board of directors of PEH. |
| PEH Director | a director or proposed director of PEH. |
| PEH Post-Demerger Group | PEH and its Subsidiaries immediately following Completion. |
| PEH Share | a fully paid ordinary share in the capital of PEH. |
| PEH Shareholder | a holder of one or more PEH Shares. |
| Performance Right | a Woolworths executive's right to receive Woolworths Shares under the Woolworths 2004 LTIP as described in Part 5.6.5.3(c) of this Booklet. |
| Performance Shares | a Woolworths executive's right to receive a beneficial interest in Woolworths Shares under the Woolworths 2004 LTIP as described in Part 5.6.5.3(c) of this Booklet. |
| Prior Six Months End | the following dates: (a) 1 May 2005, being the April 2005 month end; (b) 29 May 2005, being the May 2005 month end; (c) 3 July 2005, being the June 2005 month end; (d) 31 July 2005, being the July 2005 month end; (e) 28 August 2005, being the August 2005 month end; and (f) 2 October 2005, being the September 2005 month end. |
| Progressive | Progressive Enterprises Limited. |
| Project Refresh | Woolworths' project to improve business efficiencies described in Part 5.1.4.3 of this Booklet. |
| Proxy Form | the proxy form accompanying this Booklet. |
| PWCS | PricewaterhouseCoopers Securities Limited |

R

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| RDC | regional distribution centre. |
| Rental Prepayments | where rent has been paid in advance in relation to the FAL Pre-Demerger Group excluding PEH and its Subsidiaries and where that rent relates to a period part of which is before the Consideration Determination Date and part of which is after the Consideration Determination Date, the amount of that rent which relates to the period up to and including the Consideration Determination Date, calculated in accordance with the usual accounting policies, practices and procedures of the FAL Group. |
| Return on Funds Employed | EBIT divided by the average of Funds Employed at the beginning of the period and Funds Employed at the end of the period, expressed as a percentage. |

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| Sales revenue | total sales revenue from ordinary activities, excluding dividends, interest income and asset sale proceeds. |
| S&P | Standard & Poor's (Australia) Pty Limited (trading as "Standard & Poor's"). |
| Schemes | the Demerger Scheme and the Transfer Scheme. |
| Scheme Share | a FAL Share on issue at Close of Registers. |
| Second Court Date | the first day of hearing of an application made to the Court for the orders pursuant to sections 411(4)(b) and 411(6) of the Corporations Act approving the Demerger Scheme or the Transfer Scheme, as the case may be. |
| Shareholder Resolutions | the Transfer Scheme Resolution, the Demerger Scheme Resolution and the Capital Reduction Resolution. |
| Subscriber Share | the initial share in PEH issued on incorporation to FAL. |
| Subsidiary | when used in connection with an entity, means another entity which is a subsidiary of the first within the meaning of Part 1.2 division 6 of the Corporations Act or section 5(1) of the Companies Act 1993 (New Zealand) (as the case may be) or is a subsidiary or otherwise controlled by the first within the meaning of any approved accounting standard. |
| Supplementary Bidder's Statement | the Supplementary Bidder's Statements of Metcash in respect of its off-market takeover offer for FAL, lodged with ASIC on: (a) 4 February 2005; (b) 9 February 2005; (c) 11 February 2005; (d) 8 April 2005; and (e) 3 May 2005. |

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| Target's Statement | the Target's Statement of FAL in response to the off-market takeover offer of Metcash for FAL, lodged with ASIC on 1 March 2005. |
| Tax | means any tax, levy, charge, impost, duty, fee, deduction, compulsory loan or withholding, which is assessed, levied, imposed or collected by any Governmental Agency and includes, but is not limited to any interest, fine, penalty, charge, fee or any other amount imposed on, or in respect of any of the above. |
| Tax Appeals | the Tax Appeals described in Part 7.6.2 of this Booklet. |
| Tax Receivable | the amount in dispute under the ATO Claim plus any additional interest and costs. |
| Threshold Working Capital | an amount (TWC) of Working Capital calculated in accordance with the following formula: $\text{TWC} = \text{AWC} - \text{AIWAS} + \text{ARP}$ where: AWC is the average of the Working Capital of the Australian Operation as at the close of business at each of the dates set out in the definition of Prior Six Months End; AIWAS is the average of the inventory of the Woolworths Action Stores as at the close of business at each of the dates set out in the definition of Prior Six Months End; and ARP is the average Rental Prepayments as at the close of business at each of the dates set out in the definition of Prior Six Months End. |

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| TMS | transport management system |
| Total PEH Shares | the total number of PEH Shares on issue immediately following the Demerger. |
| TPA | Trade Practices Act 1974 (Cwlth). |
| Trade Mark Assignment | the assignment referred to in Part 14.16.2.4 of this Booklet. |
| Transfer Effective Date | the date on which the Transfer Scheme becomes Effective. |
| Transfer Implementation Date | ten Business Days after the Transfer Effective Date (or such other date as may be agreed by the parties to the Merger Implementation Agreement) and is the date on which the transfer of PEH Shares to Woolworths NZ and FAL Shares to Metcash Trading occurs. |
| Transfer Record Date | 5.00pm Perth time on the fifth Business Day following the Transfer Effective Date. |
| Transfer Scheme | a scheme of arrangement under Part 5.1 of the Corporations Act for the transfer of FAL Shares to Metcash Trading and for the transfer of PEH Shares to Woolworths NZ, the terms of which are set out in Part 18.2 of this Booklet. |
| Transfer Scheme Consideration | the Woolworths Consideration and the Metcash Consideration. |
| Transfer Scheme Meeting | the meeting to be convened by the Court pursuant to the Transfer Scheme. |
| Transfer Scheme Resolution | the resolution of FAL Shareholders at the Transfer Scheme Meeting to approve the Transfer Scheme. |
| Transitional Technology Services Agreement | the Transitional Technology Services Agreement referred to in Part 14.16.2.3 of this Booklet. |
| TSR | total shareholder return. |
| U | |
| US | the United States of America. |
| W | |
| Westpac | Westpac Banking Corporation group. |
| WINs | Woolworths Income Notes. |
| Woolworths | Woolworths Limited or, where the context requires, Woolworths Limited and its Subsidiaries at the relevant time or where the context requires one or more of the Subsidiaries of Woolworths at the relevant time. In certain contexts, "Woolworths" alternatively refers to one of the supermarket divisions of the New Zealand Businesses that trades in New Zealand under the "Woolworths" name. These references are principally in Part 9 of this Booklet. |
| Woolworths 1999 LTIP | the Long Term Incentive Plan approved by Woolworths Shareholders in 1999 and described in Part 5.6.5.3 of this Booklet. |
| Woolworths 2004 LTIP | the Long Term Incentive Plan approved by Woolworths Shareholders in 2004 and described in Part 5.6.5.3 of this Booklet. |

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| Woolworths Action Stores | <p>(a) the following Action branded supermarkets and associated liquor stores:</p> <p>(i) New South Wales - Kingscliff;</p> <p>(ii) Queensland - Birkdale, Highfields, Mermaid Waters, Mudgeeraba;</p> <p>(iii) Western Australia - Alexander Heights (scheduled to commence operation in September 2005), Balga (Stirling), Bassendean, Booragoon, Broome, Dog Swamp SC, Kalamunda, Maddington, Mundaring, Noranda, Ocean Keys (Clarkson), Palmyra, Port Hedland, Willetton (Southlands), Woodvale;</p> <p>(b) the following development sites:</p> <p>(i) Queensland - Caloundra;</p> <p>(ii) Western Australia - Kalgoorlie;</p> <p>(c) the Woodvale Shopping Centre in Western Australia; and</p> <p>(d) a residential property in Port Hedland, Western Australia.</p> |
| Woolworths Board | the board of directors of Woolworths. |
| Woolworths Bridge Facility | the Woolworths finance facility referred to in Part 5.5.2.1 of this Booklet. |
| Woolworths Bridge Facility Agreement | the agreement to provide the Woolworths Bridge Facility described in Parts 5.5.2.3 to 5.5.2.9 of this Booklet. |
| Woolworths Cash Consideration or Woolworths Cash | the consideration described in Part 3.2 of this Booklet. |
| Woolworths Cash Consideration Cap | the limit on Woolworths Cash Consideration described in Part 3.2.2 of this Booklet. |
| Woolworths Consideration | the consideration described in Part 3.2 of this Booklet. |
| Woolworths Constitution | the constitution of Woolworths. |
| Woolworths Director | a director of Woolworths. |
| Woolworths DRP | the Woolworths dividend reinvestment plan described in Part 5.6.4 of this Booklet. |
| Woolworths EMSP | the Woolworths Executive Management Share Plan described in Part 5.6.5.6 of this Booklet. |
| Woolworths ESIP | the Woolworths Employee Share Issue Plan described in Part 5.6.5.5 of this Booklet. |
| Woolworths ESP | the Woolworths Employee Share Plan described in Part 5.6.6.4 of this Booklet. |
| Woolworths Historical Financial Information | collectively, the historical financial information on Woolworths set out in Parts 5.2.2 to 5.2.4 of this Booklet. |
| Woolworths LTIP | the Woolworths 1999 LTIP and/or the Woolworths 2004 LTIP. |
| Woolworths Maximum Cash Consideration or Woolworths Maximum Cash | the consideration described in Part 3.2 of this Booklet. |

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| Woolworths Maximum Share Consideration or Woolworths Maximum Shares | the consideration described in Part 3.2 of this Booklet. |
| Woolworths NEDSP | the Woolworths Non-Executive Director's Share Plan described in Part 5.6.5.7 of this Booklet. |
| Woolworths NZ | WOW (NZ) Supermarkets Limited, the wholly owned subsidiary of Woolworths acquiring all of the PEH Shares on issue pursuant to the Transfer Scheme. |
| Woolworths Share | a fully paid ordinary share in the capital of Woolworths. |
| Woolworths Share Adjustment Event | an event summarised in Part 3.4 of this Booklet and set out in the Merger Implementation Agreement. |
| Woolworths Share Consideration | the consideration described in Part 3.2 of this Booklet. |
| Woolworths Share Consideration Cap | the limit on Woolworths Share Consideration described in Part 3.2.2 of this Booklet. |
| Woolworths Shareholders | holders of Woolworths Shares. |
| Woolworths Standard Consideration | the consideration described in Part 3.2 of this Booklet. |
| Woolworths Unaudited Pro-Forma Combined Financial Information | the Woolworths Unaudited Pro-Forma Combined Statement of Financial Performance and the Woolworths Unaudited Pro-Forma Combined Statement of Financial Position |
| Woolworths Unaudited Pro-Forma Combined Statement of Financial Position | has the meaning given to it in Part 5.3.3.1 of this Booklet. |
| Woolworths Unaudited Pro-Forma Combined Statement of Financial Performance | has the meaning given to it in Part 5.3.3.1 of this Booklet. |
| Working Capital | <p>(a) trade receivables;</p> <p>(b) (plus) inventory; and</p> <p>(c) (less) trade creditors,</p> <p>where each of the elements listed in (a) to (c) are calculated in accordance with the usual accounting policies, practices and procedures of the FAL Group. For the avoidance of doubt, Australian GST payable or receivable will be included in the calculation of Working Capital.</p> |
| WOW Action Agreements | the agreements referred to in Part 14.16.2.5 of this Booklet. |
| WOW Drumstar Agreement | the agreement referred to in Part 14.16.2.6 of this Booklet. |

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| you | the FAL Shareholder or FAL Shareholders to whom this Booklet has been sent but, where the context requires, only if they continue to hold their FAL Shares on the Transfer Record Date and Demerger Record Date or, if some other person holds those FAL Shares on the Transfer Record Date and Demerger Record Date, that other person. |
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FAL