Attachment 5

HERBERT SMITH FREEHILLS

Information memorandum

Coles Group Limited

101 Collins Street Melbourne Vic 3000 Australia
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1 Purpose of Information Memorandum

This Information Memorandum has been prepared by Coles Group Limited ABN 11 004 089 936 (**Coles**) in connection with its application for:

(a) admission to the official list of the Australia Securities Exchange (**ASX**); and

(b) fully paid ordinary shares in the capital of Coles (**Coles Shares**) to be granted official quotation on the securities exchange operated by ASX.

This document is not a disclosure document lodged with the Australian Securities and Investments Commission (**ASIC**) under the *Corporations Act 2001* (Cth) (**Corporations Act**).

This document does not constitute or contain any offer of Coles Shares for issue or any invitation to apply for the issue of Coles Shares.

Neither ASX nor any of its officers takes any responsibility for the contents of this Information Memorandum.

2 Incorporation of Scheme Booklet

The following parts of the scheme booklet prepared by Wesfarmers Limited ABN 28 008 984 049 (**Wesfarmers**) dated 5 October 2018 in connection with the proposed demerger of Coles (**Scheme Booklet**), a copy of which is included as Annexure A to this Information Memorandum, are taken to be included in this Information Memorandum:

- Important Information (to the extent it relates to Coles);
- Frequently Asked Questions (to the extent it relates to Coles);
- Section 1 (Advantages, Disadvantages and other Relevant Considerations) to the extent it relates to Coles;
- Section 2 (Information on Coles);
- Section 4.2 (Wesfarmers Restructure and Coles Separation) (to the extent it relates to Coles) and Section 4.9 (Demerger Agreements);
- Section 5 (Taxation Implications for Shareholders) (to the extent it relates to Coles);
- Section 6 (Independent Accountant’s Report) (to the extent it relates to Coles);
- Section 7 (Concise Independent Expert’s Report) (to the extent it relates to Coles);
- Section 8.2.1 (Intention of Directors – Coles), section 8.3 (Interests of Wesfarmers and Coles Directors) (to the extent it relates to Coles), Section 8.4 (Summary of Rights and Liabilities Attaching to Coles Shares and other Material Provisions of the Coles Constitution), Section 8.6 (Regulatory Waivers and Consents) (to the extent it relates to Coles), Section 8.7 (Consents and Disclaimers), Section 8.8 (Regulatory and Legal) and Section 8.10 (Supplementary Information);
- Section 9 (Glossary);
- Section 10 (Scheme of Arrangement); and

- Section 11 (Deed Poll).

Words defined in the Scheme Booklet have the same meaning where used in this Information Memorandum (unless the context otherwise requires).

3 Supplementary information

3.1 Announcements, trading update and appointments

Since publication of the Scheme Booklet, the following developments have occurred and are included as Annexures B, C and D to this Information Memorandum:

- on 5 October 2018, Wesfarmers announced that Coles had entered into a heads of agreement with Witron Australia to develop two new automated ambient distribution centres for Coles over a five year period (refer to the announcement contained in Annexure B);
- on 15 October 2018, Wesfarmers announced Coles retail sale results for the first quarter of the 2019 financial year (refer to the announcement contained in Annexure C);
- on 17 October 2018, Kris Webb joined Coles as Chief People Officer (refer to the biography contained in Annexure D); and
- on 15 November 2018, Wesfarmers included a Coles trading update at its Annual General Meeting presentation (refer to the extract of the meeting transcript contained in Annexure E).

3.2 Adoption of retail calendar year

The board of Coles anticipates that Coles will adopt a retail calendar year for its financial year following implementation of the Demerger. Accordingly, the 2019 financial half-year for Coles will end on Sunday, 30 December 2018.

4 ASX listing

Coles believes that this Information Memorandum contains all the information which would have been required under section 710 of the Corporations Act if the Information Memorandum were a prospectus in respect of an offering by Coles of the same number of Coles Shares as will be issued pursuant to the Demerger and for which quotation on ASX will be sought.

An application has been made to ASX on or about the date of this Information Memorandum for Coles to be admitted to the official list of ASX and for Coles Shares to be granted official quotation on the securities exchange operated by ASX.

Neither ASIC nor ASX accepts responsibility for any statement in this Information Memorandum. The fact that ASX may admit Coles to the official list of ASX is not to be taken in any way as an indication of the merits of Coles.

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5 Capital raisings

Other than as set out in section 4.2.2 of the Scheme Booklet, Coles has not raised any capital for the three months before the date of this Information Memorandum and the board of Coles does not anticipate the need to raise any capital for three months after the date of this Information Memorandum.

6 Supplementary Information Memorandum

Coles will issue a supplementary information memorandum (**Supplementary Information Memorandum**) if it becomes aware of any of the following between the date of this Information Memorandum and the date on which Coles Shares are quoted:

- a material statement in this Information Memorandum is misleading or deceptive;
- there is a material omission from this Information Memorandum;
- there has been a significant change affecting a matter included in this Information Memorandum; or
- a significant new circumstance has arisen and it would have been required to be included in this Information Memorandum if it had arisen prior to the date of this Information Memorandum.

7 Disclosure of interests

7.1 Directors

Other than as set out in the Scheme Booklet, no director or proposed director of Coles or any entity in which any such director or proposed director is a member or partner has at the date of this Information Memorandum, or within two years before the date of this Information Memorandum had, any interests in the promotion of Coles or in any property acquired or proposed to be acquired by Coles and no amounts, whether in cash or securities or otherwise, have been paid or agreed to be paid by any person to any director or proposed director or to any entity in which a director or proposed director is a member or partner, either to induce them to become, or to qualify them as, a director, or otherwise for services rendered by them or by the entity in connection with the promotion or formation of Coles.

7.2 Experts

Other than as set out in the Scheme Booklet, no expert named in the Scheme Booklet or entity in which any such expert is a member of partner has any interest in the promotion of Coles or in any property acquired or proposed to be acquired by Coles and no amounts, whether in cash or securities or otherwise, have been paid or agreed to be paid by any person to any such expert or to any entity in which any such expert is a member or partner for services rendered by him or her or the entity in connection with the promotion or formation of Coles.

8 Statement from Directors

Each director of Coles believes that Coles has enough working capital to carry out its stated objectives.

9 Consents

Each of the parties named in this section as consenting parties:

- has given and has not, before the date of this Information Memorandum, withdrawn its consent to be named in this Information Memorandum in the form and context in which it is named;
- has given and has not, before the date of this Information Memorandum, withdrawn its written consent to the inclusion of its respective statements and reports (where applicable) noted next to its name below, and the references to those statements and reports in the form and context in which they are included in this Information Memorandum;
- does not make, or purport to make, any statement in this Information Memorandum other than those statements referred to below in respect of that person's name (and as consented to by that person);
- has not caused or authorised the issue of this Information Memorandum; and
- to the extent permitted by law, expressly disclaims and takes no responsibility for any statements in or omissions from this Information Memorandum.

Role	**Consenting parties**	**Relevant statement or report**
Legal advisor	Herbert Smith Freehills	N/A
Financial advisors	Gresham Advisory Partners Goldman Sachs Macquarie Capital	N/A
Independent Accountant	Ernst & Young Transaction Advisory Services Limited	Section 6 (Independent Accountant's Report) of the Scheme Booklet to the extent it relates to Coles
Independent Expert	Grant Samuel & Associates Pty Ltd	Section 7 (Concise Independent Expert's Report) of the Scheme Booklet to the extent it relates to Coles

Role	Consenting parties	Relevant statement or report
Taxation advisors	Greenwood + Herbert Smith Freehills Pty Ltd	Section 5 (Taxation Implications) of the Scheme Booklet to the extent it relates to Coles
Auditor and provider of financial due diligence	Ernst & Young	N/A

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Authorisation

Signed by each director and proposed director of Coles or a person authorised by them in writing to sign this Information Memorandum on their behalf:

James Graham	Steven Cain
David Cheesewright	Jacqueline Chow
Abigail Cleland	Richard Freudenstein
Wendy Stops	Zlatko Todorcevski

DATED: 20 November 2018

Authorisation

Signed by each director and proposed director of Coles or a person authorised by them in writing to sign this Information Memorandum on their behalf:

James Graham

Steven Cain

J. Cheesewright

David Cheesewright

Jacqueline Chow

Abigail Cleland

Richard Freudenstein

Wendy Stops

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DATED: 20 November 2018

Annexure A

Scheme Booklet

Wesfarmers coles

DEMERGER OF COLES

SCHEME BOOKLET

This is an important document and requires your immediate attention.

You should read this document in its entirety prior to deciding whether or not to vote in favour of the resolutions to approve the Demerger. If you are in any doubt as to what you should do, you should seek independent legal, financial, taxation or other professional advice before voting on the Demerger.

Financial Advisors

GRESHAM Goldman Sachs MACQUARIE

Legal Advisor

HERBERT SMITH FREEHILLS

VOTE IN FAVOUR

Each Wesfarmers Director recommends that Wesfarmers Shareholders **vote in favour** of the resolutions to approve the Demerger of Coles.

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

IMPORTANT INFORMATION

GENERAL

This Scheme Booklet is important. Wesfarmers Shareholders should carefully read this Scheme Booklet in its entirety before making a decision as to how to vote on the Demerger Resolutions to be considered at the General Meeting and the Scheme Meeting.

INVESTMENT DECISIONS

This Scheme Booklet does not take into account the individual investment objectives, financial situation or needs of any particular Wesfarmers Shareholder or any other person. The information in this Scheme Booklet should not be relied upon as the sole basis for any investment decision. Wesfarmers Shareholders should seek independent legal, financial, taxation and other professional advice before making any investment decision.

PURPOSE OF THIS SCHEME BOOKLET

This Scheme Booklet sets out the effects of the Demerger, certain information required by law and all other information known to the Wesfarmers Directors which is material to the decision of Wesfarmers Shareholders to vote in favour of, or against, the Demerger Resolutions to effect the Capital Reduction and the Scheme (other than information previously disclosed to Wesfarmers Shareholders) and includes:

- a statement of all the information known to Wesfarmers that is material to Wesfarmers Shareholders in deciding how to vote on the Capital Reduction Resolution, as required by section 256C(4) of the Corporations Act; and
- the explanatory statement, as required by section 412 of the Corporations Act, in relation to the Scheme.

The Demerger is conditional on (amongst other things) both the Demerger Resolutions being passed. Information regarding the Capital Reduction Resolution is set out in the Notice of General Meeting.

PREPARATION OF AND RESPONSIBILITY FOR THIS SCHEME BOOKLET

- This Scheme Booklet (other than the Independent Expert's Report and the Independent Accountant's Report) has been prepared by Wesfarmers as at the date of this Scheme Booklet and Wesfarmers is responsible for the content of this Scheme Booklet.
- Grant Samuel & Associates Pty Limited has prepared the Independent Expert's Report and a concise version of the Independent Expert's Report which is contained in Section 7. Grant Samuel & Associates Pty Limited takes responsibility for that report (including the concise version). A copy of the full version of the Independent Expert's Report can be obtained free of charge by calling the Shareholder Information Line on 1300 558 062 (within Australia) or +61 3 9415 4631 (international) on weekdays between 8:30am and 8:00pm (AEDT) or from Wesfarmers' website at www.wesfarmers.com.au.
- Ernst & Young Transaction Advisory Services Limited has prepared the Independent Accountant's Report and takes responsibility for that report. A copy of that report is set out in Section 6.
- Greenwoods & Herbert Smith Freehills Pty Ltd has reviewed and agrees with Section 5 relating to the description given of the income tax and goods and services tax implications of the Demerger for Wesfarmers Shareholders who, amongst other things, are residents of Australia for Australian tax purposes.
- Herbert Smith Freehills has reviewed and agrees with Section 5 relating to the description given of the stamp duty implications of the Demerger for Wesfarmers Shareholders who, amongst other things, are residents of Australia for Australian tax purposes.

ROLE OF ASIC

A copy of this Scheme Booklet has been lodged with ASIC in accordance with section 256C(5) of the Corporations Act and registered by ASIC under section 412(6) of the Corporations Act. ASIC has been requested to provide a statement in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court at the time of the Second Court Hearing.

Neither ASIC nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

ROLE OF ASX

Coles will apply for admission to the Official List and for official quotation of Coles Shares on the ASX.

Neither the ASX nor any of its officers takes any responsibility for the contents of this Scheme Booklet. The fact that the ASX may admit Coles to the Official List does not make any statement regarding, and should not be taken in any way as an indication of, the merits of an investment in Coles.

IMPORTANT NOTICE ASSOCIATED WITH COURT ORDER UNDER SECTION 411(1) OF THE CORPORATIONS ACT

The fact that under section 411(1) of the Corporations Act the Court has ordered that the Scheme Meeting be convened and has approved the explanatory statement contained in this Scheme Booklet required to accompany the Notice of Scheme Meeting does not mean that the Court:

- has formed any view as to the merits of the Scheme or as to how Wesfarmers Shareholders should vote (on this matter Wesfarmers Shareholders must reach their own decision); or
- has prepared, or is responsible for the contents of the explanatory statement contained in this Scheme Booklet.

NOTICE OF SECOND COURT HEARING

At the Second Court Hearing, the Court will consider whether to approve the Scheme following the vote at the Scheme Meeting.

Any Wesfarmers Shareholder may appear at the Second Court Hearing, expected to be held at the Supreme Court of Western Australia in Perth on 19 November 2018.

Any Wesfarmers Shareholder who wishes to oppose approval of the Scheme at the Second Court Hearing may do so by filing with the Court and serving on Wesfarmers a notice of appearance in the prescribed form together with any affidavit that the Wesfarmers Shareholder proposes to rely on.

NOTICE OF GENERAL MEETING

The Notice of General Meeting is set out in Section 12.

NOTICE OF SCHEME MEETING

The Notice of Scheme Meeting is set out in Section 13.

STATUS OF THIS SCHEME BOOKLET

This Scheme Booklet is not a prospectus lodged under chapter 6D of the Corporations Act. Section 708(17) of the Corporations Act provides that chapter 6D 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.

FOREIGN JURISDICTIONS AND SHAREHOLDERS

Wesfarmers Shareholders who are Ineligible Overseas Shareholders will not receive Coles Shares under the Demerger. Coles Shares that would otherwise be transferred to these shareholders under the Demerger will be transferred to the Sale Agent to be sold, with the proceeds of such sale to be paid to Ineligible Overseas Shareholders. Refer to Section 4.8.2 for further information.

Wesfarmers Shareholders resident outside Australia for tax purposes should seek specific tax advice in relation to the Australian and overseas tax implications of the Demerger.

This Scheme Booklet does not in any way constitute an offer of securities in any place in which, or to any person to whom, it would be unlawful to make such an offer. No action has been taken to register or qualify the Coles Shares or otherwise permit a public offering of Coles Shares in any jurisdiction outside Australia.

Based on the information available to Wesfarmers as at the date of this Scheme Booklet, Wesfarmers Shareholders whose addresses are shown in the register on the Record Date as being in the following jurisdictions will be entitled to have Coles Shares transferred to them pursuant to the Demerger:

- Australia, Canada, Hong Kong, New Zealand, Singapore, United Kingdom or United States; or
- any other jurisdiction in which Wesfarmers reasonably believes it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer Coles Shares to the Wesfarmers Shareholder.

Nominees, custodians and other Wesfarmers Shareholders who hold Wesfarmers Shares on behalf of a beneficial owner resident outside Australia, Canada, Hong Kong, New Zealand, Singapore, the United Kingdom or the United States may not forward this Scheme Booklet (or accompanying documents) to anyone outside these countries without the consent of Wesfarmers.

FORWARD LOOKING STATEMENTS

Forward looking statements may generally be identified by the use of forward looking words such as "believe", "aim", "expect", "anticipate", "intend", "foresee", "likely", "should", "planned", "may", "might", "is confident", "estimate", "potential" or other similar words or phrases. These statements discuss future expectations concerning the results of operations or financial condition of the Wesfarmers Group or the Coles Group, or provide other forward looking statements.

These forward looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which may be beyond Wesfarmers' or Coles' control, and which may cause the actual results, performance or achievements of Wesfarmers or Coles to be materially different from future results, performance or achievements expressed or implied by such statements.

Other than as required by law, neither Wesfarmers, Coles, their officers, advisors nor any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this Scheme Booklet will actually occur.

Additionally, statements of the intentions of the Wesfarmers Board or the Coles Board reflect the present intentions of the Wesfarmers Directors and Coles Directors respectively as at the date of this Scheme Booklet and may be subject to change as the composition of the Wesfarmers Board and Coles Board alters, or as circumstances require.

Except as required by law, Wesfarmers and Coles disclaim any obligation or undertaking to update or revise any forward looking statement in this Scheme Booklet.

PRESENTATION OF FINANCIAL INFORMATION

The Wesfarmers Historical Financial Information within this Scheme Booklet has been derived from the financial reports of Wesfarmers for the years ended 30 June 2016, 2017 and 2018, which were audited by Ernst & Young in accordance with Australian Auditing Standards. Ernst & Young issued unqualified audit opinions on these financial statements. The financial statements for these periods are available from Wesfarmers' website (www.wesfarmers.com.au) or the ASX website (www.asx.com.au). The Coles Pro Forma Historical Financial Information within this Scheme Booklet has not historically been subject to a separate audit.

The Wesfarmers Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in Australian Accounting Standards (**AAS**), which are consistent to International Financial Reporting Standards (**IFRS**).

The Wesfarmers (post Demerger) Pro Forma Historical Financial Information and the Coles Pro Forma Historical Financial Information within this Scheme Booklet have been prepared in accordance with the recognition and measurement principles contained in AAS, which are consistent to IFRS, other than that it includes adjustments which have been prepared in a manner consistent with AAS, that reflect:

- the recognition of certain items in periods different from the applicable period under AAS;
- the exclusion of certain transactions that occurred in the relevant periods; and
- the impact of certain transactions as if they occurred as at 30 June 2018 in the pro forma historical balance sheets and from 1 July 2015 in the pro forma historical income statements and cash flows.

The Wesfarmers (post Demerger) Pro Forma Historical Financial Information and the Coles Pro Forma Historical Financial Information have been prepared on a consistent basis to the accounting policies set out in Wesfarmers's annual reports for the years ended 30 June 2016, 30 June 2017 and 30 June 2018.

In preparing the Wesfarmers (post Demerger) Pro Forma Historical Financial Information and the Coles Pro Forma Historical Financial Information, certain adjustments were made to the historical financial information of Wesfarmers and Coles that was considered appropriate to reflect the effect of the Demerger, as described in this Scheme Booklet. The Financial Information contained in this Scheme Booklet is historical only. Past financial performance is not necessarily a guide to future financial performance.

PRIVACY AND PERSONAL INFORMATION

Wesfarmers, Coles and their respective share registries (each an **Organisation**), may collect personal information in the process of implementing the Demerger. The personal information may include the names, addresses, other contact details and details of the shareholdings of Wesfarmers Shareholders, and the names of individuals appointed by Wesfarmers Shareholders as proxies, corporate representatives or attorneys at the Meetings.

Wesfarmers Shareholders who are individuals, and individuals appointed as proxies, corporate representatives or attorneys in respect of whom personal information is collected as outlined in this section have certain rights to access their personal information. They should call the Shareholder Information Line on 1300 558 062 (within Australia) or +61 3 9415 4631 (international) on weekdays between 8:30am and 8:00pm (AEDT) if they wish to request access to the personal information held by any of the Organisations. Wesfarmers Shareholders who appoint an individual as their proxy, corporate representative or attorney to vote on the Demerger Resolutions should inform those individuals of the matters outlined in this section.

The personal information will be collected for the purpose of implementing and administering the shareholdings arising from the Demerger. An Organisation may, to the extent permitted by law, disclose personal information collected by it to another Organisation, to securities brokers, to print and mail service providers and any other service providers and advisors engaged by an Organisation in relation to the implementation and administration of the shareholdings arising from the Demerger. The personal information of Ineligible Overseas Shareholders and Selling Shareholders may also be disclosed to the Sale Agent for the purposes of operating the Sale Facility.

The main consequence of not collecting the personal information outlined in this section would be that Wesfarmers may be hindered in, or prevented from, conducting the Meetings and implementing the Demerger.

INTERPRETATION

Capitalised terms and certain abbreviations used in this Scheme Booklet are defined in the Glossary in Section 9.

In this Scheme Booklet, the term "Wesfarmers (post Demerger)" is used to describe Wesfarmers as it will exist as if the Demerger has been implemented. The term "Wesfarmers (post Demerger)" is used in this Scheme Booklet for simplicity of explanation only, to distinguish between that entity during the period prior to, and the period after, the Demerger. However, Wesfarmers and Wesfarmers (post Demerger) are and will remain the same legal entity and corporate group, which is Wesfarmers Limited and, where the context requires, its Subsidiaries from time to time.

The Coles business has historically been operated out of Coles Group Limited, as well as certain Subsidiaries that undertake the Coles business operations described in Section 2. The term "Coles" used in this Scheme Booklet reflects the corporate restructuring referred to in Section 4.2 and the principles of the Separation Deed summarised in Section 4.9, with references to Coles in the historic period inclusive of any businesses that will constitute Coles, and exclusive of any businesses that will not constitute Coles, as it will exist after the Demerger has been implemented. The term "standalone" is used to describe Coles as it will exist after the Demerger, with a separate board and management team from Wesfarmers (post Demerger).

References in this Scheme Booklet to the Coles Board or to Coles Directors means the board or directors of Coles immediately following the Effective Date (or from the time following the Effective Date). It is intended that the board of Coles will be reconstituted on the Effective Date to reflect the board composition set out in Section 2.10. References in this Scheme Booklet to strategies or policies to be applied by Coles following the Demerger reflect the views and intentions of the intended directors of Coles from the Effective Date and Coles senior executives.

Unless otherwise stated, all times and dates referred to in this Scheme Booklet are times and dates in Perth time. All dates and times following the date of the Scheme Meeting and General Meeting are indicative only and, among other things, are subject to all necessary approvals from the Court and other regulatory authorities. Any changes to the Timetable (which may include an earlier or later date for the Second Court Hearing) will be announced through the ASX and will be notified on Wesfarmers' website at www.wesfarmers.com.au.

In this Scheme Booklet, unless otherwise specified or the context otherwise requires, references to $ or A$ are to Australian dollars.

All references to years are references to Wesfarmers' financial years, ending 30 June, unless otherwise indicated.

Any discrepancies between totals in tables and sums of components contained in this Scheme Booklet and between those figures and figures referred to in other parts of this Scheme Booklet are due to rounding.

DATE

This Scheme Booklet is dated 5 October 2018.

SUPPLEMENTARY INFORMATION

Refer to Section 8.10 for information about the steps that Wesfarmers will take if information about the Demerger needs to be updated.

LETTER FROM THE CHAIRMAN

MICHAEL CHANEY AO

On behalf of the Wesfarmers Board I am pleased to present you with this Scheme Booklet containing information about the proposed demerger of Coles from Wesfarmers.

Your Board strongly encourages you to support the Demerger, which will significantly reposition the Group's portfolio and set up Wesfarmers and Coles for future success.

The rationale for the Coles demerger is clear if we consider Wesfarmers' core objective: to deliver satisfactory returns to shareholders, with our definition of satisfactory being superior to the market over the long term.

Demerging Coles enhances Wesfarmers' prospects of continuing to achieve our objective by shifting our investment weighting and focus towards businesses with higher future earnings growth prospects. As at 30 June 2018, Coles accounted for approximately 62 per cent of the Group's capital employed and contributed one third of Group divisional earnings. If the Demerger proceeds, Wesfarmers will be better positioned for higher growth with a diverse portfolio of cash generative businesses with leading positions in growing markets. This includes retailers Bunnings, Kmart, Target and Officeworks and industrial operations in chemicals, energy and fertilisers, and industrial and safety. Wesfarmers will also retain a very strong balance sheet, providing flexibility to pursue value-accretive investment opportunities when they arise.

Following a successful turnaround since being acquired by Wesfarmers in 2007, Coles is, once again, a leading Australian retailer.

Coles' separation from Wesfarmers will create a new top-30 Australian listed company with leading positions in fresh food, groceries, liquor and convenience, strong cash generation to underpin investment and dividend distributions, and an earnings profile expected to be resilient through economic cycles. Coles' turnaround over the past decade and its strategy to ensure it remains a trusted brand for Australians sees it well positioned to continue to grow as a mature defensive business with strong investment characteristics.

We are committed to ensuring Coles is set up with a strong foundation for success and growth as an independent listed company. Coles will be demerged with a strong balance sheet, including a net debt level that supports strong investment grade credit ratings. Its experienced executive team and board ensures Coles will be led by an exceptional group of people with the background, knowledge and skills necessary to drive continued success in a dynamic and competitive environment.

Coles' approach to dividends will be determined by the Coles Board and may change over time, but it currently intends to pay dividends having regard to current earnings and cash flows, available franking credits, future cash flow requirements and targeted credit metrics. This approach is expected to deliver a dividend payout ratio ranging from 80 to 90 per cent while enabling Coles to retain strategic flexibility.

Wesfarmers plans to retain a minority ownership interest of 15 per cent in Coles and a 50 per cent interest in the flybuys joint venture with Coles. This will support strategic alignment between Wesfarmers and Coles in relation to mutually beneficial growth initiatives, including in the areas of data, digital and loyalty, and support the continued development of flybuys by leveraging the combined Coles and Wesfarmers digital and data assets.

If the Demerger proceeds, it will be implemented via a scheme of arrangement under which eligible Wesfarmers Shareholders will receive one Coles Share for each Wesfarmers Share they hold on the Record Date, expected to be 4:00pm (Perth time) on 22 November 2018. Wesfarmers Shareholders will also retain their shareholding in Wesfarmers. Post implementation of the Demerger, Eligible Shareholders will have the choice to retain their Wesfarmers and Coles shares, or sell either or both.

After considering alternatives for Coles and the advantages, disadvantages and risks of the Demerger, your Board unanimously considers that the Demerger is in the best interests of Wesfarmers Shareholders. Grant Samuel, the Independent Expert appointed by Wesfarmers, has also concluded that the Demerger is in the best interests of Wesfarmers Shareholders. A concise version of the Independent Expert's Report is contained in Section 7.

I encourage you to read this Scheme Booklet thoroughly as it contains important information that will assist you to make an informed decision about the Demerger, including the advantages, disadvantages, and risks (see Section 1). If you have any questions about the Scheme Booklet or the Demerger, please consult your financial, legal, taxation or other relevant professional advisor. You are also welcome to call the Wesfarmers Shareholder Information Line on 1300 558 062 (within Australia) or +61 3 9415 4631 (international) on weekdays between 8:30am and 8:00pm (AEDT) or visit the Wesfarmers website, www.wesfarmers.com.au.

In order to proceed, the Demerger must be approved by Wesfarmers Shareholders and your vote is important. I urge you to vote on the Demerger Resolutions in person, by proxy, by attorney, or in the case of a corporation, by corporate representative, at the General Meeting and Scheme Meeting to be held consecutively on Thursday 15 November 2018 at the Perth Convention and Exhibition Centre, Mounts Bay Road, Perth, Western Australia. The General and Scheme Meetings will follow the Wesfarmers Annual General Meeting, which commences at 10:30am (Perth Time). For your Proxy Form to be effective, it must be received by 4:00pm (Perth time) on Tuesday 13 November 2018.

Each Wesfarmers Director recommends you vote in favour of the Demerger Resolutions and each Wesfarmers Director intends to vote any Wesfarmers Shares she or he holds or controls in favour of the Demerger.

Michael Chaney AO
Chairman

OVERVIEW OF WESFARMERS GROUP (POST DEMERGER) AND COLES GROUP

Wesfarmers

From its origins in 1914 as a Western Australian farmers' cooperative, Wesfarmers has grown into one of Australia's largest listed companies.

- Following the Demerger, Wesfarmers will continue to be one of Australia's largest listed companies and private sector employers with around 105,000 employees.
- Wesfarmers' diverse business operations will include the Bunnings, Department Stores and Officeworks retail divisions and the Industrials division with businesses in chemicals, energy and fertilisers, and industrial and safety products. Wesfarmers will also have a number of other non-controlling interests, including a 15 per cent interest in Coles.
- For the year ended 30 June 2018, Wesfarmers' post Demerger pro forma revenue was $27.5 billion, pro forma EBIT from continuing operations was $2,734 million and pro forma EBIT from continuing operations and excluding significant items[1] was $3,040 million.
- Wesfarmers will retain a strong balance sheet providing capacity to act opportunistically when value-accretive opportunities arise. Wesfarmers expects to retain its current strong investment grade credit ratings.
- Wesfarmers' objective will continue to be to deliver satisfactory returns to shareholders, through its proven operating model underpinned by disciplined capital allocation and divisional autonomy.

Wesfarmers

Bunnings warehouse | Bunnings | Officeworks

flybuys | Kmart | Target

Wesfarmers Chemicals, Energy & Fertilisers | Wesfarmers Industrial and Safety

coles

From its origins in 1914 as a variety store in Collingwood, Victoria, Coles has grown to become a leading Australian retailer which sells everyday products including fresh food, groceries, household goods, liquor, fuel and financial services via its store network and online platforms.

- Sales in the Australian grocery and liquor industry have grown over the period June 1985 to June 2018 by 6.2 per cent and 7.2 per cent per annum respectively.
- As at 30 June 2018, Coles processed more than 21 million customer transactions on average each week, had over 112,000 team members and operated 2,507 retail outlets nationally. Approximately 80 per cent of Australians are within a 10 minute drive of a Coles store.
- Coles will consist of three key divisions: Supermarkets, Liquor and Convenience.
- For the year ended 30 June 2018, Coles had pro forma revenue of $39.3 billion and pro forma EBIT of $1,414 million.
- Coles' net debt following demerger will be approximately $2 billion, and its balance sheet is expected to support strong investment grade credit ratings.

coles

coles.com.au | spirit hotels | coles express

Vintage Cellars | Liquorland | first choice liquor

coles Financial Services | flybuys

1. Excludes the impairment of Target's goodwill in FY2018 of $306 million (pre-tax).

Contents

IMPORTANT DATES

Event	Indicative date
Date of the First Court Hearing on which the Court ordered convening of the Scheme Meeting.	Friday 5 October 2018
Last time and date by which proxy forms for the Annual General Meeting, General Meeting and Scheme Meeting must be received by the Wesfarmers Share Registry. Last time and date for determining eligibility to vote at the Annual General Meeting, General Meeting and Scheme Meeting.	4:00pm on Tuesday 13 November 2018
Annual General Meeting	10:30am on Thursday 15 November 2018
General Meeting	The later of 1:30pm or 30 minutes after the conclusion of the Annual General Meeting on Thursday 15 November 2018
Scheme Meeting	The later of 1:45pm or the conclusion of the General Meeting on Thursday 15 November 2018
Court hearing for approval of the Scheme (the Second Court Hearing).	Monday 19 November 2018
Last time and date by which Sale Facility Forms must be received by Wesfarmers Share Registry (for Small Shareholders).	2:00pm on Tuesday 20 November 2018
Effective Date and last date Wesfarmers Shares trade on the ASX cum-entitlements under the Demerger.	Tuesday 20 November 2018
ASX listing of Coles. Coles Shares commence trading on the ASX on a deferred settlement basis. Wesfarmers Shares trade on the ASX on an ex-Demerger entitlements basis.	Wednesday 21 November 2018
Time and date for determining entitlement to Coles Shares under the Demerger (the **Record Date**).	4:00pm on Thursday 22 November 2018
Implementation Date and transfer of Coles Shares to Eligible Shareholders (other than Selling Shareholders) and Sale Agent.	Wednesday 28 November 2018
Normal trading of Coles Shares on the ASX commences.	Thursday 29 November 2018
Dispatch of holding statements to Eligible Shareholders (other than Selling Shareholders).	Friday 30 November 2018
Completion of sale of Coles Shares under Sale Facility.	Wednesday 19 December 2018
Dispatch of payment to Ineligible Overseas Shareholders, Selling Shareholders and ShareGift.	Wednesday 2 January 2019

All dates and times following the date of the General Meeting and Scheme Meeting are indicative only and, among other things, are subject to all necessary approvals from the Court and other regulatory authorities. Any changes to the Timetable (which may include an earlier or later date for the Second Court Hearing) will be announced through the ASX and will be notified on Wesfarmers' website at www.wesfarmers.com.au.

WHAT WESFARMERS SHAREHOLDERS SHOULD DO

CAREFULLY READ THIS SCHEME BOOKLET

You should read this Scheme Booklet, the Notice of General Meeting and Notice of Scheme Meeting in full, including the advantages, disadvantages and risks of the Demerger as set out in Section 1, before making any decision on how to vote on the Demerger Resolutions.

There are answers to questions you may have about the Demerger in the Frequently Asked Questions section.

If you have any additional questions in relation to this document or the Demerger, please call the Shareholder Information Line on 1300 558 062 (within Australia) or +61 3 9415 4631 (international) on weekdays between 8:30am and 8:00pm (AEDT).

VOTE ON THE DEMERGER RESOLUTIONS

(a) General Meeting

Wesfarmers Shareholders who are registered on the Wesfarmers Share Register at 4:00pm on Tuesday 13 November 2018 are entitled to vote to determine whether or not the Capital Reduction proceeds, subject to certain other conditions. In addition to the Capital Reduction Resolution, the Termination Benefits Resolution will be considered at the General Meeting.

Wesfarmers Shareholders can vote:

- in person, by attending the General Meeting;
- by lodging a proxy online at www.investorvote.com.au. To submit your proxy voting instructions you will need your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) and allocated Control Number, as shown on your Proxy Form;
- by mailing the General Meeting Proxy Form to Computershare Investor Services Pty Limited at GPO Box 242, Melbourne Victoria 3001, Australia (using the envelope provided);
- by using your smartphone to scan the QR code that appears on the General Meeting Proxy Form, and following the instructions provided. To scan the code you need to have already downloaded a free QR code reader app to your smartphone. When scanned, the QR code will take you directly to the mobile proxy voting instructions site;
- by faxing the General Meeting Proxy Form to 1800 783 447 (within Australia) or +61 3 9473 2555 (international); or
- by hand delivering the General Meeting Proxy Form to the Wesfarmers Share Registry at 452 Johnston Street, Abbotsford Victoria 3067, Australia.

To be valid, your proxy must be received by the Wesfarmers Share Registry by 4:00pm on Tuesday 13 November 2018.

(b) Scheme Meeting

Wesfarmers Shareholders who are registered on the Wesfarmers Share Register at 4:00pm on Tuesday 13 November 2018 are entitled to vote to determine whether or not the Scheme proceeds, subject to certain other conditions.

Wesfarmers Shareholders can vote:

- in person, by attending the Scheme Meeting;
- by lodging a proxy online at www.investorvote.com.au. To submit your proxy voting instructions you will need your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) and allocated Control Number, as shown on your Proxy Form;
- by mailing the enclosed Scheme Meeting Proxy Form to Computershare Investor Services Pty Limited at GPO Box 242, Melbourne Victoria 3001, Australia (using the envelope provided);
- by using your smartphone to scan the QR code that appears on the Scheme Meeting Proxy Form, and following the instructions provided. To scan the code you need to have already downloaded a free QR code reader app to your smartphone. When scanned, the QR code will take you directly to the mobile proxy voting instructions site;
- by faxing the enclosed Scheme Meeting Proxy Form to 1800 783 447 (within Australia) or +61 3 9473 2555 (international); or
- by hand delivering the enclosed Scheme Meeting Proxy Form to the Wesfarmers Share Registry at 452 Johnston Street, Abbotsford Victoria 3067, Australia.

To be valid, your proxy must be received by the Wesfarmers Share Registry by 4:00pm on Tuesday 13 November 2018.

IF YOU ARE A SMALL SHAREHOLDER, CHOOSE WHETHER TO KEEP OR SELL THE COLES SHARES THAT YOU WOULD RECEIVE UNDER THE SCHEME

If you are a Small Shareholder (who holds 160 Wesfarmers Shares or less as at the Record Date), you may elect to have all the Coles Shares that you would otherwise receive under the Demerger sold by the Sale Agent and the proceeds:

- remitted to you; or
- if you so elect, donated to the charity ShareGift,

free of any brokerage costs or stamp duty.

To make this election, submit your election online at www.colessalefacility.com.au, or complete and return the Sale Facility Form using the enclosed envelope, or by fax on 1800 783 447 (within Australia) or +61 3 9473 2555 (international) so that it is received by the Wesfarmers Share Registry by 2:00pm on Tuesday 20 November 2018. If you wish to donate your Sale Facility proceeds to ShareGift, ensure you mark the Option B box on the Sale Facility Form.

FREQUENTLY ASKED QUESTIONS

QUESTION	ANSWER	SECTION
Demerger Proposal		
What is the Demerger?	The Demerger is the proposed separation of Wesfarmers' Coles division to create an independent ASX-listed retail company with leading market positions in Australian supermarkets, liquor and convenience. Wesfarmers Shareholders will retain their Wesfarmers Shares and Eligible Shareholders will be entitled to receive one Coles Share for every Wesfarmers Share held at the Record Date. The Demerger does not require any Wesfarmers Shareholder to pay cash for Coles Shares.	1.1
Why has the Demerger been proposed by the Wesfarmers Board?	The decision to demerge Coles follows a review of Wesfarmers' portfolio and the composition of its capital employed. Wesfarmers has delivered a successful transformation of Coles and restored its position as a leading Australian retailer. Coles has developed strong investment fundamentals as a mature and highly cash generative business. Coles is well positioned to continue to grow, with an earnings profile that is expected to be resilient through economic cycles. The Wesfarmers Board believes that Coles is of a scale where it should be owned and operated separately, having established a strong corporate infrastructure under Wesfarmers' model of divisional autonomy. A demerger of Coles will reposition Wesfarmers' portfolio to target a higher capital weighting to businesses with strong future earnings growth prospects and allows for greater flexibility and impact in pursuing growth opportunities which enhance returns to shareholders.	1.1
What alternatives did the Wesfarmers Board consider?	The Wesfarmers Directors are of the view that the Demerger is more likely to enhance shareholder value in the long term than other available alternatives, including maintaining the status quo, undertaking an initial public offering of Coles, or a sale of Coles. Having regard to the available alternatives that were considered, the advantages, disadvantages and risks as set out in Sections 1.3, 1.4 and 1.5 and the opportunity for both Wesfarmers and its shareholders to participate in the future growth of Coles, the Wesfarmers Board concluded that the Demerger is in the best interests of Wesfarmers Shareholders.	1.2
What is Coles?	Coles is a leading Australian retailer, providing customers with everyday products including fresh food, groceries, household goods, liquor, fuel and financial services. As at 30 June 2018, Coles processed more than 21 million customer transactions on average each week via its store network and online platform, had over 112,000 team members across all of its businesses and operated 2,507 retail outlets nationally. Coles' key strengths include: • operating in resilient and growing markets; • demonstrated ability to maintain a leading market position over time; • an established, non-replicable national store network; • a customer-focused 'Fresh Tomorrow' strategy to deliver shareholder returns; • cash generative businesses which are expected to underpin strong dividend distributions; • a robust balance sheet providing financial flexibility; and • a highly experienced board and management team.	2

QUESTION	ANSWER	SECTION
What is Coles? (Continued)	The performance of Coles is subject to a number of risks, many of which Wesfarmers Shareholders are currently exposed to, while others may arise as a result of Coles becoming a standalone ASX-listed entity. These risks include: • operational risks including risks relating to the performance of IT systems, loss of data security, industrial disputes and risks inherent in the distribution and sale of goods; • strategic risks including increased competition (including from discount retailers), ineffective execution of strategy and changes in consumer behaviours; and • regulatory risks, including in relation to the sourcing of products, the sale of products and employees (including occupational health and safety). These risks are described in further detail in Section 2.18. Coles has a number of strategies in place to mitigate these risks.	2
Why is Wesfarmers retaining a shareholding in Coles?	Wesfarmers plans to retain a minority ownership interest of 15 per cent in Coles following the Demerger to support strategic alignment and reinforce collaboration opportunities between Wesfarmers and Coles in relation to mutually beneficial growth initiatives, including in the areas of data, digital and loyalty.	1.1 and 3.1
What are Wesfarmers' intentions regarding its retained shareholding in Coles?	The ownership stake is important in reinforcing collaboration opportunities between Wesfarmers and Coles. Wesfarmers will retain its shareholding in Coles to the extent it is in the interests of Wesfarmers Shareholders to do so. There are no escrow or similar restrictions on the disposal by Wesfarmers of its 15 per cent shareholding.	1.1 and 3.1
What will the ownership structure of flybuys be post Demerger?	Wesfarmers and Coles each currently own and will each continue to own 50 per cent of flybuys to support continued development of the loyalty program and better leverage the combined Coles and Wesfarmers digital and data assets to improve the companies' respective customer offers.	2.5.4.1 and 3.1
What will be Coles' strategy after the Demerger?	Coles' strategic priorities are set out in Section 2.6. The Coles Board has confirmed that it intends to continue to focus on these strategic priorities following the Demerger. The future strategy of Coles will ultimately be a matter for the Coles Board and Coles senior management to develop over time, and is subject to change or alteration as circumstances require.	2.6
Recommendations		
What is the recommendation of the Wesfarmers Directors?	Each Wesfarmers Director recommends that you vote in favour of the Demerger Resolutions to be considered at the General Meeting and Scheme Meeting. Each Wesfarmers Director intends to vote any Wesfarmers Shares held or controlled by him or her in favour of the Demerger Resolutions.	1.1 and 8.3
What is the Independent Expert's opinion of the Demerger?	The Independent Expert has concluded that the Demerger is in the best interests of Wesfarmers Shareholders. A copy of the concise Independent Expert's Report is contained in Section 7.	7
Advantages, disadvantages and risks of the Demerger		
What are the advantages of the Demerger?	The key advantages of the Demerger include: • Wesfarmers Shareholders will have the flexibility to choose the level of their holding in Wesfarmers Shares and/or Coles Shares, which have different investment characteristics; • Wesfarmers can pursue growth opportunities which have a greater impact on returns to shareholders; and • enhanced investor focus on Wesfarmers' remaining businesses and Coles as a standalone business. These advantages, together with other advantages of the Demerger, are discussed in Section 1.3.	1.3

FREQUENTLY ASKED QUESTIONS

QUESTION	ANSWER	SECTION
What are the main disadvantages of the Demerger?	The key disadvantages of the Demerger include: • there will be approximately $148 million (pre-tax) in one-off transaction costs associated with the Demerger; • Coles will incur one-off separation costs of approximately $25 million; • net additional corporate and operating costs for Coles. It is estimated that its net additional annual, pro forma, corporate and operating costs of approximately $28 million will be incurred as a result of Coles operating as a standalone business following the Demerger, excluding operating costs transferred from Wesfarmers; • some Wesfarmers Shareholders will not be eligible to receive Coles Shares (and will instead receive cash proceeds from the sale of those Coles Shares under the Sale Facility) or may be unable to retain Coles Shares; and • the Demerger will create two separate companies listed on the ASX, each of which will be smaller and less diversified than Wesfarmers immediately before the Demerger, although both will remain significant entities with diversified operations. These disadvantages, together with other disadvantages of the Demerger, are discussed in Section 1.4.	1.4
What are the potential risks associated with the Demerger?	The main risks of the Demerger include: • uncertainty regarding the combined market value of Wesfarmers Shares and Coles Shares following the Demerger; • the potential for delays, unexpected costs, or other issues in establishing Coles as a standalone entity; and • potential inability to obtain third party consents under contracts that may result in the termination of (or breaches under) those contracts. These risks are discussed in Section 1.5. You should review this section carefully before deciding whether or not to vote in favour of the Demerger Resolutions.	1.5
What are the risks with respect to an investment in Coles?	Coles will be subject to risks which may adversely affect its future operating or financial performance, or the investment return or value of Coles Shares. Many of these risks are existing business risks, to which Wesfarmers Shareholders are already exposed, while others arise out of, or increase as a result of, the Demerger. These risks are discussed further in Section 2.18. You should review this section carefully before deciding whether or not to vote in favour of the Demerger.	2.18
Coles after Demerger		
When will Coles Shares trade separately?	It is expected that Coles Shares will commence trading on the ASX on 21 November 2018, initially on a deferred settlement basis. It is the responsibility of Eligible Shareholders to determine their entitlement to Coles Shares before trading in Coles Shares, especially during the deferred settlement period. Trading on the ASX of Coles Shares on a normal settlement basis is expected to commence on 29 November 2018.	4.7
What will Coles' share price be?	There is no certainty as to the price of Coles Shares after the Demerger.	1.5.1
In which stock market index will Coles be eligible for inclusion?	Upon implementation of the Demerger, it is anticipated that, based on free float market capitalisation, Coles will enter the S&P/ASX 50 index. However, no assurance can be provided that Coles will enter the index or will remain in the index in the future.	1.4.4

QUESTION	ANSWER	SECTION
What additional ongoing costs will Coles have as a standalone listed company?	Coles is expected to incur incremental, net ongoing costs of approximately $28 million per annum as a standalone listed entity. These incremental, ongoing costs include, amongst other things, share registry costs, company secretariat costs, the cost of maintaining a separate board of directors, and the cost of services currently provided by Wesfarmers to Coles, such as statutory accounting, treasury, legal and taxation. In addition, annual costs of approximately $28 million per annum, largely related to group insurances and workers' compensation self-insurance, which were previously incurred by Wesfarmers (but not on-charged to Coles) are expected to be incurred by Coles following the Demerger. Wesfarmers' costs will reduce by this corresponding amount.	1.4.2
What will Coles' dividend policy be?	Coles' dividend policy will be determined by the Coles Board at its discretion and may change over time. The Coles Board intends to follow a dividend policy which has regard to current earnings and cash flows, available franking credits, future cash flow requirements and targeted credit metrics. As a result, Coles expects to distribute 80 to 90 per cent of underlying profit to its shareholders while retaining strategic flexibility. Wesfarmers intends to pay an interim dividend in March 2019 with reference to the five months of Coles earnings prior to the Demerger. Coles expects to pay its first dividend in September 2019, which will be a final dividend for the year ending 30 June 2019, with reference to the seven months of earnings post Demerger. It is anticipated that, taken together, the dividends to be declared by Coles and Wesfarmers for the year ending 30 June 2019 will be broadly equivalent to the dividends that Wesfarmers would otherwise have declared if the Demerger did not proceed (including in respect of franking). Coles will distribute dividends with the maximum practicable franking credits for the purposes of the Australian dividend imputation system. No assurance can be given in relation to the level of future dividends or the franking of such dividends (if any), as these will depend on future events and circumstances. The extent to which a dividend can be franked will depend on Coles' franking account balance (which immediately following the Demerger will be nil). Coles' franking account balance will depend on the amount of Australian income tax paid by Coles following the Demerger. Franking credits are generated through the payment of income tax, and Coles is expected to pay monthly income tax instalments.	2.13.16
What will Coles' capital structure be?	On implementation of the Demerger, Coles is expected to have net debt of approximately $2.0 billion. Coles' balance sheet is expected to support strong investment grade credit ratings. Coles will have committed bank facilities of $4.0 billion. See Section 2.13.10 for further details. Coles will only have ordinary shares on issue and no other equity securities at the time of Demerger.	2.13.10

FREQUENTLY ASKED QUESTIONS

QUESTION	ANSWER	SECTION
Who will be on the senior leadership team of Coles?	Following the Demerger, the Coles senior leadership team will comprise: • Steven Cain – Managing Director and Chief Executive Officer • Leah Weckert – Chief Financial Officer • Greg Davis – Chief Operating Officer • Paul Bradshaw – Store Operations Director • David Brewster – Legal and Safety Director • Alister Jordan – Coles Express, Coles Online and Corporate Affairs Director • Thinus Keeve – Store Commercial and Property Director • Daniella Pereira – Company Secretary • Cathi Scarce – Acting Liquor Director • Roger Sniezek – Digital and Financial Services Director • Matthew Swindells – Supply Chain Director	2.10.2
Who will be on the Coles Board?	Following the Demerger, the Coles Board will comprise of eight directors: • James Graham AM – Chairman • Steven Cain – Managing Director and Chief Executive Officer • David Cheesewright – Wesfarmers nominee • Jacqueline Chow – Non-Executive Director • Abi Cleland – Non-Executive Director • Richard Freudenstein – Non-Executive Director • Wendy Stops – Non-Executive Director • Zlatko Todorcevski – Non-Executive Director	2.10.1
What commercial arrangements will Wesfarmers and Coles have with each other following the Demerger?	Wesfarmers and Coles will enter into a Transitional Services Agreement to formalise the terms upon which Coles will provide a number of information technology, payroll, finance and other services to Kmart, Target and Officeworks, and for Wesfarmers to provide Coles with workers compensation claims management, insurance and lease management services. Coles and Wesfarmers will provide the relevant services for a transitional period following the Demerger, pending migration of those services, or the replication of the relevant services by, Coles, Kmart, Target and Officeworks. See Section 4.9.5 for further detail. In addition to the flybuys joint venture, Coles will also enter into ongoing contractual agreements with Kmart, Target and Officeworks for the provision of payment acquiring services and for the provision of gift card services. For shared sites, Coles will enter into subleases and agreements for shared services and utilities with Kmart and Target. See Section 4.9.6 for further detail.	4.9.5 and 4.9.6
When will Coles release its first results as a standalone company?	Half year results ending 31 December 2018 will be reported in February 2019, with first full year results as at 30 June 2019 to be reported in August 2019.	None
Wesfarmers after Demerger		
Will Wesfarmers own any Coles Shares after the Demerger?	Yes. Wesfarmers will continue to own a shareholding of 15 per cent in Coles after the Demerger.	1.1, 3.1 and 4.9.7
What will be the Wesfarmers share price after the Demerger?	There is no certainty as to the price of Wesfarmers Shares after the Demerger.	1.5.1
In which stock market index will Wesfarmers be eligible for inclusion?	Upon implementation of the Demerger, it is anticipated that Wesfarmers will remain in the S&P/ASX 50 index. However, no assurance can be made that Wesfarmers will remain in the index upon Demerger or continue to be the index in the future.	1.4.4

QUESTION	ANSWER	SECTION
What will be Wesfarmers' strategy after the Demerger?	Wesfarmers' primary objective remains to provide a satisfactory return to Wesfarmers Shareholders over the long term. This will be achieved through four overarching strategies: • strengthening existing businesses through operational excellence and satisfying customer needs; • securing growth opportunities through entrepreneurial initiatives; • renewing the portfolio through value-adding transactions; and • ensuring sustainability through responsible long-term management.	3.4 and 3.5
What businesses will Wesfarmers own following the Demerger?	Following the Demerger, Wesfarmers will have a portfolio of cash generative businesses with strong market positions in growing markets. Wesfarmers will comprise the Bunnings, Department Stores and Officeworks retail divisions and the Industrials division with businesses in chemicals, energy and fertilisers, and industrial and safety products. In addition, Wesfarmers will hold a number of non-controlling ownership interests, including in Coles, flybuys, BWP Trust, and Gresham Partners.	3.3
Who will be on the Wesfarmers Board after the Demerger?	Following the Demerger, the Wesfarmers' Board will comprise of eight directors: • Michael Chaney AO – Chairman • Rob Scott – Managing Director • The Right Honourable Bill English KNZM – Non-Executive Director • Tony Howarth AO – Non-Executive Director • Wayne Osborn – Non-Executive Director • Diane Smith-Gander – Non-Executive Director • Vanessa Wallace – Non-Executive Director • Jennifer Westacott AO – Non-Executive Director	3.7
Who will be on the senior leadership team of Wesfarmers?	Following the Demerger, Wesfarmers' senior leadership team will comprise: • Rob Scott – Managing Director, Wesfarmers • Anthony Gianotti – Chief Financial Officer, Wesfarmers • Maya vanden Driesen – Group General Counsel, Wesfarmers • Michael Schneider – Managing Director, Bunnings • Ian Bailey – Managing Director, Kmart[1] • David Baxby – Managing Director, Wesfarmers Industrials • Linda Kenyon – Company Secretary, Wesfarmers • Jenny Bryant – Chief Human Resources Officer, Wesfarmers • Naomi Flutter – Executive General Manager, Corporate Affairs, Wesfarmers • Ed Bostock – Managing Director, Business Development, Wesfarmers • Alan Carpenter – Senior Advisor[2] • John Durkan – Senior Advisor[2] • Guy Russo – Senior Advisor[3] Notes: 1. Effective from 1 November 2018, Ian Bailey will assume the additional responsibility for Department Stores. 2. Alan Carpenter and John Durkan will retire from their Senior Advisor roles in FY2019 or FY2020. 3. Guy Russo will remain as the Chief Executive Officer, Department Stores until 1 November 2018, following which he will transition to a Senior Advisor role.	None

FREQUENTLY ASKED QUESTIONS

QUESTION	ANSWER	SECTION
What will be the impact of the Demerger on Wesfarmers' dividends?	Wesfarmers' dividend policy will not change as a result of the Demerger. In considering dividends, the Wesfarmers Board has regard to available franking credits, current earnings and cash flows, future cash flow requirements and targeted credit metrics. It is anticipated that, taken together, the dividends to be declared by Coles and Wesfarmers for the year ending 30 June 2019 will be broadly equivalent to the dividends that Wesfarmers would otherwise have declared if the Demerger did not proceed (including in respect of franking).	3.6
Implementation and process		
What are the mechanics of the Demerger?	To implement the Demerger, Wesfarmers will undertake a Capital Reduction and Dividend, the proceeds of which will be automatically applied to the acquisition of Coles Shares by or on behalf of Wesfarmers Shareholders. Eligible Shareholders will receive one Coles Share for every Wesfarmers Share held at the Record Date. Following the Demerger, Wesfarmers Shareholders at the Record Date will hold 85 per cent of the Coles Shares on issue, with the remaining 15 per cent of the Coles Shares to be held by Wesfarmers.	4
What is the Capital Reduction?	Wesfarmers has proposed the Capital Reduction to permit Wesfarmers to reduce its share capital on the Implementation Date. The Capital Reduction Amount will not be paid in cash to Wesfarmers Shareholders. The Capital Reduction Amount will be applied (together with the Dividend Amount) on behalf of Wesfarmers Shareholders as consideration for the transfer of Coles Shares under the Scheme. The Capital Reduction is conditional on the Scheme becoming Effective. This means that Wesfarmers will not undertake the Capital Reduction unless the Scheme becomes Effective. The Capital Reduction must be approved by a simple majority (more than 50 per cent) of votes cast by Wesfarmers Shareholders on the Capital Reduction Resolution. Wesfarmers is of the view that, taking into account all relevant matters, the Capital Reduction is fair and reasonable to Wesfarmers Shareholders as a whole and will not materially prejudice the ability of Wesfarmers to pay its creditors. The Independent Expert has concluded that the Capital Reduction will not materially prejudice existing Wesfarmers creditors. Refer to Section 7 for a concise version of the Independent Expert's Report.	4.4
What are the key steps to implement the Demerger?	At the First Court Hearing on 5 October 2018, Wesfarmers obtained an order from the Court to convene the Scheme Meeting. The key remaining steps to implement the Demerger are: • approval of the Capital Reduction by Wesfarmers Shareholders at the General Meeting; • approval of the Scheme by Wesfarmers Shareholders at the Scheme Meeting; • Court approval of the Scheme at the Second Court Hearing; • lodgement of the Court order with ASIC which will cause the Scheme to become Effective; • completion of the Corporate Restructure; • approval of admission of Coles to the Official List of the ASX and the official quotation of Coles Shares by the ASX; and • Eligible Shareholders (other than Selling Shareholders) receiving Coles Shares by way of the implementation of the Scheme.	4

QUESTION	ANSWER	SECTION
What are the key steps to implement the Demerger? (Continued)	If the Court approves the Scheme, Coles Shares are expected to trade separately on the ASX from 21 November 2018, initially on a deferred settlement basis. Trading on the ASX of Coles Shares on normal settlement basis is expected to commence on 29 November 2018. Sections 4.1, 4.2 and 4.3 contain further details of the Demerger, including a description of the approval thresholds and other conditions that must be satisfied or waived for the Demerger to proceed.	4
Is the Demerger subject to any conditions?	The Demerger is subject to the satisfaction or waiver of certain conditions. The principal conditions and steps to implement the transaction are those outlined in the answer above and also described in Section 4.1.	4.1
Which Wesfarmers Shareholders are eligible to participate in the Demerger?	Wesfarmers Shareholders registered on the Wesfarmers Share Register as the holders of Wesfarmers Shares at the Record Date may be eligible to receive Coles Shares, depending on the location of their registered address. Wesfarmers Shareholders whose registered address on the Wesfarmers Share Register at the Record Date is in the following jurisdictions will be Eligible Shareholders: • Australia, New Zealand, Canada, Hong Kong, Singapore, the United Kingdom or the United States; or • a jurisdiction in which Wesfarmers reasonably believes it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer the Coles Shares to the Wesfarmers Shareholder. Ineligible Overseas Shareholders, being Wesfarmers Shareholders whose registered address on the Wesfarmers Share Register at the Record Date is outside the jurisdictions listed above, will not receive Coles Shares and should refer to Section 4.5.3 for further information.	4.5
Will I need to make any payments to participate in the Demerger?	No. The Capital Reduction Amount and Dividend Amount on your Wesfarmers Shares will be automatically applied on your behalf under the Scheme to pay for your Coles Shares. You do not need to make any separate payment.	4.4.1
Can I choose to receive cash instead of Coles Shares?	No. Under the Demerger, you may not elect to receive cash instead of Coles Shares. However, if you are an Ineligible Overseas Shareholder, the Coles Shares to which you would have been otherwise entitled under the Scheme will be sold on the ASX by the Sale Agent with the proceeds remitted to you, free of any brokerage costs or stamp duty. In addition, Eligible Shareholders who hold 160 Wesfarmers Shares or less as at the Record Date and current and former employees of the Group who individually hold or have a beneficial interest (through Wesfarmers Shares held by CPU Share Plans Pty Limited and/or CRS Nominees Limited) in 160 Wesfarmers Shares or less as at the Record Date (**Small Shareholders**) may elect to have the Coles Shares to which they are entitled sold on the ASX by the Sale Agent and the proceeds remitted to them or donated to ShareGift under the Sale Facility, free of any brokerage costs or stamp duty. Small Shareholders who do not make an election to participate in the Sale Facility will receive Coles Shares. The amount of money received by each Ineligible Overseas Shareholder, Selling Shareholder and ShareGift will be calculated on an averaged basis so that all Ineligible Overseas Shareholders, Selling Shareholders and ShareGift will receive the same price per Coles Share, subject to rounding to the nearest whole cent.	4.8

FREQUENTLY ASKED QUESTIONS

QUESTION	ANSWER	SECTION
Who is ShareGift?	ShareGift is an independent charity that provides shareholders with an easy and cost effective way to donate parcels of shares, free of brokerage, to benefit the community. To date, ShareGift has distributed more than $1.6 million to 470 Australian charities. ShareGift is the only service of this kind in Australia, and is endorsed by the ASX and the Australian Shareholders' Association. Further information about ShareGift and the charities it has supported to date is available at www.sharegiftaustralia.org.au.	None
What is the Sale Facility?	The Sale Facility provides for the sale of Coles Shares for Small Shareholders or Ineligible Overseas Shareholders as follows: **Eligible Small Shareholders** If you are a Small Shareholder and you wish to have: • all the Coles Shares that you would receive under the Demerger sold on the ASX by the Sale Agent; and • the proceeds (calculated on an averaged basis) remitted to you or donated to ShareGift, free of any brokerage costs or stamp duty, you should submit your election online at www.colessalefacility.com.au or complete and return the Sale Facility Form accompanying this Scheme Booklet using the envelope provided. If you wish to donate the proceeds to ShareGift, you must mark the Option B box on the Sale Facility Form. Wesfarmers and Coles have nominated SecondBite and Redkite as recipients for funding ShareGift receives under the Sale Facility. The Sale Facility operates on an opt-in basis for Small Shareholders, so Small Shareholders who do not make an election to participate in the Sale Facility will receive Coles Shares. **Ineligible Overseas Shareholders** Ineligible Overseas Shareholders will have their Coles Shares sold through the Sale Facility, with the proceeds (calculated on an averaged basis) from the sale of the Coles Shares to which they are entitled, remitted to them, free of any brokerage costs or stamp duty. Accordingly, Ineligible Overseas Shareholders do not need to take any steps to participate in the Sale Facility.	4.8
What will Wesfarmers Shareholders receive if the Demerger proceeds?	Eligible Shareholders (other than Selling Shareholders and Ineligible Overseas Shareholders) will receive one Coles Share for every Wesfarmers Share they hold at the Record Date. The Record Date is expected to be 22 November 2018.	4.5.2 and 4.5.3
What is the impact of the Demerger on my Wesfarmers Shares?	The number of Wesfarmers Shares will not change as a result of the Demerger. If you are an Eligible Shareholder (other than a Selling Shareholder) and the Demerger proceeds, you will hold one Coles Share for every Wesfarmers Share held. The number of shares Coles will have on issue will be the number of shares held by Wesfarmers Shareholders plus the number of shares held by the Wesfarmers Group reflecting its 15 per cent shareholding in Coles. Thus, the total number of shares Coles will initially have on issue will be 17.6 per cent higher than the number of shares Wesfarmers currently has on issue.	4.4.1
What are the costs of the Demerger?	Total transaction costs of the Demerger are estimated to be $148 million and are expected to be incurred by Wesfarmers. Of these costs, $65 million is expected to be incurred prior to the Meetings. In addition to the transaction costs, Coles will incur one-off separation costs of approximately $25 million.	3.8.10

QUESTION	ANSWER	SECTION
What happens if the Demerger does not proceed?	If the Demerger does not proceed: • Coles will continue to operate as part of the Wesfarmers Group; • Eligible Shareholders will not receive Coles Shares; • Wesfarmers Shareholders will retain their holding in Wesfarmers Shares; • Wesfarmers will incur transaction costs of approximately $65 million; and • the advantages of the Demerger described in Section 1.3 will not be realised, and the disadvantages and risks of the Demerger described in Sections 1.4 and 1.5 will not arise. If the Demerger does not proceed, Wesfarmers Directors and management may consider alternatives to the Demerger for Coles.	4.10
Voting on the Demerger		
What are the voting thresholds?	**Capital Reduction** The Capital Reduction must be approved by a simple majority (more than 50 per cent) of votes cast by Wesfarmers Shareholders on the Capital Reduction Resolution. **Termination Benefits Resolution** The Termination Benefits Resolution must be approved by a simple majority (more than 50 per cent) of votes cast by Wesfarmers Shareholders on the Termination Benefits Resolution. Any current or future Coles Key Management Personnel (**Coles KMP**) who wish to preserve the benefit of the Termination Benefits Resolution for themselves should not vote on the resolution, nor should their associates. **Scheme** The Scheme must be approved by: • a majority in number (more than 50 per cent) of Wesfarmers Shareholders present and voting at the Scheme Meeting (whether in person or by proxy); and • at least 75 per cent of the total number of votes cast on the resolution by Wesfarmers Shareholders present and voting at the Scheme Meeting (whether in person or by proxy).	12
Who can vote at the Meetings?	Wesfarmers Shareholders who are registered on the Wesfarmers Share Register at 4:00pm on 13 November 2018 are entitled to vote on the Capital Reduction Resolution, the Termination Benefits Resolution and the Scheme Resolution.	12
When and where are the Meetings?	**General Meeting** The General Meeting for Wesfarmers Shareholders to vote on the Capital Reduction Resolution and the Termination Benefits Resolution will be held at the later of 1:30pm or 30 minutes after the conclusion of the Annual General Meeting on 15 November 2018. **Scheme Meeting** The Scheme Meeting for Wesfarmers Shareholders to vote on the Demerger will be held at the later of 1:45pm or the conclusion of the General Meeting on 15 November 2018.	12 and 13

FREQUENTLY ASKED QUESTIONS

QUESTION	ANSWER	SECTION
What is the procedure to vote at the Meetings?	**Voting in person** If you are entitled to vote and wish to do so in person, you should attend the General Meeting and Scheme Meeting. If you are attending as an attorney, the original power of attorney under which the proxy form was signed, or a certified copy must be received by the Wesfarmers Share Registry – Computershare Investor Services Pty Limited by 4:00pm (Perth time) on Tuesday 13 November 2018 (unless it has been previously provided). If you are attending as a corporate representative, Wesfarmers requires written proof of your appointment as corporate representative to be lodged with, or presented to, Wesfarmers before the relevant General Meeting or Scheme Meeting. **Voting by proxy** If you are unable to attend the General Meeting and the Scheme Meeting in person, you can lodge your proxy forms online at www.investorvote.com.au or scan the QR codes on your proxy forms with your smartphone and follow the prompts. Alternatively, complete and return the General Meeting Proxy Form and the Scheme Meeting Proxy Form accompanying this Scheme Booklet by using the enclosed envelope, or by fax on 1800 783 447 (within Australia) or +61 3 9473 2555 (international). Proxy forms can also be hand delivered to the Wesfarmers Share Registry at 452 Johnston Street, Abbotsford Victoria 3067, Australia. If an attorney signs a proxy form on your behalf, a copy of the authority under which the proxy form was signed must be received by the Wesfarmers Share Registry at the same time as the proxy form (unless you have already provided a copy of the authority to the Wesfarmers Share Registry). If you complete and return a proxy form, you may still attend a Meeting in person.	12 and 13
What if I do not vote at the Meetings or do not vote in favour of the Demerger Resolutions?	If Wesfarmers Shareholders who support the Demerger do not vote, there is a risk the Demerger will not be approved. If you do not vote or vote against the Demerger Resolutions, but these resolutions are approved by the requisite majorities of Wesfarmers Shareholders, then, subject to the other conditions to the Demerger being satisfied or waived, including Court approval, the Demerger will be implemented and binding on all Wesfarmers Shareholders, including those who did not vote or voted against the Demerger Resolutions.	None
Tax considerations		
What are the taxation implications of the Demerger for Wesfarmers Shareholders?	The general Australian taxation implications of the Demerger for Wesfarmers Shareholders are set out in Section 5. The outline in Section 5 is general in nature and should not be relied upon as advice. The tax consequences for each shareholder may vary depending on individual circumstances. Accordingly, you are encouraged to seek your own professional advice as to the Australian and, if applicable, foreign tax implications of participating in the Demerger.	5
Other information		
If you have further questions	If you have any further questions, you should: • contact your stockbroker, solicitor, accountant and/or other professional advisor; or • call the Wesfarmers Shareholder Information Line on 1300 558 062 (within Australia) or +61 3 9415 4631 (international) on weekdays between 8:30am and 8:00pm (AEDT).	None

1 ADVANTAGES, DISADVANTAGES AND OTHER RELEVANT CONSIDERATIONS

SECTION 1
ADVANTAGES, DISADVANTAGES AND OTHER RELEVANT CONSIDERATIONS

1.1 BACKGROUND AND RATIONALE

Wesfarmers' primary objective over 34 years as an ASX-listed company has been to deliver satisfactory returns to shareholders. The measure used by Wesfarmers to assess satisfactory returns is total shareholder return (**TSR**).

To deliver satisfactory returns over the long term, the Group seeks to:

- continue to invest in Group businesses where capital investment opportunities exceed return requirements;
- acquire or divest businesses where doing so is expected to increase long-term shareholder wealth; and
- manage the Group's balance sheet to achieve an appropriate risk profile, an optimised cost of capital and flexibility to take advantage of opportunities as they arise.

As a diversified conglomerate, disciplined portfolio management underpins Wesfarmers' approach to creating value for shareholders. Wesfarmers continually reviews its businesses and seeks to renew its portfolio where that is consistent with improving long-term TSR.

The decision to demerge Coles follows a review of the Group's portfolio and an assessment of the composition of the Group's capital employed to support TSR. As at 30 June 2018, Coles accounted for approximately 62 per cent of the Group's capital employed and approximately one-third of Group divisional earnings.

The Wesfarmers Board has concluded that the Demerger will reposition the Group's portfolio to target a higher capital weighting towards businesses with strong future earnings growth prospects. The Wesfarmers Board also considers that the consequent diversification in capital employed would allow for greater flexibility and TSR impact in pursuing organic and inorganic growth initiatives in the remaining portfolio businesses and through any future acquisitions.

Wesfarmers acquired Coles along with Kmart, Target and Officeworks in 2007, and since then has successfully turned Coles around and restored its position as a leading Australian retailer. The Wesfarmers Board believes that Coles has developed strong investment fundamentals and is of a scale where it should be operated and owned separately. It is now a market leading and cash generative business, and is well positioned to continue to deliver long-term earnings growth, with an earnings profile that is expected to be resilient through economic cycles.

Wesfarmers will be retaining a shareholding of 15 per cent in Coles to support continuing strategic alignment and partnerships between Wesfarmers and Coles in relation to mutually beneficial growth initiatives, including in the areas of data, digital and loyalty.

Following the Demerger, Wesfarmers will retain its strong balance sheet and its capacity to act opportunistically when value-accretive opportunities arise. Wesfarmers expects to retain its current credit ratings and its dividend policy will remain unchanged.

The Wesfarmers Directors are of the view that the advantages of the Demerger outweigh its disadvantages and risks. The Wesfarmers Directors also believe that Coles, as a separately listed entity, will continue to be attractive to existing Wesfarmers Shareholders and new investors seeking exposure to defensive characteristics such as Coles' resilient earnings profile, cash flow generation, strong balance sheet and dividend paying capacity. For these reasons, each Wesfarmers Director recommends that Wesfarmers Shareholders vote in favour of the Demerger Resolutions at the General Meeting and the Scheme Meeting.

Wesfarmers Shareholders should carefully consider the following advantages, disadvantages and risks of the Demerger and other relevant considerations, as well as other information contained in this Scheme Booklet (including the risks associated with owning Coles Shares as set out in Section 2.18, the risks associated with owning Wesfarmers Shares as set out in Section 3.9 and the concise Independent Expert's Report in Section 7), in deciding whether or not to vote in favour of the Demerger Resolutions required to implement the Demerger.

1.2 ALTERNATIVES CONSIDERED

Wesfarmers has considered a number of alternative structures for the separation of Coles including a trade sale or sale to a financial investor, and an initial public offering (**IPO**). The Wesfarmers Directors are of the view that the Demerger is more likely to enhance value for Wesfarmers Shareholders in the long term compared to the alternative structures.

1.2.1 TRADE SALE OR SALE TO A FINANCIAL INVESTOR

Given the large scale of Coles, there is a very limited pool of potential acquirers for the business. Accordingly, the Wesfarmers Board considers a trade sale or sale to a financial investor as unlikely to realise full underlying value for Wesfarmers Shareholders. A sale would also involve greater transaction uncertainty and potential disruption to the Coles business.

Since announcement of the intended demerger in March 2018, Wesfarmers has not received any approaches from trade or financial investors in relation to an acquisition of Coles.

A Demerger does not preclude a third party from acquiring Coles in the future and Wesfarmers Shareholders who retain their investment in Coles following the Demerger would potentially benefit from, and make their own decision about participation in, any future corporate takeover activity involving Coles.

1.2.2 INITIAL PUBLIC OFFERING (IPO)

Under an IPO of Coles, Wesfarmers would receive cash proceeds from investors for the sale of Coles Shares. However, an IPO would also likely involve a high degree of transaction uncertainty. The proceeds realised in an IPO may also be significantly affected by prevailing market conditions at the time of execution and Wesfarmers may not be able to realise the full underlying value of Coles through an IPO. Separation via an IPO would also be likely to give rise to substantial additional costs compared to the Demerger. Given the likely substantial overlap between existing Wesfarmers and potential new Coles Shareholders, this is likely to be an inefficient transaction structure.

1.2.3 DEMERGER

The Wesfarmers Directors selected the Demerger as the preferred approach to the separation of Coles as it:

- repositions and rebalances Wesfarmers' portfolio in a single step, with greater certainty of timing and execution;
- allows Eligible Shareholders to retain their existing ownership of Coles, with the opportunity to increase or decrease that exposure by trading in Coles Shares;
- does not crystallise a fixed value for Coles but instead allows Eligible Shareholders to continue to retain their exposure to Coles and benefit from future growth of the business; and
- achieves these outcomes in a manner which provides Eligible Shareholders with ownership of Coles at its market value, which the Wesfarmers Board believes is likely to be greater than the value expected from other options currently available, taking into account transaction certainty, associated costs and implementation timeframe.

1.3 ADVANTAGES OF THE DEMERGER

1.3.1 SHAREHOLDERS WILL HAVE FLEXIBILITY TO CHOOSE THEIR LEVEL OF INVESTMENT IN WESFARMERS AND COLES

Following the Demerger, the characteristics of Coles and Wesfarmers differ and may appeal to different types of investors.

Wesfarmers, as a diversified conglomerate, is targeting satisfactory shareholder returns over the long term, through a higher capital weighting toward businesses with strong earnings growth prospects and through active portfolio management.

Wesfarmers has delivered a successful transformation of Coles and restored its position as a leading Australian retailer. Coles has developed strong investment fundamentals as a mature and highly cash generative business. Coles is well positioned to continue to grow, with an earnings profile that is expected to be resilient through economic cycles. Coles is now well positioned to operate as a separately listed company with investment characteristics different from those of Wesfarmers.

1.3.2 IMPROVED ABILITY FOR WESFARMERS TO PURSUE GROWTH OPPORTUNITIES WHICH HAVE A GREATER IMPACT ON RETURNS TO SHAREHOLDERS

Following the Demerger, Wesfarmers is expected to have greater ability to impact shareholder returns through the pursuit of value-accretive organic and inorganic growth opportunities. With Coles in the Group, many earnings growth opportunities and potential value-accretive transactions which Wesfarmers could pursue would have a less material impact for shareholders due to the relative size of Coles within Wesfarmers' portfolio of businesses.

1.3.3 ENHANCED INVESTOR FOCUS ON WESFARMERS' REMAINING BUSINESSES AND COLES AS A STANDALONE BUSINESS

Due to Coles' high public profile and the focus of investors in recent years on the progress of the turnaround, there has been a strong investor focus on Coles' performance within the Wesfarmers Group. The Demerger is expected to enhance investor awareness and understanding of the remaining businesses in the Wesfarmers Group.

In addition, as a separate company listed on the ASX with market disclosure obligations, Coles will provide more detailed financial performance disclosures to the market. This increased focus will allow investors to independently and appropriately value Wesfarmers and Coles to reflect the underlying performance of, and market appetite for, their respective businesses, although there is no evidence that either Coles or Wesfarmers is currently not being appropriately valued by the market.

1.4 DISADVANTAGES OF THE DEMERGER

1.4.1 DEMERGER IMPLEMENTATION COSTS

Total transaction costs in relation to the Demerger are estimated to be approximately $148 million (on a pre-tax basis). Approximately $65 million of these costs will have already been incurred prior to the Meetings. The remaining costs are expected to be incurred following the Scheme Meeting.

Coles is expected to incur approximately $25 million in separation costs to set up systems and processes to allow it to operate as an independent entity.

Further information on the demerger costs is set out in Section 3.8.10.

1.4.2 ADDITIONAL CORPORATE AND OPERATING COSTS

Following the Demerger, Coles will be a separately listed entity on the ASX, which will result in net additional corporate costs of approximately $28 million per annum. These costs will include ASX listing and ongoing fees, share registry, maintaining a separate board of directors and executive team, and operating company secretarial, treasury and other corporate functions required as a separately listed entity.

1.4.3 SOME WESFARMERS SHAREHOLDERS WILL NOT BE ELIGIBLE TO RECEIVE, OR MAY BE UNABLE TO RETAIN, COLES SHARES

Wesfarmers Shareholders who are Ineligible Overseas Shareholders will not receive Coles Shares under the Demerger. Coles Shares that would otherwise be transferred to these shareholders under the Demerger will be transferred to the Sale Agent to be sold, with the proceeds of such sale to be paid to Ineligible Overseas Shareholders. Some Wesfarmers Shareholders may not be permitted to retain their Coles Shares under the terms of their investment mandates or for similar reasons.

1.4.4 REDUCTION IN SIZE AND DIVERSIFICATION

The Demerger will create two separate companies listed on the ASX, each of which will be smaller and less diversified than Wesfarmers immediately before the Demerger.

Financial markets can experience volatility at times and as separate listed entities, each of Wesfarmers and Coles may have an increased exposure to those fluctuations as a result of their reduced size and diversification. However, following the Demerger, both companies will remain significant independent entities, and are both expected to be in the top 30 companies on the ASX by market capitalisation, with Wesfarmers diversified across retail and industrial businesses and Coles benefiting from its strong position in markets with defensive characteristics.

1.5 RISKS OF THE DEMERGER

1.5.1 UNCERTAINTY ABOUT THE COMBINED MARKET VALUE OF WESFARMERS SHARES AND COLES SHARES AND STOCK MARKET RATINGS

It is not possible to predict the market value of Coles Shares and Wesfarmers Shares following the Demerger.

There can be no assurance that Coles Shares will trade at a particular price subsequent to their listing on the ASX. Following the Demerger, some shareholders may adjust their holdings in Coles or Wesfarmers. There is a risk that the combined market value of Coles and Wesfarmers after the Demerger will be less than the market value of Wesfarmers immediately before the Demerger, particularly while the shareholder base for each company evolves.

Wesfarmers Shareholders should note that if the Demerger does not proceed, there is no assurance that Wesfarmers Shares will continue to trade at prices in line with recent levels.

1.5.2 POTENTIAL DELAYS, UNEXPECTED COSTS OR OTHER ISSUES IN ESTABLISHING COLES AS A STANDALONE LEGAL ENTITY

Wesfarmers' businesses are currently supported by a number of corporate office support functions, including group accounting, treasury, taxation, superannuation, legal, company secretarial, insurance administration, general human resources and other services. As part of the Demerger implementation, Coles is establishing these support functions and services with internal capability or third party providers. This includes certain transitional arrangements with Wesfarmers to minimise any potential disruption to the Coles business while it establishes the alternative arrangements. There is a risk that Coles' performance of these functions will be negatively affected during the period of transition to a standalone entity as systems and processes are implemented. Coles is expected to incur approximately $25 million in one-off separation costs (see Section 3.8.10) to establish these functions and services and it may take some time to ensure that all functions and services are operating fully and efficiently. There is a risk that the establishment of these capabilities may take longer than expected or may involve greater costs than anticipated. However, the Coles management team has considerable experience in operating autonomously within the Wesfarmers portfolio and is focused on ensuring a smooth transition by establishing these support services in a timely manner.

1.5.3 POTENTIAL INABILITY TO OBTAIN THIRD PARTY CONSENTS

SUPPLIER AND LEASE CHANGE OF CONTROL CONSENTS

Certain supplier or service contracts and property leases contain clauses that enable the counterparty to terminate the contract if a change of control of a Coles or Wesfarmers entity occurs without the consent of the supplier, lessor or otherwise required counterparty. In some cases these clauses apply in the circumstances of the Demerger or Corporate Restructure. Not all change of control clauses are triggered by the Demerger or Corporate Restructure, depending on the terms of each clause. Coles and Wesfarmers management have assessed the need to obtain consents from key suppliers and lessors and have begun the process of contacting the relevant counterparties. To the extent these consents are not obtained, there is a risk of counterparties terminating the relevant contracts or leases or alleging a breach of terms.

TRANSITIONAL ARRANGEMENTS

Under a Transitional Services Agreement, Wesfarmers will provide workers compensation claims management, insurance and other services to Coles directly for a transitional period following the Demerger. Coles will also provide information technology, payroll, finance and other services to Wesfarmers companies (including Kmart, Target and Officeworks). The consent of or an agreement with a third party may be required to enable Wesfarmers or Coles to provide certain services under the Transitional Services Agreement following the Demerger. If those are not forthcoming, alternative arrangements may need to be implemented to provide the relevant services to Coles, Kmart, Target and Officeworks (to the extent it is not practicable for Coles, Kmart, Target and Officeworks to procure their own replacement arrangements).

1.5.4 COURT APPROVAL

As is the case with all schemes of arrangement in Australia, there is a risk that the Court may not approve the Scheme or that the approval of the Court is delayed.

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2
INFORMATION ON COLES

SECTION 2
INFORMATION ON COLES

2.1 BACKGROUND INFORMATION

Coles is a leading Australian retailer, providing customers with everyday products including fresh food, groceries, household goods, liquor, fuel and financial services via its store network and online platforms. As at 30 June 2018, Coles processed more than 21 million customer transactions on average each week, employed over 112,000 team members and operated 2,507 retail outlets nationally. Coles is headquartered in Melbourne, Australia.

Coles' history has been marked by periods of innovative thinking, having evolved from a variety store to Australia's first supermarket and eventually to a portfolio of retail brands. Wesfarmers acquired Coles (along with Kmart, Target and Officeworks) in 2007 and has successfully transformed the business operations and financial performance over the last 11 years. A brief history of Coles is set out below.

1914 – The first Coles variety store opened in Collingwood, Victoria

1960 – The first Coles supermarket opened in Balwyn, Victoria

1980s – Coles acquired a number of liquor businesses, including the Liquorland and Vintage Cellars brands

1985 – Coles merged with The Myer Emporium Limited to create Coles Myer Limited

1987 – Coles Myer corporate headquarters opened in Hawthorn East, Victoria

1994 – The flybuys loyalty program was launched and has since grown to one of Australia's most popular loyalty programs

1999 – Online shopping was first trialled by Coles in 23 Melbourne postcodes, paving the way for the current Coles Online offering

2003 – Coles entered into a Alliance Agreement with Shell whereby Coles operates the Shell convenience outlets; by 2004, Coles had established a nationwide network of Coles Express convenience stores

2006 – Coles Myer sold Myer to Newbridge Capital and The Myer Family Company for $1.4 billion (with Coles Myer renamed Coles Group)

2007 – Coles Group (which included Coles, Kmart, Target and Officeworks) was acquired by Wesfarmers. Under Wesfarmers' ownership, a new management team led the turnaround of the business

2010 – Coles launched the successful 'Down Down' campaign, and established an ongoing program of trusted value by reducing prices on thousands of items to reduce the cost of the average customer's shopping basket

2010 – Coles commenced its responsible sourcing program by introducing no added hormone beef. In the following years Coles introduced Coles Brand sow stall free pork, RSPCA approved chicken, and responsibly sourced seafood

2012 – The flybuys brand and program was relaunched

2017 – 800th Coles supermarket and 700th Coles Express site opened

2018 – 1,000th Coles 'Click & Collect' location delivered and 900th Coles liquor store opened

As a key pillar of this transformation, Wesfarmers has invested over $9 billion in capital in the Coles business between FY2007 and FY2018, initially as part of a significant reset of the store portfolio and then as ongoing investment in the supermarket store network. As a result, the average age[1] of a supermarket store in the Coles fleet is now 8.1 years and the average age of the top quartile of stores is 5.7 years[2], while sales density across Supermarkets and Liquor has improved 26 per cent since FY2009. Under Wesfarmers' ownership and transformation, Coles has delivered 43 quarters of consecutive like-for-like (**LFL**) food and liquor sales growth. The Wesfarmers Board believes that Coles is now of a scale where it should be owned and operated separately, having established a strong corporate infrastructure under the Wesfarmers model of divisional autonomy.

Figure 1: Supermarkets renewals (refurbishments and new stores)

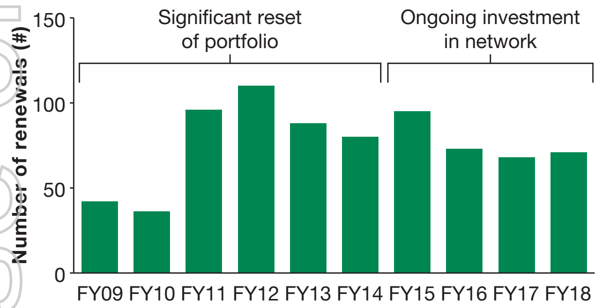
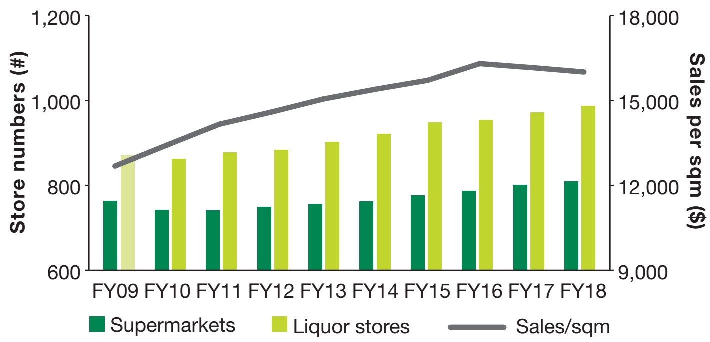


Figure 2: Coles store numbers and sales density



2.2 KEY STRENGTHS OF COLES

2.2.1 RESILIENT AND GROWING MARKETS

Coles operates in industries with defensive attributes, that is, where growth is relatively stable through economic cycles. This is illustrated by the long-term growth of Australian grocery and liquor sales through economic cycles over the period June 1985 to June 2018, growing at a CAGR of 6.2 per cent and 7.2 per cent, respectively[3]. As a specific example of Coles operating in resilient markets, Western Australian grocery and liquor retail sales continued to grow during an economic downturn in that State over the period FY2013 to FY2017[3].

2.2.2 MARKET LEADING POSITION

Coles has maintained a market leading position in the supermarket industry over an extended period notwithstanding new market entrants with a discount focus and heavy investment in price by its major competitor.

2.2.3 ESTABLISHED, NON-REPLICABLE NATIONAL STORE NETWORK

An extensive store portfolio of approximately 2,500 sites nationally gives Coles significant scale and reach, with approximately 80 per cent of Australians living within a 10 minute drive of a Coles store. Coles Online is also able to leverage this physical footprint, with 'Click & Collect' and home delivery services utilising the store network, and proximity to customers providing advantageous last mile economics.

2.2.4 FRESH TOMORROW STRATEGY TO DRIVE CUSTOMER EXPERIENCE AND SHAREHOLDER RETURNS

The 'Fresh Tomorrow' strategy, as detailed in Section 2.6, includes six pillars to further improve Coles' food offer, move further towards 'Everyday Low Prices', offer anytime, anywhere shopping, land the right offer in every location, reduce costs and continue to engage with team members, customers and the community. The 'Fresh Tomorrow' strategy aims to ensure that Coles remains a trusted brand for Australians and maintains its market leading position by continuously improving the customer experience.

2.2.5 STRONG CASH FLOW GENERATION

Coles' strong cash flow generation is driven by business performance, negative working capital, disciplined capital expenditure and a property recycling program, which has released approximately $200 million per annum in capital. Coles' strong cash generation will underpin an expected dividend payout ratio of 80 to 90 per cent. Coles' approach to dividends will be determined by the Coles Board at its discretion and may change over time.

2.2.6 STRONG BALANCE SHEET

Post Demerger, Coles will have a strong and conservative balance sheet, providing funding capacity to support dividends for Coles Shareholders and to support the business' strategic and operational objectives. The strength of Coles' balance sheet will be supported by a portfolio of profitable and cash generative businesses and a weighted average lease profile of 6.1 years at 30 June 2018.

1. Average age stated is based on years since last store renewal.
2. Top quartile refers to stores in the top 25 per cent based on sales revenue.
3. Australian Bureau of Statistics, *Retail trade, Australia: Supermarkets and Grocery stores turnover* and *Liquor retailing turnover,* August 2018.

The balance sheet is expected to support strong investment grade credit ratings.

Coles has secured committed bank facilities of approximately $4.0 billion, from a group of leading domestic and international banks, with maturities of three, five or seven years. Approximately 96 per cent of these facilities mature in either three or five years. These facilities will provide significant liquidity headroom to cover seasonal cash flow variations, including peak working capital requirements, capital expenditure, dividend payments and bank guarantees.

2.2.7 EXPERIENCED BOARD AND MANAGEMENT TEAM

Coles has an experienced leadership team, well-developed corporate infrastructure and a disciplined capital allocation framework. Members of the executive leadership team supporting Steven Cain have extensive experience in consumer retailing and/or the fast moving consumer goods sector as outlined in Section 2.10.2.

The Coles Board has been established to combine extensive commercial, capital markets, board and governance experience together with broad global and executive experience in international retailing, technology and communications, data and analytics, supply chain management and relationships in the fast moving consumer goods sector.

2.3 COLES DIVISIONAL OVERVIEW

If the Demerger is implemented, Coles will consist of three divisions: Supermarkets, Coles Liquor and Coles Convenience. Coles will also retain a 50 per cent ownership stake in flybuys, one of Australia's most popular loyalty programs.

Figure 3: Overview of Coles Group

Coles Group

Supermarkets	Liquor	Convenience
• Supermarket operator • $30.2b revenue and $1,176m EBIT in FY2018 • 809 stores, Coles Online and Coles Financial Services	• Retail liquor and hotel operator • $3.3b revenue and $130m EBIT in FY2018 • 899 liquor stores; 88 hotels	• Fuel and convenience outlets • $5.8b revenue and $133m EBIT in FY2018 • 711 outlets
coles coles.com.au coles Financial Services	first CHOICE liquor LIQUORLAND VINTAGE CELLARS AUSTRALIA'S FINE WINE SPECIALIST SINCE 1951 spirit HOTELS	coles express

flybuys

Data and analytics capability; 50 per cent Coles owned; over 8 million active users

Notes:

1. Revenue and EBIT shown above reflects pro forma financials as set out in Section 2.13.4 excluding Other and corporate costs.
2. Coles may in the future change its financial year to a retail calendar to align with the reporting period of many of its competitors.
3. As at 30 June 2018.

For the year ended 30 June 2018, Coles had pro forma revenue of $39.3 billion, pro forma EBITDA of $2,061 million and pro forma EBIT of $1,414 million.

2.4 INDUSTRY INFORMATION

2.4.1 SUPERMARKET INDUSTRY INFORMATION

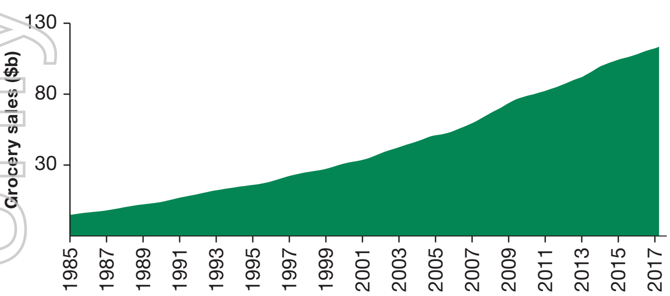
The Australian supermarket industry comprises supermarket-format retailers of groceries, household goods and food products, including fruit and vegetables, meat and seafood, bakery goods, canned goods, toiletries, dairy goods, delicatessen items and cleaning goods.

In the year ended 30 June 2017, the Australian supermarket and grocery industry was estimated to total approximately $100 billion in revenue[4], and to comprise approximately 6,500 individual retail outlets and over 350,000 employees[4].

4. IBISWorld, *Supermarkets and Grocery Stores in Australia*, February 2018.

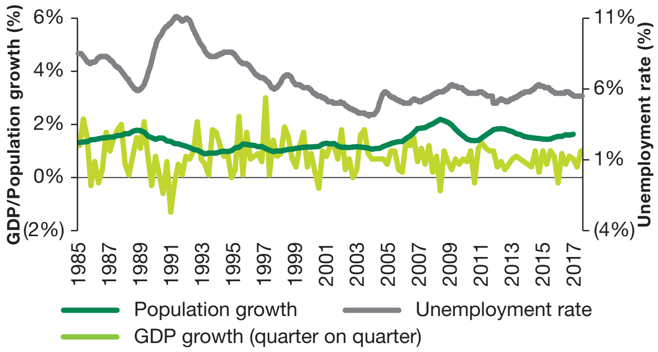
Together, Figure 4 and Figure 5 outline the long-term resilience of Australian grocery sales through economic cycles; sales having grown at a CAGR of 6.2 per cent from June 1985 to June 2018 despite fluctuations in macroeconomic conditions over time[5].

Figure 4: Australian grocery sales



Source: Australian Bureau of Statistics

Figure 5: Australian macroeconomic conditions over time



Source: Australian Bureau of Statistics

Major national participants in the Australian supermarket industry include Coles (approximately 800 stores), Woolworths (approximately 1,000 stores[6]), IGA (approximately 1,400 stores[7]) and Aldi (approximately 500 stores[8]). Although the Australian market has approximately 1,900[8] distinct grocery retailing businesses, market share is relatively concentrated. An extensive store network is important, as convenience of location remains a key determinant of customer shopping decisions[9]. As at July 2018, Coles and Woolworths collectively held approximately 68 per cent grocery market share in Australia despite the growth of international discount supermarket chains Aldi and Costco.

Figure 6: Five-year rolling 12 week grocery market share trend[10]

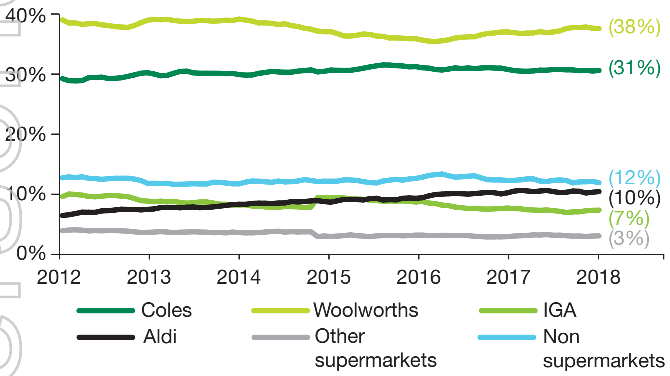
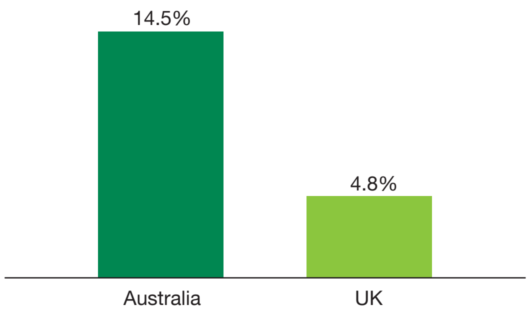


Figure 7: Retail grocery market share of non-major supermarkets[11]



Some key factors that impact supermarket industry revenue are changes in real household disposable income, population growth, and changes in consumer sentiment.

Australia's population is expected to grow at a 1.6 per cent CAGR from 2018 to 2022[12], while the unemployment rate is expected to remain stable at 5.5 per cent from 2019 to 2021[13]. The RBA has forecast CPI inflation at 2.3 per cent for the 2019 and 2020 financial years and the OECD forecasts Australia's GDP to grow by 3.0 per cent[14] in each of 2018 and 2019, ranking sixth amongst G20 member countries for forecast growth.

5. Australian Bureau of Statistics, *Retail trade, Australia: Supermarkets and Grocery stores turnover,* August 2018.
6. Woolworths Group, *Third Quarter Sales Result – Financial Year 2018,* 2 May 2018.
7. Metcash, *FY2018 Annual Report,* 25 July 2018.
8. IBISWorld, *Supermarkets and Grocery Stores in Australia*, February 2018.
9. UBS broker report, *Australian Supermarkets*, 28 March 2018.
10. Coles calculation using Nielsen Homescan data (© 2018, The Nielsen Company) ending 14 July 2018.
11. Australia data based on Coles calculation using Nielsen Homescan data (© 2018, The Nielsen Company) for 12 weeks ending 11 August 2018. Excludes major supermarkets (Coles, Woolworths, Aldi and IGA) but includes other supermarkets (such as Costco) and non-supermarkets. UK data based on Kantar Worldpanel, 12 August 2018.
12. Australian Bureau of Statistics, *Estimated Resident Population*.
13. Reserve Bank of Australia, *Economic Outlook*, May 2018.
14. OECD, *Interim Economic Outlook*, March 2018.

In the context of this operating environment, supermarket industry revenue in Australia is forecast to grow at a CAGR of 3.0 per cent over the period 2018 to 2022[15].

2.4.2 LIQUOR RETAILING INDUSTRY INFORMATION

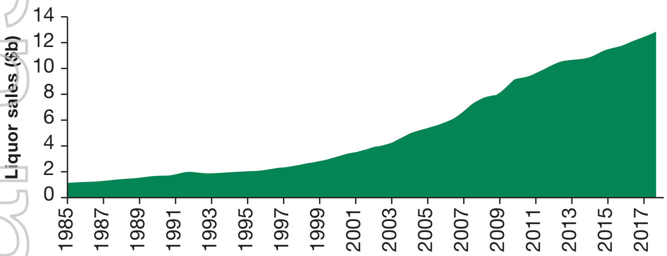
The Australian liquor retailing industry comprises retailers of alcohol in packaged form (including beer, wine, spirits and ready-to-drink mixers) and associated bar and entertaining utensils and products, and includes both online and physical retailers. This industry does not include the sale of alcohol for on-site consumption.

In the year ended 30 June 2017, the Australian liquor retailing industry was estimated to total over $11 billion in revenue, and to comprise approximately 6,300 individual retail outlets and over 30,500 employees[16].

Figure 8 outlines the long-term resilience of Australian liquor sales through economic cycles; sales having grown at a CAGR of 7.2 per cent from June 1985 to June 2017 despite fluctuations in macroeconomic conditions over time[17].

Major national participants in the Australian liquor retailing industry include Coles (899 stores under the banners Liquorland, Vintage Cellars and First Choice Liquor)[18], Woolworths (over 1,500 stores under banners that include Dan Murphy's, BWS and Cellarmasters), Independent Brands Australia banner group retailers supplied by Metcash (approximately 2,700 stores under banners that include Cellarbrations, IGA Liquor, Bottle-O and Thirsty Camel) and Aldi, with a portion of Aldi supermarkets having co-located liquor stores[16].

Figure 8: Australian liquor retail sales



Source: Australian Bureau of Statistics

Consumers are focused on location, quality, product range, availability, product knowledge, service, and price as key differentiators between liquor retail alternatives[16]. In recent times, the industry has seen the growth of the big-box liquor stores[16].

The liquor retailing industry is forecast to grow at a CAGR of 2.0 per cent from 2018 to 2022[16], driven largely by population growth, greater demand for premium categories and beverages, increasing incomes and increased at-home consumption of liquor.

2.4.3 FUEL AND CONVENIENCE RETAILING INDUSTRY INFORMATION

The Australian fuel and convenience retailing industry comprises retailers of automotive fuel and convenience store goods at service stations.

In the year ended 30 June 2017, the Australian fuel and convenience retailing industry was estimated to total over $34 billion in revenue, and to comprise over 7,300 individual retail outlets and over 44,000 employees[19].

Major national participants in the fuel and convenience retailing industry include Coles Express (approximately 700 retail sites), Caltex (approximately 1,900 retail sites[20]), BP (approximately 1,400 retail sites[21]), Woolworths (approximately 530 retail sites[22]), 7-Eleven (approximately 500 retail sites[21]) and United Petroleum Australia (approximately 300 retail sites[19]).

Sector concentration has decreased from historical high levels, when the industry was more vertically integrated, with companies owning fuel refineries also owning and operating wholesale and retail networks. Today, Caltex and BP are the only major upstream oil companies with a substantial direct retail presence in Australia. However, wholesalers have increasingly supplied their products to supermarket chains and independent fuel retailers, which then sell fuel under their own brands, with the major national participants being Coles Express (via a wholesale supply arrangement with Viva Energy Australia), Woolworths (via an agreement with Caltex) and 7-Eleven (via an agreement with Mobil).

Increasingly, both independent and vertically integrated fuel and convenience retailers have focused on their in-store convenience and 'on-the-go' food offering to customers in an attempt to grow convenience sales.

Fuel consumption over the next five years is forecast to remain similar to FY2017 fuel consumption of approximately 33,400 megalitres[19], with growth in motor vehicles offset by increasing environmental awareness and shift to energy-efficient electric and hybrid cars. However, the increasing focus on growth of non-fuel sales at service stations is expected to continue. This may lead to enhanced store layouts, improved quality and a greater range of non-fuel products.

15. Based on an average of the CAGR forecasts in IBISWorld, *Supermarkets and Grocery Stores in Australia,* February 2018; Credit Suisse report, *Australian Food Retail*, 12 July 2017; and Morgan Stanley report, *2017 Australian Consumer Outlook and Key Picks*, 31 January 2017.
16. IBISWorld, *Liquor Retailing in Australia*, May 2017.
17. Australian Bureau of Statistics, *Retail Trade, Australia: Liquor retailing turnover*, August 2018.
18. As at 30 June 2018.
19. IBISWorld, *Fuel Retailing in Australia*, December 2017.
20. Caltex, *2017 Full Year Results Presentation*, 27 February 2018.
21. ACCC, *BP - Proposed acquisition of Woolworths' retail service station sites*, 10 August 2017.
22. Woolworths Group, *Third Quarter Sales Results – Financial Year 2018*, 2 May 2018.

2.5 OVERVIEW OF BUSINESSES

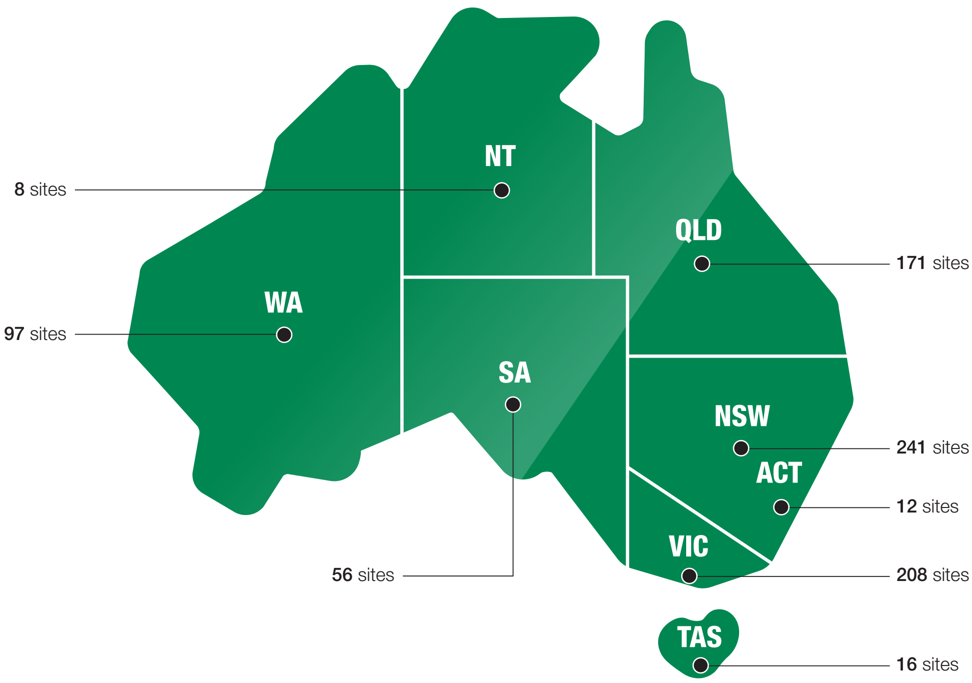
2.5.1 COLES SUPERMARKETS

Coles Supermarkets comprises the Coles supermarkets store network, the Coles Online supermarket offering, and Coles Financial Services.

As at 30 June 2018, there were 809 Coles supermarket stores across Australia. This established store network supports Coles' approximately 31 per cent grocery market share in Australia, which it has maintained over the last five years[23]. The network ranges from small metropolitan stores to large flagship sites, with an overall average selling area of 2,307 square metres. In FY2018, Coles continued to optimise its store network by opening 20 new stores and closing 12 stores, increasing net selling area by 1.6 per cent. Coles also has a growing online business, providing customers with an anytime, anywhere shopping proposition. Coles Online offers customers home delivery and 'Click & Collect' options, which are serviced by the existing physical store network and two dedicated online supermarkets. Coles' home delivery service is supported by its fleet of 599 delivery vans and accounts for approximately 75 per cent of online orders, while its 'Click & Collect' service is supported by approximately 1,000 collection locations and accounts for approximately 25 per cent of online orders. For year ended 30 June 2018, Coles Supermarkets reported pro forma revenue of $30.2 billion and pro forma EBIT of $1,176 million.

Through Coles Financial Services, Coles offers credit cards in partnership with Citigroup to more than 400,000 customer accounts, and home, car and landlord insurance in partnership with Insurance Australia Group to more than 400,000 policyholders.

Figure 9: Coles supermarket network as at 30 June 2018



23. Nielsen Homescan data (© 2018, The Nielsen Company).

2.5.2 COLES LIQUOR

Coles Liquor operates a range of liquor retailing formats encompassing three major brands – Liquorland, First Choice Liquor and Vintage Cellars, as well as an online liquor retailing business. As at 30 June 2018, there were 899 Coles Liquor stores across Australia. Coles Liquor also operates a network of 88 hotels under the Spirit Hotels brand, predominantly located in Queensland.

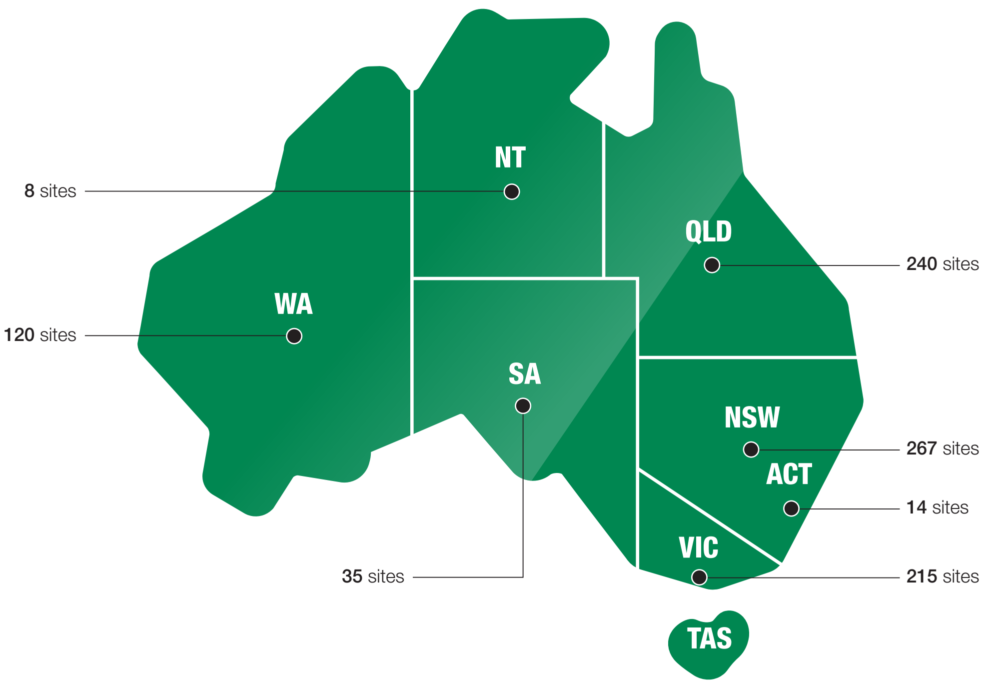
- Liquorland is Coles' convenience liquor format, with stores that are typically associated with a Coles supermarket. As at 30 June 2018, there were 717 Liquorland stores across Australia and more than two thirds of those stores have been renewed.
- First Choice Liquor is a big box format, with a strong value proposition of a wide variety of wine, spirits, beer and pre-mixed drinks. As at 30 June 2018, there were 98 First Choice Liquor stores across Australia, including four recently renewed and rebranded First Choice Liquor Market stores.
- Vintage Cellars is a fine wine specialist, offering customers premium service and advice, as well as one of Australia's largest wine clubs. As at 30 June 2018, there were 84 Vintage Cellars stores across Australia.

In FY2018, 31 new stores were opened, 163 Liquorland stores were renewed, and strong transaction growth was delivered. In FY2018, Coles Liquor reported pro forma revenue of $3.3 billion and pro forma EBIT of $130 million.

Coles Liquor is currently undergoing a transformation program, which has involved filling network gaps, improving the online offering, simplifying store processes and providing a more targeted range of products to customers. As a result, Coles Liquor has recorded 11 consecutive quarters of LFL sales growth.

Coles is currently undertaking a strategic review of its Spirit Hotels business including a potential transaction that would lead to the economic separation of hotel and gaming revenue. The review is ongoing and there is no certainty this process will lead to a transaction and Wesfarmers (prior to the Demerger) or Coles (post Demerger) will update the market further if and when appropriate.

Figure 10: Coles liquor network (excluding hotels) as at 30 June 2018



2.5.3 COLES CONVENIENCE

Coles Express is one of Australia's leading fuel and convenience retailers, selling Shell fuels and a wide range of everyday products such as groceries, snacks, drinks, gas bottles, firewood, and Shell oils and lubricants.

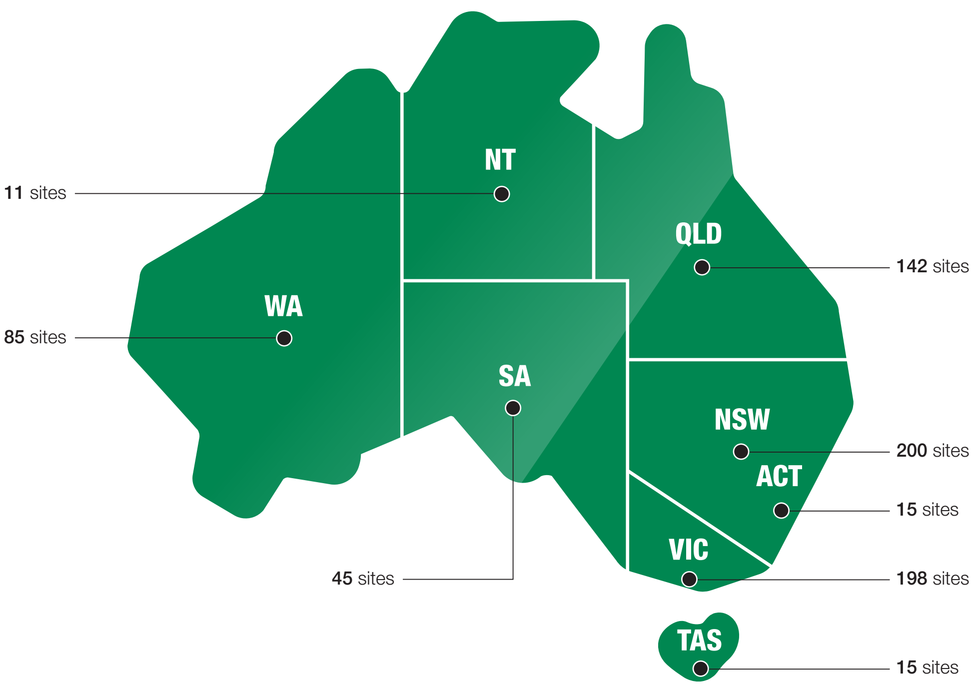
In 2003, Coles entered into an Alliance Agreement with Shell whereby Coles operates fuel and convenience retail sites and Shell supplies fuel to these sites. In 2014, Vitol Investment Partnership acquired the Shell Australia downstream business (refinery, retail sites, bulk fuel and other businesses) and renamed the business Viva Energy. Coles operates the majority of retail sites under lease from Viva Energy, with 44 sites as at 30 June 2018 either held as freehold assets or leased from third parties.

Under the current Alliance Agreement with Viva Energy, Coles as at 30 June 2018 occupied and operates 711 fuel and convenience stores across Australia. These stores are co-branded under Coles Express and Shell branding (Viva Energy is the exclusive licensee of the Shell brand for retail fuels and lubricants in Australia). The Alliance combines Viva Energy's service station sites and fuel supply and distribution network with Coles' retail expertise and convenience store offering. Viva Energy acts as exclusive supplier of Shell branded products for all sites, and provides a licence for Coles Express to operate a site using the Shell branding. In occupying and operating the service stations, Coles sets retail fuel and shop prices, directly employs service station team members and engages with third party convenience and grocery merchandise suppliers. Coles supermarket customers who make purchases over a certain amount are entitled to receive a fuel discount.

In FY2018, Coles Convenience opened 17 new Coles Express stores and renewed 402 stores. In FY2018, Coles Convenience reported pro forma revenue of $5.8 billion and pro forma EBIT of $133 million. Coles Convenience is currently undertaking a number of initiatives to increase its shop sales (excluding fuel), including the rollout of an improved food-to-go offer and trialling of a fresh product offering.

Unless terminated earlier or extended in accordance with its terms, the Alliance Agreement between Coles and Viva Energy will expire on 2 February 2024. Either Coles or Viva Energy may unilaterally extend the term by five years to 2 February 2029.

Figure 11: Coles convenience network as at 30 June 2018



2.5.4 OTHER

2.5.4.1 FLYBUYS

flybuys is one of Australia's most popular loyalty programs. The program has over eight million active members, covering approximately six million households (approximately 67 per cent of all Australian households), with the flybuys app downloaded more than one million times. flybuys members earn points at over 20 major participating partners including Coles Supermarkets, Coles Express, First Choice Liquor, Liquorland, Coles Credit Cards, Medibank, Target, Kmart, AGL, Adidas, NAB, eBay and Kleenheat.

Following the Demerger, flybuys will be owned and operated by Loyalty Pacific, and Coles and Wesfarmers will each continue to hold a 50 per cent shareholding in Loyalty Pacific. Coles and Wesfarmers will enter into a shareholders agreement in relation to the governance and ownership of Loyalty Pacific. The shareholders agreement will also include provisions dealing with distributions to, and future capital contributions by, each shareholder (which will be in proportion to their ownership interests). Loyalty Pacific will be established and function as a stand-alone business with its own management team, overseen by a board of directors comprising Wesfarmers and Coles representatives. Coles and Wesfarmers will each receive 50 per cent of any profits derived by Loyalty Pacific that are paid out as dividends. The profitability of Loyalty Pacific is dependent (among other things) on revenue derived from participating retailers and other businesses (see below), meeting the cost of redemptions by flybuys members and operating costs in relation to the flybuys program.

The existing participation arrangements under which retailers and other businesses (including Kmart and Target) participate in the flybuys program on commercially negotiated terms will continue. Under those agreements, the participating retailers and other businesses generally pay Loyalty Pacific per point credited to a flybuys member (for example because a flybuys member has purchased a good or service from that retailer). Some participating retailers or other businesses pay Loyalty Pacific additional amounts, including for access to the flybuys program or for marketing support or customer acquisition. Loyalty Pacific then uses its funds to meet its redemption obligations under the flybuys program, to meet its other costs, and to invest in its business.

In addition to being a shareholder in Loyalty Pacific, Coles is a significant participating retailer in the flybuys program. Coles and Loyalty Pacific have agreed to document Coles' participation in the flybuys loyalty program on commercially negotiated terms (including the fees and charges payable by Coles in relation to the crediting and redemption of points), the data flows between Coles and Loyalty Pacific, the uses of that data, and arrangements for the proposed development of new products.

Coles will also provide certain transitional services to Loyalty Pacific under a transitional services agreement.

Coles will continue to work in partnership with flybuys to deliver value, build relationships and drive loyalty with its customers. Furthermore, Coles expects to drive improvements in its business through better utilisation of data and digital assets. Ongoing investment and support from both Coles and Wesfarmers will assist flybuys to realise its full potential as a leading loyalty and data company by leveraging the broader networks of the Wesfarmers Group, including the existing partnerships with Kmart and Target.

Coles' 50 per cent shareholding in Loyalty Pacific is included as part of the Coles Other segment in the Coles Pro Forma Historical Financial Information in section 2.13. In FY2018, the Coles Other segment reported pro forma EBIT of $31 million.

2.5.4.2 PROPERTY

Coles holds approximately $1.0 billion in freehold property assets, supporting its property development program, which seeks to develop new Coles supermarkets, liquor stores, and fuel and convenience sites in network gaps. Property assets are usually purchased with a view to developing a Coles supermarket on the site and a subsequent sale and leaseback, which provides capital that enables the progression of Coles' development program. This allows Coles to control and deliver an optimal supermarket and retail space rather than accepting a leasehold property in a development which has not been optimised for supermarket operations. Key freehold properties in strategic growth corridors are identified and secured up to 10 years in advance of development.

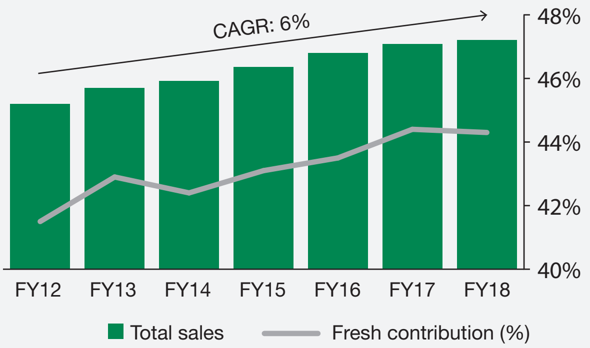
The majority of Coles' operational premises are leased, and Coles will continue to partner with developers on individual development sites if this provides an optimal outcome for Coles.

2.6 BUSINESS STRATEGY

Following the Demerger, Coles intends to further develop its Fresh Tomorrow strategy which comprises six core elements:

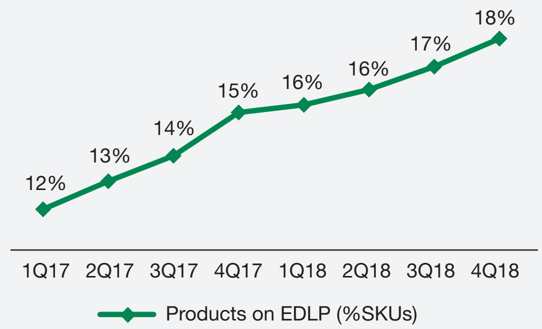
1 TRANSFORM FOOD OFFER:
Building on a foundation of strong fresh sales growth (six year CAGR of six per cent), Coles will continue to innovate and improve its fresh offer, with a focus on offering great quality Australian-grown products that customers want, and will continue to partner closely with its suppliers. Coles will also continue to grow its own brand portfolio, which has increased from 26 per cent of sales in FY2012 to 29 per cent of sales in FY2018.

Figure 12: Coles fresh sales[24]



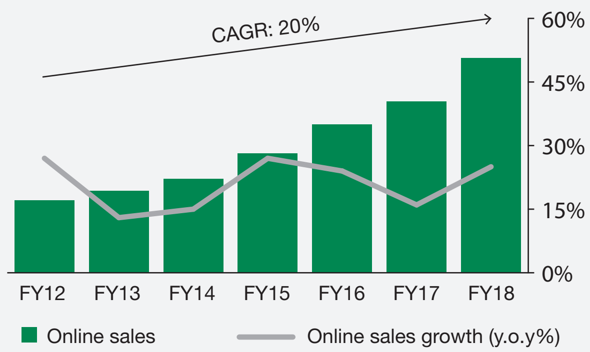
2 MOVE TOWARDS 'EVERYDAY LOW PRICES' (EDLP):
Coles has consistently committed to providing trusted value to customers, having delivered nine consecutive years of price deflation. Coles will continue to invest in price, with more products to be offered on 'Everyday Low Prices' and fewer, deeper, relevant promotions.

Figure 13: Coles products on EDLP



3 OFFER ANYTIME, ANYWHERE SHOPPING:
Coles recognises that customer expectations are rapidly changing and therefore it needs to continue to invest in a suite of convenient shopping alternatives including digital channels such as Coles Online and the Coles mobile application, and a range of convenient delivery options, such as home delivery and 'Click & Collect' to ensure an end-to-end experience that meets customers' needs.

Figure 14: Coles online sales and growth



4 LAND THE RIGHT OFFER IN EVERY LOCATION:
Coles will seek to continue to improve its extensive national store network by leveraging customer insights, innovations and technology to drive its store renewal programs, tailoring stores and product ranges to the shopping missions of local customers across its brands.

5 REDUCE COSTS:
Coles aims to continue to streamline its cost base and leverage technology to deliver a simplified store environment and a modernised supply chain. For example, this will be achieved through the continued investment in technology, the use of data and analytics to simplify product ranges, and through removing complexity from processes across the business.

6 WIN TOGETHER:
Coles recognises that it is through its team members feeling proud to work at Coles, its customers feeling proud to shop at Coles and the community feeling proud to partner with Coles that everyone truly wins together. So Coles is focused on having safety 'in the DNA' of Coles, being famous for building great careers and growing talent and being known for community engagement, underpinned by our leadership behaviours to deliver sustainable results over the long term.

24. Fresh includes fresh produce, bakery, meat, deli and dairy products.

2.6 BUSINESS STRATEGY (continued)

The success of Coles' business strategy will be measured with reference to comparable sales growth, sales per square metre, earnings, customer satisfaction and team member engagement.

2.7 SUPPLY ARRANGEMENTS

Coles sources a wide range of everyday products including fresh food, groceries, household goods and liquor. Coles has various contracts in place with its suppliers on terms consistent with industry practice, which include ongoing supply agreements and fixed-term contracts for periods ranging from one to ten years.

Coles sources fuel for its convenience sites from Viva Energy, under a long-term agreement, as referred to Section 2.5.3.

2.8 COLES SUPPLY CHAIN

Coles operates an intermodal supply chain utilising road, rail, sea and air to service its supermarkets, liquor stores and convenience stores. The Coles network comprises 20 distribution centres and six overseas consolidation centres. The network is a combination of Coles operated and third-party operated facilities which deliver over 10 million pallets (equating to one billion cartons) to stores each year. Safety of team members remains a priority, as outlined in Section 2.11.3.

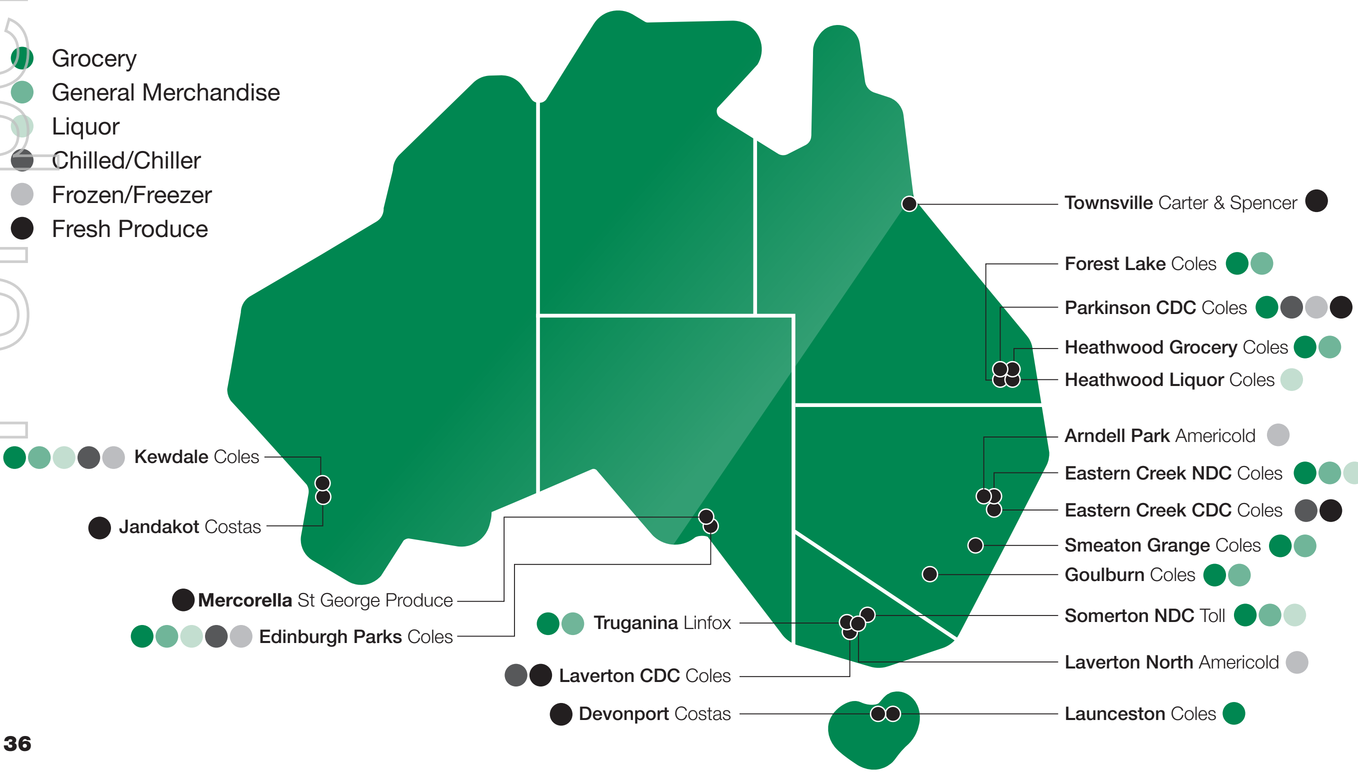
Coles is committed to ensuring that all workers in its supply chains are treated fairly. Coles' Ethical Sourcing Policy covers a range of key labour indicators, including wages and benefits, working hours, freedom of association, safe working conditions, discrimination and forced or bonded labour, child labour and illegal labour. Also, Coles is in support of establishing a Modern Slavery Act in Australia. Coles believes the Act will improve transparency in corporate and public sector activities, and ultimately help to eliminate modern slavery across Australian entities' operations and their supply chains.

Coles is focused on modernising its supply chain through investing in technology and automation. Prior to the Scheme Meeting, Coles (with the support of the incoming Coles Board) expects to enter into a Heads of Agreement with Witron to develop two new automated distribution centres over a five-year period. Witron is a market leader in the design and realisation of dynamic warehouse systems and order picking systems for distribution centres. The investment is expected to deliver lower supply chain costs and higher service levels, improved efficiency and stock availability in stores, safer working environments, and enhanced business competitiveness.

The total investment required to develop the two automated distribution centres will be managed within Coles' overall capital expenditure budget by applying its established capital allocation practices. These investment requirements were taken into account in determining the appropriate level of net debt for Coles post Demerger.

Coles' estimated net capital expenditure of $600 million to $800 million for FY2019 includes capital expenditure associated with the agreement for distribution centre automation. If the agreement is entered into, Coles expects to recognise significant provisions of approximately $130 million to $150 million before tax in FY2019, relating to redundancies and lease exit costs for a number of existing distribution centres that will be closed over a five-year period.

Figure 15: Coles supply chain network



2.9 INFORMATION TECHNOLOGY

Coles has an independent information technology environment and network supporting its business operations, which are both internally managed as well as supported by third-party service providers. Coles has its own agreements in place with third-party hardware, software, and service providers for its information technology systems and infrastructure. Coles has implemented a number of upgrades over the past several years, including a new Point of Sale system in all supermarkets, expansion of its online offer, and a new advanced analytics capability.

Some of Coles' information technology systems and infrastructure are used by other divisions within Wesfarmers, including data centres, network, and systems supporting finance and human resources. Coles also receives some corporate and business services from Wesfarmers, supported by some of Wesfarmers' information technology systems. Following the Demerger, Coles will continue to provide and receive such services pursuant to a Transitional Services Agreement (**TSA**) (see Section 4.9.5 for additional details). On conclusion of the TSA, Coles is expected to have made arrangements to support information technology requirements for any corporate and business services provided by Wesfarmers under the TSA.

2.10 COLES BOARD AND SENIOR MANAGEMENT

2.10.1 COLES BOARD

If the Demerger is implemented, the Coles Board will comprise eight directors. There will be seven Non-Executive Directors, including one Non-Executive Director appointed by Wesfarmers, recognising its 15 per cent shareholding in Coles following the Demerger. As long as Wesfarmers maintains at least a 10 per cent shareholding in Coles, it will continue to have the right to nominate one Non-Executive Director to the Coles Board (see Section 4.9.7). Details of the Non-Executive Directors as well as the Coles Managing Director and Chief Executive Officer (**CEO**) set out below.

JAMES GRAHAM AM - CHAIRMAN

James has extensive corporate and governance experience, including as a Non-Executive Director of Wesfarmers from 1998 to June 2018. James is Chairman of Gresham Partners Limited, having founded the Gresham Partners Group in 1985. From 2001 to 2009, he was a director of Rabobank Australia Limited, initially as Deputy Chairman and then Chairman, responsible for the Bank's operations in Australia and New Zealand. He was also Chairman of the Darling Harbour Authority between 1989 and 1995. James holds a Bachelor of Engineering (Hons) in Chemical Engineering from the University of Sydney and a Master of Business Administration from the University of New South Wales. He is a Fellow of the Australian Academy of Technological Sciences and Engineering, a Senior Fellow of FINSIA, a Fellow of the Institution of Engineers Australia and a Fellow of Australian Institute of Company Directors. James was made a member of the Order of Australia in 2008.

STEVEN CAIN – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

See Section 2.10.2.

DAVID CHEESEWRIGHT – NON-EXECUTIVE DIRECTOR (WESFARMERS NOMINEE)

David retired earlier this year as President and Chief Executive Officer of Walmart International, which comprises Walmart's operations outside the United States including more than 6,200 stores and more than 796,000 employees in 27 countries. He was previously President and CEO of Walmart EMEA (Europe, Middle East and Africa) and Canada region, overseeing the integration of the Massmart acquisition, and growth in the UK and Canada. David's other prior roles include Chief Operating Officer of Asda in the UK and a range of key positions with Mars Confectionary in the UK. He is a board member of Chinese online grocery business Yihaodian, Massmart, Queens Business School and The Retail Council of Canada. He holds a first-class honours degree in sports science and mathematics from Loughborough University, UK.

JACQUELINE CHOW – INDEPENDENT, NON-EXECUTIVE DIRECTOR

Jacqueline is currently a director of NIB Holdings (appointed 2018) and Fisher & Paykel Appliances (appointed 2016) and a Senior Advisor at McKinsey Consulting RTS, advising clients across industrial, retail, telecommunications, financial services and consumer sectors on performance transformation projects. Jacqueline previously held senior management positions with Fonterra Co-operative Group, one of the world's largest dairy product producers and exporters, including most recently Chief Operating Officer, Global Consumer and Food Service. Prior to that, she was in senior management with Campbell Arnott's and Kellogg Company. She was also Programme Steering Group Director, Ministry for Primary Industries, NZ (2013 to 2016) and Deputy Chair, Global Dairy Platform Inc (2014 to 2018). Jacqueline holds an MBA from Northwestern University Chicago and a Bachelor of Science (Hons) from the University of New South Wales. She is a Graduate of the Australian Institute of Company Directors.

ABI CLELAND – INDEPENDENT, NON-EXECUTIVE DIRECTOR

Abi is currently a director of Computershare Limited (appointed 2018), Sydney Airport Corporation Ltd (appointed 2018) and Orora Ltd (appointed 2014). Abi is also a director of Swimming Australia and Chairman of Planwise Australia. Abi's previous board appointments include Australian Independent Business Media and membership of the advisory committee of Lazard PE Fund 2. From 2012 to 2017, Abi established and ran an advisory and management business, Absolute Partners, focusing on strategy, mergers and acquisitions and building businesses. Before that, she held senior management roles at KordaMentha's 333, where she was Managing Director, and at ANZ, Incitec Pivot and Amcor. She holds an MBA from the University of Melbourne's Melbourne Business School and has a Bachelor of Commerce and a Bachelor of Arts from Monash University.

RICHARD FREUDENSTEIN – INDEPENDENT, NON-EXECUTIVE DIRECTOR

Richard has been a non-executive director of REA Group since 2006, including as Chairman from 2007 to 2012. Since 2016, he has been a non-executive director of Malaysian direct broadcast satellite Pay TV service Astro Malaysia Holdings Berhad. He is also currently Deputy Chancellor of the University of Sydney and a member of the Advisory Committee of start-up artificial intelligence software company Afiniti Ltd. Richard was previously Chief Executive Officer of Foxtel (2011 to 2016), Chief Executive Officer of The Australian and News Digital Media at News Ltd (2006 to 2010), and Chief Operating Officer at British Sky Broadcasting plc (2000 to 2006). His previous board director positions include Ten Network Holdings (2015 to 2016), Foxtel (2009 to 2011), ESPN STAR Sports ESS (2009 to 2012), Nickelodeon UK (2003 to 2006, Chairman), Bell Shakespeare Company (2007 to 2013), English National Ballet (2003 to 2006) and Royal Television Society UK (2005 to 2006, Chairman). Richard has a Bachelor of Laws (Hons) and a Bachelor of Economics from the University of Sydney.

WENDY STOPS – INDEPENDENT, NON-EXECUTIVE DIRECTOR

Wendy is currently a director of Altium (appointed 2018) and Commonwealth Bank of Australia Ltd (appointed 2015). She is also a director of Fitted for Work, and a Council member at the University of Melbourne. Wendy was previously a senior management executive in the information technology and consulting sectors, including the last 16 years with Accenture in various senior management positions in Australia, Asia Pacific and globally. Her previous board experiences include with Accenture Software Solutions Australia and Diversiti. She is currently a member of Chief Executive Women. Wendy has a Bachelor of Applied Science from Caulfield Institute of Technology (now Monash University) and is a Graduate of the Australian Institute of Company Directors.

ZLATKO TODORCEVSKI – INDEPENDENT, NON-EXECUTIVE DIRECTOR

Zlatko has been a director of Adelaide Brighton Ltd since March 2017, including as Chairman since May 2018. He became an appointee to the board of The Star Entertainment Group Ltd in October 2017, and served as a board observer until his formal appointment as a director in May 2018, following regulatory approvals being received. He is also a Council member of the University of Wollongong. Zlatko's previous board appointments include serving as President of the Group of 100 and Chairman of the ASIC Accounting and Audit Standing Committee. Zlatko's executive career included four years as Chief Financial Officer of Brambles Ltd and, from 2009 to 2012 as Chief Financial Officer of Oil Search Ltd. From 1986 to 2009, he held various senior roles at BHP, including as Chief Financial Officer of Energy based in London and Houston. Zlatko has an MBA and a Bachelor of Commerce from the University of Wollongong.

2.10.2 COLES SENIOR MANAGEMENT

The senior management team of Coles currently comprises 11 employees. Coles has a highly experienced senior management team with extensive domestic and international experience.

STEVEN CAIN – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Steven has over 20 years of experience in Australian and international retail.

Steven was previously Chief Executive Officer of supermarkets and convenience at Metcash Limited. He was also Chief Executive of Carlton Communications plc, a FTSE 100 media group company, and Operating Director and portfolio company chairman at Pacific Equity Partners, a private equity firm. He was also Group Marketing Director, Store Development Director and Grocery Trading Director of Asda (UK) during its turnaround and has held roles at Kingfisher plc, a UK retail group, and Bain & Company.

Steven was previously the Managing Director of food, liquor and fuel at Coles Myer and was an advisor to Wesfarmers on its takeover of the Coles Group in 2007.

Qualifications: MEng (First Class), Imperial College London.

LEAH WECKERT – CHIEF FINANCIAL OFFICER

Leah has more than 16 years of finance, commercial and strategy experience, including a number of senior roles across Coles in merchandise, operations, human resources and strategy.

Leah was appointed Chief Financial Officer in March 2018 and is responsible for finance, strategy, business development and investor relations. Her previous roles at Coles included Director Strategy, Chief People Officer, State General Manager Victoria and General Manager Merchandise, Strategy and Innovation.

Prior to joining Coles, Leah was an Associate Principal at McKinsey & Company, advising large private and public sector clients. She also previously led global strategy and M&A projects in her role at Fosters in Strategy and Business Development.

Qualifications: MBA, Harvard Business School, BEng (Hons) and BSc Adelaide University.

GREG DAVIS – CHIEF OPERATING OFFICER

With more than 25 years of management experience in the retail industry, Greg is an experienced retailer who has held a number of leadership roles across Coles for the past eight years.

As Chief Operating Officer, Greg leads Coles' Merchandise, Marketing, Coles Brand, Customer Insights and Store Development teams.

Greg previously led the successful transformation of Coles Liquor, including the Retail and Hotels businesses comprising over 980 sites and 10,000 team members nationally. Prior to running Coles Liquor, Greg was responsible for driving significant transformation and improvement across all of Coles fresh areas including the Produce, Bakery, Meat, Deli and Dairy categories.

Greg started his retail career on the shop floor, and his experience also includes 10 years at Aldi, where he was Group Buying Director.

Qualifications: BCom, University of Newcastle.

PAUL BRADSHAW – STORE OPERATIONS DIRECTOR

Paul was appointed Store Operations Director in March 2017 and is responsible for operations across the entire Coles supermarkets network.

Paul joined Coles eight years ago as General Manager of Renewal, before moving into Store Development as General Manager for Planning, Design, Standards & Engineering. In 2012, he accepted the role of Group General Manager for Store Development before returning to an Operations role in 2015 as State General Manager, Queensland. Paul is known for his passion for putting Coles' teams first and supporting them to deliver the best experience for its customers.

Paul has extensive knowledge and experience across the UK retail industry, spending his entire career within retail.

DAVID BREWSTER – LEGAL AND SAFETY DIRECTOR

David's extensive legal career includes a long-standing role as partner at Allens Linklaters, where he gained extensive knowledge across competition and regulatory law with a focus on merger clearances, regulatory investigations and major litigation. During this time, David worked closely with the Coles team in relation to regulatory inquiries into supplier negotiations and home brand products.

David joined Coles in early 2016 and leads the legal, risk, regulatory compliance, employee relations and safety teams. He helped establish and is a member of the Coles Risk, Audit and Compliance Management Committee, as well as an executive member of the Coles Better Together diversity committee responsible for LGBTI issues.

Qualifications: BCom, LLB (Hons 1) (Australian National University), LLM (Queensland University of Technology).

ALISTER JORDAN – COLES EXPRESS, COLES ONLINE AND CORPORATE AFFAIRS DIRECTOR

With considerable experience leading large teams in corporate and public office organisations, Alister has accountability for Coles Group's national petrol and convenience business, Coles Express, along with additional responsibility for Coles Online and Corporate Affairs. He has been with Coles since 2014, is a member of Coles' Capital Approvals and Cost Leadership committees and chairs the Group's business continuity program.

Alister joined Wesfarmers in 2010, where he worked in senior executive roles in both Wesfarmers Insurance and Target Australia.

Between 2008 and 2010, Alister was Chief of Staff to the Prime Minister, following six years working in the Federal Parliament.

Qualifications: BA (Hons), MA.

THINUS KEEVE – STORE COMMERCIAL AND PROPERTY DIRECTOR

Thinus has considerable commercial experience in the retail, strategy and liquor sectors, and since joining Coles in 2010, has held various senior leadership roles across the business. Most recently, Thinus was the State General Manager NSW, before being appointed to Store Commercial Director in March 2017, with Property added to his portfolio in July 2018.

In his role, Thinus is accountable for delivering simpler and more efficient ways of working for stores, driving support teams to align and connect with stores, as well as the continued transformation of the store network. Thinus leads the Aboriginal and Torres Strait Islander plan for Coles.

Thinus previously worked for SAB Miller in South Africa in various leadership roles, from business analysis and market integration to operations and supply chain.

Qualifications: MCom (Economics), University of Stellenbosch and MSc (International Management and Finance), HEC; University of Lausanne.

DANIELLA PEREIRA – COMPANY SECRETARY

Daniella has an extensive career in legal, governance and company secretariat, including a 14-year career with ASX-listed industrial chemicals company, Incitec Pivot. This included five years as Company Secretary and, prior to that, as General Manager of Corporate Governance and Compliance. Daniella began her career as a lawyer with Ashurst (formerly Blake Dawson) advising on major corporate transactions.

As Company Secretary, Daniella is responsible for setting the program and agenda for the Coles Board and its committees, including the Coles Annual General Meeting with shareholders, overseeing Coles' communications with shareholders and ensuring that Coles operates in accordance with the Corporations Act and the ASX Listing Rules.

Qualifications: Bachelor of Laws (Hons)/Bachelor of Arts (Murdoch University).

CATHI SCARCE – ACTING LIQUOR DIRECTOR

Cathi is a retail management professional with a 30-year track record of achievements in the industry.

In 2018, Cathi celebrated 25 years with Coles, during which time she has steadily progressed throughout the business, from Department Manager to National Operations roles in both Supermarkets and Liquor.

Currently the Acting Director of Coles Liquor, Cathi manages a team of approximately 6,200 team members across approximately 900 stores, Australia-wide. Cathi leads all Coles Liquor Brands: First Choice, Vintage Cellars and Liquorland, which serves more than two million customers each week.

Cathi is a member of the Diversity and Inclusion Steering Committee and Chair of the Gender Balance Working Group at the Coles Store Support Centre in Victoria.

ROGER SNIEZEK – DIGITAL AND FINANCIAL SERVICES DIRECTOR

Roger has extensive experience with international loyalty programs, including the launch of the UK's largest loyalty program, as well as holding senior information technology roles.

Roger leads Coles' information technology, flybuys, data, and Coles Financial Services teams, responsible for ensuring that the business embraces technology, data, and financial services to deliver on the corporate strategy. He has also helped Coles take a significant step forward in personalised customer communications and the use of data to make better business decisions.

Since joining Coles in 2011, Roger previously held the roles of Digital Director and General Manager, Loyalty, CRM and flybuys, including leading the relaunch of flybuys and its continued development.

Qualifications: MA, Mathematics (Christ's College, University of Cambridge).

MATTHEW SWINDELLS – SUPPLY CHAIN DIRECTOR

With over 14 years' experience in the retail industry, Matthew has an intimate knowledge of the sector.

Matthew was appointed to Supply Chain Director in July 2017, and is responsible for building the most efficient supply chain to deliver first-class products to customers. Matthew's accountabilities encompass the end-to-end management of sourcing, procurement, and logistics to transport products to stores.

Since first commencing his career with Coles in 2004, Matthew has held various senior management positions across supply chain and merchandise, including General Manager Supply Chain and General Manager Meat, Deli and Seafood. Matthew also served as the CEO of Tasman Meats, a large format private equity owned meat retailer.

CHIEF PEOPLE OFFICER

Coles is currently undertaking a recruitment process to appoint a Chief People Officer.

2.11 EMPLOYEES (TEAM MEMBERS)

As at 30 June 2018, Coles had approximately 112,000 team members. A breakdown of headcount by State is set out below.

Table 1: Coles team members by state

State	Headcount
New South Wales	32,871
Victoria	31,783
Queensland	23,370
Western Australia	12,724
South Australia	6,888
Tasmania	2,043
Australia Capital Territory	1,603
Northern Territory	1,016
Total	**112,298**

2.11.1 INDUSTRIAL RELATIONS

Coles' approach to industrial relations is focused on direct engagement with team members, establishing and maintaining strong working relationships with unions and being proactive in delivering flexible ways of working. To facilitate team member engagement, Coles has implemented a range of regular team member engagement initiatives, including always-open surveys, semi-annual 'mysay' surveys, regular online surveys and externally designed 'team member pulse' surveys.

Approximately 90 per cent of Coles team members are covered by 20 enterprise agreements. The largest agreement is the 'Coles Supermarket Enterprise Agreement 2017', which was approved by the Fair Work Commission in 2018 and covers approximately 80,000 supermarket store team members. Six employee organisations are also covered by one or more of these agreements. These are the Shop Distributive and Allied Employees Association, the Australian Workers' Union, the National Union of Workers, the Australasian Meat Industry Employees Union, the Transport Workers' Union and United Voice. These enterprise agreements will continue to operate unaffected by the Demerger.

In addition to its directly employed workforce, Coles has supply and service agreements with a number of third-party logistics providers. These logistics providers each have site-specific enterprise agreements, and Coles works with these providers to seek to ensure that industrial risk is minimised.

2.11.2 SUPERANNUATION

The default superannuation plan for a salaried employee of the Wesfarmers Group in Australia is the Wesfarmers Group Super Plan (**WGSP**), or they can join any other regulated superannuation plan of their choice. The WGSP is a sub-plan of the Mercer Super Trust, providing benefits to approximately 30,000 current and former salaried employees of the Wesfarmers group of companies. As at 30 June 2018, 7,398 salaried Coles employees were members of the WGSP. Team members employed under an award or industrial agreement may be required to join the superannuation plan nominated in the relevant agreement. A team member appointed on a casual basis is required to join an industry superannuation fund. Wesfarmers Group businesses in Australia (including Coles) do not participate in any defined benefit style superannuation funds on behalf of their current employees.

Effective from the time of the Demerger, Coles will continue to offer its team members an accumulation default superannuation fund provided by the Mercer Super Trust.

2.11.3 OCCUPATIONAL HEALTH AND SAFETY

Coles has a 'Safety in the DNA' objective, with safety integrated as a core indicator of performance. To facilitate this objective, Coles has a detailed Health, Safety, Environment and Injury Management system which supports a team of experienced safety professionals at the central support centre and local store level. This system is designed to go beyond regulatory expectations to drive continuous improvement in work health and safety performance. Coles measures its performance through a range of lead and lag indicators focused on management of critical risk and continuous reduction in team and customer injuries. The overall effectiveness of the system is verified through an internal and external verification program linked to self-insurance for workers compensation.

2.12 CORPORATE SOCIAL RESPONSIBILITY

As one of Australia's leading retailers, Coles recognises that it has a broader responsibility to its customers, the community and the environment. In FY2018, Coles, its customers and team members contributed over $92 million to its community and charity partners, including over $5 million donated to Redkite and approximately $4 million dollars and the equivalent of 18 million meals donated to SecondBite.

Coles takes its responsibility for managing environmental and social impacts seriously. Coles recognises that this is an important consideration for its customers, suppliers and team members. Coles is continually looking for opportunities to make a positive difference with a focus on waste and recycling, resource efficiency and responsible and ethical sourcing. In June 2018, Coles made a number of public commitments, including to halve all food waste in supermarkets and have 100 per cent recyclable Coles Brand packaging by 2020. In August 2018, Coles ceased offering single use plastic bags in all stores nationwide.

As an Australian company, Coles works to support other Australian businesses to deliver quality local products to customers. To that end, Coles has an Australian First Sourcing Policy, placing the sourcing of Australian grown food as a top priority wherever possible. Currently, approximately 96 per cent of fresh produce and 100 per cent of fresh lamb, pork, chicken, beef, milk and egg products sold at Coles are Australian sourced.

Coles supports ethically and responsibly sourced products and ingredients, including introducing Coles Brand sow stall free pork, RSPCA approved chicken, cage free eggs, no added hormone beef and responsibly sourced seafood. Furthermore, Coles is committed to ensuring that all workers across its supply chain are treated fairly. Coles was the first major Australian supermarket to adopt the Supplier Ethical Data Exchange (**SEDEX**), a global ethical supply chain management platform, in 2016. In FY2018, 90 per cent of all direct supplier sites (factories, processing plants, packhouses and direct supplier farms providing Coles' own brand, fresh produce and meat products) were registered on SEDEX and monitored under the Ethical Sourcing program. This has resulted in Coles having increased visibility of its supplier employment practices and enables the business to proactively monitor ethical sourcing risks and compliance with the Coles Ethical Sourcing Policy.

Coles also supports innovation and growth in local Australian businesses through the $50 million Coles Nurture Fund. The Fund supports small-to-medium sized businesses in the food and grocery sector to develop market leading products, technologies and processes. Since its launch in April 2015, the Fund has provided over $12 million in interest free loans and grants to 27 recipients and 21 of these recipients have their products stocked at Coles.

Coles is dedicated to improving the health and wellbeing of the wider community by supporting national and local charities, community groups, sporting organisations, schools and hospitals. In September 2017, Coles entered into a three-year partnership with Little Athletics and Athletics Australia, helping to provide support and resources to athletic centres across Australia, including donating two million bananas to local clubs during the 2017/18 season.

Coles continues to promote diversity in the workplace and has already exceeded its 2020 target of employing 3,000 Indigenous team members across Supermarkets, Liquor and Convenience outlets. Coles now employs over 3,600 Indigenous team members, up from 65 in 2011.

2.13 COLES PRO FORMA HISTORICAL FINANCIAL INFORMATION

This section contains pro forma historical financial information in relation to Coles (**the Coles Pro Forma Historical Financial Information**) comprising the:

- Coles pro forma historical income statements for the years ended 30 June 2016, 30 June 2017 and 30 June 2018;
- Coles pro forma historical balance sheet as at 30 June 2018; and
- Coles pro forma historical cash flows for the years ended 30 June 2016, 30 June 2017 and 30 June 2018.

In this Scheme Booklet (including in this section and Section 3.8), references to Coles Pro Forma Historical Financial Information are references to the pro forma historical financial information of Coles during the relevant period or at the relevant time, being the corporate group that is being restructured to form Coles as it will exist immediately following implementation of the Demerger. References to Coles Pro Forma Historical Financial Information refers to Coles on a consolidated basis.

2.13.1 BASIS OF PREPARATION

The Coles Pro Forma Historical Financial Information has been prepared for illustrative purposes, to assist Wesfarmers Shareholders to understand the financial position, financial performance and cash flows of Coles. By its nature, pro forma historical financial information is illustrative only. Consequently, the pro forma historical financial information does not purport to reflect the actual financial performance, financial position and cash flows that would have occurred if Coles had operated as a standalone entity for the relevant periods.

The Coles Pro Forma Historical Financial Information has been derived from the historical financial information directly related to Coles in Wesfarmers' accounting records and adjusted for the effects of the pro forma adjustments described below. These accounting records were used to generate Wesfarmers' financial statements for the years ended 30 June 2016, 30 June 2017 and 30 June 2018. The Wesfarmers financial statements for these periods are available from Wesfarmers' website (www.wesfarmers.com.au) or the ASX website (www.asx.com.au).

The Wesfarmers financial statements for the years ended 30 June 2016, 30 June 2017 and 30 June 2018 have been audited by Ernst & Young in accordance with Australian Auditing Standards (**AAS**). Ernst & Young issued unqualified audit opinions on these financial statements.

The Coles Pro Forma Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in AAS, which are consistent with IFRS, other than that it includes adjustments which have been prepared in a manner consistent with AAS, that reflect (i) the recognition of certain items in periods different from the applicable period under AAS (ii) the exclusion of certain transactions that occurred in the relevant periods, and (iii) the impact of certain transactions as if they occurred as at 30 June 2018 in the pro forma historical balance sheet and from 1 July 2015 in the pro forma historical income statements and pro forma historical cash flows.

The accounting policies used in the preparation of the Coles Pro Forma Historical Financial Information are consistent with those set out in Wesfarmers' annual report for the years ended 30 June 2016, 30 June 2017 and 30 June 2018.

Following the Demerger, Coles will prepare its general purpose financial statements in accordance with AAS and the Corporations Act. The AAS are subject to amendments from time to time, and any such changes may impact on the balance sheet or income statement of Coles post Demerger. In addition, following the Demerger, Coles may be impacted by accounting policies adopted which are different to existing policies, and differences in interpretations of AAS. In respect of two imminent changes in AAS, the following is noted:

- AASB 15 *Revenue from Contracts with Customers* (AASB 15) is effective to Coles from 1 July 2018. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Coles does not expect the application of AASB 15 to have a material effect on its income statement or financial position.
- AASB 16 *Leases* (AASB 16) introduces a single lessee accounting model and will require Coles, as lessee, to recognise, for all leases with a term of more than 12 months and that are not of assets of low value:
  - a right-of-use asset representing its right to use the underlying leased asset; and
  - a lease liability representing its obligations to make lease payments.

Information on the undiscounted amount of Coles' operating lease commitments at 30 June 2018 under AASB 117, the current leases standard, is disclosed at Table 10. Under AASB 16, the present value of these commitments would be shown as a liability on the balance sheet together with an asset representing the right-of-use. The ongoing income statement classification of what is currently predominantly presented as occupancy-related expenses will be split between amortisation and interest expense. A project team has been working to manage the transition as Coles continues to evaluate the implications of AASB 16. A quantitative assessment of the impact of the new standard is expected to be disclosed in Coles' FY2019 half-year results.

The Wesfarmers Directors do not believe that the financing arrangements and tax structure under which Coles operated during the periods presented in the Coles Pro Forma Historical Financial Information reflect the anticipated financial arrangements and tax structure of Coles following the Demerger. Therefore, the pro forma historical income statements have been presented before net financing costs and income tax, and the pro forma historical cash flows have been presented before financing activities and taxation and after investing activities. Refer to Section 2.13.10 for information regarding the Coles financing facilities and Section 2.13.15 for tax arrangements following the Demerger.

Pro forma adjustments have been made to the Coles pro forma historical income statements to reflect the additional standalone corporate costs of Coles and reduced economic interest in flybuys:

- Additional standalone corporate costs of Coles include corporate staff, company secretarial costs, ASX listing fees, share registry costs, audit fees, insurance and the costs of maintaining a board of directors.
- Additional operating costs previously incurred by Wesfarmers (and not charged to Coles) will be incurred by Coles following the Demerger and relate to self-insurance and internal audit costs.
- The flybuys adjustment reflects the deconsolidation of 100 per cent economic interest in flybuys and associated costs borne by Coles and the recognition of Coles' 50 per cent interest, equity accounted as an investment in the flybuys joint venture.

The Coles historical balance sheet represents the assets and liabilities held by Coles as at 30 June 2018, prior to Demerger occurring, as derived from the historical financial information directly related to Coles from the accounting records of Wesfarmers, adjusted to include the goodwill and intangibles that arose from Wesfarmers' acquisition of Coles in 2008.

Pro forma adjustments have been made in the Coles pro forma historical balance sheet to reflect certain financing arrangements and capital items, reduced economic interest in flybuys and the accounting for the Demerger.

The transaction costs relating to the Demerger are expected to be borne by Wesfarmers.

The financial information in this section is presented in an abbreviated form and does not contain all presentation, comparatives and disclosures that are usually provided in an annual financial report prepared in accordance with the Corporations Act.

The Independent Accountant has prepared an Independent Accountant's Report in respect of the Coles Pro Forma Historical Financial Information, a copy of which is included in Section 6.

Figures, amounts, percentages, estimates and calculations are subject to the effect of rounding. Accordingly, totals in tables may not add due to rounding.

The financial information in this section should be read in conjunction with the risk factors set out in Section 2.18.

2.13.2 EXPLANATION OF CERTAIN NON-IFRS FINANCIAL MEASURES

Coles uses certain measures to manage and report on its businesses that are not recognised under AAS or IFRS. These measures are collectively referred to in this section as non-IFRS financial measures pursuant to Regulatory Guide 230 *Disclosing non-IFRS financial information* published by ASIC. Management uses these non-IFRS financial measures to evaluate the performance and profitability of the overall business, and they are commonly used performance measures by the investor community. The principal non-IFRS financial measures referred to in this section are as follows:

- **EBIT** is reported earnings before the following:
  - interest revenue, interest expense or financing costs; and
  - income taxation expense.
- **EBITDA** is reported earnings before the following:
  - interest revenue, interest expense or financing costs;
  - depreciation and amortisation; and
  - income taxation expense.
- **Net debt** represents total loans and borrowings and bank overdrafts, less cash on deposit.
- **Net capital expenditure** represents capital expenditure less proceeds from the sale of property, plant and equipment, and intangibles.
- **Gross profit** is revenue less cost of goods sold, stock losses and logistics expenses.
- **Cash flows** is net operating cash flows after capital expenditure, before financing activities costs and tax.
- **Working capital** represents inventories, trade and other receivables, and trade and other payables.

2.13.3 COLES PRO FORMA HISTORICAL INCOME STATEMENTS

Set out below are the Coles pro forma historical income statements for the years ended 30 June 2016, 30 June 2017 and 30 June 2018.

Table 2: Coles pro forma historical income statements before net financing costs and tax[1,2]

($m)	Year ended 30 June 2016	Year ended 30 June 2017	Year ended 30 June 2018
Sales revenue	39,155	39,125	39,288
Gross profit	**9,205**	**8,996**	**9,026**
EBITDA	**2,390**	**2,165**	**2,061**
Depreciation and amortisation	(611)	(643)	(646)
EBIT	**1,779**	**1,522**	**1,414**

Notes:

1. The pro forma historical income statements before net financing costs and tax reflect Coles post Demerger.
2. Coles' FY2018 result includes $213 million derived and incurred as a result of flybuys points being issued to customers in relation to transactions throughout its network (2016: $141 million and 2017: $164 million), representing approximately two thirds of flybuys FY2018 revenues of $312 million (2016: $228 million and 2017: $255 million).

Table 3: Reconciliation of Coles historical EBIT, as derived from the financial statements of Wesfarmers, to Coles pro forma historical EBIT

($m)	Year ended 30 June 2016	Year ended 30 June 2017	Year ended 30 June 2018
Historical EBIT[1]	**1,861**	**1,609**	**1,500**
Pro forma net additional standalone operating costs[2]	(28)	(28)	(28)
Pro forma operating costs transferred from Wesfarmers[3]	(28)	(28)	(28)
Pro forma flybuys adjustment[4]	(26)	(31)	(30)
Pro forma historical EBIT	**1,779**	**1,522**	**1,414**

Notes:

1. Represents the historical EBIT of Coles and is prior to the Demerger occurring, as derived from the segment information contained within the financial statements of Wesfarmers. The Coles business divisions included in that segment are the same as the business divisions that will be held by Coles post Demerger, except that the segment included 100 per cent economic interest in flybuys.
2. Following the Demerger, Coles will be a standalone entity, listed on the ASX. As a standalone entity, Coles will incur net additional operating costs of $28 million per annum relative to its position as a segment of Wesfarmers. These costs include $38 million per annum of corporate staff, company secretarial costs, ASX listing fees, share registry costs, audit fees, insurance and the cost of maintaining a board of directors. Coles will also incur costs associated with certain services and internal management systems that have previously been provided by or in conjunction with Wesfarmers, such as information technology, insurance, accounting, treasury, legal and taxation services. These costs of $38 million are partially offset by $10 million of operating costs previously incurred by Coles that will be incurred by Loyalty Pacific (50 per cent owned by Coles) post Demerger. Collectively, these have been labelled as "Pro forma net additional standalone operating costs" in Table 3 above.
3. Represents the operating costs previously incurred by Wesfarmers (and not charged to Coles) that will be incurred by Coles following the Demerger. These relate to self-insurance and internal audit costs.
4. As noted in footnote 1 above, the reported results of the Coles business division of Wesfarmers have historically included 100 per cent of the results of the operations of flybuys. Following the Demerger, Coles and Wesfarmers will each hold a 50 per cent shareholding in Loyalty Pacific, the operator of flybuys. The flybuys adjustment reflects the deconsolidation of Coles' 100 per cent economic interest in flybuys' operations (including the associated operating costs borne by Coles) and the recognition of Coles' 50 per cent interest in Loyalty Pacific, equity accounted as an investment in joint venture. The equity accounted share of Loyalty Pacific's results reflects operating costs previously incurred by Coles of $10 million that will be incurred by Loyalty Pacific (as outlined in footnote 2 above) and a further $10 million in operating costs of flybuys that are expected to be incurred by Loyalty Pacific as a result of it operating independently of Coles and Wesfarmers.

2.13.4 PRO FORMA HISTORICAL SEGMENT INFORMATION

Set out below is the Coles pro forma historical segment information for the years ended 30 June 2016, 30 June 2017 and 30 June 2018.

Coles segments are organised and managed separately according to the nature of the product and services provided. The Board and the executive management team (the chief operating decision makers) monitor the operating results of the segments separately for the purpose of making decisions about resource allocation and performance assessment.

Table 4: Coles pro forma historical revenue (segment information)

($m)	Year ended 30 June 2016	Year ended 30 June 2017	Year ended 30 June 2018
Coles Supermarkets	29,284	29,754	30,200
Coles Liquor	3,168	3,223	3,314
Coles Convenience	6,678	6,133	5,761
Other	25	16	13
Pro forma historical revenue	**39,155**	**39,125**	**39,288**

Table 5: Coles pro forma historical EBIT (segment information)

($m)	Year ended 30 June 2016	Year ended 30 June 2017	Year ended 30 June 2018
Coles Supermarkets	1,523	1,186	1,176
Coles Liquor	100	138	130
Coles Convenience	190	190	133
Other	22	64	31
Pro forma net additional standalone operating costs	(28)	(28)	(28)
Pro forma operating costs transferred from Wesfarmers	(28)	(28)	(28)
Pro forma historical EBIT	**1,779**	**1,522**	**1,414**

2.13.5 MANAGEMENT COMMENTARY ON COLES PRO FORMA HISTORICAL FINANCIAL PERFORMANCE

Commentary on Coles pro forma historical financial performance for the period from 1 July 2015 to 30 June 2018 is outlined below. Additional information can be found in Wesfarmers' annual reports and half yearly reports. These reports are available from Wesfarmers' website (www.wesfarmers.com.au), or the ASX website, www.asx.com.au.

OVERALL COLES PERFORMANCE

FY2016

Coles delivered sales revenue of $39,155 million in FY2016 underpinned by continued improvements in Coles Supermarket transaction volumes, basket size and sales density. Comparable food and liquor sales growth was 4.1 per cent for the year, with positive comparable sales growth for liquor achieved from the second quarter as the transformation of that business progressed. A strong sales performance for the year largely underpinned improvements in gross profit to $9,205 million. This translated to higher earnings of $1,779 million for the year, with cost control also contributing to growth.

FY2017

Coles FY2017 sales revenue of $39,125 million remained broadly flat on FY2016 as the business was impacted by increased competitive intensity and slowing market growth. Comparable food and liquor sales growth slowed to 1.0 per cent in FY2017. Convenience revenue declined by 8.2 per cent in the year due to lower fuel volumes following a change in the commercial arrangements with Coles' Alliance Partner (Viva Energy). In response to the increased competitive environment, Coles accelerated its investment in the customer offer in the second quarter, which led to a $209 million decline in gross profit for the year. This, coupled with softer sales and rising cost pressures, led to EBIT declining by 14.4 per cent to $1,522 million.

FY2018

In FY2018, Coles sales revenue of $39,288 million was broadly in line with the prior year, with higher Coles Supermarket and Coles Liquor revenue offset by lower Coles Convenience revenue. Sales momentum continued to improve during the year, with fourth quarter comparable food and liquor sales growth of 1.8 per cent being achieved compared to 1.1 per cent for the year. Coles' earnings declined to $1,414 million in FY2018 primarily due to the annualisation of the high level of investments made in the customer offer in the prior year, one-off items in the prior year, lower Coles Convenience earnings, and higher Supermarket team member costs following the implementation of a new enterprise agreement. The business returned to modest earnings growth in the second half of the 2018 financial year.

The key difference between Coles' reported historical segment EBIT and pro forma historical EBIT is primarily driven by the:

- incremental operating and transferred costs caused by the Demerger from Wesfarmers (which is discussed in Section 2.13.3); and
- the deconsolidation of the 100 per cent economic interest in flybuys, which is replaced with an equity accounted 50 per cent ownership stake in a flybuys joint venture with associated incremental costs.

COLES SUPERMARKETS PERFORMANCE

Coles Supermarkets sales revenue has grown moderately since FY2016 due to increased levels of competition. Sales momentum has improved during FY2018, with comparable food sales growth of 1.1 per cent, with the rate of growth improving in each quarter and increasing to 1.8 per cent in the fourth quarter. Improving sales momentum was underpinned by growth in customer transactions, units sold and average basket size. Greater investment in the customer offer, coupled with higher team member costs, have been the key drivers of the decline in earnings from $1,523 million in FY2016 to $1,186 million in FY2017 and to $1,176 billion in FY2018. The business delivered earnings growth in the second half of the 2018 financial year driven by increased sales momentum, gross profit expansion and cost efficiencies.

COLES LIQUOR PERFORMANCE

Sales revenue has steadily improved under Coles Liquor's five-year transformation plan to provide a more consistent offering to customers. The Coles Liquor business has achieved 11 consecutive quarters of comparable sales growth due to continued improvement in the number of transactions and basket size. FY2017 earnings were $38 million higher than in FY2016, which included a one-off $25 million release of surplus restructuring provision taken to prior years. Excluding the provision release, earnings growth was 13 per cent on an underlying basis in FY2017 and 15 per cent in FY2018. This strong earnings growth has been driven primarily by improved sales growth, exclusive liquor brand product expansion and productivity efficiencies.

COLES CONVENIENCE PERFORMANCE

Coles Convenience revenue declined by 8.2 per cent in FY2017 and by 6.1 per cent in FY2018 due to lower fuel volumes in part due to a change in the commercial arrangements with Coles' Alliance Partner (Viva Energy). Lower fuel sales were partly offset by higher Coles Convenience shop sales. Shop sales (excluding fuel) have continued to grow at a steady rate (despite lower fuel volumes), with comparable shop sales growth of 1.7 per cent in FY2017 and 1.6 per cent in FY2018. Growth has been driven primarily by an improved food-to-go offer and an EDLP strategy. Coles Convenience earnings remained flat in FY2017 at $190 million despite lower sales due to a higher fuel margin, increased shop growth and strong cost control. Earnings in FY2018 were $57 million lower than in the prior year primarily due to an increase in the wholesale cost of fuel, which resulted in a lower fuel margin.

OTHER

The Other division comprises Property and Coles' 50 per cent share of flybuys earnings. Fluctuations in the Property earnings are largely due to property divestments, which are accounted for in earnings but not revenue. FY2017 earnings increased to $64 million from $22 million in the prior year due to a $40 million gain on the partial divestment of Coles' interest in the ISPT property joint venture. Flybuys earnings remained broadly flat over the historical period.

Pro forma incremental operating costs and pro forma operating costs transferred from Wesfarmers are discussed in Section 2.13.3. For further historical information on overall divisional performance, refer to the Wesfarmers annual and half yearly reports.

2.13.6 COLES PRO FORMA HISTORICAL BALANCE SHEET

Set out in Table 6 is the Coles pro forma historical balance sheet as at 30 June 2018. For the purpose of presenting the pro forma historical balance sheet, it has been assumed that the Demerger was effected and completed on 30 June 2018.

The Coles pro forma historical balance sheet has been prepared in order to give Wesfarmers Shareholders an indication of the Coles historical balance sheet in the circumstances noted in this section, and does not reflect the actual or prospective financial position of Coles at the time of the Demerger. No adjustments have been made to reflect the trading of the Coles business since 30 June 2018.

Table 6: Coles pro forma historical balance sheet

($m)	30 June 2018[1]	External debt draw down and intercompany settlement[2]	Reversal of Purchase Price Accounting Adjustments[3]	Recognition of Insurance balances[4]	Deconsolidation of flybuys[5]	Pro forma historical Coles as at 30 June 2018
Current assets						
Cash and cash equivalents	325	-	-	-	-	325
Trade and other receivables	577	-	-	-	(11)	566
Inventories	2,105	-	-	-	-	2,105
Current tax assets	115	-	-	-		115
Other assets	39	-	-	-	-	39
Total current assets[6]	**3,161**	**-**	**-**	**-**	**(11)**	**3,150**
Non-current assets						
Property, plant and equipment	4,259	-	(21)	-	(8)	4,230
Deferred tax assets	348	-	30	-	-	378
Intangible assets	13,757	-	(12,056)	-	(14)	1,687
Other	119	-	-	-	(25)	94
Total non-current assets	**18,483**	**-**	**(12,047)**	**-**	**(47)**	**6,389**
Total assets	**21,644**	**-**	**(12,047)**	**-**	**(58)**	**9,539**
Current liabilities						
Trade and other payables	3,297	-	-	-	(31)	3,266
Interest bearing liabilities	4,201	(4,539)	-	-	338	-
Provisions	686	-	-	116	(119)	683
Other	135	-	-	-	144	279
Total current liabilities[6]	**8,319**	**(4,539)**	**-**	**116**	**332**	**4,228**
Non-current liabilities						
Interest bearing liabilities	-	1,905	-	-	-	1,905
Deferred tax liabilities	-	-	-	-	-	-
Provisions	393	-	-	240	(189)	444
Other	139	(108)	-	30	(34)	27
Total non-current liabilities	**532**	**1,797**	**-**	**270**	**(223)**	**2,376**
Total liabilities	**8,851**	**(2,742)**	**-**	**386**	**109**	**6,604**
Net assets	**12,793**	**2,742**	**(12,047)**	**(386)**	**(167)**	**2,935**
Total shareholders equity						
Issued Capital	-	2,742	-	-	-	2,742
Retained earnings	1,432	-	(725)	-	-	707
Reserves	11,361	-	(11,322)	(386)	(167)	(514)
Total shareholders equity	**12,793**	**2,742**	**(12,047)**	**(386)**	**(167)**	**2,935**

Notes:

1. Represents the assets and liabilities held in Coles as at 30 June 2018 prior to the Demerger occurring, as derived from the historical financial information directly related to Coles from the accounting records of Wesfarmers, adjusted to include the goodwill and intangibles that arose from Wesfarmers' acquisition of Coles in 2008 (see note 3). The difference of $3,815 million between net assets as presented in the table above of $12,793 million and net assets presented in the segment information at 30 June 2018 of $16,609 million reflects the elimination of investment in associates within the balance sheet presented above.
2. Represents the settlement of intercompany financing ($4,539 million) and other intercompany balances ($108 million), and the estimated drawdown of external borrowings ($1,905 million) at 30 June 2018. Refer to Section 2.13.10.
3. Represents the de-recognition of goodwill and intangibles that arose from Wesfarmers' acquisition of Coles in 2008 and the de-recognition of associated deferred tax liability, which are not capable of being recognised as assets of Coles itself under Australian Accounting Standards.
4. Represents the recognition of $356 million of self-insurance liabilities relating to Coles that transferred from Wesfarmers, and the reversal of $30 million of prepaid self-insurance to Wesfarmers, including a payable to Wesfarmers for Victorian workers compensation claims.
5. Represents the deconsolidation of flybuys balances from Coles and the recognition of a nominal amount to reflect Coles' 50 per cent equity accounted investment in the flybuys joint venture along with the funding arrangements for flybuys on Demerger.
6. At 30 June 2018, Coles had a historical and pro forma historical net current asset deficiency of $5,158 million and $1,078 million, respectively. Although there is a net current asset deficiency, as discussed in Section 2.2.5, the Coles Directors believe that Coles generates sufficient operating cash flows to finance its ongoing operations, including meeting future interest payments on its borrowings.
7. The balance sheet presented above does not include the lease liability and right-of-use asset that will arise on adoption of AASB 16. Refer to Section 2.13.13.

2.13.7 PROPERTY, PLANT AND EQUIPMENT

Coles' property plant and equipment are depreciated on a straight-line basis over their useful economic lives. Management reviews the appropriateness of useful economic lives of assets at least annually, but any changes to useful economic lives could affect prospective depreciation rates and asset carrying values.

Table 7: Property, plant and equipment

($m)	Historical as at 30 June 2018
Land and buildings	
At cost	972
Accumulated depreciation	(11)
Land and buildings - total carrying value	**961**
Plant, equipment and leasehold improvements	
At cost	6,989
Accumulated depreciation	(3,691)
Plant, equipment and leasehold improvements - total carrying value	**3,298**
Total property, plant and equipment	**4,259**

2.13.8 COLES PRO FORMA HISTORICAL CASH FLOWS

Set out below are the Coles pro forma historical cash flows showing the net operating cash flows after capital expenditure, before financing costs and tax for the years ended 30 June 2016, 30 June 2017 and 30 June 2018:

Table 8: Coles pro forma historical cash flows[1]

($m)	Year ended 30 June 2016	Year ended 30 June 2017	Year ended 30 June 2018
EBIT	**1,779**	**1,522**	**1,414**
Depreciation and amortisation	611	643	646
EBITDA	**2,390**	**2,165**	**2,061**
Other items	(11)	(89)	130
Changes in working capital	(43)	(24)	42
Net operating cash flows, before capital expenditure, financing costs and tax	**2,336**	**2,052**	**2,233**
Capital expenditure[2]	(763)	(811)	(762)
Proceeds from sale of property, plant and equipment and intangibles	120	253	213
Net operating cash flows after capital expenditure, before financing costs and tax	**1,693**	**1,494**	**1,684**

Notes:

1. The segment note within the Wesfarmers financial statements does not separately present segment cash flows. Therefore, no reconciliation to the Wesfarmers segment note has been provided.
2. Capital expenditure includes accruals to represent costs incurred during the year, as derived from the segment information contained within the financial statements of Wesfarmers.

As a standalone entity following the Demerger, Coles will have additional net cash outflows relating to incremental corporate operating costs (refer to Section 2.13.3), financing activities (refer to Section 2.13.10), taxation (refer to Section 2.13.15) and dividends (refer to Section 2.13.16). Other than the net additional standalone costs and operating costs transferred from Wesfarmers, pro forma adjustments have not been made for these items because the periods presented in the Coles Pro Forma Historical Financial Information do not reflect Coles' financing facilities, tax arrangements and capital structure following the Demerger.

2.13.9 MANAGEMENT COMMENTARY ON COLES PRO FORMA HISTORICAL CASH FLOWS

The years ended 30 June 2016 and 30 June 2017 saw increases in working capital largely due to increased inventory to support availability. The year ended 30 June 2018 saw a small improvement in working capital driven by the timing of year-end falling on a Saturday and resulting in a payables position.

Other items are largely comprised of movements in other assets and liabilities, including provisions. The increase in other items for the year ended 30 June 2018 of $130 million related to higher capital accruals driven by increased capital activity at the end of the year and an increase in incentive provisions in line with the performance of the business. The decrease in the year ended 30 June 2017 of $89 million was largely due to movements in provisions, including reductions in incentive provisions and the Liquor restructuring provision.

Capital expenditure has remained broadly consistent over the three years ended 30 June 2018 and mainly consists of purchases of property, plant and equipment related to new stores, refurbishments and information technology. Subject to net property investment, Coles' net capital expenditure is expected to be approximately $600 million to $800 million in FY2019.

Coles has maintained a strong cash flow position over the period, reflecting the highly cash generative nature of the business.

2.13.10 DEBT FACILITIES AND CASH

Coles has historically been funded through cash flows generated by Coles and Wesfarmers' other businesses, as well as external financing facilities held by Wesfarmers.

Following the Demerger, funding for Coles will be sourced from a combination of its internally generated cash flows, and bilateral bank loan facilities in aggregate totalling A$4.0 billion (**Coles Facilities**).

As at the date of this Scheme Booklet, the Coles Facilities have been executed by all parties and are committed subject to various conditions being satisfied, including those summarised below. At the time the Demerger is implemented, Coles will have access to the Coles Facilities which may be used to fund its opening cash position. The Coles Facilities contain market standard terms and conditions for facilities of this nature. The key terms of the Coles Facilities are as follows:

Table 9: Summary of facilities

Facility type	Bilateral Revolving Multi Option and Term Loan Facilities	
Currencies	Australian Dollars (optional currencies as required)	
Commitments and maturities	**Commitment**	**Maturity date**
	A$4.0 billion	Three, five and seven years from Financial Close.
Applicable interest rates	With respect to a loan denominated in: • Australian dollars, BBSY Bid; or • any foreign currency, the base rate customary for loans in that currency plus any applicable margin.	
Conditions precedent to initial drawdown	The Coles Facilities contain conditions precedent to initial drawdown that are customary for a facility of this nature and other conditions precedent which relate to the implementation of the Demerger and the listing of Coles on the ASX.	
Review event	The Coles Facilities contain customary review events for facilities of this nature, including: Coles Shares being suspended from the ASX for more than 15 business days; or a change of control occurring, in which case a lender may require Coles to repay its facility within 180 days.	
Events of default	The Coles Facilities contain customary events of default including, but not limited to, payment default, misrepresentation, breach of financial covenant and cross-default.	
Covenants	The Coles Facilities contain financial covenants and undertakings which are customary for a facility of this nature including, but not limited to, provision of information, negative pledge, prior ranking debt and disposals of assets.	
Security	Unsecured.	
Guarantee	The Coles Facilities are guaranteed by certain members of the Coles Group under a separate Guarantee Deed Poll. Coles will be required to ensure that guarantees are provided from members of the Coles Group comprising no less than 85 per cent of EBITDA and 85 per cent of the total assets of the Coles Group.	

2.13.11 CREDIT RATING

Post Demerger, Coles' balance sheet is expected to support strong investment grade credit ratings. Coles expects to receive its formal credit ratings from Moody's and Standard & Poor's around the time of the Demerger.

2.13.12 HEDGING

Coles will continue to enter into foreign exchange derivatives to hedge a portion of its foreign exchange exposure associated with the importation of goods, services and capital expenditure denominated in foreign currency (predominantly USD and Euro) and may enter into interest rate derivatives or fixed rate bonds to hedge a portion of interest rate risk associated with its debt.

2.13.13 LEASE COMMITMENTS

Set out below are Coles' operating lease commitments as at 30 June 2018. Property leases account for $9,610 million of the total operating lease commitments balance.

Table 10: Coles operating lease commitments

($m)	Pro forma historical as at 30 June 2018
Within one year	1,161
Between one and five years	3,923
More than five years	4,693
Total operating lease commitments	**9,777**

As at 30 June 2018, the weighted average lease expiry was 6.1 years. The lease commitments in the table above are determined with the currently applicable lease standard and reflect the undiscounted amount of the operating lease commitments at 30 June 2018. A new lease standard will be applicable to Coles from 1 July 2019 as discussed in Section 2.13.1. On adoption of the new lease standard, the present value of these commitments, adjusted for non-lease components and reasonably certain options, terminations and purchases would be shown as a liability on the balance sheet together with an asset representing the right-of-use.

2.13.14 SHAREHOLDERS EQUITY

At the time of the Demerger, Coles will have approximately 1,334 million of ordinary shares on issue as at the Record Date, with no options over shares, preferred shares or other forms of external hybrid capital. The number of Wesfarmers Shares on issue as at the Record Date will be approximately 1,134 million shares plus any Wesfarmers Shares issued under the Wesfarmers dividend reinvestment plan since the date of this Scheme Booklet. The difference in the number of shares on issue reflects Wesfarmers' retained interest in Coles.

2.13.15 TAXATION

Coles currently pays income tax as part of Wesfarmers' group taxation arrangements. At the time of implementation of the Demerger, Coles will exit Wesfarmers' Australian income tax consolidated group in a manner that achieves a "clear exit" for any past or future tax obligations that may arise in respect of periods that Coles was a member of the Wesfarmers Australian income tax consolidated group. A decision will be made by Coles post-separation as to whether to form its own Australian income tax consolidated group. If the Coles Group chooses not to tax consolidate for Australian income tax purposes, the effective tax rate of the Coles Group may vary from what it would have been if it had remained part of Wesfarmers.

2.13.16 DIVIDEND POLICY

Coles' approach to dividends will be determined by the Coles Board at its discretion and may change over time.

Coles currently intends to follow Wesfarmers' long-established dividend policy which has regard to current earnings, available franking credits, future cash flow requirements and targeted credit metrics. This approach is expected to deliver a dividend payout ratio ranging from 80 per cent to 90 per cent while enabling Coles to retain strategic flexibility. Whilst Coles intends for its dividends to be franked to the maximum extent possible, this will be dependent on its franking credit balances (and forecast franking position for the relevant income year) at the time dividends are determined to be declared. Coles is expected to generate franking credits post Demerger. Franking credits are generated through the payment of income tax, and Coles is expected to pay monthly income tax instalments.

2.13.17 MATERIAL CHANGES IN COLES' FINANCIAL POSITION SINCE THE MOST RECENT BALANCE DATE

The most recent published financial statements of Wesfarmers are provided in the financial report for the year ended 30 June 2018, which was released to the ASX on 15 August 2018. To the knowledge of Wesfarmers Directors, there has not been any material change in the financial position of Coles since 30 June 2018, except as disclosed in this Scheme Booklet or otherwise in announcements to the ASX.

Wesfarmers will provide, free of charge, a copy of this most recent financial report to any person who requests a copy before the Scheme is approved by the Court.

Coles' 2019 first quarter retail sales results will be released to the ASX on Monday 15 October 2018.

2.14 COLES CORPORATE GOVERNANCE

2.14.1 CORPORATE GOVERNANCE OVERVIEW

This section explains how the Coles Board will oversee the management of Coles' business. The Coles Board is responsible for the overall corporate governance of Coles. Details of Coles' key policies and practices and the charters for the Coles Board and each of its committees are available at www.coles.com.au.

The Coles Board will monitor the financial position and corporate performance of Coles and oversee its business strategy. The Coles Board is committed to protecting and optimising performance and building sustainable value for Coles Shareholders, as well as promoting a good corporate culture within the organisation. In conducting Coles' business with these objectives, the Coles Board will seek to ensure that Coles is properly managed to protect and enhance Coles Shareholder interests and that Coles and Coles Directors, officers and team members operate in an environment of strong corporate governance.

Accordingly, the Coles Board has created a framework for managing Coles, including adopting relevant internal controls, risk management processes and corporate governance policies and practices that it believes are appropriate for Coles' business and that are designed to promote the responsible management and conduct of Coles.

The main policies and practices adopted by Coles, which will take effect from the Coles Listing, are summarised below. In addition, many governance elements are contained in the Coles Constitution, which is summarised in Section 8.4.

2.14.2 ASX CORPORATE GOVERNANCE COUNCIL'S CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS

Coles is seeking a listing on the ASX. The ASX Corporate Governance Council has developed the third edition of the Corporate Governance Principles and Recommendations (**ASX Recommendations**) for entities listed on the ASX in order to promote investor confidence and to assist companies in meeting stakeholder expectations.

The ASX Recommendations are not prescriptions, but guidelines. Under the ASX Listing Rules, Coles will be required to provide a corporate governance statement in its annual report disclosing the extent to which it has followed the ASX Recommendations during each reporting period. Where Coles does not follow an ASX Recommendation, it must identify the recommendation that has not been followed and give reasons for not following it. Coles intends to comply with all of the ASX Recommendations from the time of the Coles Listing.

2.14.3 COLES BOARD OF DIRECTORS

The Coles Board will be comprised of eight directors, including an independent, non-executive Chair, an executive director and six non-executive directors (five of whom are independent).

Detailed biographies of the Coles Board members on Coles Listing are provided in Section 2.10.1.

The Coles Board has adopted a definition of independence that is based on the ASX Recommendations. The Coles Board considers a Coles Director to be independent where he or she is free of any interest, position, association or relationship that might influence, or might reasonably be perceived to influence, in a material respect, his or her capacity to bring independent judgement to bear on issues before the Coles Board and to act in the best interests of Coles and Coles Shareholders generally. The Coles Board will regularly assess the independence of each Coles Director in light of information disclosed to the Coles Board.

Steven Cain is not considered by the Coles Board to be an independent director given his role as CEO of Coles. Mr David Cheesewright is also not currently considered by the Coles Board to be independent because he has been nominated as a director by Wesfarmers, which is a substantial shareholder in Coles. The Coles Board believes that Mr David Cheesewright brings objective and unbiased judgement to the Coles Board's deliberations and, additionally, that he will make invaluable contributions to Coles through his deep understanding of Coles' business and the industries in which it operates.

The Coles Board considers that each of Ms Jacqueline Chow, Ms Abi Cleland, Mr Richard Freudenstein, Ms Wendy Stops and Mr Zlatko Todorcevski are independent Non-Executive Directors, and Mr James Graham is considered to be an independent Non-Executive Chairman.

As previously disclosed by Wesfarmers, Mr James Graham resigned as a director of Wesfarmers on 23 July 2018 and has a relationship with Gresham Partners as set out in Sections 2.10.1 and 8.3.2. Gresham Partners has been engaged by Wesfarmers as a financial advisor to Wesfarmers on the Demerger. Gresham Partners has provided certain advisory services to Coles but these are not considered material and Mr Graham is not involved in providing the advisory services. Coles has no ownership interest in Gresham Partners. The Coles Board has concluded that Mr Graham's relationship with Gresham Partners does not interfere with or compromise his ability to exercise objective or independent judgment in relation to the Coles Group. Mr Graham's experience as a director enables him to bring a deep understanding of Coles' operations and the industry and provides invaluable knowledge to the Coles Board.

2.14.4 BOARD ADVISOR

Archie Norman has been engaged to provide strategic advice to the Coles Board. Mr Norman was previously deputy chair of Coles and will continue his strategic contribution to the business in an advisory role. Mr Norman's ongoing advisory role with Coles will further support the ongoing leadership transition and the development of Coles as an independent listed company.

2.14.5 COLES BOARD CHARTER

The Coles Board has adopted a written charter to provide a framework for the effective operation of the Coles Board, which sets out:

- the Coles Board's composition;
- the Coles Board's role and the responsibilities and processes of the Coles Board;
- the relationship and interaction between the Coles Board and management; and
- the authority delegated by the Coles Board to management and to Coles Board committees.

The Coles Board's role includes to:

- approve the Coles Group's core values, strategy, business plans and policies in order to enhance shareholder value, approve and monitor the Coles Group's risk management systems across its businesses, and oversee the Coles Group's accounting and corporate reporting systems;
- approve and monitor the capital expenditure plan, major projects, capital management, capital raising initiatives, and major acquisitions and divestments;
- approve the Coles Group's remuneration policy, including the remuneration of the Coles Directors, the CEO of the Coles Group and his direct reports, and the succession plans for the Coles Directors, the CEO of the Coles Group and his direct reports;
- guide and monitor the culture, reputation and standards of conduct of the Coles Group to promote ethical and socially responsible behaviour in accordance with the core values of the Coles Group;
- review the Coles Group's diversity initiatives and measurable objectives for achieving diversity (including its progress towards their achievement);
- develop and review the people and culture policies of the Coles Group, including with respect to personnel practices, team member engagement and complaints handling;
- monitor and assess that appropriate frameworks, including policies where relevant, are in place to ensure that the Coles Group provides a safe workplace; and
- oversee the effectiveness of the Coles Group's environment, sustainability and governance policies and systems, including exposure to environment and social risks.

The management function is the responsibility of the Coles Group CEO, supported by his direct reports. Management must report regularly to the Coles Board with accurate, timely and clear information so that the Coles Board is fully informed to discharge its duties effectively.

The Coles Board collectively, and each Coles Director individually, may obtain independent professional advice, at Coles' expense, subject to the approval of the Chair of the Coles Board or, in the case of the Chair, approved by the Chair of the Audit and Risk Committee, as considered necessary to assist them in fulfilling their relevant duties and responsibilities.

2.14.6 COLES BOARD COMMITTEES

The Coles Board may from time to time establish and delegate powers to committees, in accordance with the Coles Constitution, to assist in the discharge of its responsibilities. The Coles Board has established an Audit and Risk Committee, a Remuneration Committee and a Nomination Committee. Other committees may be established by the Coles Board as and when required.

2.14.6.1 AUDIT AND RISK COMMITTEE

Under its charter, this committee must consist of a minimum of three members, only Non-Executive Directors, a majority of whom must be independent and an independent Non-Executive Director as chair who is not Chair of the Coles Board. The Audit and Risk Committee will comprise:

- Zlatko Todorcevski (Chair);
- Jacqueline Chow; and
- Wendy Stops.

The role of the Audit and Risk Committee is to assist the Coles Board in fulfilling its responsibilities by overseeing, amongst other things, the following matters:

- the Coles Group's processes to ensure the integrity of financial statements and reporting;
- the relationship with the external auditor and the integrity of the audit process as a whole;
- the terms of the engagement and the fees of the external auditor, and the performance and effectiveness of the Coles Group's external auditor;
- the audit plans of the Coles Group external auditor;
- the terms of the internal auditor's engagement and recommending to the Coles Board the appointment, rotation and removal of the internal auditor;
- Coles Group's financial reporting;
- the Group's risk management framework and assessing the effectiveness of the internal controls, policies, programs, guidelines and procedures which form the Group's risk management framework reporting systems, and the setting of the risk parameters of the Group; and
- the policies and procedures for ensuring the Coles Group's compliance with relevant regulatory and legal requirements and the effectiveness of the Coles Group's compliance program.

Any Coles Director who is not a committee member is entitled to attend committee meetings and receive copies of the committee papers. Other non-committee members, including members of management and the external auditor, may attend all or part of a meeting of the committee at the invitation of the committee chair.

2.14.6.2 REMUNERATION COMMITTEE

Under its charter, this committee must consist of a minimum of three members of only Non-Executive Directors, a majority of whom must be independent and an independent Non-Executive Director as chair. The Remuneration Committee will comprise:

- Richard Freudenstein (Chair);
- David Cheesewright;
- Abi Cleland; and
- James Graham.

The role of the Remuneration Committee is to assist the Coles Board in fulfilling its responsibilities in relation to the Coles Group's remuneration policies. The Committee's responsibilities include:

- overseeing the remuneration framework applied across the Coles Group, and making recommendations to the Coles Board as appropriate;
- overseeing the establishment and implementation of remuneration policies (within the overall policy framework approved by the Coles Board) for the Coles Group;
- reviewing and recommending to the Coles Board remuneration arrangements for the Non-Executive Directors, the CEO of the Coles Group, any other executive directors, and in consultation with the CEO of the Coles Group, his direct reports;
- reviewing and recommending to the Coles Board any proposed new incentive and/or equity plans for Coles Directors, the CEO, any other executive directors, and the direct reports to the CEO, or any amendment of the terms of any such existing incentive and/or equity plans;
- approving the establishment of any new, or amendments to the terms of any existing, incentive and equity plans for team members at senior management level or below;
- assisting the Coles Chair in the annual performance reviews of the CEO and overseeing the annual performance review of the CEO's direct reports; and
- overseeing management's preparation of the annual remuneration report for inclusion in the Coles Group's annual report and recommending the report to the Coles Board for approval.

2.14.6.3 NOMINATION COMMITTEE

Under its charter, this committee must consist of all of the Non-Executive Directors and an independent Non-Executive Director as Chair, who may be Chair of the Coles Board.

The Nomination Committee will comprise:

- James Graham (Chair);
- David Cheesewright;
- Jacqueline Chow;
- Abi Cleland;
- Richard Freudenstein;
- Wendy Stops; and
- Zlatko Todorcevski.

The role of the Nomination Committee is to assist the Coles Board in fulfilling its responsibilities in relation to the Coles Group's nomination and succession planning processes. The committee's responsibilities include:

- reviewing and making recommendations to the Coles Board in relation to the composition, competencies and diversity of the Coles Board;
- developing and reviewing the Coles Board succession plans, director induction programs and continuing development;
- ensuring that there is a robust and effective process for evaluating the performance of the Coles Board, the committees of the Coles Board and individual directors;
- reviewing and making recommendations in relation to Coles Board appointments, re-elections and successions; and
- overseeing the annual assessment of, and making recommendations to the Coles Board as to, the independence of each Coles Director and overseeing the disclosures made in relation to the independence of each director.

2.14.7 CORPORATE GOVERNANCE POLICIES

The Coles Board has adopted the following corporate governance policies, each having been prepared having regard to the ASX Recommendations and which are available at www.coles.com.au.

2.14.7.1 MARKET DISCLOSURE POLICY

Once listed, Coles will be required to comply with the continuous disclosure requirements of the ASX Listing Rules and the Corporations Act. Coles is aware of its obligation to keep the market fully informed of any information Coles becomes aware of concerning it, which may have a material effect on the price or value of Coles securities, subject to certain exceptions.

Coles has adopted a Market Disclosure Policy to take effect from the Coles Listing that establishes procedures aimed at ensuring that Coles fulfils its obligations in relation to the timely disclosure of material price-sensitive information.

Coles also aims to communicate all important information relating to the Coles Group to Coles Shareholders. Additionally, Coles recognises that potential investors and other interested stakeholders may wish to obtain information about the Coles Group from time to time. To achieve this, Coles will communicate information regularly to Coles Shareholders and other stakeholders through a range of forums and publications, including Coles' website, at the annual general meeting, and through Coles' annual report and ASX announcements.

2.14.7.2 SECURITIES DEALING POLICY

Coles has adopted a Securities Dealing Policy that is intended to explain the types of conduct in relation to dealings in securities that are prohibited by law and establish procedures for the buying and selling of securities that protect Coles, Coles Directors and team members against the misuse of unpublished information, which could materially affect the price or value of Coles securities.

The policy further provides that Coles Directors, certain restricted team members and their connected persons must not:

- deal in securities in Coles on a short-term trading basis;
- hedge unvested equity remuneration or vested equity subject to holding locks; or
- deal in Coles' securities during trading blackout periods (except in exceptional circumstances).

Outside of the blackout periods, these restricted persons must receive prior approval for any proposed dealing in Coles securities (including any proposed dealing by one of their connected persons), and in all instances, buying or selling securities is not permitted at any time by any person who possesses 'inside' information.

2.14.7.3 CODE OF CONDUCT

The Coles Board recognises the need to observe the highest standards of integrity and ethical standards in all business practices. Accordingly, the Coles Board has adopted a formal Code of Conduct that outlines how Coles expects its team members and Coles Directors to behave and conduct business during the course of their employment or engagement.

The key aspects of this code include:

- complying with all Coles policies, procedures and legislation;
- acting with integrity and being fair in dealings with customers, suppliers and other internal or external parties;
- setting out how to report, and support team members who report, inappropriate workplace behaviour; and
- setting out what team members, customers and suppliers can expect from Coles, and in turn, setting out what Coles expects from its team members and leaders.

2.14.7.4 DIVERSITY POLICY

The Coles Board has formally approved a Diversity Policy in order to, among other matters, actively facilitate a more diverse and representative management and leadership structure. Coles' vision for diversity incorporates a number of different factors, including gender, race, ethnicity, sexuality, disability, age and educational experience. Coles has also introduced Gender Affirmation and Transition guidelines to ensure a supportive working environment for its transgender and gender diverse team members.

The Coles Board will include in the annual report each year a summary of Coles' progress towards achieving the measurable objectives set under the Diversity Policy for the year to which the annual report relates and details of the measurable objectives set under the Diversity Policy for the subsequent financial year.

Coles is committed to ensuring that it represents the communities it serves and providing an environment where team members feel genuinely included and valued, regardless of their background or experience. With over 3,600 Aboriginal and Torres Strait Islander team members, Coles is one of Australia's largest corporate sector employers of Indigenous Australians. Coles also actively encourages and supports the employment of people with disabilities and partners with Disability Works Australia for support with the recruitment and employment of people with disabilities. Coles is also a member of the Australian Network on Disability to assist with the inclusion of people with disability in all aspects of the business.

2.14.1.8 ETHICAL BUSINESS CONDUCT

The Coles Board is committed to promoting high ethical standards and ensuring that those standards are observed in the way Coles team members and Coles Directors conduct business. The Coles Board is responsible for developing the values of Coles and setting the 'tone from the top'. The Coles Board recognises that it has a responsibility to create a healthy and safe work environment, and it promotes ethical and socially responsible behaviour in accordance with the core values of the Coles Group.

To support its objective, the following policies (amongst others, and in addition to the policies that have been listed in Section 2.14.1) have been developed and will apply from the Coles Listing:

- Whistleblower Policy;
- Anti-bribery Policy;
- Ethical Sourcing Policy; and
- Environment Policy.

2.15 COLES DIRECTORS' INTERESTS AND REMUNERATION

2.15.1 COLES GROUP MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Refer to Section 2.16.1 for a description of the CEO's remuneration.

2.15.2 COLES NON-EXECUTIVE DIRECTORS' ARRANGEMENTS

Under the Coles Constitution, the Coles Board decides the total amount paid to each director as remuneration for his or her services as a Coles Director. However, under the ASX Listing Rules, the total amount paid to all Non-Executive Directors for their services must not exceed in aggregate in any financial year the amount fixed by Coles in a general meeting. This amount has been fixed by Coles at $3.6 million per annum. This amount is intended to provide Coles with flexibility to continue to attract and retain Non-Executive Directors of appropriate skill, expertise and calibre. It is not proposed that the whole of the annual aggregate Non-Executive Director fee amount will be used.

Annual directors' fees, inclusive of superannuation, currently agreed to be paid by Coles are $695,000 (inclusive of Committee fees) to the Chairman and $220,000 to each other Non-Executive Director. In addition, the chair of the Audit and Risk Committee, and the chair of the Remuneration Committee will be paid $55,000 annually. Non-Executive Directors will receive $27,000 annually for participating in the Audit and Risk Committee or the Remuneration Committee.

Coles will enter into deeds of indemnity, insurance and access with each of the Coles Directors.

2.15.3 OTHER INFORMATION ABOUT COLES DIRECTORS' INTERESTS AND BENEFITS

Coles Directors may be reimbursed for travel and other expenses incurred in attending to Coles' affairs. Directors may be paid such additional remuneration as the Coles Board decides is appropriate where a Coles Director performs extra services, makes any special exertions for the benefit of Coles or otherwise performs services which in the opinion of the Coles Board are outside the scope of duties of a Non-Executive Director. There are no retirement benefits paid to Coles Directors, other than statutory entitlements.

2.15.4 COLES DIRECTORS' DEEDS OF INDEMNITY, INSURANCE AND ACCESS

Coles will enter into deeds of indemnity, insurance and access with each of the Coles Directors.

In summary, each deed will provide the Coles Directors right of access to Coles Board papers and requires Coles to indemnify the Coles Director, on a full indemnity basis and to the full extent permitted by law, against all losses or liabilities (including all reasonable legal costs) incurred by the Coles Director as an officer of Coles or of a related body corporate on the terms set out in the deed.

Under the deeds of indemnity, insurance and access, Coles must maintain a directors and officers insurance policy insuring a Coles Director (among others) against liability as a director and officer of Coles and its related bodies corporate from the appointment date until the later of seven years after a Coles Director ceases to hold office as a director of Coles or a director of a related body corporate or the date any relevant proceedings commenced (and notified by the director to Coles) during the seven-year period have been finally resolved.

2.15.5 COLES DIRECTORS' INTERESTS IN COLES SHARES

The Coles Directors are not required by the Coles Constitution to hold any Coles Shares.

It is Board policy that each Coles Director is required to hold, commencing from the date which is not later than six months after the date of the Coles Director's appointment, and continuing throughout his or her term in office as a Coles Director, at least one thousand (1,000) ordinary Coles Shares. Each Director is expected within five years of appointment, to increase his or her holdings in ordinary shares in Coles Group Limited to a number which is equivalent in approximate value to the gross annual fee paid to each Non-Executive Director at the relevant time.

Coles Directors' shareholdings will be notified to the ASX on the Coles Listing. On implementation of the Demerger, the Coles Directors are expected to hold (either personally or through entities associated with the Coles Director) one Coles Share for every Wesfarmers Share they hold as at the Record Date. Refer to Section 8.3 for information regarding the number of Wesfarmers Shares held by the Coles Directors.

2.16 EXECUTIVE REMUNERATION

2.16.1 MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Term	Description
Employer	Steven Cain is employed by Wesfarmers as Managing Director, Coles. From the Effective Date, Mr Cain will be employed by Coles Group Limited as the Managing Director and Chief Executive Officer of the Coles Group.
Total fixed remuneration (**TFC**)	Under the terms of his employment with Coles, Mr Cain is entitled to annual TFC of $2,100,000 which includes base salary and statutory superannuation contributions.
Short term incentive (**STI**)	Mr Cain is eligible to participate in the Coles STI plan. For FY2019, Mr Cain will be entitled to a cash STI payment of up to 120 per cent of TFC, based on financial targets and non-financial targets set and assessed by the Coles Board.
Long term incentive (**LTI**) and equity arrangements	Mr Cain will participate in the FY2019 LTI Offer from the Coles Listing on the terms outlined in Section 2.16.4.1. Mr Cain will also participate in the Executive Restricted Share Offer from the Coles Listing on the terms outlined in Section 2.16.4.2.
Payment for incentives foregone	In consideration of the fact Mr Cain has foregone certain benefits that he may otherwise have become entitled to with his previous employer, Mr Cain will receive a cash payment of $3,900,000, to be paid by Coles in three payments: • $900,000 to be paid at the end of November 2018; • $1,500,000 to be paid at the end of December 2018; and • $1,500,000 to be paid at the end of December 2019. No payment will be made if, as at the date of payment, Mr Cain has tendered his resignation or been dismissed for cause. The payments made at the end of December 2018 and December 2019 are subject to a potential clawback for a period of two years from the date of payment.
Termination	Mr Cain's employment with Coles may be terminated by either party upon giving 12 months' written notice to the other party. Coles may provide payment in lieu of all or part of the notice period. His employment may also be terminated by Coles without notice in circumstances including serious misconduct, refusal to comply with any lawful or reasonable directions as to a material matter, unremedied material breach, any act of bankruptcy or making a personal profit at the expense of Coles or the Coles Group to which Mr Cain is not legally entitled. On termination of employment, Mr Cain will be subject to a restraint of trade period of up to 12 months. The enforceability of the restraint clause is subject to all usual legal requirements. Coles may choose to pay Mr Cain during the restraint period where his employment ceases as a result of resignation. Any payments made to Mr Cain upon termination of his employment are subject to the termination benefits cap under the Corporations Act. Approval from the shareholders of Wesfarmers and Coles Group Limited is being sought for the provision of benefits on cessation of employment, to Mr Cain, including the benefits summarised in Section 2.16.1.

2.16.2 CHIEF FINANCIAL OFFICER

Term	Description
Employer	Leah Weckert is employed by Coles Group Limited as the Chief Financial Officer (**CFO**).
TFC	Under the terms of her employment, Ms Weckert is entitled to annual TFC of $900,000 which includes base salary and statutory superannuation contributions.
STI	Ms Weckert is eligible to participate in the Coles STI plan. For FY2019, Ms Weckert will be entitled to a cash STI payment of up to 120 per cent of TFC, based on financial targets and non-financial targets set and assessed by the Coles Board. Ms Weckert is also entitled to an incentive arrangement offered by Wesfarmers as outlined in Section 4.6.1. Ms Weckert is entitled to a cash payment of between 60 and 90 per cent of TFC, based on personal performance in supporting the business' operational and strategic goals.
LTI and equity arrangement	Ms Weckert will participate in the FY2019 LTI Offer from the Coles Listing on the terms outlined in Section 2.16.4.1. Ms Weckert will also participate in the Executive Restricted Share Offer from the Coles Listing on the terms outlined in Section 2.16.4.2.

Term	Description
Termination	Ms Weckert's employment with Coles may be terminated by either party upon giving 12 months' written notice. Coles may provide payment in lieu of all or part of the notice period. Her employment may also be terminated by Coles without notice in circumstances including serious or willful misconduct, serious negligence, serious or persistent breach of the employment agreement or an act which brings the company into disrepute. On termination of employment, Ms Weckert will be subject to a restraint of trade period of up to 12 months. The enforceability of the restraint clause is subject to all usual legal requirements. Coles may choose to pay Ms Weckert during the restraint period where her employment ceases. Any payments made to Ms Weckert upon termination of her employment are subject to the termination benefits cap under the Corporations Act. Approval from the shareholders of Wesfarmers and Coles Group Limited is being sought for the provision of benefits on cessation of employment, to Ms Weckert, including the benefits summarised in Section 2.16.2.

2.16.3 COLES SENIOR MANAGEMENT

Senior management is employed under individual employment agreements. These agreements establish an entitlement to TFC or fixed annual remuneration (**FAR**) which, in some cases, is inclusive of superannuation and other benefits.

Coles senior managers are employed by various Coles Group companies including Coles Group Limited, Coles Supermarkets Australia Pty Ltd, Eureka Operations Pty Ltd and Liquorland (Australia) Pty Ltd.

Senior management team members may be eligible to participate in Coles' STI plan, subject to the terms of that plan. Performance measures for the STI are set and assessed by the Coles Board each year. They may be based on financial or non-financial performance metrics, including items such as sales, profitability, safety, customer feedback, quality and people.

Certain members of the senior management team will participate in the LTI Offer and the Executive Restricted Share Offer from the Coles Listing on the terms outlined in Sections 2.16.4.1 and 2.16.4.2.

The senior management employment agreements provide for notice of termination provisions, of six months. The employer may also terminate employment without notice in circumstances including serious or wilful misconduct, serious negligence, serious or persistent breach of the employment agreement or an act which brings Coles into disrepute.

On termination of employment, members of the senior management team will be subject to a restraint of trade period for a period equal to their notice period. The enforceability of the restraint clauses are subject to all usual legal requirements. Coles may choose to pay senior managers during the restraint period where their employment ceases as a result of resignation.

Members of senior management are entitled to redundancy payments determined by a sliding scale based on years of service, to a maximum entitlement of 16 weeks of payment.

Payments made to senior management team members upon termination of employment may be subject to the terminations benefits cap under the Corporations Act. Approval from the Wesfarmers Shareholders and from the relevant employer entities (Coles Supermarkets Australia Pty Ltd, Eureka Operations Pty Ltd or Liquorland (Australia) Pty Ltd) is being sought for the provision of benefits on cessation of employment, to senior management, including the benefits summarised in Sections 2.16.3 and 2.16.4.

2.16.4 COLES EMPLOYEE EQUITY INCENTIVE ARRANGEMENTS

Coles has established the Coles Group Limited Equity Incentive Plan (**Plan**) to assist in the motivation, retention and reward of certain employees. The Plan is designed to align the interests of employees with the interests of Coles Shareholders by providing an opportunity for employees to receive an equity interest in Coles.

The Plan provides flexibility for Coles to offer rights, options and/or restricted shares as incentives, subject to the terms of individual offers and the satisfaction of performance and/or service conditions determined by the Coles Board from time to time. It also provides Coles with the ability to invite employees to acquire Coles Shares through a salary sacrifice arrangement.

The Coles Board is committed to reviewing the remuneration mix for the senior management team throughout FY2019 to ensure that it continues to be appropriate for Coles as a newly listed entity.

2.16.4.1 LONG TERM INCENTIVE OFFER

Shortly after the Coles Listing, Coles intends to make a long term incentive grant of restricted shares under the Plan with a total face value of $4,530,000 to Mr Cain (CEO), Ms Weckert (CFO) and select members of the senior management team (**LTI Offer**).

The key terms of the FY2019 LTI Offer under the Plan are set out in the below table.

Term	Description
Eligibility to participate in the LTI Offer	Offers may be made at the Coles Board's discretion to employees of the Coles Group or any other person that the Coles Board determines to be eligible to receive a grant under the Plan. The LTI Offer is being made to Mr Cain, Ms Weckert and select members of the senior management team.
Offers under the Plan	Under the Plan, the Coles Board may make an equity incentive grant offer at its discretion, subject to any requirements for shareholder approval. The Coles Board has the discretion to set the terms and conditions on which it will offer an equity incentive grant in an individual offer document. An offer must be accepted by the participant and can be made on an opt-in or opt-out basis. The LTI Offer will be made shortly after the Coles Listing (and no later than 12 months from the Coles Listing), and will be made on an opt-out basis.
Grant of Performance Shares	• The LTI Offer is a grant of fully paid ordinary shares in Coles made under the Plan, subject to satisfaction of performance conditions (referred to as **Performance Shares**). • The shares will be granted to participants for nil consideration under the LTI Offer.
Quantum of grants	The total face value of the LTI Offer is $4,530,000. Mr Cain will be granted shares with a face value of $1,050,000. Ms Weckert will be granted shares with a face value of $450,000. Other participating members of senior management will be granted shares with a cumulative face value of $3,030,000. The final number of shares awarded to each participant will be calculated by dividing the dollar value of their LTI opportunity by the allocation price, rounded down to the nearest whole number. The allocation price will be: • where the Coles Shares are acquired on market – the average acquisition price of the Coles Shares; or • where the Coles Shares are newly issued shares – the volume weighted average price of Coles Shares traded on the ASX over the 10 trading days up to and including the grant date.
Conditions	The Performance Shares will be subject to a performance period commencing on the date of the Coles Listing and ending on 30 June 2021 (**Performance Period**). The Performance Shares will vest subject to satisfaction of the performance conditions. The performance conditions are as follows: • 50 per cent of the Performance Shares will be subject to a performance condition based on Coles' cumulative earnings before interest and tax (**EBIT**) and return on capital (**ROC**) performance over the Performance Period (**EBIT and ROC Component**); and • the remaining 50 per cent of the Performance Shares will be subject to a relative total shareholder return (**TSR**) performance condition, measured over a period commencing on the day after Coles' FY2019 half-year results announcement and ending on 30 June 2021, using the 10-day volume weighted average price of shares at the start and the end of this period (**TSR Measurement Period**) (**TSR Component**). Coles' relative TSR will be compared to a comparator group of companies in the ASX100 (**Comparator Group**). **EBIT and ROC Component** Vesting of the Performance Shares in the EBIT and ROC Component is subject to achievement of at least 90 per cent of the ROC target over the Performance Period. The number of Performance Shares in the EBIT and ROC Component that vest, if any, will be determined over the Performance Period by reference to the following vesting schedule:

Coles cumulative EBIT over the Performance Period	% of Performance Shares that vest
Less than 90 per cent of the cumulative EBIT target is achieved	0 per cent vesting
90 per cent of the cumulative EBIT target is achieved	50 per cent vesting
Between 90 and 100 per cent of the cumulative EBIT target is achieved	Straight-line pro rata vesting between 50 and 100 per cent
100 per cent or more of the cumulative EBIT target is achieved	100 per cent vesting

<table>
<tr><th>Term</th><th>Description</th></tr>
<tr><td>Conditions (Continued)</td><td>TSR Component

The number of Performance Shares in the TSR Component that vest, if any, will be based on Coles' TSR ranking over the TSR Measurement Period, as set out in the following vesting schedule:

<table>
<tr><th>Coles' TSR rank in the Comparator Group</th><th>% of Performance Shares that vest</th></tr>
<tr><td>Below the 50th percentile</td><td>0 per cent vesting</td></tr>
<tr><td>Equal to the 50th percentile</td><td>50 per cent vesting</td></tr>
<tr><td>Between the 50th and 75th percentile</td><td>Straight-line pro rata vesting between 50 and 100 per cent</td></tr>
<tr><td>Equal to the 75th percentile or above</td><td>100 per cent vesting</td></tr>
</table>

Following testing, any Performance Shares that do not vest will be forfeited.

The Performance Shares will be held in trust on a participant's behalf during the Performance Period. During that time, a participant will be unable to sell, transfer or otherwise deal in the Performance Shares.

The Performance Shares are also subject to continued service during the Performance Period and are subject to forfeiture and clawback conditions (see summary below).</td></tr>
<tr><td>Voting and dividend entitlements</td><td>Performance Shares allocated to the participants carry the same voting rights as other Coles Shares.

During the Performance Period, dividends paid on the Performance Shares will only be released to participants to the extent that the underlying shares vest.</td></tr>
<tr><td>Restrictions on dealing</td><td>Participants must not sell, transfer, encumber, hedge or otherwise deal with the Performance Shares comprising the LTI Offer prior to vesting unless the Coles Board allows it or the dealing is required by law.

Once vested, participants will be free to deal with the shares comprising the LTI Offer, subject to the requirements of the Coles Securities Dealing Policy.</td></tr>
<tr><td>Cessation of employment</td><td>If a participant ceases to be a Coles Group employee prior to vesting of their Performance Shares, their entitlement to the Performance Shares (if any) will depend on the circumstances of cessation.

All Performance Shares will be forfeited in the event of resignation or dismissal for cause or significant underperformance, unless the Coles Board determines otherwise.

If a participant ceases employment in any other circumstances (including by reason of redundancy, ill health or death), all Performance Shares will remain on foot and subject to the original performance conditions as though the participant had not ceased employment, unless the Coles Board exercises a discretion to treat them otherwise.</td></tr>
<tr><td>Change of control</td><td>Under the Plan rules and the terms of the LTI Offer, the Coles Board may determine in its absolute discretion that some or all of participants' Performance Shares will vest or cease to be subject to restrictions on a likely change of control.</td></tr>
<tr><td>Clawback and preventing inappropriate benefits</td><td>Under the Plan rules and the terms of the LTI Offer, the Coles Board has clawback powers which it may exercise if, among other things:
• there is a material misstatement in, or omission from, the financial statements or otherwise as a result of fraud, dishonesty or breach of obligations;
• the participant has acted fraudulently or dishonestly, has engaged in gross misconduct, brought Coles, the Coles Group or any Coles Group company into disrepute or breached their obligations to the Coles Group;
• the participant breaches a post-cessation covenant; or
• the Coles Group is required by or entitled under law or Coles policy to reclaim remuneration from the participant.</td></tr>
</table>

2.16.4.2 EXECUTIVE RESTRICTED SHARE OFFER

Shortly after the Coles Listing, Coles intends to make a grant of restricted shares under the Plan with a total face value of $4,530,000 to Mr Cain (CEO), Ms Weckert (CFO) and select members of the senior management team (**Executive Restricted Share Offer**).

The key terms of the Executive Restricted Share Offer under the Plan are set out in the below table.

Term	Description
Eligibility to participate in the Executive Restricted Share Offer	Offers may be made at the Coles Board's discretion to employees of the Coles Group or any other person that the Coles Board determines to be eligible to receive a grant under the Plan. The Executive Restricted Share Offer is being made to Mr Cain, Ms Weckert and select members of the senior management team.
Offers under the Plan	Under the Plan, the Coles Board may make an equity incentive grant offer at its discretion, subject to any requirements for shareholder approval. The Coles Board has the discretion to set the terms and conditions on which it will offer an equity incentive grant in an individual offer document. An offer must be accepted by the participant and can be made on an opt-in or opt-out basis. The Executive Restricted Share Offer will be made shortly after the Coles Listing (and no later than 12 months from the Coles Listing), and will be made on an opt-out basis.

Term	Description
Grant of Restricted Shares	• The Executive Restricted Share Offer is a grant of fully paid ordinary shares in Coles made under the Plan, subject to a three-year disposal restriction and satisfaction of a service condition (referred to as **Restricted Shares**). • Restricted Shares will be granted to participants for nil consideration under the Executive Restricted Share Offer.
Quantum of grants	The total face value of the Executive Restricted Share Offer is $4,530,000. Mr Cain will be granted Restricted Shares with a face value of $1,050,000. Ms Weckert will be granted Restricted Shares with a face value of $450,000. Other participating members of senior management will be granted Restricted Shares with a cumulative face value of $3,030,000. The final number of Restricted Shares awarded to each participant will be calculated by dividing the dollar value of their Executive Restricted Share Offer opportunity by the allocation price, rounded down to the nearest whole number. The allocation price will be: • where the Coles Shares are acquired on market – the average acquisition price of the Coles Shares; or • where the Coles Shares are newly issued shares – the volume weighted average price of Coles Shares traded on the ASX over the 10 trading days up to and including the grant date.
Conditions	Restricted Shares are subject to a three-year disposal restriction commencing on the date the Restricted Shares are allocated (**Trading Restriction Period**). The Restricted Shares will be held in trust on a participant's behalf during the Trading Restriction Period. During that time, a participant will be unable to sell, transfer or otherwise deal in the Restricted Shares. The Restricted Shares are also subject to forfeiture and claw back conditions (see summary below).
Voting and dividend entitlements	Restricted Shares allocated to the participants carry the same voting rights as other Coles Shares. During the Trading Restriction Period, dividends paid on the Restricted Shares will only be released to participants to the extent that the Restricted Shares vest.
Restrictions on dealing	Participants must not sell, transfer, encumber, hedge or otherwise deal with the Restricted Shares comprising the Executive Restricted Share Offer prior to vesting unless the Coles Board allows it or the dealing is required by law. Once vested, participants will be free to deal with the shares comprising the Executive Restricted Share Offer, subject to the requirements of the Coles Securities Dealing Policy.
Cessation of employment	If a participant ceases to be a Coles Group employee prior to vesting of their Restricted Shares, their entitlement to the Restricted Shares (if any) will depend on the circumstances of cessation. All Restricted Shares will be forfeited in the event of resignation or dismissal for cause or significant underperformance, unless the Coles Board determines otherwise. If a participant ceases employment in any other circumstances (including by reason of redundancy, ill health, death), a pro-rata amount of Restricted Shares (based on the proportion of the Trading Restriction Period that has elapsed) will remain on foot and subject to the original terms of offer as though the participant had not ceased employment, unless the Coles Board exercises a discretion to treat them otherwise.
Change of control	Under the Plan rules and the terms of the Executive Restricted Share Offer, the Coles Board may determine in its absolute discretion that some or all of participants' Restricted Shares will vest or cease to be subject to restrictions on a likely change of control.
Clawback and preventing inappropriate benefits	Under the Plan rules and the terms of the Executive Restricted Share Offer, the Coles Board has clawback powers which it may exercise if, among other things: • there is a material misstatement in, or omission from, the financial statements or otherwise as a result of fraud, dishonesty or breach of obligations; • the participant has acted fraudulently or dishonestly, has engaged in gross misconduct, brought Coles, the Coles Group or any Coles Group company into disrepute or breached their obligations to the Coles Group; • the participant breaches a post-cessation covenant; or • the Coles Group is required by or entitled under law or Coles policy to reclaim remuneration from the participant.

2.16.4.3 RESTRICTED SHARE OFFER

Shortly after the Coles Listing, Coles intends to make an offer of Restricted Shares under the Plan with a total face value of $16,400,000 to senior managers within the business (**Restricted Share Offer**).

The key terms of the Restricted Share Offer under the Plan are set out in the below table.

Term	Description
Eligibility to participate in the Restricted Share Offer	Offers may be made at the Coles Board's discretion to employees of the Coles Group or any other person that the Coles Board determines to be eligible to receive a grant under the Plan. The Restricted Share Offer is being made to senior managers.
Offers under the Plan	Under the Plan, the Coles Board may make an equity incentive grant offer at its discretion, subject to any requirements for shareholder approval. The Coles Board has the discretion to set the terms and conditions on which it will offer an equity incentive grant in an individual offer document. An offer must be accepted by the participant and can be made on an opt-in or opt-out basis. The Restricted Share Offer will be made shortly after the Coles Listing (and no later than 12 months from the Coles Listing), and will be made on an opt-out basis.
Grant of Restricted Shares	• The Restricted Share Offer is a grant of Restricted Shares made under the Plan. • A Restricted Share is a fully paid ordinary share in Coles which is allocated subject to a three-year disposal restriction and a continued service condition. • Restricted Shares will be granted to participants for nil consideration under the Restricted Share Offer.
Quantum of grants	The total face value of the Restricted Share Offer is approximately $16,400,000.
Conditions	Restricted Shares are subject to a disposal restriction commencing on the date the Restricted Shares are allocated and continuing for three years or until the employee ceases employment, whichever occurs earlier (**Trading Restriction Period**). The Restricted Shares will be held in trust on a participant's behalf during the Trading Restriction Period. During that time, a participant will be unable to sell, transfer or otherwise deal in the Restricted Shares. The Restricted Shares are also subject to continued service for a period of one or three years (**Service Period**) and are subject to forfeiture and clawback conditions (see summary below).
Voting and dividend entitlements	Restricted Shares allocated to the participants carry the same dividend and voting rights as other Coles Shares.
Restrictions on dealing	Participants must not sell, transfer, encumber, hedge or otherwise deal with the Restricted Shares comprising the Restricted Shares Offer during the Trading Restriction Period unless the Coles Board allows it or the dealing is required by law. Once the Trading Restriction Period ceases, participants will be free to deal with the shares comprising the Restricted Shares Offer, subject to the requirements of the Coles Securities Dealing Policy.
Cessation of employment	If the participant ceases to be a Coles Group employee prior to the end of the Service Period for cause or due to their resignation then, unless the Coles Board determines otherwise, any Restricted Shares will be forfeited. In all other circumstances (including by reason of redundancy, ill health or death), the employee will be entitled to retain a pro-rata amount of Restricted Shares (based on the proportion of the Service Period that has elapsed) unless the Coles Board exercises a discretion to treat them otherwise.
Change of control	Under the Plan rules and the terms of the Restricted Share Offer, the Coles Board may determine in its absolute discretion that some or all of participants' Restricted Shares will vest or cease to be subject to restrictions on a likely change of control.
Clawback and preventing inappropriate benefits	Under the Plan rules and the terms of the Restricted Shares Offer, the Coles Board has clawback powers which it may exercise if, among other things: • the participant has acted fraudulently or dishonestly, has engaged in gross misconduct, brought Coles, the Coles Group or any Coles Group company into disrepute or breached their obligations to the Coles Group; • the participant breaches a post-cessation covenant; or • the Coles Group is required by or entitled under law or Coles policy to reclaim remuneration from the participant.

2.16.4.4 COLES TEAM MEMBER SHARE OFFER

Coles intends to offer eligible employees the opportunity to acquire Coles Shares. This may be either as an award from Coles, subject to eligibility or performance criteria, or by sacrificing a portion of their pre-tax salary or wages (up to $5,000 per annum) to acquire Coles Shares. The offer is designed to encourage share ownership by employees, align their interests with Coles Shareholders and provide a basis for employee engagement, motivation and retention.

The Coles Board will determine the most appropriate structure of this offer shortly after the Demerger. The Coles Team Member Share Offer is intended to be established in calendar year 2019.

2.17 OTHER INFORMATION

2.17.1 DIVIDEND REINVESTMENT PLAN

The Coles Constitution makes provision for a dividend reinvestment plan (**DRP**). If the Coles Board decides to activate the DRP, it will provide further details to Coles Shareholders prior to the relevant dividend record date, including details of the elections that may be made in relation to participation in the DRP by Coles Shareholders.

2.17.2 INTELLECTUAL PROPERTY

The Coles Group holds an extensive portfolio of trademarks, as well as a number of patents and designs, which supports its business. Key trademarks include Coles, Coles Online, Coles Express, Liquorland, Vintage Cellars and the Coles Brand Red Ribbon logo.

2.17.3 ENVIRONMENTAL ISSUES

All Coles sites including supermarket sites must also comply with environmental laws and regulations relating to trade waste, noise, dangerous goods, asbestos and other environmental requirements. To date these risks have been reported under the Wesfarmers Sustainability Report (www.sustainability.wesfarmers.com.au). Post Demerger, Coles will report these risks in its own Sustainability Report.

Coles Express operates fuel sites and must comply with environmental laws and requirements applicable to those sites, which vary across States. Under the Alliance Agreement, each party is required to comply with environmental laws that apply to it. Coles Express is required to comply with all applicable environmental laws that affect or relate to Coles Express' use or occupation of the site or its use of fuel equipment or waste oil storage, including conducting environmental site assessments or groundwater monitoring, or commissioning environmental protection plans. As the owner of various assets at the sites, such as fuel tanks, Viva Energy discharges the majority of environmental requirements relating to these assets.

2.17.4 REGULATORY FRAMEWORK

OVERVIEW

The diversity of Coles' operations necessitates compliance with broad and extensive legislative requirements at all levels of government. Areas impacted include competition and consumer law, liquor, gaming, tobacco, operational food safety and product safety, biosecurity, data protection and privacy, occupational health and safety, planning and environment, employment laws, and anti-corruption and bribery.

Coles has a strong compliance function and robust controls to ensure compliance with its obligations. Coles constantly adapts its compliance processes to ensure that controls are effective, to meet new legislative requirements and to address emerging risks. Emerging legislative changes which will impact Coles include changes to whistleblower laws, country of origin labelling, online fuel volume reporting, container deposit legislation (in an expanded number of States), kilojoule legislation, labour hire obligations and alcohol minimum pricing (in the Northern Territory).

Key regulatory impacts for Coles are set out below.

COMPETITION AND CONSUMER LAW

The Australian Competition and Consumer Act 2010 (**the Act**) affects multiple areas of Coles' business. Areas covered by the legislation include misleading and deceptive conduct, unconscionable conduct, unfair market practices, conditions and warranties, product safety, country of origin representations, industry codes and mergers and acquisitions. In 2015, Coles voluntarily signed up to the Food and Grocery Code of Conduct (**the Code**), which is a voluntary code prescribed under the Act. This Code governs conduct by grocery retailers and wholesalers in their dealings with suppliers. The Code sets out obligations relating to grocery supply agreements, payments, termination of agreements, dispute resolution and a range of other matters. The ACCC is responsible for regulating compliance with the Code and can take enforcement action to enforce the Code, where appropriate. The ACCC conducts annual audits to ensure that signatories are complying with the Code.

Coles has devoted substantial resources to Code compliance. Prior to the commencement of the Code, Coles established a separate Supplier Charter, including a dispute resolution system involving the Honourable Jeffrey Kennett AC as independent arbiter.

From 2012 to 2013, the ACCC investigated discount fuel docket arrangements in the petroleum industry. Coles voluntarily gave an undertaking on a 'no admissions' basis pursuant to which it agreed to cease fuel savings offers which were funded by any part of its business (other than Coles Express), and to limit fuel discounts linked to purchases in businesses other than Coles Express to a maximum of four cents per litre. This restriction continues to apply.

From time to time, Coles has been the subject of a number of other investigations or proceedings instituted by the ACCC.

REGULATORY OVERSIGHT – LICENCE TO TRADE

Coles' businesses require a number of regulatory licences to enable it to trade, and regulatory compliance is therefore a key focus in these areas. These include:

- Liquor and Gaming (including Anti-Money Laundering and Counter-Terrorism Financing Compliance);
- Tobacco;
- Biosecurity; and
- Food Licences.

DATA PROTECTION AND PRIVACY

The Office of the Australian Information Commissioner enforces the Australian privacy protection regime. Coles seeks to ensure (through contracted obligations) that third parties who manage Coles' data meet Coles standards to ensure adequate protections. Coles has also recently established processes to respond to any data breaches and to ensure compliance with mandatory notification obligations.

WORKPLACE OCCUPATIONAL HEALTH AND SAFETY

Coles has a dedicated safety team which develops and implements safe work practices across Coles' businesses. The safety team also manages regulatory contacts across Coles including routine inspections, responses to incidents, team member/customer complaints or proactive regulatory monitoring programs. Coles seeks to build positive relationships with workplace health and safety regulators through proactive engagement and appropriate responsiveness and management of any issues or concerns raised.

2.17.5 INSURANCE

Prior to the Effective Date, Coles will continue to have the benefit of Wesfarmers' insurance policies. These policies have been renewed to 31 May 2019. After the Effective Date, Coles will continue to have the benefit of the existing Wesfarmers insurance policies until these policies expire on 31 May 2019 apart from Directors' and Officers' Liability and Workers' Compensation, which will be arranged by Coles on and from the Effective Date. Wesfarmers Directors' and Officers' liability provides cover for all current and past directors and officers while they were serving in their capacity as a director or officer of a Wesfarmers entity.

It is intended that Coles' insurance policies will be placed with insurers of acceptable security, and the levels of retained risk and coverage purchased will be appropriate to the business activities of Coles, subject to such insurance being available on commercially reasonably terms, with Coles continuing with self-insurance for workers compensation. Existing Coles workers compensation liabilities will transfer to Coles. Under Victorian legislation however, Wesfarmers will retain the liability for claims related to injuries in Victoria prior to the Demerger, but it has entered into an agreement with Coles Group Limited to manage and fund those claims to closure.

2.18 RISK FACTORS ASSOCIATED WITH AN INVESTMENT IN COLES GROUP

2.18.1 OVERVIEW

This section outlines a number of risks that may affect the Coles Group following the Demerger.

The risks set out in this section may adversely affect the future operating or financial performance or prospects of the Coles Group, and the investment returns or value of Coles Shares. Some of these risks may be mitigated by appropriate controls, systems and other actions, but others will be outside the control of the Coles Group.

Many of these are risks to which Wesfarmers Shareholders are currently exposed, while others arise as a result of Coles becoming a standalone ASX-listed entity independent from the Wesfarmers Group following the Demerger.

This section should be read in conjunction with Section 1, which set outs the advantages and disadvantages and risks of the Demerger and Section 3.9, which sets out the risk factors associated with an investment in the Wesfarmers Group post Demerger.

Further, the risks set out in this section are not exhaustive of all the risks to which the Coles Group could be exposed.

2.18.2 EXISTING KEY BUSINESS RISKS

2.18.2.1 OPERATIONAL

(a) Significant failure of information technology infrastructure or loss of data security and integrity

Coles relies on its own and third-party information technology infrastructure and systems for its day-to-day operations, including for processing customer transactions, maintaining its website, product ordering, warehouse management and logistics systems and maintaining other back-office functions. Any failure of, or disruption to, information technology infrastructure or systems could impede the processing of customer transactions or limit Coles' ability to procure or distribute stock for its stores.

Similarly, the unauthorised disclosure of confidential company, customer, team member or third-party information, or a malicious attack on Coles' infrastructure, applications or online presence, could impact reputation or competitive strength or result in litigation and/or regulatory enforcement. As part of the flybuys arrangements described in Section 2.5.4.1, Loyalty Pacific (which will be 50 per cent owned by Coles) will access and utilise certain Coles customer data, and will be responsible for compliance with privacy laws and regulations. After a transitional period under a TSA, Loyalty Pacific will be responsible for maintaining the security of that data.

Coles seeks to mitigate these risks by regularly testing and reviewing its information technology infrastructure and systems, strong resilience processes, planning and testing, and continually seeking to strengthen data and cyber security.

(b) Business interruption arising from industrial disputes or increases in labour costs

A failure to successfully manage industrial relations or ensure proper design, processes, security and culture at stores or sites could result in industrial disputes, work stoppages or accidents that cause adverse reputational, financial, legal, productivity or morale impacts. Industrial action in operations in Coles' supply chain in particular has the potential to cause widespread disruption to Coles' business.

Coles' largest enterprise agreement was approved by the Fair Work Commission this year. This covers most wage-paid team members engaged under one of the relevant classifications contained in the enterprise agreement. The enterprise agreement does not cover or apply to any team member engaged by Coles for the purpose of working solely, or predominately, within the meat department. There is a risk that Coles may not be able to satisfactorily renegotiate collective labour agreements when they expire. If the agreements are not successfully renegotiated, the business may be exposed to protected industrial action from team members in support of their bargaining claims, and potential applications to terminate the expired agreements.

Coles seeks to mitigate these risks with a targeted industrial relations strategy and people and culture strategy.

In addition to its directly employed workforce, Coles has supply end service contracts with a number of third-party logistics providers which have site-specific enterprise agreements. While Coles works with these providers to ensure that industrial risk is minimised, the third-party employer ultimately manages that risk.

(c) Risks inherent in distribution and sale of products

Unsafe products, in particular food products, may be sold resulting in serious illness, injury, death, product recalls or reputational damage. Coles seeks to mitigate this risk through its compliance program, which includes (but is not limited to) management of Coles brand specifications, business capability reviews and audits of key supply partners, standards, process and training, and a targeted and extensive assurance program.

(d) Climate change

Climate change and the corresponding increase in the likelihood of events such as floods, droughts, fires, heatwaves and cyclones could impact Coles by causing increased costs, closures, disruption to operations, lack of access, damage to stores or impacts on production and transportation of fresh produce and meat supplies. Coles seeks to manage this risk through its risk management program and the operation of its resilience program.

(e) Supply chain risks

Coles is generally dependent on the supply of products by an extensive, diversified network of primary producers, suppliers and distributors located in Australia and overseas. Coles relies on its network of suppliers to supply products of the requisite quality at the right price to meet the expectations of its customers.

The supply of products could be disrupted by many factors, including the failure by Coles to develop and maintain effective supplier relationships of mutual trust, climate events or natural disasters, transport or shipping delay/issues or labour disruptions. Similarly, labour rights may be breached by contractors or suppliers resulting in legal action, supply interruptions and adverse reputational impact, or Coles or a supplier may discover ethical concerns, such as human rights abuses, in a supply chain.

Coles seeks to mitigate supply chain risks by maintaining a high degree of rigour regarding ongoing contract and supplier management, moving some key services in-house, and having processes in place to identify and investigate any alleged unethical sourcing or human rights abuses.

(f) Supplier relationships risk

Across its supermarket, liquor and convenience businesses, Coles has a number of key strategic supplier relationships. The relationships Coles has with these suppliers are subject to certain risks, which if they materialise, may result in material changes to the relationship or even termination, and may have a material negative impact on Coles' business and financial performance. These risks include:

- an increase in the wholesale cost of products (such as an increase in the cost of fuel supplied by Viva Energy under the Alliance Agreement), which Coles may not be able to control or fully pass on in a timely manner to customers;
- the termination of key contracts, or cessation of supply, or disputes arising under key contracts; or
- a change in ownership or management of a supplier which may result in a changed approach to the relationship with Coles.

Coles seeks to manage these risks by maintaining a high degree of rigour regarding ongoing contract and supplier management.

(g) Reputation risk

A decline in the level of loyalty and trust that Coles enjoys with its customers could compromise its market position in Australia and adversely affect its financial performance. This could occur as a result of a wide range of factors or events, including a loss or erosion of Coles' price competitiveness, a product liability incident in relation to Coles' private label offerings, a supplier in Coles' supply chain having unethical sourcing processes, conducting human rights abuses or breaching labour rights, a major information security breach of Coles' information technology systems (see Section 2.18.2.1(a)), inappropriate use of Coles customer data, a major workplace health and safety incident or customer injury occurring in one of Coles' stores, or a significant breach of regulatory or legislative requirements.

Coles seeks to manage these risks by maintaining a high degree of rigour around critical risk controls.

(h) Health and safety

Due to the nature of some of the industries in which Coles operates, there is a risk of accidents or unsafe operations (amongst employees, contractors, customers or third parties). Notwithstanding the preventative measures which Coles has taken or may take, accidents or unsafe operations may occur. Such events may result in additional costs and fines, and may jeopardise Coles' reputation and credibility.

Coles seeks to manage these risks by implementing a rolling five year health and safety plan under the three pillars of critical risk reduction, safety leadership and culture, and mind your health, supported by strong processes to ensure safety is integrated into key decisions and reviews with an external audit program to promote continuous improvement.

2.18.2.2 STRATEGIC

(a) Increased competition

Increased competition is expected to continue to be a feature of the market in which Coles operates, due to strong performance by current competitors and new entrants, particularly international discount retailers that have grown successfully in recent years in Australia. In a changing competitive landscape, Coles may need to compete with a more diverse range of retailers operating different models, including pure play online retailers.

Coles seeks to respond to this competitive pressure by monitoring the retail market, putting in place programs to realise lower operating costs and continuing to execute its strategy to enhance its proposition to customers, improve its price competitiveness and differentiate itself more clearly from competitors. However, any increased competition from new and existing competitors could adversely impact Coles' sales performance, lead to a loss of market share, cause a decline in profitability and adversely affect Coles' financial performance.

(b) Ineffective execution of strategy

Coles may fail to implement or achieve its strategic objectives due to a range of factors, including management not prioritising delivery of the key pillars of the strategy, changes to the competitive environment that result in a change to the underlying assumptions of the strategy, poor cost management, loss of key personnel or ineffective change management. In addition, the dynamic competitive environment in which Coles operates results in the need to regularly respond to competitor actions, which could result in a distraction or delay to executing the longer term goals of the strategy.

A failure by Coles to execute its strategy may result in a failure to maintain or increase operating margins and market share. As part of its strategy, Coles may undertake acquisitions or divestments from time to time, acquire or develop new retail sites or invest capital in new projects or initiatives. While Coles is focused on maintaining discipline in its capital expenditure, such actions could result in a variability of earnings over time, may give rise to liabilities or may distract management from business as usual operations, which could potentially adversely affect Coles' financial performance.

Coles seeks to mitigate these risks through management focus on delivery of strategic objectives, including 'Fresh Tomorrow', investments in team members and operations, and a customer first focus to decision making.

(c) Changing consumer behaviours and digital disruption

Customer expectations are rapidly evolving, for example there is increased customer engagement with digital platforms, an increased appetite for convenience and ongoing expectation of lower prices.

If Coles fails to meet customer expectations or fails to compete effectively in online and other formats, or an existing or new competitor of Coles adapts to changes more rapidly, this could result in a loss of market share or missed opportunities for growth, including a failure to leverage the value of Coles' brands, to fully utilise data to optimise the customer experience or to create value through disruptive technologies.

Coles seeks to mitigate this by monitoring customer insights, trialling new technologies and in-store initiatives to service emerging trends and through the establishment of its dedicated disruptive technology team, including the investment in trials for emerging and digital technologies.

2.18.2.3 REGULATORY

Coles is subject to a wide range of laws and regulations in key areas such as planning and environment regulation, packaging and labelling regulation, regulation of the transportation, handling, storage and distribution of fuel, food hygiene standards, health and safety laws, tobacco and alcohol regulation, regulation of e-commerce and data protection, employment law, gaming law and consumer law. These are discussed in Section 2.17.4.

While Coles mitigates the risk of non-compliance through a robust compliance framework, non-compliance with key laws, regulations or standards may result in significant enforcement action by regulators including substantial penalties, loss of licences to operate or adverse operational or reputational impacts. As a consequence of a trend towards increased regulation, the cost of doing business for Coles may increase as a result of greater compliance obligations (such as additional reporting), which may not be able to be passed through and which may therefore have a detrimental impact on Coles' financial performance.

Additionally, changes in the structure and regulation of the sectors in which Coles operates could materially affect Coles. Changes to government policy, laws or regulations, or the introduction of new regulatory regimes (for example, in relation to climate change, gambling or the sale of liquor), may lead to an increase in operational costs and may have a detrimental impact on Coles' financial performance.

2.18.3 NEW OR INCREASED RISKS SPECIFICALLY ASSOCIATED WITH THE DEMERGER

Following implementation of the Demerger, Coles will face new or increased risks as a result of being a standalone ASX-listed entity independent from Wesfarmers.

(a) Tax

There is a prospect that the Coles Group will not form an Australian income tax consolidated group. In the event that the Coles Group does not consolidate, then Coles will take reasonable steps to manage an unconsolidated income tax group so that the group's effective tax rate approximates the statutory rate for large companies. The income tax rate may increase if unforeseen or unavoidable factors mean that the reasonable steps taken are not effective. Similarly, while Coles will take reasonable steps to manage an unconsolidated income tax group to ensure dividend flows to enable the group's dividend policy to be achieved, unforeseen or unavoidable factors may interfere with dividend flows.

(b) Financing

A summary of Coles' banking and finance facilities is set out in Section 2.13.10. From time to time, Coles will be required to refinance its debt facilities. There is no certainty as to the availability of debt facilities or the terms on which such facilities may be provided in the future. Coles' ability to refinance its debt on favourable terms as it becomes due, or to repay debt, and its ability to raise further finance on favourable terms for business opportunities will depend on market conditions and Coles' future financial performance. In particular, Coles may incur higher interest rates and/or additional fees associated with future debt refinancing. Coles' ability to service its debt will depend on its future financial performance and, if it is unable to do so, Coles' lenders may act to enforce their rights against it, which may impact Coles' financial or operating performance and impair its ability to pay dividends.

(c) Capital management

Dividend and capital management capacity

Coles' capacity to pay dividends and undertake capital management activities will be primarily driven by earnings generated after the Demerger.

Franking capacity

Coles is currently part of Wesfarmers' Australian tax consolidated group. At the time of the Demerger, Coles will exit Wesfarmers' Australian tax consolidated group with a franking account balance of nil.

Accordingly, Coles' capacity to frank dividends will depend on its payment of Australian tax after the Demerger. A decision as to whether or not Coles will form a new Australian tax consolidated group will be made following implementation of the Demerger. While Coles is forecast to pay sufficient levels of tax to support fully franked distributions at the targeted dividend payout ratio of 80 to 90 per cent, there is no certainty that this will be realised.

2.18.3.1 GENERAL RISKS

This section outlines a number of general risks, many of which are faced by most companies, which may adversely affect the future operating or financial performance of Coles or the investment returns or value of Coles Shares.

(a) Economic conditions

Low economic growth affecting Coles' key markets or continued global economic uncertainty may significantly impact the Coles businesses and key markets.

(b) Market risks

As with any investment in an ASX-listed company, the trading price of Coles Shares may fluctuate depending on the financial and operating performance of Coles, as well as other external factors over which Coles has no control.

(c) Interest rates

Coles will have external interest bearing liabilities after the Demerger and, accordingly, will be exposed to movements in interest rates.

While Coles will take reasonable steps to protect itself from rising interest rates through the use of hedges, a rise in rates may still adversely affect Coles' interest payments for floating rate instruments.

(d) Movements in currency and commodity prices

Coles, through its international sourcing and exports, is exposed to movements in exchange rates and, to the extent that Coles raises debt denominated in a foreign currency or establishes operations overseas, it would be further exposed to movements in exchange rates. As a retail business, Coles buys and sells commodities or commodity based products and uses commodities in its operations (such as fuel in transportation). Coles' margins and operating costs could be adversely impacted by movements in currency or commodity prices.

(e) Taxation

Variations in the taxation laws of Australia could affect Coles' financial performance. The interpretation of taxation laws could also change, leading to a change in taxation treatment of investments or activities. Consistent with other companies of the size and diversity of Coles, Coles could be the subject of periodic information requests, investigations and audit activities by the ATO.

(f) Insurance risks

As described in Section 2.17.5, Coles will largely continue to have the benefit of Wesfarmers' insurance policies until those policies expire on 31 May 2019. When Wesfarmers' insurance policies expire, Coles intends to place insurance policies with insurers of acceptable security and at an appropriate level of retained risk and coverage for the business activities of Coles. However, adequate insurance coverage for potential losses and liabilities may not be available in the future on commercially reasonable terms (any insurance obtained may be subject to large deductibles and premiums). If Coles experiences a loss in the future, the proceeds of the applicable insurance policies, if any, may not be adequate to cover replacement costs, lost revenues, increased expenses or liabilities to third parties. This may adversely impact Coles' financial performance.

(g) Litigation

Disputes or litigation may arise from time to time in the course of the business activities of Coles. There is a risk that any material or costly dispute or litigation could adversely impact on Coles' financial performance, or require a material change to Coles' operations

(h) Accounting

Changes in accounting or financial reporting standards may adversely impact the financial performance of Coles. In addition, Coles' financial performance may be impacted by changes to accounting policies after the Demerger or differences in interpretations of accounting standards. In particular, a new accounting standard for leases (AASB 16 *Leases*) will be applicable to Coles from 1 July 2019, as referred to in Section 2.13.1, and will result in a material right-of-use asset and lease liability being recognised in respect of leases by Coles and the income statement profile of the lease expenses. Refer to section 2.13.1 for further information on the application of this standard to Coles.

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3

INFORMATION ON WESFARMERS POST DEMERGER

3.1 OVERVIEW OF WESFARMERS POST DEMERGER

After the Demerger, Wesfarmers will continue to be one of Australia's largest listed companies and private sector employers with around 105,000 employees. With a corporate office in Perth, Western Australia, its diverse business operations will include the Bunnings, Department Stores and Officeworks retail divisions, as well as the Industrials division which comprises operations in chemicals, energy and fertilisers, and industrial and safety products. In addition, the Wesfarmers Group will hold a number of non-controlling ownership interests, including in Coles, flybuys, BWP Trust and Gresham Partners.

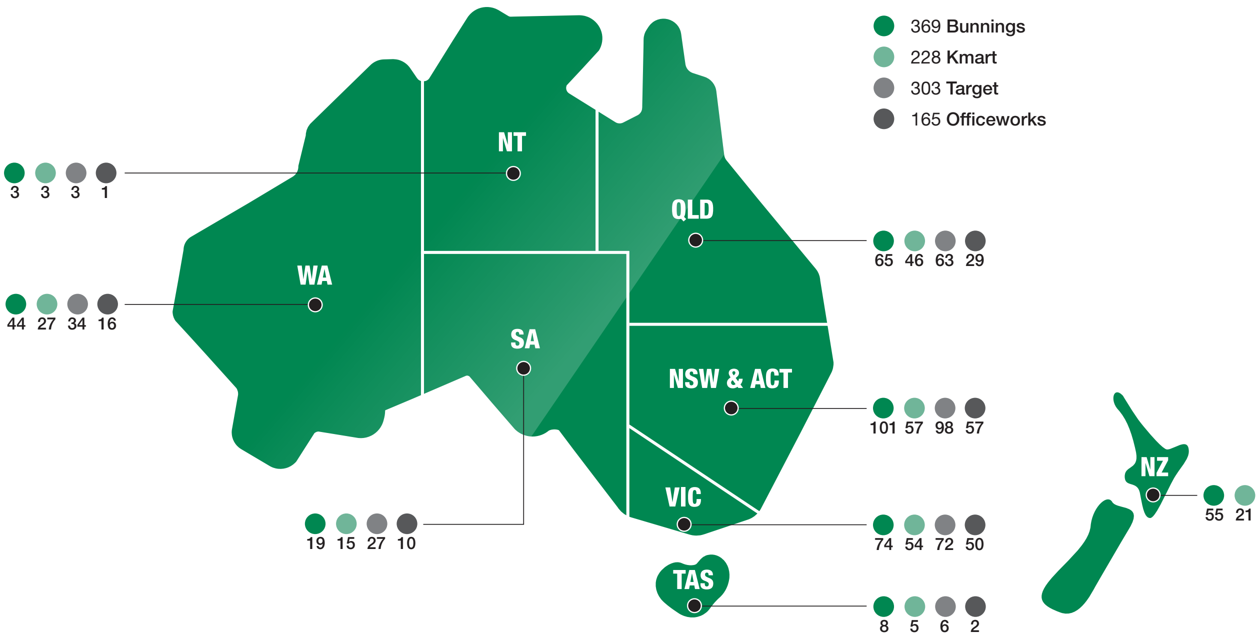
Following the Demerger, Wesfarmers plans to retain a minority ownership interest of 15 per cent in Coles, to support strategic alignment between the two companies in relation to various growth initiatives, including in the areas of data, digital and loyalty. Wesfarmers will also retain its existing 50 per cent ownership of flybuys to support continued development of the loyalty program and better leverage the combined Coles and Wesfarmers digital and data assets to improve their respective customer offers.

Figure 16: Wesfarmers portfolio

Note:

1. Other refers to non-controlling interests.

Figure 17: Wesfarmers retail locations (excluding Other)



3.2 KEY STRENGTHS OF WESFARMERS

3.2.1 FOCUS ON SHAREHOLDER RETURNS

Wesfarmers' primary objective is to deliver satisfactory returns to shareholders. Long-term satisfactory shareholder return is driven by the following four overarching strategies:

- strengthening existing businesses through operating excellence and satisfying customer needs;
- securing growth opportunities through entrepreneurial initiatives;
- renewing the portfolio through value-adding transactions; and
- ensuring sustainability through responsible long-term management.

3.2.2 PORTFOLIO OF LEADING BUSINESSES

Following the Demerger, Wesfarmers will have a diverse portfolio (as outlined in Section 3.3) of cash generative businesses with strong market positions in growing markets.

3.2.3 DISCIPLINED CAPITAL MANAGEMENT AND PROVEN MODEL OF DIVISIONAL AUTONOMY

Wesfarmers' operating model is underpinned by disciplined capital allocation and divisional autonomy.

Wesfarmers maintains strict criteria and rigorous financial discipline across all investment decisions, as it reviews opportunities in existing growth businesses, as well as adjacent and new markets.

Each of Wesfarmers' businesses operates with a high degree of autonomy, which combined with aligned leadership, strategy and values, is a proven driver of outperformance.

3.2.4 POSITIONED FOR FUTURE GROWTH

Wesfarmers will be well positioned for future growth, with a portfolio of businesses in growing industries, and strategies to broaden their respective addressable markets. The profitability and strong growth prospects of each of Wesfarmers' businesses is also supported by detailed divisional strategies, covering areas such as digital opportunities, store investments, operational productivity, and talent attraction and retention.

3.2.5 STRONG CASH GENERATION

Wesfarmers will continue to deploy best practice principles in operational execution and maintaining a long-term focus to drive strong cash generation, including discipline in relation to capital investment, and continuously looking to improve the working capital efficiency of all its businesses. Following the Demerger, Wesfarmers' dividend policy will remain unchanged.

3.2.6 STRONG BALANCE SHEET

Wesfarmers will retain a strong balance sheet and its capacity to act opportunistically when value-accretive opportunities arise. The Wesfarmers Group expects to retain its existing investment grade credit ratings, supported by good cash flow generation and disciplined capital management.

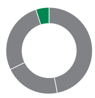
3.2.7 EXPERIENCED BOARD AND MANAGEMENT TEAM

Wesfarmers will continue to be led by an experienced board and management team, with substantial management, financial and industry experience.

3.3 GROUP OVERVIEW

Following the Demerger, Wesfarmers will have a portfolio of cash generative businesses with strong market positions in growing markets.

The following outlines Wesfarmers' operational divisions post Demerger:

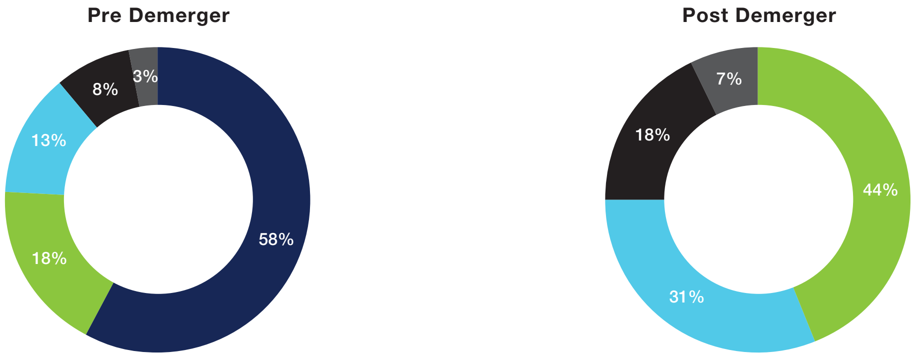
		FY2018				
Business Division	Description	Revenue (A$m)	EBIT (A$m)	EBIT contribution (%)	Capital employed (A$m)	ROC (%)
Bunnings	Bunnings is the leading retailer of home improvement and outdoor living products in Australia.	12,544	1,504		3,045	49.4
Department Stores[1]	The Department Stores division comprises Kmart, which offers customers a wide range of apparel and general merchandise products at low prices, and Target, which provides customers with quality and fashion at best prices.	8,837	660		2,013	32.8
Industrials[2]	The Industrials division includes Wesfarmers' two industrial businesses: Chemicals, Energy and Fertilisers, and Industrial and Safety.	5,269	867		3,294	26.3
Officeworks	Officeworks is Australia's leading retailer and supplier of office products and solutions for micro, small and medium-sized businesses, students and households.	2,142	156		939	16.6
Other	Other comprises Wesfarmers' 15 per cent interest in Coles; 50 per cent interest in flybuys; 50 per cent interest in Gresham Partners Group Limited and private equity investments through Gresham Private Equity; 50 per cent interest in Wespine and 24.8 per cent interest in Bunnings Warehouse Property Trust.	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*

Notes:

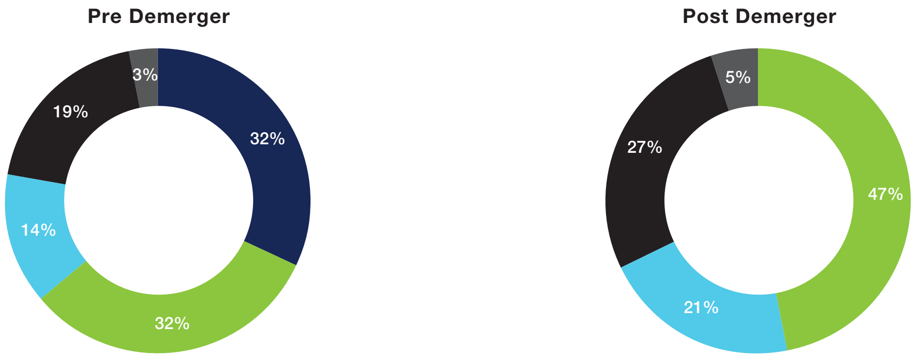
1. FY2018 Department Stores financials include contributions from Kmart Tyre and Auto, which is expected to be divested in the first half of FY2019.
2. FY2018 Industrials financials include contributions from Curragh, which was divested in March 2018, and Bengalla, which is expected to be divested in the first half of FY2019, and Wesfarmers' interest in Quadrant Energy, which is expected to be divested in the second half of FY2019.

Figure 18: Wesfarmers portfolio revenue, EBIT and capital employed pre and post Demerger (excluding Other)

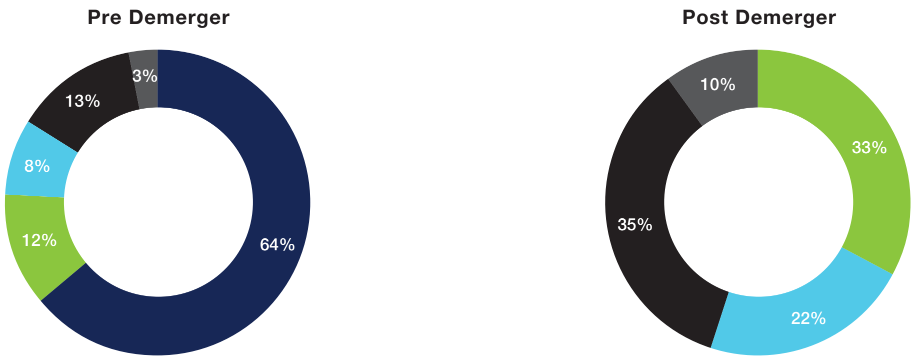
Revenue by business division (FY2018)



EBIT by business division (FY2018)



Capital employed by division (FY2018)



Coles | Bunnings | Department Stores[1] | Industrials[2] | Officeworks

Notes:

1. FY2018 Department Stores financials include contributions from Kmart Tyre and Auto, which is expected to be divested in the first half of FY2019.
2. FY2018 Industrials financials include contributions from Curragh, which was divested in March 2018, and Bengalla, which is expected to be divested in the first half of FY2019, and Wesfarmers' interest in Quadrant Energy, which is expected to be divested in the second half of FY2019.

3.4 THE WESFARMERS WAY

Wesfarmers' objective is to deliver satisfactory returns to shareholders, underpinned by a strong balance sheet and sustainable practices.

The measure used by the Wesfarmers Group to assess satisfactory returns is TSR over the long term. Wesfarmers assesses its performance by comparing its TSR against that achieved by the broader Australian market index.

Growth in TSR can be impacted by improving returns from invested capital relative to the cost of that capital and growing the capital base at a satisfactory rate of return on capital (**ROC**). ROC focuses divisional businesses on increasing earnings and/or increasing capital productivity by managing existing assets efficiently, as well as making an adequate return on any new capital deployed. Minimum ROC targets for each division are set based on their pre-tax cost of capital, while satisfactory ROC targets are established based on the Wesfarmers Group's return on equity targets, which are reviewed annually with reference to the performance of the broader market.

This objective, and its values and strategies will not be altered by the Demerger.

Figure 19: The Wesfarmers Way

OBJECTIVE

To deliver a satisfactory return to shareholders

VALUE CREATING STRATEGIES

Strengthen existing businesses through operating excellence and satisfying customer needs	Secure growth opportunities through entrepreneurial initiatives	Renew the portfolio through value-adding transactions	Ensure sustainability through responsible long-term management

GROWTH ENABLERS

Outstanding People	Commercial Excellence	Empowering Culture	Innovation	Social Responsibility	Robust Financial Capacity

CORE VALUES

Integrity	Openness	Accountability	Entrepreneurial Spirit

3.4.1 VALUE CREATING STRATEGIES

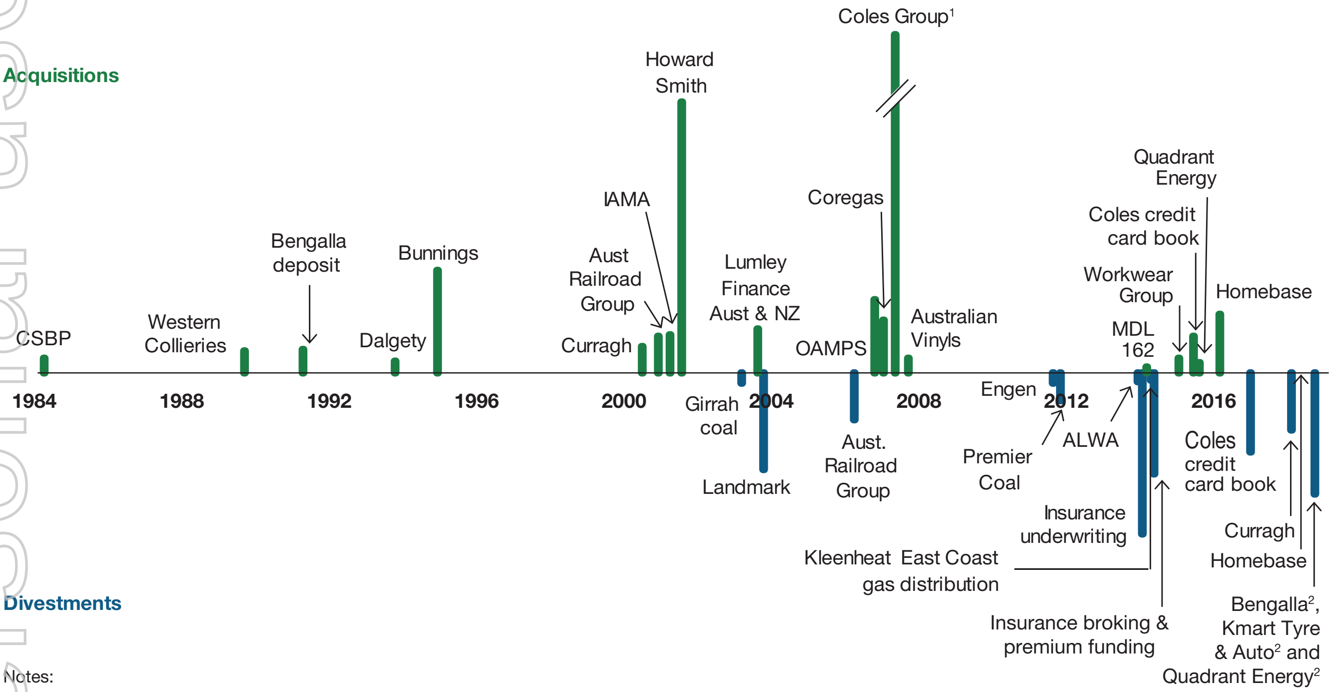
The Wesfarmers Group's primary objective to provide a satisfactory return to shareholders is driven by four overarching strategies. These are:

- strengthening existing businesses through operating excellence and satisfying customer needs;
- securing growth opportunities through entrepreneurial initiatives;
- renewing the portfolio through value-adding transactions; and
- ensuring sustainability through responsible long-term management.

Each strategy is underpinned by the Wesfarmers Group's well-established strategic framework. A key attribute of this approach is the maintenance of a long-term focus and acting sustainably in the creation of value and building businesses.

At a divisional level, detailed strategies are developed specific to the opportunities to improve each of Wesfarmers' individual businesses.

Figure 20: Wesfarmers' active portfolio management over time



Notes:
1. Coles Group consisted of Coles, Kmart, Target and Officeworks.
2. Subject to completion.

3.4.2 APPROACH TO CAPITAL ALLOCATION

The Wesfarmers Group evaluates a broad range of investment opportunities, including:

- deploying capital in its existing portfolio to drive continued growth in businesses with leading positions in growing markets;
- leveraging existing assets and capabilities to take advantage of adjacent opportunities; and
- disciplined investments in opportunistic and value-accretive transactions through different ownership models (e.g. minority interest, full control, partnerships).

Importantly, in assessing these opportunities, the Group applies a long-term horizon to investment decisions and remains very disciplined in its approach to evaluation, with the most important filter being whether the investment is going to create value for shareholders over time.

3.5 WESFARMERS' DIVISIONAL STRATEGIES AFTER THE DEMERGER

At a divisional level, detailed strategies are developed specific to the opportunities to improve each of Wesfarmers' individual businesses. A summary of divisional strategies is outlined below.

Business division	Divisional strategies
Bunnings	• Maximising digital opportunities through investing in capabilities to create an integrated and seamless e-commerce platform. • Continuing to invest in stores, both new and existing, to support future growth. • Continuing range innovation and expansion across all categories. • Expanding service offerings by investing in platforms and training to provide meaningful and personalised customer experiences that have the ability to evolve with customer behaviours. • Driving deeper and wider commercial engagement and connecting with non-traditional business such as Government, hospitality and education. • Continuing to attract and retain the best talent.
Department Stores	**Kmart** • Investing in price to drive volume efficiencies. • Reducing costs and increasing operational productivity. • Improving product availability in-store, online and overseas. • Investing in the Kmart store network through refurbishments and new store openings. **Target** • Delivering a differentiated offer with improvements in fashionability and quality. • Developing a seamless and engaging online proposition. • Optimising the store network.
Officeworks	• Strengthening and expanding the customer offer. • Extending its 'every channel' reach physically and digitally. • Enhancing productivity and efficiency. • Investing in talent, diversity and safety. • Making a positive difference in the community.
Industrials	**Wesfarmers Chemicals, Energy & Fertilisers** • Optimising ammonium nitrate sales mix and securing commitments for future uncontracted volumes within the Chemicals business. • Continuing to focus on brand management, strong local customer service and enhanced customer experiences for Kleenheat within its energy business. • Strengthening channel and end user relationships and reducing costs through ongoing operational efficiencies and automation within the Fertilisers business. **Wesfarmers Industrial and Safety** • Enhancing customer experience. • Increasing investment in core systems and its digital offering. • Growing Coregas through new distribution channels and market opportunities.

3.6 DIVIDENDS

Wesfarmers' dividend policy will remain unchanged post Demerger. Accordingly, Wesfarmers' dividend policy will continue to consider availability of franking credits, earnings and cash flows, and targeted credit metrics.

3.7 BOARD OF DIRECTORS

As a result of the Demerger, the only change to the Wesfarmers Board was the retirement of James Graham, which was effective on 23 July 2018.

As announced by Wesfarmers on 14 September 2018, Mr Paul Bassat will retire as a director of Wesfarmers at the conclusion of the Annual General Meeting. Detailed biographies of the Wesfarmers board of directors can be found in the Wesfarmers 2018 Annual Report or online at www.wesfarmers.com.au.

3.8 WESFARMERS PRO FORMA HISTORICAL FINANCIAL INFORMATION

This section contains historical financial information of Wesfarmers (hereafter the **Wesfarmers Historical Financial Information**) comprising:

- the historical income statements for the years ended 30 June 2016, 30 June 2017 and 30 June 2018;
- the historical balance sheet as at 30 June 2018; and
- the historical cash flow statements for the years ended 30 June 2016, 30 June 2017 and 30 June 2018.

This section also contains the following pro forma historical financial information of Wesfarmers following the Demerger (hereafter the **Wesfarmers (post Demerger) Pro Forma Historical Financial Information**), comprising:

- the pro forma historical income statements of Wesfarmers (post Demerger) for the years ended 30 June 2016, 30 June 2017 and 30 June 2018;
- the pro forma historical balance sheet of Wesfarmers (post Demerger) as at 30 June 2018; and
- the pro forma historical cash flows of Wesfarmers (post Demerger) for the years ended 30 June 2016, 30 June 2017 and 30 June 2018.

3.8.1 BASIS OF PREPARATION

WESFARMERS HISTORICAL FINANCIAL INFORMATION

The Wesfarmers Historical Financial Information has been derived from the financial statements of Wesfarmers for the years ended 30 June 2016, 30 June 2017 and 30 June 2018, which were audited by Ernst & Young in accordance with Australian Auditing Standards. Ernst & Young issued unqualified audit opinions on these financial statements. The financial statements for these periods are available from Wesfarmers' website (www.wesfarmers.com.au) or the ASX website (www.asx.com.au).

The Wesfarmers Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in AAS, which are consistent with IFRS.

WESFARMERS (POST DEMERGER) PRO FORMA HISTORICAL FINANCIAL INFORMATION

The Wesfarmers (post Demerger) Pro Forma Historical Financial Information has been prepared for illustrative purposes, to assist Wesfarmers' Shareholders to understand the impact of the Demerger and the financial performance, financial position and cash flows of Wesfarmers post Demerger. By its nature, pro forma historical financial information is illustrative only. Consequently, the Wesfarmers (post Demerger) Pro Forma Historical Financial Information does not purport to reflect the actual or future financial performance or cash flows for the relevant period, nor does it reflect the actual financial position of Wesfarmers (post Demerger) at the relevant time.

The Wesfarmers (post Demerger) Pro Forma Historical Financial Information has been derived from the Wesfarmers Historical Financial Information, and adjusted for the effects of pro forma adjustments described below.

The Wesfarmers (post Demerger) Pro Forma Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in AAS, which are consistent with IFRS, other than that it includes adjustments which have been prepared in a manner consistent with AAS, that reflect (i) the recognition of certain items in periods different from the applicable period under AAS (ii) the exclusion of certain transactions that occurred in the relevant periods and (iii) the impact of certain transactions as if they occurred as at 30 June 2018 in the pro forma historical balance sheet and from 1 July 2015 in the pro forma historical income statements and pro forma historical cash flows.

The Wesfarmers (post Demerger) Pro Forma Historical Financial Information has been prepared on a consistent basis to the accounting policies set out in Wesfarmers' annual reports for the years ended 30 June 2016, 30 June 2017 and 30 June 2018.

Wesfarmers prepares its general purpose financial statements in accordance with AAS and the Corporations Act. The AAS are subject to amendments from time to time, and any such changes may impact the balance sheet or income statement of Wesfarmers post Demerger. In addition, following the Demerger, Wesfarmers may be impacted by accounting policies adopted which are different to existing policies, and differences in interpretations of AAS. In respect of two imminent changes in AAS, the following is noted:

- AASB 15 *Revenue from Contracts with Customers* (AASB 15) is effective to Wesfarmers from 1 July 2018. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Wesfarmers does not expect the application of AASB 15 to have a material effect on its income statement or financial position.
- AASB 16 *Leases* (AASB 16) introduces a single lessee accounting model and will require Wesfarmers, as lessees, to recognise, for all leases with a term of more than 12 months and that are not of assets of low value:
  - a right-of-use asset representing its right to use the underlying leased asset; and
  - a lease liability representing its obligations to make lease payments.

Information on the undiscounted amount of Wesfarmers operating lease commitments at 30 June 2018 under AASB 117, the current leases standard, is disclosed at Table 22. Under AASB 16, the present value of these commitments would be shown as a liability on the balance sheet together with an asset representing the right-of-use. The ongoing income statement classification of what is currently predominantly presented as occupancy-related expenses will be split between amortisation and interest expense. Wesfarmers plans to adopt the modified retrospective transition approach whereby there is an option on a lease-by-lease basis to calculate the right-of-use asset as either equal to the lease liability or with respect to historical lease payments. Under this method, there is no requirement to restate comparatives.

A project team has been working to manage the transition as Wesfarmers continues to evaluate the implications of AASB 16. A qualitative assessment of the impact of the new standard is expected to be disclosed in Wesfarmers' FY2019 half-year results.

The project team has focused on:

- implementation of a new system for ongoing compliance with AASB 16;
- determining appropriate discount rates for calculating the present value of future lease payments on transition;
- judgements in determining if a decision to exercise options to extend, terminate or purchase the leased asset is reasonably certain; and
- judgements in assessing non-lease components that will be excluded from the right-of-use asset.

The project team continues to report to the Audit and Risk Committee on the progress of implementation.

Wesfarmers (post Demerger) will retain a 15 per cent controlling interest in the newly listed Coles entity and a 50 per cent interest in flybuys. Pro forma adjustments have been made to reflect each as an investment in an associate, with the pro forma adjustment in respect of Coles taking into account the pro forma additional standalone operating costs and pro forma operating costs transferred to Coles.

The Wesfarmers (post Demerger) pro forma historical income statements and cash flows for the years ended 30 June 2016 and 30 June 2017 have been presented before financing costs and income tax expense because the financing arrangements and tax structure under which Wesfarmers operated during the periods presented do not reflect the anticipated financing and tax structure of Wesfarmers post Demerger.

Adjustments have been made to exclude items presented as individually materially significant items in Wesfarmers' annual reports within the pro forma historical income statements. These items comprise charges associated with the impairment of goodwill and non-current assets with respect to Target.

Pro forma adjustments have been made in the Wesfarmers (post Demerger) pro forma historical balance sheet to reflect certain financing arrangements, capital items and the accounting for the Demerger. These include a drawdown of debt by Coles (refer to Section 2.13.10) which is to be utilised to pay down existing intercompany debt owing to Wesfarmers. It excludes the payment of transaction costs associated with the Demerger.

The financial information in this Section 3.8 is presented in an abbreviated form and does not contain all of the presentation, comparatives and disclosures that are usually provided in an annual financial report prepared in accordance with the Corporations Act.

The Independent Accountant has prepared an Independent Accountant's Report in respect of the Wesfarmers Historical Financial Information and Wesfarmers (post Demerger) Pro Forma Historical Financial Information, a copy of which is included in Section 6.

Figures, amounts, percentages, estimates and calculations are subject to the effect of rounding. Accordingly, totals in tables may not add due to rounding. The financial information in this section should be read in conjunction with the risk factors set out in Section 3.9.

3.8.1.1 EXPLANATION OF CERTAIN NON-IFRS FINANCIAL MEASURES

Wesfarmers uses certain measures to manage and report on its businesses that are not recognised under AAS or IFRS. These measures are collectively referred to in this section as non-IFRS financial measures pursuant to Regulatory Guide 230 *Disclosing non-IFRS financial information* published by ASIC. Management uses these non-IFRS financial measures to evaluate the performance and profitability of the overall business. The principal non-IFRS financial measures referred to in this section are as follows:

- **EBIT** is reported earnings of continuing operations before the following:
  - interest revenue, interest expense or financing costs; and
  - income taxation expense.
- **EBIT, excluding significant items** is EBIT excluding those items presented in the Wesfarmers segment note as expense items not included in segment results, being the non-cash impairment of goodwill and non-current assets relating to Target in FY2016 and goodwill in FY2018.
- **EBITDA** is reported earnings of continuing operations before the following:
  - interest revenue, interest expense or financing costs;
  - depreciation and amortisation; and
  - income taxation expense.

- **EBITDA, excluding significant items** is EBITDA excluding those items presented in the Wesfarmers segment note as expense items not included in segment results, being the non-cash impairment of goodwill and non-current assets relating to Target in FY2016 and goodwill in FY2018.
- **Net capital expenditure** represents capital expenditure less proceeds from the sale of property, plant and equipment and intangibles.
- **Net debt** represents total loans and borrowings and bank overdrafts, less cash on deposit.
- **Cash flows** is net operating cash flows after net capital expenditure, before financing costs and tax.
- **Working capital** represents inventories, trade and other receivables and trade and other payables.
- **Significant items** being the non-cash impairment of goodwill and non-current assets with respect to Target.

3.8.2 WESFARMERS HISTORICAL INCOME STATEMENTS

Set out below are Wesfarmers' historical income statements for the years ended 30 June 2016, 30 June 2017 and 30 June 2018.

Table 11: Wesfarmers historical income statements

($m)	Year ended 30 June 2016	Year ended 30 June 2017	Year ended 30 June 2018
Revenue	**64,170**	**64,913**	**66,883**
Raw materials and inventory	(44,434)	(44,633)	(45,718)
Employee benefits expense	(8,637)	(8,746)	(9,375)
Occupancy-related expenses	(2,806)	(2,882)	(2,976)
Other expenses and other income	(3,494)	(3,447)	(3,346)
Share of net profits of associates and joint venture	114	147	97
EBITDA, excluding significant items[1]	**4,913**	**5,352**	**5,565**
Depreciation and amortisation	(1,153)	(1,175)	(1,198)
EBIT, excluding significant items[1]	**3,760**	**4,177**	**4,367**
Significant items[1]	(1,266)	-	(306)
EBIT	**2,494**	**4,177**	**4,061**
Financing costs	(297)	(248)	(211)
Income tax expense	(988)	(1,169)	(1,246)
Net profit after tax – continuing operations	**1,209**	**2,760**	**2,604**
Net profit after tax - discontinued operations[2]	(802)	113	(1,407)
Profit attributable to members of the parent[3]	**407**	**2,873**	**1,197**

Notes:

1. Significant items for the years ended 30 June 2016 and 30 June 2018 comprise the non-cash impairment of Target's goodwill and non-current assets of $1,266 million in the financial year ended 30 June 2016 and of Target's goodwill and non-current assets of $306 million in the year ended 30 June 2018.
2. Discontinued operations reflect the net profit after tax contribution of the Curragh coal mine and BUKI, both of which were disposed of by Wesfarmers during the year ended 30 June 2018.
3. Represents the historical profit attributable to members of Wesfarmers, as derived from the financial statements of Wesfarmers for the respective years.

3.8.2.1 MANAGEMENT COMMENTARY ON HISTORICAL RESULTS

Wesfarmers' reported FY2018 NPAT was $1,197 million for the full-year ended 30 June 2018. The reported profit includes a loss from discontinued operations of $1,407 million, which reflects the trading results and significant items for BUKI and Curragh, which were divested during the year. NPAT from continuing operations, including the $300 million ($306 million pre-tax) non-cash impairment in Target, was $2,604 million, an increase of 5.2 per cent from the prior year.

Retail earnings (from continuing operations and excluding significant items) increased 5.2 per cent during the year, with Bunnings Australia and New Zealand (**BANZ**), Department Stores and Officeworks achieving very strong results. Industrials earnings from continuing operations were also higher, supported by strong contributions from Chemicals, Energy and Fertilisers and Bengalla.

The FY2017 reported EBIT of Wesfarmers was $4,177 million, a $1,683 million increase from FY2016. Excluding the Target impairment recorded in 2016, EBIT increased $417 million, or 11.1 per cent.

The FY2017 result reflected a strong recovery in the performance of the Industrials division, with a significant increase in Resources earnings driven by higher coal prices and production.

Retail earnings were also above the prior year, supported by continued strong momentum in BANZ, Kmart and Officeworks.

The FY2016 reported EBIT of Wesfarmers was $2,494 million. This result included a non-cash $1,266 million impairment of Target. Excluding this impairment, EBIT for FY2016 was $3,760 million.

During FY2016, Wesfarmers' retail businesses continued to invest in customer value, service, stores and online, as well as improved merchandise ranges, to deliver long-term growth and improved returns. Excluding Target, the retail portfolio delivered growth in EBIT of 7.5 per cent. This growth was offset by weak underlying performance in Target, as well as the cost of restructuring activities following the creation of the Department Stores division to provide a stronger platform for future growth.

The performance of the Industrials division during FY2016 was significantly affected by lower Resources earnings, including the recognition of an $850 million impairment of the Curragh coal mine, due to lower coal prices, while the Chemicals, Energy and Fertilisers business had a strong FY2016, with earnings growth achieved across all three business units. Industrial and Safety made good progress in simplifying its operations and reducing its costs.

Further commentary on Wesfarmers' historical financial results and the results of its business units is provided in Wesfarmers' annual financial reports for the years ended 30 June 2016, 30 June 2017 and 30 June 2018. These reports are available at Wesfarmers' website at www.wesfarmers.com.au or the ASX website at www.asx.com.au.

3.8.3 WESFARMERS (POST DEMERGER) PRO FORMA HISTORICAL INCOME STATEMENTS

Set out below are the Wesfarmers (post Demerger) pro forma historical income statements for the years ended 30 June 2016, 30 June 2017 and 30 June 2018.

Table 12: Wesfarmers (post Demerger) pro forma historical income statements

($m)	Year ended 30 June 2016	Year ended 30 June 2017	Year ended 30 June 2018
Revenue	**24,928**	**25,696**	**27,495**
Raw materials and inventory	(15,471)	(15,530)	(16,539)
Employee benefits expense	(4,069)	(4,152)	(4,427)
Occupancy-related expenses	(1,416)	(1,463)	(1,495)
Other expenses and other income	(1,619)	(1,574)	(1,689)
Share of net profits of associates and joint venture	295	304	242
EBITDA, excluding significant items[1]	**2,648**	**3,281**	**3,587**
Depreciation and amortisation	(538)	(528)	(547)
EBIT, excluding significant items[1]	**2,110**	**2,753**	**3,040**
Significant items[1]	(1,266)	-	(306)
EBIT	**844**	**2,753**	**2,734**
Financing costs			(127)
Income tax expense			(830)
Net profit after tax			**1,777**
NPAT – discontinued operations[2]			(1,407)
Profit attributable to members of the parent			**370**

Notes:

1. Significant items for the years ended 30 June 2016 and 30 June 2018 comprise impairment of Target's goodwill and non-current assets of $1,266 million in the financial year ended 30 June 2016 and of Target's goodwill and non-current assets of $306 million in the year ended 30 June 2018.
2. Discontinued operations reflect the net profit after tax contribution of the Curragh coal mine and BUKI, both of which were disposed of by Wesfarmers during the year ended 30 June 2018.

3.8.3.1 RECONCILIATION OF WESFARMERS HISTORICAL INCOME STATEMENTS TO WESFARMERS (POST DEMERGER) PRO FORMA HISTORICAL INCOME STATEMENTS

Reconciliations of the Wesfarmers historical income statements to the Wesfarmers (post Demerger) pro forma historical income statements for the years ended 30 June 2016, 30 June 2017 and 30 June 2018 are shown in the following tables.

Table 13: Reconciliation of Wesfarmers historical EBIT to the pro forma historical EBIT, excluding significant items

Continuing operations ($m)	Year ended 30 June 2016	Year ended 30 June 2017	Year ended 30 June 2018
Historical EBIT	2,494	4,177	4,061
Significant items[1]	1,266	-	306
Historical EBIT, excluding significant items[1]	3,760	4,177	4,367
Coles historical EBIT[2]	(1,860)	(1,609)	(1,500)
Operating costs transferred to Coles[3]	28	28	28
Share of profits of associate and joint venture adjustment[4]	182	157	145
Pro forma historical EBIT, excluding significant items[1]	2,110	2,753	3,040

Notes:

1. Significant items for the years ended 30 June 2016 and 30 June 2018 comprise impairment of Target's goodwill and non-current assets of $1,266 million in the financial year ended 30 June 2016 and of Target's goodwill and non-current assets of $306 million in the year ended 30 June 2018.
2. Represents the historical EBIT of Coles and is prior to the Demerger occurring, as derived from the financial statements of Wesfarmers for the respective years.
3. Represents the operating costs previously incurred by Wesfarmers (and not charged to Coles) that will be incurred by Coles following the Demerger and relate to self-insurance and internal audit costs; refer to Section 2.13.3.
4. Wesfarmers will equity account its retained 15 per cent interest in Coles and 50 per cent interest in flybuys. This EBIT adjustment reflects Wesfarmers' equity accounted share of Coles and flybuys' pro forma historical NPAT. The pro forma historical NPAT of Coles has been determined based on the pro forma historical EBIT provided at Section 2.13.3 adjusted for finance costs assuming an average net debt of $2,000 million and a tax rate of 30 per cent.

Table 14: Reconciliation of Wesfarmers historical net profit after tax to pro forma historical net profit after tax

($m)	Year ended 30 June 2016	Year ended 30 June 2017	Year ended 30 June 2018
Historical net profit after tax – continuing operations	1,209	2,760	2,604
Coles historical EBIT[1]			(1,500)
Operating costs transferred to Coles[2]			28
Share of profits of associate and joint venture adjustment[3]			145
Financing costs[4]			84
Income tax expense[5]			416
Pro forma historical net profit after tax – continuing operations			1,777

Notes:

1. Represents the historical EBIT of Coles and is prior to the Demerger occurring, as derived from the financial statements of Wesfarmers for the year ended 30 June 2018.
2. Represents the operating costs previously incurred by Wesfarmers (and not charged to Coles) that will be incurred by Coles following the Demerger and relate to self-insurance and internal audit costs, refer to Section 2.13.3.
3. Wesfarmers' recognition of its share of profits of its retained 15 per cent interest and 50 per cent interest in Coles and flybuys respectively.
4. Reduced financing costs of Wesfarmers as a result of the pro forma average $2,000 million lower net debt and Wesfarmers' weighted average interest rate for the financial year ended 30 June 2018 of 4.18 per cent.
5. Represents the tax effect of the pro forma adjustments outlined above at the Australian corporate tax rate of 30 per cent.

3.8.4 WESFARMERS HISTORICAL AND WESFARMERS (POST DEMERGER) PRO FORMA HISTORICAL BALANCE SHEET

The following table sets out the Wesfarmers historical balance sheet and the Wesfarmers (post Demerger) pro forma historical balance sheet as at 30 June 2018.

For the purposes of presenting the Wesfarmers (post Demerger) pro forma historical balance sheet, it has been assumed that the Demerger was effected and completed on 30 June 2018. The balance sheet has been adjusted to reflect the estimated Demerger allocation between capital and reserves in accordance with Table 24 and the ATO Class Ruling.

The Wesfarmers (post Demerger) pro forma historical balance sheet has been prepared in order to give Wesfarmers' Shareholders an indication of Wesfarmers (post Demerger) balance sheet in the circumstances noted in this section, and does not reflect the actual or prospective financial position of Wesfarmers at the time of the Demerger. No adjustments have been made to reflect the trading of Wesfarmers or Coles since 30 June 2018.

Table 15: Wesfarmers historical and Wesfarmers (post Demerger) pro forma historical balance sheet

($m)	Historical 30 June 2018[1]	Coles, excluding debt[2]	Self insurance[3]	Capital structure[4]	Investment in associate[5]	Post Demerger pro forma historical as at 30 June 2018
Current assets						
Cash and cash equivalents	683	(325)	-	1,905	(50)	2,213
Receivables–trade and other	1,657	(577)	-	-	-	1,080
Inventories	6,011	(2,105)	-	-	-	3,906
Derivatives	126	-	-	-	-	126
Other	229	(39)	-	-	-	190
Total current assets[6]	**8,706**	**(3,046)**	**-**	**1,905**	**(50)**	**7,515**
Non-current assets						
Investments in associates and Joint Ventures	748	-	-	-	2,263	3,011
Deferred tax assets	692	(348)	-	-	-	344
Property, plant and equipment	8,408	(4,259)	-	-	-	4,149
Goodwill and intangible assets	17,860	(13,757)	-	-	-	4,103
Derivatives	391	-	-	-	-	391
Other	128	(119)	-	-	-	9
Total non-current assets	**28,227**	**(18,483)**	**-**	**-**	**2,263**	**12,007**
Total assets	**36,933**	**(21,529)**	**-**	**1,905**	**2,213**	**19,522**
Current liabilities						
Trade and other payables	6,541	(3,297)	-	-	-	3,244
Interest bearing loans and borrowings	1,159	(4,201)	-	4,201	-	1,159
Income tax payable	299	115	-	-	-	414
Provisions	1,726	(686)	(116)	-	-	924
Derivatives	16	-	-	-	-	16
Other	284	(135)	-	-	144	293
Total current liabilities[6]	**10,025**	**(8,204)**	**(116)**	**4,201**	**144**	**6,050**
Non-current liabilities						
Interest bearing loans and borrowings	2,965	-	-	-	-	2,965
Provisions	1,033	(393)	(240)	-	-	400
Derivatives	-	-	-	-	-	-
Other	156	(139)	(30)	108	-	95
Total non-current liabilities	**4,154**	**(532)**	**(270)**	**108**	**-**	**3,460**
Total liabilities	**14,179**	**(8,736)**	**(386)**	**4,309**	**144**	**9,510**
Net assets	**22,754**	**(12,793)**	**386**	**(2,404)**	**2,069**	**10,012**
Total shareholders equity[7]	**22,754**	**(12,793)**	**386**	**(2,404)**	**2,069**	**10,012**

Notes:

1. Wesfarmers historical balance sheet as reported within the Wesfarmers financial statements for the year ended 30 June 2018.
2. Represents the assets and liabilities held in Coles as at 30 June 2018 prior to the Demerger occurring, as derived from the financial information directly related to Coles from the accounting records of Wesfarmers.
3. Represents the de-recognition of $356 million of self-insurance liabilities relating to Coles and the reversal of $30 million of prepaid self-insurance from Coles.
4. The drawdown of external borrowings by Coles and the settlement of intercompany financing arrangements with Wesfarmers.
5. The recognition of equity accounted investments in Coles and flybuys for Wesfarmers retained 15 and 50 per cent interests respectively along with the funding arrangements for flybuys on Demerger.
6. At 30 June 2018, Wesfarmers had a historical net current asset deficiency of $1,319 million. Although there is a net current asset deficiency, the Directors believe Wesfarmers generates sufficient operating cash flows to finance its ongoing operations, including meeting future interest payments on its borrowings.
7. The demerger will be accounted for through the issued capital and demerger reserve of Wesfarmers, with the value attributable to each to be determined following the Coles Listing on the ASX. The pro forma adjustment of $2,263 million assumes Wesfarmers will not record a profit/(loss) on Demerger. There will be a debit to the demerger reserve (equivalent to the market value of the Coles Shares less any amount deemed by the ATO to be capital (see Section 3.8.9 below)).

3.8.5 WESFARMERS HISTORICAL CASH FLOW STATEMENTS

Set out below are the Wesfarmers historical cash flow statements for the years ended 30 June 2016, 30 June 2017 and 30 June 2018.

Table 16: Wesfarmers historical cash flow statements

($m)	Year ended 30 June 2016	Year ended 30 June 2017	Year ended 30 June 2018
EBIT[1]	3,760	4,177	4,367
Significant items	(1,266)	-	(306)
Discontinued operations	(1,148)	225	(1,265)
Depreciation and amortisation	1,296	1,266	1,283
EBITDA	2,642	5,668	4,079
Other items[2]	2,250	(203)	1,520
Change in working capital	(230)	(54)	(16)
Operating cash flows before capital expenditure, financing costs and tax	4,662	5,411	5,583
Capital expenditure	(1,899)	(1,681)	(1,815)
Proceeds from sale of property, plant and equipment and intangibles	563	653	606
Operating cash flows after net capital expenditure, before financing costs and tax	3,326	4,383	4,374
Financing costs	(288)	(234)	(195)
Income tax paid	(1,009)	(951)	(1,308)
Operating cash flows after net capital expenditure, financing costs and tax	2,029	3,198	2,871
Net proceeds from sale of businesses and associates	1	947	534
Net investments in associates and joint arrangements	(2)	(2)	-
Acquisition of subsidiaries, net of cash acquired	(748)	(24)	-
Net redemption of/(investment in) loan notes	(47)	54	17
Net proceeds/(repayments) of borrowings	936	(1,774)	(1,217)
Proceeds from exercise of in-substance options under the employee share plan	1	1	-
Equity dividends paid	(2,270)	(1,998)	(2,528)
Demerger costs	-	-	(7)
Net increase/(decrease) in cash and cash equivalents	(100)	402	(330)
Cash and cash equivalents at the beginning of the year	711	611	1,013
Cash and cash equivalents at the end of the year	611	1,013	683

Notes:

1. Represents EBIT from continuing operations, excluding significant items.
2. Includes interest received of $131 million in FY2016, $83 million in FY2017 and $15 million in FY2018.

3.8.6 WESFARMERS (POST DEMERGER) PRO FORMA HISTORICAL CASH FLOWS

Set out below are the Wesfarmers (post Demerger) pro forma historical cash flows for the years ended 30 June 2016, 30 June 2017 and 30 June 2018. The cash flows presented below for FY2016 and FY2017 are before financing costs and tax.

Pro forma adjustments have not been made to the Wesfarmers pro forma historical cash flows for these items for the periods for 2016 and 2017 presented, as the financing facilities, tax consolidation status and capital structure will change following the Demerger.

Table 17: Wesfarmers (post Demerger) pro forma historical cash flows

($m)	Year ended 30 June 2016	Year ended 30 June 2017	Year ended 30 June 2018
EBIT[1]	2,110	2,753	3,040
Depreciation and amortisation	538	528	547
EBITDA, excluding significant items	2,648	3,281	3,587
Other items[2]	47	(64)	(52)
Change in working capital	(7)	175	(134)
Operating cash flows before capital expenditure, financing costs and tax	2,688	3,392	3,401
Capital expenditure	(993)	(720)	(961)
Proceeds from sale of property, plant and equipment and intangibles	443	401	393
Operating cash flows after net capital expenditure, before financing costs and tax	2,138	3,073	2,833
Financing costs[3]			(111)
Income tax paid			(801)
Operating cash flows after net capital expenditure, financing costs and tax			1,921

Notes:

1. Represents pro forma historical EBIT from continuing operations, excluding significant items.
2. Includes interest received of $131 million in FY2016, $83 million in FY2017 and $15 million in FY2018.
3. Financing costs have been reduced to reflect pro forma average $2,000 million lower net debt and Wesfarmers' weighted average interest rate for the financial year ended 30 June 2018 of 4.18 per cent.

3.8.6.1 RECONCILIATION OF WESFARMERS HISTORICAL CASH FLOWS TO WESFARMERS (POST DEMERGER) PRO FORMA HISTORICAL CASH FLOWS

Reconciliations of the Wesfarmers historical cash flows to the Wesfarmers (post Demerger) pro forma historical cash flows for the years ended 30 June 2016, 30 June 2017 and 30 June 2018 are shown in the following tables.

Table 18: Reconciliation of Wesfarmers historical operating cash flows after capital expenditure, before financing costs and tax to Wesfarmers (post Demerger) pro forma historical operating cash flows after capital expenditure, before financing costs and tax

($m)	Year ended 30 June 2016	Year ended 30 June 2017	Year ended 30 June 2018
Historical operating cash flows after net capital expenditure, before financing costs and tax	3,326	4,383	4,374
Discontinued operations[1]	460	144	131
Coles historical operating cash flows after net capital expenditure, before financing costs and tax[2]	(1,831)	(1,618)	(1,825)
Operating costs transferred to Coles[3]	28	28	28
Dividends received from associate and joint venture[4]	155	136	125
Pro forma historical operating cash flows after net capital expenditure, before financing costs and tax	**2,138**	**3,073**	**2,833**

Notes:

1. Discontinued operations reflect the Curragh coal mine and BUKI, both of which were disposed of by Wesfarmers during the year ended 30 June 2018.
2. Represents the Coles historical operating cash flows after capital expenditure, before financing costs and tax and prior to the Demerger occurring, as derived from the financial information directly related to Coles from the accounting records of Wesfarmers.
3. Represents the operating costs previously incurred by Wesfarmers (and not charged to Coles) that will be incurred by Coles following the Demerger and relate to self-insurance and internal audit costs.
4. Wesfarmers recognition of dividends arising from its retained 15 per cent interest and 50 per cent interest in Coles and flybuys respectively.

Table 19: Reconciliation of Wesfarmers historical operating cash flows after capital expenditure, financing costs and tax to Wesfarmers (post Demerger) pro forma historical operating cash flows after capital expenditure, financing costs and tax

($m)	Year ended 30 June 2016	Year ended 30 June 2017	Year ended 30 June 2018
Historical operating cash flows after net capital expenditure, financing costs and tax	**2,029**	**3,198**	**2,871**
Discontinued operations[1]			131
Coles operating cash flows after net capital expenditure, before financing costs and tax[2]			(1,825)
Operating costs transferred to Coles net of tax[3]			20
Reduced finance cash flows, net of tax[4]			59
Dividends received from associate and joint venture[5]			125
Income tax paid[6]			540
Pro forma historical operating cash flows after capital expenditure, financing costs and tax			**1,921**

Notes:

1. Discontinued operations reflect the Curragh coal mine and BUKI, both of which were disposed of by Wesfarmers during the year ended 30 June 2018.
2. Represents the Coles historical operating cash flows after capital expenditure, before financing costs and tax and prior to the Demerger occurring, as derived from the financial information directly related to Coles from the accounting records of Wesfarmers.
3. Represents the operating costs previously incurred by Wesfarmers (and not charged to Coles) that will be incurred by Coles following the Demerger and relate to self-insurance and internal audit costs.
4. Represents the reduced financing cash flows, net of tax, of Wesfarmers as a result of the pro forma average $2,000 million lower net debt and Wesfarmers' weighted average interest rate for the financial year ended 30 June 2018 of 4.18 per cent.
5. Wesfarmers' recognition of dividends arising from its retained 15 per cent interest and 50 per cent interest in Coles and flybuys respectively. The assumed dividend payout ratio of Coles is 85 per cent, being the mid-point of the dividend guidance range of 80 to 90 per cent.
6. Represents the income tax expense attributable to Coles that, following Demerger, will be paid by Coles and income tax paid relating to discontinued operations (refer to note 1).

3.8.7 WESFARMERS DEBT FACILITIES AND CASH

Wesfarmers has a diversified funding mix that includes unsecured bank debt with a number of domestic and international banks (approximately 21 per cent of total borrowings), as well as capital markets debt in the form of domestic and Euro bonds (approximately 79 per cent of total borrowings). For the year ended 30 June 2018, Wesfarmers' average cost of funds was 4.18 per cent. Wesfarmers' banking facilities are generally structured on a revolving basis with expiry dates out to July 2019, and its bonds have maturities out to August 2022 (with more than 54 per cent of these bonds being repayable in FY2022 and beyond). The combined average term to maturity is 2.3 years. Wesfarmers' borrowings are materially impacted by the seasonal working capital requirements of its retail businesses (including Coles) and dividend payments and, excluding other impacts on borrowings (such as proceeds from asset sales), are typically higher in December than in June.

Wesfarmers expects to retain its existing investment grade credit ratings following the Demerger.

The following table reflects the actual historical debt facilities available and used at 30 June 2018.

Table 20: Wesfarmers historical debt facilities summary

($m)	Historical 30 June 2018
Total facilities:	
Committed borrowing facilities	2,499
Uncommitted borrowing facility	500
Capital markets debt	3,314
Total	**6,313**
Facilities utilised at reporting date:	
Committed borrowing facilities	810
Uncommitted borrowing facility	-
Capital markets debt	3,314
Total	**4,124**
Facilities not utilised at reporting date[1]:	
Committed borrowing facilities	1,689
Uncommitted borrowing facility	500
Capital markets debt	-
Facilities not utilised at reporting date:	**2,189**

Note:
1. Excludes $275 million of bank guarantees that have been drawn against committed facilities at 30 June 2018.

Table 21: Wesfarmers pro forma historical cash and cash equivalents summary

($m)	Wesfarmers historical	Less Coles	Demerger adjustments	Less investment in associate	Pro forma historical 30 June 2018
Cash on hand and in transit	492	(325)	1,905	(50)	2,022
Cash at bank and on deposit	191	-	-	-	191
Total	**683**	**(325)**	**1,905**	**(50)**	**2,213**

3.8.8 WESFARMERS POST DEMERGER OPERATING LEASE COMMITMENTS

Set out below are the Wesfarmers pro forma historical operating lease commitments as at 30 June 2018:

Table 22: Wesfarmers pro forma historical operating lease commitments

($m)	Wesfarmers historical	Less Coles historical	Post Demerger pro forma historical
Lease expenditure contracted but not provided for or payable:			
Within one year	2,323	(1,161)	1,162
Between one and five years	7,618	(3,923)	3,695
More than five years	8,432	(4,693)	3,739
Total operating lease commitments	**18,373**	**(9,777)**	**8,596**

The lease commitments outlined in the table above are determined consistent with the currently applicable lease standard and reflect the undiscounted amount of the operating lease commitments at 30 June 2018. A new lease standard is applicable to Wesfarmers from 1 July 2019. This is discussed in Section 3.8.1. On adoption of the new lease standard the present value of these commitments, adjusted for non-lease components and reasonably certain options, terminations and purchases, would be shown as a liability on the balance sheet together with an asset representing the right-of-use.

3.8.9 DEMERGER ACCOUNTING

Accounting for demerger transactions is addressed in IFRIC 17 "*Distributions of Non-cash Assets to Owners*". This interpretation requires that any obligations for distributions made by a company to its shareholders should be recognised and measured under AASB 137 "*Provisions, Contingent Liabilities and Contingent Assets*" and that all liabilities for distributions payable should be measured in accordance with AASB 137 at the fair value of the assets to be distributed.

The fair value of the assets of Coles will be determined by reference to the Coles Shares as traded on the ASX (whether on an ordinary or deferred settlement basis).

As no guidance is provided in AASBs as to where a debit to equity should be recorded for the recognition of a distribution liability, the value of the Capital Reduction is to be determined in accordance with the Demerger allocation between capital and dividend specified in the ATO Class Ruling. As it would not be feasible to identify an amount of capital contributed by Wesfarmers' shareholders that was directed to the investment in Coles, the approach to identifying the capital element of the Demerger allocation for tax purposes is to debit Wesfarmers' capital account by the ratio of the Coles fair market value (determined by reference to the Coles Shares as traded on the ASX) to the total enterprise market value (i.e. Wesfarmers and Coles). Within Wesfarmers' equity accounts, the fair value of Coles Shares will be allocated between the Capital Reduction and the Dividend. The Dividend will be the difference between the fair value of Coles Shares demerged by Wesfarmers and the Capital Reduction. The Dividend, and any profit or loss arising on the Demerger, will be taken to the demerger reserve.

On the Effective Date, Wesfarmers will recognise a provision based on the estimated fair value of Coles Shares, which is expected to exceed Coles' book value of its net assets. This liability will be settled through the transfer of the Coles Shares under the Scheme. At that time, the difference between the book value of the net assets transferred and the fair value of Coles Shares will be recognised as income to Wesfarmers and included in Wesfarmers' FY2019 income statement within discontinued operations. As outlined above, the Demerger allocation between capital and dividend will be determined at the time the Demerger of the Coles Shares takes place. For illustrative purposes only, a range of fair values and the implied Dividend and profit on demerger amounts are set out in Table 23 and Table 24.

Table 23: Implied dividend

Demerger Dividend **Coles fair value per the share price (A$)**	**10**	**12**	**14**	**16**
Implied market capitalisation (A$m)	13,340	16,008	18,675	21,344
Capital Reduction (A$m)	4,834	5,559	6,227	6,843
Implied Dividend (A$m)	6,505	8,048	9,647	11,299
Implied fair value of retained 15 per cent interest (A$m)	2,001	2,401	2,801	3,202
# of Coles Shares (m)	**1,334**			

Table 24: Wesfarmers profit on Demerger

Profit on Demerger **Coles fair value per the share price (A$)**	**10**	**12**	**14**	**16**
Implied market capitalisation (A$m)	13,340	16,008	18,675	21,344
Coles net assets including external debt (A$m)	15,089	15,089	15,089	15,089
(Loss)/Profit on Demerger (A$m)	**(1,749)**	**919**	**3,586**	**6,255**

3.8.10 DEMERGER COSTS

The total one-off transaction costs of the Demerger are estimated to be approximately $148 million (pre-tax). Approximately $65 million of one-off transaction costs are expected to be incurred prior to the Meetings.

One-off transaction costs relate to a range of activities associated with the Demerger, including advisory fees, expenses associated with establishing Coles' debt facilities, and restructuring costs associated with separating Coles and Wesfarmers. These costs are summarised as follows:

- advisory costs of $47 million include a maximum of $33 million in financial advisory costs, and $14 million in financial due diligence, legal, tax and other advisor costs associated with the listing of Coles;
- restructuring costs of $69 million include a range of activities such as costs associated with restructuring and separating Coles and Wesfarmers (including stamp duty) and establishing Coles debt facilities; and
- demerger implementation costs of $32 million include costs associated with the listing of Coles and other implementation costs.

These costs are estimates, and the actual costs incurred may differ from these estimated costs, and the difference may be significant. The stamp duty and tax costs have been estimated based on Wesfarmers' interpretation of the laws in force as at the date of this document and current information relevant to the value of shares and assets.

In addition to the transaction costs, Coles is expected to incur approximately $25 million in separation costs to set up new systems and processes to allow it to operate as an independent entity. Further to this, there may be additional separation costs incurred by Coles, and by Coles or Wesfarmers at the expiry of the TSA in the process of establishing systems or services to replace the transitional services. These costs are uncertain and depend on future decisions of the Coles Board and management, and the Wesfarmers Board and management, and so are not included in the estimates.

3.8.11 DIVIDEND POLICY AND FRANKING

Wesfarmers' dividend policy will be at the discretion of the Wesfarmers Board after the Demerger and may change over time. Decisions relating to dividend policy post Demerger will depend on Wesfarmers' available franking credits, earnings, cash flows and target credit metrics. Notwithstanding this, Wesfarmers' dividend policy is not expected to change and will continue to consider free cash flow generation, profit generation and availability of franking credits.

3.8.12 MATERIAL CHANGES IN FINANCIAL POSITION SINCE THE MOST RECENT BALANCE DATE

The most recent published financial statements of Wesfarmers are provided in the financial report for the full year ended 30 June 2018, which was lodged with the ASX on 14 September 2018. To the knowledge of the Wesfarmers Directors, there has not been a material change in the financial position of Wesfarmers since 30 June 2018, except as disclosed in this Scheme Booklet or otherwise in announcements to the ASX.

Wesfarmers will provide, free of charge, a copy of this most recent financial report to any person who requests a copy before the Scheme is approved by the Court, and it will also be available on www.wesfarmers.com.au.

3.9 RISK FACTORS ASSOCIATED WITH AN INVESTMENT IN THE WESFARMERS GROUP POST DEMERGER

Most of the risks currently faced by the Wesfarmers Group will continue to be faced by the Wesfarmers Group following the Demerger. Investors are already exposed to these risks through their investment in Wesfarmers, and these have previously been disclosed by Wesfarmers. A summary of key risks is set out below:

- Disruptions in supply or in an information technology system or network (such as inventory management systems or payment systems networks) or unexpected system or computer network interruptions, could reduce overall profitability of the affected Wesfarmers business.
- Personal information held by Wesfarmers (including customer details) could be improperly accessed through hacking, breaches of security systems or other means, which could lead to additional security costs, negative publicity and damage to Wesfarmers' reputation and brands as well as claims for damages or potential regulatory action and fines.
- From time to time, Wesfarmers has major enterprise agreement renegotiations in its businesses, and these can result in increases in costs, and in some circumstances, temporary interruption to operations.
- Some businesses in the Wesfarmers Group are exposed to potential liabilities, product recall risk, reputational damage and regulatory action for defective and faulty products, inadequate or incorrect packaging and labelling or failure of a product to perform as intended or described.
- Climate change exposes the Wesfarmers Group's operations to various risks, including exacerbation of existing physical risks across retail and other operations, regulatory risk associated with the introduction of new environmental standards, and changing customer expectations regarding operational efficiency and environmental transparency.
- Third-party suppliers and service providers to the Wesfarmers Group may not provide materials or manufacture or source products in a way that is consistent with Wesfarmers' standards, including in relation to product authenticity and ethical and sustainable sourcing frameworks.
- Wesfarmers' businesses operate in dynamic and competitive markets and face strong competition from new and existing competitors which may adversely affect Wesfarmers' market share and its ability to execute the strategies for its current businesses.
- Wesfarmers plans to grow through operational improvements as well as planned expansions of its businesses. Expansion could expose Wesfarmers to additional and unforeseen costs, including regulatory and other costs associated with operating in industries or jurisdictions in which it previously has not operated.
- If Wesfarmers were to lose the services of one or more key management or team members, this could have a material adverse effect on its operations. Wesfarmers' growth and financial performance could be materially adversely affected if it is unable to attract and retain qualified management and other team members.
- The value of Wesfarmers' brands could be damaged or diluted by factors such as products of poor quality, breaches of consumer protection laws, inappropriate supplier treatment, ethical and sustainable sourcing issues, negative publicity and brand infringement by third parties.
- Digital disruption to industry structures, including through new entrants entering the market through use of digital and other technology, which is difficult to predict, could materially adversely affect the financial condition of Wesfarmers businesses.
- Wesfarmers is subject to a range of legal and other regulatory controls. Adverse changes in these laws and regulations could materially increase the relevant business' direct and indirect compliance costs and other expenses of doing business, and non-compliance may result in financial or other penalties being levied against Wesfarmers, downgrading within the investment community or the loss of certain licences or other rights to carry on regulated activities.
- Wesfarmers is exposed to a number of general economic and financial risks, including the risk of fluctuations in foreign currency exchange rates, commodity price risks (particularly in relation to its operations in gas, chemicals and fertilisers, all of which produce or utilise commodities which are traded on international markets or are impacted by international commodity pricing) and the risk of adverse changes in general economic conditions in key markets such as Australia and New Zealand.
- Changes in accounting or financial reporting standards may adversely impact the reported financial performance of Wesfarmers. In addition, Wesfarmers' financial performance may be impacted by changes to accounting policies after the Demerger or differences in interpretations of accounting standards. In particular, a new accounting standard for leases (AASB 16 *Leases*) will be applicable to Wesfarmers from 1 July 2019, as referred to in Section 3.8.1, and will result in a material right-of-use asset and lease liability being recognised in respect of leases by Wesfarmers and the income statement profile of the lease expenses. Refer to section 3.8.1 for further information on the application of this standard to Wesfarmers.
- Wesfarmers' operations and earnings may be affected by acts of terrorism, either directly through product tampering or business disruption or indirectly through the impact on business conditions or consumer confidence.

4
DETAILS OF THE DEMERGER

SECTION 4
DETAILS OF THE DEMERGER

4.1 CONDITIONS

At the First Court Hearing on 5 October 2018, Wesfarmers obtained an order from the Court to convene the Scheme Meeting.

The Demerger will not become Effective unless a number of conditions are satisfied. The key conditions are summarised below:

- a majority of the Wesfarmers Directors not changing or withdrawing their support for the Demerger;
- the requisite majority of the Wesfarmers Shareholders passing the Demerger Resolutions;
- all regulatory approvals required for the Demerger being obtained (either unconditionally or on conditions reasonably satisfactory to Wesfarmers);
- the Court approving the Scheme and a copy of the order of the Court being lodged with ASIC; and
- the ASX approving the admission of Coles to the ASX Official List and granting permission for official quotation of Coles Shares on the ASX.

The end date for satisfaction or waiver of these conditions is 31 December 2018 (or such other date determined by Wesfarmers and Coles).

4.2 WESFARMERS RESTRUCTURE AND COLES SEPARATION

4.2.1 OVERVIEW

To establish Coles Group as the owner of the Coles Group businesses, a number of share and asset transfers and other commercial arrangements have been, or will be, implemented in connection with the Demerger. Agreements to enable these steps have been entered into and completion of the steps will occur shortly before implementation of the Demerger.

4.2.2 CAPITAL STRUCTURE AND FUNDING

As part of the implementation of the Demerger, it is necessary to establish an appropriate, standalone capital structure for Coles. Accordingly:

- All inter-company loans between members of the Coles Group and the Wesfarmers Group will be eliminated or discharged prior to the implementation of the Demerger.
- Coles has entered into bilateral facilities with several banks. The terms of these facilities are summarised in Section 2.13.10.

Other than in connection with the capital restructuring of Coles required for the Demerger, Coles has not raised any capital for the three months before the date of lodgement of this Scheme Booklet for registration by ASIC and does not expect that it will need to raise any capital in the three months after the date of lodgement of this Scheme Booklet for registration by ASIC.

4.2.3 OWNERSHIP OF COLES SHARES

Under the Demerger, 85 per cent of the issued Coles Shares will be transferred to Eligible Shareholders (other than Selling Shareholders) and the Sale Agent. Wesfarmers Retail Holdings will retain a 15 per cent shareholding in Coles. Immediately following the Demerger, Coles will have 17.65 per cent more Coles Shares on issue than the number of Wesfarmers Shares on issue.

4.2.4 DEED OF CROSS GUARANTEE

Wesfarmers and certain of its Subsidiaries are parties to a deed of cross guarantee (**Wesfarmers Cross Guarantee**) in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 (previously ASIC class order 98/1418). Coles and some of its Subsidiaries are parties to the Wesfarmers Cross Guarantee. A revocation deed was lodged with ASIC on 2 July 2018 to revoke the participation of Coles and its relevant Subsidiaries in the Wesfarmers Cross Guarantee. The revocation deed will take effect on 2 January 2019 provided that no party to the Wesfarmers Cross Guarantee goes into liquidation during that six-month period.

4.3 DEMERGER VOTING AND SECOND COURT HEARING

4.3.1 GENERAL MEETING

The Capital Reduction Resolution and Termination Benefits Resolution will be considered and, if thought fit, approved at the General Meeting. The terms of the Capital Reduction Resolution and the Termination Benefit Resolution are set out in the Notice of General Meeting in Section 12.

Each Wesfarmers Shareholder who is registered on the Wesfarmers Share Register at 4:00pm on Tuesday 13 November 2018 is entitled to attend the General Meeting and vote on the Capital Reduction Resolution and Termination Benefits Resolution.

The Capital Reduction Resolution and Termination Benefits Resolution must be approved by a simple majority of votes cast (whether in person or by proxy) on each resolution. Any current or future Coles KMP who wish to preserve the benefit of the Termination Benefits Resolution for themselves should not vote on the resolution, nor should their associates.

The Capital Reduction and the Termination Benefits Resolution are conditional on the Scheme becoming Effective.

4.3.2 SCHEME MEETING

On 5 October 2018 at the First Court Hearing, the Court ordered a meeting of all Wesfarmers Shareholders be convened to consider and, if thought fit, approve the Scheme, with or without amendment or modification. The notice convening the Scheme Meeting is set out in Section 13 and the terms of the Scheme are contained in Section 10.

Each Wesfarmers Shareholder who is registered on the Wesfarmers Share Register as the holder of a Wesfarmers Share at 4:00pm on Tuesday 13 November 2018 is entitled to attend and vote at the Scheme Meeting.

For the Demerger to proceed, the Scheme Resolution must be approved by:

- a majority in number (more than 50 per cent) of Wesfarmers Shareholders present and voting at the Scheme Meeting (whether in person or by proxy); and
- at least 75 per cent of the total number of votes cast on the resolution by Wesfarmers Shareholders present and voting (whether in person or by proxy) at the Scheme Meeting.

If these thresholds are met and all other conditions to the Demerger have been satisfied (including Court approval of the Scheme) or waived, all Wesfarmers Shareholders will be bound by the Scheme, including those who voted against the Scheme and those who did not cast a vote. Voting at the Scheme Meeting will be by poll.

4.3.3 SECOND COURT HEARING

If the Demerger Resolutions are approved by Wesfarmers Shareholders, and all other conditions to the Scheme (other than Court approval) have been satisfied or waived, Wesfarmers will apply to the Court for orders approving the Scheme on or around 19 November 2018.

The Scheme will take effect on the date on which the Court order approving the Scheme is lodged with ASIC, which is expected to be 20 November 2018.

4.4 CAPITAL REDUCTION, DIVIDEND AND IMPLEMENTATION OF THE DEMERGER

4.4.1 WESFARMERS STEPS

It is expected that the Demerger will be implemented on 28 November 2018.

On the Implementation Date:

- Wesfarmers will undertake the Capital Reduction and will apply the Dividend. The Capital Reduction and Dividend will not be paid in cash, but will be applied on behalf of the Wesfarmers Shareholders as payment for the Coles Shares to be transferred from Wesfarmers Retail Holdings to those Wesfarmers Shareholders.
- Each Wesfarmers Shareholder (other than Ineligible Overseas Shareholders and Selling Shareholders) will receive one Coles Share for each Wesfarmers Share it is registered as holding as at the Record Date. Wesfarmers Retail Holdings will retain a 15 per cent shareholding in Coles.

4.4.2 INELIGIBLE OVERSEAS SHAREHOLDERS AND SELLING SHAREHOLDERS

In the case of Ineligible Overseas Shareholders and Selling Shareholders, the Coles Shares which those shareholders would otherwise have received under the Demerger will be transferred to the Sale Agent to be sold. The proceeds of sale will be remitted to the Ineligible Overseas Shareholders, Selling Shareholders and ShareGift as set out in Section 4.8.

4.4.3 CONFIRMATION OF COLES SHAREHOLDINGS

The transfer and distribution of Coles Shares to Eligible Shareholders (other than Selling Shareholders) referred to above will be achieved by:

- Wesfarmers procuring the transfers of the relevant Coles Shares to Eligible Shareholders (other than Selling Shareholders) and Sale Agent (as applicable);
- entry in the Coles Share Register of the names of Eligible Shareholders (other than Selling Shareholders); and
- on, or as soon as practicable after, the Implementation Date, Wesfarmers procuring the dispatch to Eligible Shareholders (other than Selling Shareholders) by prepaid post to the person's address as shown in the Wesfarmers Share Register as at the Record Date (unless directed otherwise by an Eligible Shareholder), uncertificated holding statements for the Coles Shares transferred or distributed to them under the Demerger. In the case of joint Wesfarmers Shareholders, uncertificated holding statements for Coles Shares will be sent to the address of the Wesfarmers Shareholder whose name appears first in the Wesfarmers Share Register.

4.4.4 CREDITORS

In the opinion of the Wesfarmers Directors, the Capital Reduction will not, if implemented, materially prejudice Wesfarmers' ability to pay its existing creditors. Further, in the opinion of the Wesfarmers Directors, the Demerger will not, if implemented, materially prejudice the ability of Coles to pay the creditors which it assumes as part of the Demerger.

The Independent Expert has concluded that the Capital Reduction will not materially prejudice Wesfarmers' ability to pay its existing creditors. Refer to Section 7 for a concise version of the Independent Expert's Report.

4.5 ENTITLEMENT TO PARTICIPATE IN THE DEMERGER

4.5.1 DEALINGS IN WESFARMERS SHARES

Wesfarmers Shareholders as at the Record Date will be eligible to participate in the Demerger (although the way in which an individual Wesfarmers Shareholder participates will depend on whether that shareholder is an Eligible Shareholder, a Selling Shareholder or an Ineligible Overseas Shareholder).

For the purposes of determining which Wesfarmers Shareholders are eligible to participate in the Demerger, dealings in Wesfarmers Shares will be recognised only if:

- in the case of dealings of the type to be effected using CHESS, the transferee is registered as the holder of Wesfarmers Shares on the Record Date (or registered before the Record Date and remains registered on that date); and
- in all other cases, registrable transmission applications or transfers in respect of those dealings are received by the Wesfarmers Share Registry before the Record Date with sufficient time to allow for registration of the transferee on the Record Date (or registered before the Record Date and remains registered on that date).

For the purpose of determining entitlements under the Scheme, Wesfarmers will not accept for registration or recognise any transfer or transmission application in respect of Wesfarmers Shares received after the Record Date.

4.5.2 ELIGIBLE SHAREHOLDERS

Wesfarmers Shareholders whose addresses are shown in the Wesfarmers Share Register on the Record Date as being in the following jurisdictions will be Eligible Shareholders and will be entitled to have Coles Shares transferred to them:

- Australia, New Zealand, Canada, Hong Kong, Singapore, the United Kingdom or the United States; or
- any other jurisdiction in which Wesfarmers reasonably believes that it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer or distribute Coles Shares to the Wesfarmers Shareholder.

Certain Eligible Shareholders are entitled to participate in the Sale Facility – see Section 4.8.

4.5.3 INELIGIBLE OVERSEAS SHAREHOLDERS

Ineligible Overseas Shareholders are Wesfarmers Shareholders whose addresses are shown in the Wesfarmers Share Register on the Record Date as being in a jurisdiction outside the jurisdictions referred to in Section 4.5.2.

Coles Shares will not be transferred or distributed to Ineligible Overseas Shareholders. Instead, Coles Shares to which the Ineligible Overseas Shareholders would otherwise have been entitled will be transferred to the Sale Agent to be sold under the Sale Facility.

Refer to Section 4.8.3 for more information on how the Sale Facility will operate.

4.5.4 PARTICIPANTS IN WESFARMERS EMPLOYEE SHARE PLANS

Refer to Section 4.6 for the treatment of participants in the Wesfarmers employee share plans on the Record Date. Participants in the Wesfarmers employee share plans on the Record Date whose addresses are shown in the employee share trusts register on the Record Date as being in the following jurisdictions will be Eligible Shareholders:

- Australia, New Zealand, Canada, Hong Kong, Singapore, the United Kingdom or the United States; or
- any other jurisdiction in which Wesfarmers reasonably believes that it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer or distribute Coles Shares.

Any other participants in the Wesfarmers employee share plans on the Record Date whose addresses are shown in the employee share trusts register on the Record Date as being in a jurisdiction outside these jurisdictions will be Ineligible Overseas Shareholders. Coles Shares to which the Ineligible Overseas Shareholders would otherwise have been entitled will be transferred to the Sale Agent to be sold under the Sale Facility.

Refer to Section 4.8.3 for more information on how the Sale Facility will operate.

Certain Eligible Shareholders are entitled to participate in the Sale Facility – see Section 4.8.

4.6 LEGACY WESFARMERS EMPLOYEE INCENTIVE ARRANGEMENTS

4.6.1 IMPACT OF THE DEMERGER ON EXISTING WESFARMERS AWARDS HELD BY COLES EMPLOYEES

Coles employees have previously received, and have on foot, a number of existing Wesfarmers incentive and/or other equity awards which will be impacted by the Demerger.

The impact of the Demerger on existing incentive and equity arrangements will vary depending on the relevant offer terms. However, on Demerger the following treatments will apply:

- **Wesfarmers Employee Share Acquisition Plan (WESAP):** As at 30 June 2018, approximately 2,090,484 restricted Wesfarmers Shares were held by continuing Coles employees under the WESAP. Restricted Wesfarmers Shares held under the WESAP will participate in the Demerger and participants will be allocated one Coles Share for each Wesfarmers Share held by them or on their behalf on the Record Date. Where the original invitation for restricted Wesfarmers Shares to the participant under WESAP was for $50,000 or more, a holding lock will be applied to the resulting Coles Shares to restrict any dealing in those shares until the earlier of the date which the employee ceases employment with the Coles Group or the date that the trading restriction period ends on the restricted Wesfarmers Shares. The restricted Wesfarmers Shares held by the participant will remain on foot subject to their original terms (including any relevant forfeiture or trading restrictions).
  In addition, as at 30 June 2018 there were approximately 811,612 Wesfarmers Shares held by or on behalf of continuing Coles employees under the WESAP that are not subject to any restrictions and that will participate in the Demerger.
- **Pre-2009 share plans:** As at 30 June 2018, approximately 124,374 Wesfarmers Shares were held by continuing Coles employees under various share plans that were established by Wesfarmers prior to 2009 including salary sacrifice, tax-exempt and tax-deferred plans. Wesfarmers Shares held under the pre-2009 share plans will participate in the Demerger and participants will be allocated one Coles Share for each Wesfarmers Share held by them or on their behalf on the Record Date. The Coles Shares will be held directly by the participant and will not be restricted. Wesfarmers Shares held by the participant will otherwise continue to be held pursuant to the terms of the relevant share plan.
- **Wesfarmers Loan Share Plan (Loan Plan):** As at 30 June 2018, approximately 306 restricted Wesfarmers Shares were held by continuing Coles employees under the Loan Plan. Restricted Wesfarmers Shares held under the Loan Plan will participate in the Demerger and participants will be allocated one Coles Share for each Wesfarmers Share held by them or on their behalf on the Record Date. The Coles Shares allocated under the Demerger will be held directly by the participant and will not be restricted. The restricted Wesfarmers Shares held by the participant will otherwise continue to be held pursuant to the terms of the Loan Plan. Coles employees will have three months from the Implementation Date to repay any outstanding loan amounts.
  In addition, as at 30 June 2018 there were approximately 404 Wesfarmers Shares held by or on behalf of continuing Coles employees under the Loan Plan that are not subject to any restrictions and that will participate in the Demerger.

Through participation of these awards in the Demerger, Coles Group employees with holdings through the awards will receive Coles Shares at the time of Coles Listing. This ensures strong alignment of these employees with the Coles business, its shareholders and its clients, as well as retention of employees that are critical to the success of the business.

Certain Coles Group employees (including the CFO and other members of senior management) participate in incentive arrangements offered by Wesfarmers and linked to the business' operational and strategic goals. Under the arrangements, the relevant employees are entitled to receive cash payments based on personal performance in supporting the business' operational and strategic goals, and provided they remain employed by the Coles Group until the payment date. Payments are expected to be made no later than July 2019. The terms of these incentive arrangements will not be impacted by the Demerger.

4.6.2 IMPACT OF THE DEMERGER ON EXISTING WESFARMERS AWARDS HELD BY REMAINING WESFARMERS EMPLOYEES AND DIRECTORS

Wesfarmers employees who are remaining with the Wesfarmers Group also have a number of existing Wesfarmers incentive and/or other equity awards which will be impacted by the Demerger.

Wesfarmers currently operates a number of different categories of plans, the WESAP and the Key Executive Equity Performance Plan (**KEEPP**) as well as older plans such as the Loan Plan, the Wesfarmers Long Term Incentive Plan (**WLTIP**), pre-2009 share plans and Non-Executive Director share acquisition plans.

The impact of the Demerger on existing incentive and equity arrangements will vary depending on the relevant offer terms. However, the following treatments will apply:

- **Wesfarmers Shares – WESAP and WLTIP:** Wesfarmers Shares held by, or on behalf of, participants in the WESAP, the WESAP NZ, the WLTIP and the WLTIP NZ, will participate in the Demerger and participants will be allocated one Coles Share for each Wesfarmers Share held by them or on their behalf on the Record Date. Where the original invitation for restricted Wesfarmers Shares to the participant under WESAP or WLTIP was for $50,000 or more, or for NZ$50,000 or more under the WESAP NZ a holding lock will be applied to the resulting Coles Shares to restrict any dealing in those shares until the earlier of the date which the employee ceases employment within the Wesfarmers Group or the date that the trading restriction period ends on the restricted Wesfarmers Shares. The Wesfarmers Shares held by the participant under the WESAP, the WESAP NZ, the WLTIP and/or the WLTIP NZ (as applicable) will remain on foot subject to their original terms (including any forfeiture or relevant trading restrictions).

  As at 30 June 2018, approximately 5,510,437 restricted Wesfarmers Shares and approximately 3,236,004 unrestricted Wesfarmers Shares were held by or on behalf of remaining Wesfarmers employees under the WESAP and WESAP NZ.

  As at 30 June 2018, approximately 295,326 restricted Wesfarmers Shares and approximately 182,400 unrestricted Wesfarmers Shares were held by, or on behalf of, remaining Wesfarmers employees under the WLTIP and WLTIP NZ.

- **Wesfarmers performance rights – WLTIP:** Wesfarmers performance rights held by, or on behalf of, participants in the WLTIP do not carry a right to participate in the Demerger and participants will not receive Coles Shares in respect of them.
  In order to preserve the overall value of the performance rights following the Demerger, and to ensure that employees are not disadvantaged by the Demerger, the Wesfarmers Board has decided it will grant participants in the 2015 WLTIP who continue to be employed within the Wesfarmers Group additional performance rights. The additional grants will be made shortly after the Demerger on substantially the same terms as the participant's original award of performance rights under the WLTIP. Where a participant in the 2015 and 2016 WLTIP previously ceased employment with Wesfarmers Group but continues to hold performance rights under the WLTIP, the Wesfarmers Board has decided it will make an additional cash payment, equal in value, and subject to substantially the same terms as the participant's original award of performance rights. The original award of performance rights held under the 2015 and 2016 WLTIP will otherwise remain on foot and continue to be held subject to the original terms. The calculation method for the additional performance rights (rounded down to the nearest performance right) will be as follows:

$$\left(\text{Number of performance rights held immediately pre-Demerger} \times \frac{\text{Wesfarmers five day VWAP post Demerger} + \text{Coles five day VWAP post Demerger}}{\text{Wesfarmers five day VWAP post Demerger}}\right) - \text{Number of performance rights held immediately pre-Demerger}$$

  Further, the Wesfarmers Board intends to exercise discretion in relation to the calculation of the 2015 WLTIP ROE performance hurdle to ensure participants are not afforded any undue benefits from the increase in ROE that would occur as a result of the Demerger. As the standard methodology for calculating TSR will incorporate the Demerger of Coles into the calculation of Wesfarmers' TSR, the Wesfarmers Board is not required to exercise any discretions in relation to the calculation of the TSR hurdles under the 2015 and 2016 WLTIP as a result of the Demerger.

  As at 30 June 2018, approximately 572,396 Wesfarmers performance rights have been granted to participants in the 2015 and 2016 WLTIP and remain on foot.

- **KEEPP:** The Wesfarmers Board considers it of utmost importance that the integrity of the KEEPP is preserved by having awards under the KEEPP wholly aligned with Wesfarmers Shares. As well as ensuring the continued long-term alignment between participants and Wesfarmers Shareholders, this is also intended to incentivise Wesfarmers' senior executives to demonstrate performance and behaviours which deliver satisfactory returns to Wesfarmers Shareholders over the long term. As a result, the Wesfarmers Board has decided that, if the Demerger receives the required approvals, the 2016 and 2017 KEEPP allocations held by the senior executives will likely be cancelled prior to the Demerger. After the Demerger has been completed, the intention is for new awards to be made wholly in Wesfarmers Shares. The terms and conditions of the new awards will be determined in a manner that is consistent with the original design principles of the KEEPP. For example, the allocation of Restricted Shares that are held for the long term and Performance Shares that vest based upon the achievement of divisional and/or Group performance conditions, depending on the participant's role. The Wesfarmers Board will also ensure that the KEEPP participants will be no better off following the Demerger, including by setting performance conditions that remain appropriately challenging in light of the Demerger.
  As at 30 June 2018, approximately 674,886 Wesfarmers Shares have been granted to participants in the KEEPP.

- **Pre-2009 share plans:** As at 30 June 2018, 1,198,255 Wesfarmers Shares were held by, or on behalf of, participants under various share plans that were established by Wesfarmers prior to 2009 including salary sacrifice, tax-exempt and tax-deferred plans. Wesfarmers Shares held under the pre-2009 share plans will participate in the Demerger and participants will be allocated one Coles Share for each Wesfarmers Share held by them or on their behalf. The Coles Shares will be held directly by the participant and will not be restricted. Wesfarmers Shares held by the participant will otherwise continue to be held pursuant to the terms of the relevant share plan.

- **Wesfarmers Shares – Loan Plan:** Wesfarmers Shares held by, or on behalf of, participants in the Loan Plan will participate in the Demerger and participants will be allocated one Coles Share for each Wesfarmers Share held by them or on their behalf. The Coles Shares will be held directly by the participant and will not be restricted. The Wesfarmers Shares held by the participant will otherwise continue to be held pursuant to the terms of the Loan Plan.
  As at 30 June 2018, approximately 226,557 restricted Wesfarmers Shares and approximately 1,150,189 unrestricted Wesfarmers Shares were held by or on behalf of remaining Wesfarmers employees under the Loan Plan.

- **Non-Executive Director Share Plan:** As at 30 June 2018, 2,119 restricted and 287 unrestricted Wesfarmers Shares are held on behalf of current Wesfarmers Non-Executive Director, Tony Howarth, under the Non-Executive Director Share Plan. Tony Howarth is the only Wesfarmers Director who participates in this plan. Wesfarmers Shares held under the plan will participate in the Demerger and Tony Howarth will be allocated one Coles Share for each Wesfarmers Share held by him. The Coles Shares will be held directly by Tony Howarth and will not be restricted. Wesfarmers Shares held on behalf of Tony Howarth will otherwise continue to be held pursuant to the terms of the plan.

- **Post-tax Share Acquisition Plan:** As at 30 June 2018, 13,498 Wesfarmers Shares were held on behalf of current Wesfarmers Non-Executive Directors Vanessa Wallace and Jennifer Westacott, under the Post-tax Share Acquisition Plan. Wesfarmers Shares held under the plan will participate in the Demerger and Vanessa Wallace and Jennifer Westacott will be allocated one Coles Share for each Wesfarmers Share held by them. The Coles Shares will be held directly by Vanessa Wallace and Jennifer Westacott and will not be restricted. Wesfarmers Shares held on behalf of Vanessa Wallace and Jennifer Westacott will otherwise continue to be held pursuant to the terms of the plan.

4.7 ASX TRADING IN WESFARMERS SHARES AND COLES SHARES

If the Demerger Resolutions are passed by Wesfarmers Shareholders and the other conditions to the Demerger are satisfied, including the Scheme being approved by the Court, then:

- the Scheme will become Effective on the Effective Date (expected to be 20 November 2018);
- on the first Business Day after the Effective Date (expected to be 21 November 2018):
  - Wesfarmers Shares are expected to cease trading cum the entitlement to receive Coles Shares; and
  - trading in Coles Shares on the ASX on a deferred settlement basis is expected to commence for Eligible Shareholders (other than Selling Shareholders);
- on the Implementation Date, the Demerger will be implemented and Coles Shares transferred or distributed as described in Section 4.4.

4.8 SALE FACILITY

4.8.1 ELIGIBLE SMALL SHAREHOLDERS

Small Shareholders may elect to have all the Coles Shares that they would otherwise receive sold by the Sale Agent and the proceeds (calculated on an averaged basis) remitted to them or donated to ShareGift (as applicable) as soon as practicable following the sale of those shares, free of any brokerage costs or stamp duty. Coles Shares are expected to be sold at a date or dates which the Sale Agent determines is reasonable having regard to the demand for Coles Shares during the sale period, which is expected to conclude on 19 December 2018. Selling Shareholders can expect to be sent the sale proceeds by 2 January 2019 (but in any case no later than eight weeks from the Coles Listing).

Small Shareholders who wish to participate in the Sale Facility should submit their election online at www.colessalefacility.com.au or complete and return the Sale Facility Form using the enclosed envelope or by fax on 1800 783 447 (within Australia) or +61 3 9473 2555 (international) so that it is received by the Wesfarmers Share Registry by 2:00pm on Tuesday 20 November 2018. Small Shareholders who wish to donate their Sale Facility proceeds to ShareGift, must mark the Option B box on the Sale Facility Form. Wesfarmers and Coles have nominated SecondBite and Redkite as recipients for funding ShareGift receives under the Sale Facility.

The Sale Facility operates on an opt-in basis for Small Shareholders, so Small Shareholders who do not make an election to participate in the Sale Facility will receive Coles Shares.

4.8.2 INELIGIBLE OVERSEAS SHAREHOLDERS

Ineligible Overseas Shareholders (see Section 4.5.3) will continue to be entitled to hold their Wesfarmers Shares. However, the Coles Shares which they would otherwise have received will be transferred to the Sale Agent and sold, with the proceeds (calculated on an averaged basis) remitted to them following the sale of those shares (which is expected to conclude on 19 December 2018), free of any brokerage costs or stamp duty. Ineligible Overseas Shareholders can expect to be sent the sale proceeds by 2 January 2019 (but in any case no later than eight weeks from the Coles Listing).

The payment of the proceeds from the sale of Coles Shares will be in full satisfaction of the rights of Ineligible Overseas Shareholders under the Scheme.

4.8.3 OPERATION OF THE SALE FACILITY

Under the Sale Facility, the Sale Agent will sell Coles Shares during the sale period (which is expected to be from 28 November 2018 to 19 December 2018) at the price the Sale Agent determines in good faith, in its absolute discretion, with the objective of seeking to achieve the best price reasonably obtainable, having regard to a number of factors such as prevailing market conditions.

As the market price of Coles Shares will be subject to change from time to time, the sale price of those Coles Shares and the proceeds of that sale cannot be guaranteed. Ineligible Overseas Shareholders and Selling Shareholders will be able to obtain information on the market price of Coles Shares on the ASX's website (www.asx.com.au).

The proceeds received by the Sale Agent will then be distributed to Ineligible Overseas Shareholders, Selling Shareholders and ShareGift (as applicable), with sale proceeds expected to be sent by 2 January 2019 (but in any case no later than eight weeks from the Coles Listing).

Proceeds will be paid to Selling Shareholders (other than Selling Shareholders who have made an election to donate their Sale Facility proceeds to ShareGift) and Ineligible Overseas Shareholders by direct credit to an account at a financial institution in Australia, New Zealand or the United Kingdom nominated by the Ineligible Overseas Shareholder or Selling Shareholder with the Wesfarmers Share Registry as at the Record Date. If the Ineligible Overseas Shareholder or Selling Shareholder does not have a nominated account at a financial institution in Australia, New Zealand or the United Kingdom with the Wesfarmers Share Registry as at the Record Date, the Ineligible Overseas Shareholder or Selling Shareholder will be sent a cheque drawn on an Australian bank in Australian currency for the proceeds of sale. If the relevant Ineligible Overseas Shareholder's or Selling Shareholder's whereabouts are unknown as at the Record Date, the proceeds will be paid into a separate bank account and held until claimed or applied under laws dealing with unclaimed money.

The amount of money received by each Ineligible Overseas Shareholder, Selling Shareholder and ShareGift will be calculated on an averaged basis so that all Ineligible Overseas Shareholders, Selling Shareholders and ShareGift will receive the same price per Coles Share, subject to rounding to the nearest whole cent. Consequently, the amount received by Ineligible Overseas Shareholders, Selling Shareholders and ShareGift for each Coles Share may be more or less than the actual price that is received by the Sale Agent for that particular Coles Share.

In providing services to Wesfarmers in connection with the Sale Facility and the sale of Coles Shares to which the Ineligible Overseas Shareholders or Selling Shareholders would otherwise have been entitled, the Sale Agent is not acting as agent or sub agent of any Ineligible Overseas Shareholder or Selling Shareholder, does not have any duties or obligations (fiduciary or otherwise) to Ineligible Overseas Shareholders or Selling Shareholders and does not underwrite the sale of any Coles Shares. The Sale Agent, together with its affiliates, is a full service financial institution engaged in various activities, which may include trading, financing, financial advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services.

Selling Shareholders should refer to Section 5.7 for further information on the Australian tax consequences of participating in the Sale Facility and, if applicable, electing to donate all their Sale Facility proceeds to ShareGift.

4.9 DEMERGER AGREEMENTS

The key transaction documents to give effect to the Demerger are summarised below.

Not all of the transactions underlying the Corporate Restructure have been entered into or effected on the same terms as could have been obtained from third parties. In particular, agreements for the transactions underlying the Corporate Restructure have not included terms such as certain warranties that might have been obtained from third parties. This reflects the nature of the Demerger (which is unlike a sale to a third party) and the desire of the Wesfarmers Board to appropriately allocate the risks and benefits of these arrangements between the Coles Group and the Wesfarmers Group.

4.9.1 RESTRUCTURE AGREEMENT

Wesfarmers and Coles have entered into the Restructure Agreement to procure that all steps necessary to effect the Corporate Restructure are undertaken prior to implementation of the Demerger.

Under the Restructure Agreement, Wesfarmers and Coles agree to:

- procure the transfer of certain entities that do not undertake activities relating to the Coles business described in Section 2 from the Coles Group to the Wesfarmers Group, prior to the Coles Listing;
- procure the transfer of certain entities that do undertake activities relating to the Coles business described in Section 2 from the Wesfarmers Group to the Coles Group, prior to the Coles Listing; and
- procure the elimination of all inter-company loans between members of the Coles Group and the Wesfarmers Group that have not been discharged prior to implementation of the Demerger (this will include Coles drawing down on the debt facility in Section 2.13.10 so that its net debt is approximately $2 billion, with the proceeds being paid to Wesfarmers as part of the inter-company loan elimination steps).

4.9.2 DEMERGER IMPLEMENTATION DEED

The Implementation Deed entered into between Wesfarmers and Coles sets out certain steps required to be taken by each of them to give effect to the Demerger.

The key terms of the Implementation Deed are:

- **(Conditions)** The obligations of Wesfarmers and Coles under the deed are subject to the conditions summarised in Section 4.1 being satisfied.
- **(Joint Obligations)** Wesfarmers and Coles have certain joint obligations in relation to the Demerger including to:
  - apply for and obtain all regulatory approvals required for the Demerger;
  - prepare the disclosure documents to be sent to Wesfarmers Shareholders and required for the Coles Listing, and use reasonable endeavours to ensure that those disclosure documents comply with applicable laws and regulations;
  - use reasonable endeavours to effect the Demerger in accordance with an agreed timetable;
  - cause the appointment of the persons listed in Section 2.10.1 as directors of Coles with effect from the date on which the Scheme becomes Effective; and
  - effect the Corporate Restructure as contemplated by the Restructure Agreement.
- **(Wesfarmers Obligations)** Wesfarmers must take all reasonable steps within its control to implement the Demerger, including:
  - apply for Court orders to convene the Scheme Meeting, convene the Scheme Meeting and the General Meeting and declare the Dividend;
  - apply for Court orders to approve the Scheme;
  - lodge a copy of the Court order approving the Scheme with ASIC;

- procure the transfer of the relevant Coles Shares to the relevant Wesfarmers Shareholders and Sale Agent (as applicable);
  - procure the sale of Coles Shares by the Sale Agent for Ineligible Overseas Shareholders and Selling Shareholders and payment of proceeds in accordance with the Scheme; and
  - comply with the terms of the Scheme in all respects.
- **(Obligations of Coles)** Coles must take all reasonable steps within its control to implement the Demerger, including to:
  - register the Coles Shareholders as referred to in Section 4.4.3; and
  - issue holding statements to holders of Coles Shares as contemplated in Section 4.4.3.
- **(Listing)** Coles must apply for admission of Coles to the Official List of the ASX and official quotation of Coles Shares on the ASX and Wesfarmers must provide reasonable assistance to enable Coles to comply with these obligations.

4.9.3 DEED POLL

Coles entered into the Deed Poll in favour of Wesfarmers Shareholders as at the Record Date under which Coles has undertaken to take certain steps in respect of the Scheme, including applying for admission to the Official List of the ASX and for official quotation of Coles Shares on the ASX.

The Deed Poll is set out in full in Section 11.

4.9.4 SEPARATION DEED

The Separation Deed entered into between Wesfarmers and Coles deals with issues arising in connection with the separation of Coles from the Wesfarmers Group.

The key terms of the Separation Deed are as follows:

- **(Demerger Principle)** The fundamental underlying principle of the Demerger is that on and from the Effective Date:
  - the Coles Group will have the entire economic benefit and risk of the businesses to be conducted by the Coles Group after the Effective Date and all former Coles Group businesses, as if the Coles Group and not the Wesfarmers Group had owned those businesses at all times; and
  - the Wesfarmers Group will have the entire economic benefit and risk of the businesses to be conducted by the Wesfarmers Group after the Effective Date and any business which is not a business to be conducted by the Coles Group after the Effective Date or a former Coles Group business, as if the Wesfarmers Group and not the Coles Group had owned those businesses at all times.
- **(Rights and obligations)** To give effect to the Demerger Principle, Wesfarmers and Coles agree that once the Demerger is implemented, no member of the Wesfarmers Group will have any rights against, or obligations to, any member of the Coles Group and no member of the Coles Group will have any rights against, or obligations to, any member of the Wesfarmers Group other than in respect of arrangements which the parties have agreed will continue after the implementation of the Demerger.
- **(Assumption of liabilities)** Consistent with the Demerger Principle:
  - Wesfarmers will assume and be responsible for all liabilities relating to the businesses to be conducted by the Wesfarmers Group after the Effective Date and all former Wesfarmers Group businesses and Wesfarmers indemnifies the Coles Group against all claims and liabilities relating to those businesses; and
  - Coles will assume and be responsible for all liabilities relating to the businesses to be conducted by the Coles Group after the Effective Date and all former Coles Group businesses and indemnifies the Wesfarmers Group against all claims and liabilities relating to those businesses.
- **(Releases and indemnities)** Wesfarmers and Coles agree to the releases and indemnities required to give effect to the Demerger Principle.
- **(Assets)** In accordance with the Demerger Principle, Wesfarmers and Coles agree to ensure that the assets exclusively relating to businesses conducted by Coles are held by or transferred to the correct Coles Group member, and that all assets exclusively relating to businesses conducted by Wesfarmers are held by or transferred to the correct Wesfarmers Group member. The Separation Deed also contains arrangements in relation to the separation of assets, which are shared by businesses conducted by both Wesfarmers and the Coles Group as at the Implementation Date.
- **(Contracts)** In accordance with the Demerger Principle, Wesfarmers must use its reasonable endeavours to transfer each contract to which a Wesfarmers Group member is a party as at the Implementation Date which exclusively relates to businesses conducted by the Coles Group to the Coles Group. Reciprocal obligations apply to Coles for contracts which exclusively relate to businesses conducted by Wesfarmers to which the Coles Group is a party. The Separation Deed also contains arrangements in relation to the separation of contracts which are shared by businesses conducted by both Wesfarmers and the Coles Group and identified after the date of the Separation Deed.

4.9.5 TRANSITIONAL SERVICES AGREEMENT (TSA)

While the Coles Group operates largely autonomously of Wesfarmers, there are some support services that have historically been provided by the Wesfarmers Group to the Coles Group, and from the Coles Group to certain members of the Wesfarmers Group.

Members of the Wesfarmers Group and Coles Group have agreed to enter into a TSA for the provision of transitional services for up to 24 months. All services provided under a TSA will be charged at cost. The services are required to be provided to the same standard to which those services were supplied on average in the 12 months prior to the Demerger.

Either party may terminate the agreement for material breach and the recipient may terminate the provision of a transitional service for convenience subject to a notice period of 30 Business Days unless otherwise set out in a schedule.

The transitional services to be provided by the Wesfarmers Group to the Coles Group are:

- Workers compensation services including management of workers' compensation claims.
- General insurance services, including but not limited to placement of insurance, and management of claims.
- Other services relating to the provision, maintenance and support of an international merchandise ordering system, access to a lease management system and engagement with the trustee of the Wesfarmers Group Super Plan.

The transitional services to be provided by the Coles Group to the Wesfarmers Group are:

- Information technology services relating to data centre, customer information and network connectivity for Kmart, Target and Officeworks.
- Payroll services relating to payroll and business process outsourcing for Kmart, Target and Officeworks.
- Finance services relating to transactional services and systems support to Target to support SAP Finance systems including accounts payable, and preparation and lodgement of payroll tax.
- Other services relating to management and facilitation of telecommunications and other third-party recharge products (e.g. pre-paid mobile phone credit) for Kmart and Target.

4.9.6 COMMERCIAL ARRANGEMENTS

Coles will continue to provide, and in some instances receive, a number of services on an ongoing basis consistent with current arrangements under a payments switch agreement, gift card agreements and a property services agreement. Each of these agreements represents a formalisation of terms that have been in place between the parties for a number of years and on terms and pricing consistent with existing arrangements.

The payment switch agreement governs merchant acquiring, payments switching and related services being provided by Coles to members of the Wesfarmers Group. The gift card agreements govern the production and ongoing management of both the Coles Group & Myer gift card program and individually branded card programs retailed through members of the Wesfarmers Group. The property services agreement governs the shared use of utilities and heating, ventilation and air conditioning services at sites shared by the Coles Group and the Wesfarmers Group where it is prohibitively expensive, or otherwise not possible to establish separate services.

The aggregate value of internal charges relating to these service agreements in the year to 30 June 2018 was approximately $6 million.

4.9.7 RELATIONSHIP DEED

Wesfarmers and Coles have entered into the Relationship Deed which will, conditional on the Demerger becoming Effective, regulate the ongoing relationship between Wesfarmers and Coles in circumstances where the Wesfarmers Group retains a shareholding of at least 10 per cent of Coles Shares on issue.

Under the Relationship Deed, the parties agree that Coles will provide certain information to Wesfarmers and Wesfarmers will be entitled to appoint one person as a director to the Coles Board.

4.10 IMPLICATIONS IF THE DEMERGER DOES NOT PROCEED

If Wesfarmers Shareholders do not approve the Demerger, the Court does not approve the Scheme or any of the other conditions of the Demerger are not satisfied or waived, the Demerger will not proceed.

In that event:

- the Capital Reduction will not proceed and the Dividend will not be declared;
- Wesfarmers Shareholders will not receive Coles Shares (or in the case of Selling Shareholders and Ineligible Overseas Shareholders, they will not receive the proceeds from the sale of Coles Shares);
- Wesfarmers Shareholders will retain their current holding of Wesfarmers Shares (unless they otherwise sell such shares);
- Wesfarmers will continue to own Coles and Coles will continue to operate as a division of Wesfarmers;
- the advantages of the Demerger, as described in Section 1.3, will not be realised;
- the disadvantages and risks of the Demerger described in Sections 1.4 and 1.5 will not arise;
- the Wesfarmers Board and management may consider alternatives for the Coles business; and
- Wesfarmers will incur transaction costs of approximately $65 million (pre-tax).

5
TAXATION IMPLICATIONS FOR SHAREHOLDERS

SECTION 5
TAXATION IMPLICATIONS FOR SHAREHOLDERS

5.1 INTRODUCTION

The following is a general summary of the Australian income tax, goods and services tax (**GST**) and stamp duty implications arising for certain Wesfarmers Shareholders under the Demerger. As this summary is necessarily general in nature, Wesfarmers Shareholders should consult with a professional tax advisor regarding their particular circumstances.

This tax summary only addresses the position of Wesfarmers Shareholders who:

- were registered on the Wesfarmers Share Register as the holders of Wesfarmers Shares at the Record Date;
- hold their Wesfarmers Shares on capital account, i.e. not on revenue account or as trading stock;
- have not elected for the TOFA provisions in Division 230 of the *Income Tax Assessment Act 1997* to apply in respect of their Wesfarmers Shares; and
- did not acquire their Wesfarmers Shares under a Wesfarmers employee incentive equity plan.

This tax summary does not address any tax consequences arising under the laws of jurisdictions other than Australia.

This tax summary is based on Australian tax laws and regulations, interpretations of such laws and regulations, and administrative practice as at the date of this Scheme Booklet.

The comments in this section are generally directed at Wesfarmers Shareholders who are Australian tax residents (and are not tax residents in any other country), and who acquired, or are taken to have acquired, their Wesfarmers Shares on or after 20 September 1985 (**Post-CGT Wesfarmers Shares**).

However, where relevant, specific comments have been made regarding:

- non-resident Wesfarmers Shareholders who (i) do not hold their Wesfarmers Shares in carrying on business through a permanent establishment in Australia; or (ii) did not make an election to treat their Wesfarmers Shares as taxable Australian property when they ceased to be an Australian resident (**residency election**); and
- Wesfarmers Shareholders who acquired, or are taken to have acquired, their Wesfarmers Shares before 20 September 1985 (**Pre-CGT Wesfarmers Shares**).

A non-resident Wesfarmers Shareholder who, together with any tax law associates, owns, or has owned, 10 per cent or more of the shares in Wesfarmers should seek their own advice.

5.2 CLASS RULING

Wesfarmers has applied to the Australian Commissioner of Taxation (**Commissioner**) for a class ruling confirming certain income tax implications of the Demerger for Wesfarmers Shareholders.

Wesfarmers has received a draft of the class ruling which sets out the Commissioner's preliminary, but considered views that:

- demerger tax relief under Division 125 of the *Income Tax Assessment Act 1997* applies to the Demerger (**Demerger Tax Relief**); and
- the Dividend should not be subject to Australian income tax as no determination will be made under section 45B of the *Income Tax Assessment Act 1936* in respect of the Dividend (**s.45B determination**).

The final class ruling will only be received from the Commissioner after the Implementation Date for the Demerger. Accordingly, the information below includes the implications for Wesfarmers Shareholders where:

- Demerger Tax Relief is available; and
- if contrary to the position outlined in the draft class ruling, Demerger Tax Relief is not available or a s.45B determination is made.

5.3 SUMMARY OF EXPECTED OUTCOMES

On the Implementation Date:

- Wesfarmers will undertake the Capital Reduction and will apply the Dividend. The Capital Reduction and Dividend will not be paid in cash, but will be applied on behalf of the Wesfarmers Shareholders as payment for the Coles Shares to be transferred from Wesfarmers Retail Holdings to those Wesfarmers Shareholders.
- Each Wesfarmers Shareholder (other than Ineligible Overseas Shareholders and Selling Shareholders) will receive one Coles Share for each Wesfarmers Share it is registered as holding as at the Record Date.

In the case of Ineligible Overseas Shareholders and Selling Shareholders, the Coles Shares which those shareholders would otherwise have received under the Demerger will be transferred to the Sale Agent to be sold on the ASX. The proceeds of sale will be remitted to the Ineligible Overseas Shareholders, Selling Shareholders and ShareGift (where relevant).

The Australian income tax consequences of the Demerger for Australian resident Wesfarmers Shareholders are summarised below:

Issue	Australian income tax consequence (assuming Demerger Tax Relief applies)	Refer
Is the Dividend assessable?	You will not be assessed on the Dividend.	Section 5.4.1
Does the Capital Reduction give rise to capital gains tax (**CGT**) consequences?	If you choose Demerger Tax Relief, you will be able to disregard any capital gain that arises from the Capital Reduction. If you do not choose Demerger Tax Relief, a capital gain may arise. You may be entitled to discount CGT treatment on any capital gain if you held your Wesfarmers Shares for at least 12 months before the Implementation Date.	Section 5.4.2
How do I determine the cost base of the Wesfarmers and Coles Shares?	You must apportion the tax cost base of your Wesfarmers Shares just before the Demerger between the Wesfarmers Shares and Coles Shares held just after the Demerger. Further information will be given to you to assist in this apportionment.	Section 5.4.3
When am I taken to have acquired my Coles Shares for CGT discount purposes?	You may be entitled to the CGT discount on the subsequent disposal of the Coles Shares if the Coles Shares are taken to have been held for 12 months or more. For these purposes, you will be treated as having acquired the corresponding Coles Shares on the same date as your Wesfarmers Shares.	Section 5.4.4
Does it make a difference if my Wesfarmers Shares are Pre-CGT Wesfarmers Shares?	If you hold Pre-CGT Wesfarmers Shares: • no CGT consequences should arise for you in respect of your Pre-CGT Wesfarmers Shares; • if you choose Demerger Tax Relief, you will be able to treat your corresponding Coles Shares as pre-CGT assets; and • if you do not choose Demerger Tax Relief, your tax cost base in your Coles Shares will be equal to their market value on the Implementation Date. You will be treated as having acquired your corresponding Coles Shares on the Implementation Date.	Sections 5.4.2 to 5.4.4
What happens if I sell my Coles Shares under the Sale Facility?	The Australian income tax implications of the Demerger outlined above should apply equally to you if your Coles Shares are sold by the Sale Agent under the Sale Facility. You may also make a capital gain or capital loss on the disposal of the Coles Shares under the Sale Facility, and may be entitled to a deduction if you elect to donate the proceeds to ShareGift.	Section 5.7

The Australian income tax outcomes for Australian resident Wesfarmers Shareholders will be different if, contrary to the position outlined in the draft class ruling, the Commissioner rules that Demerger Tax Relief is not available or that a s.45B determination will be made – refer to Section 5.5 below for further details.

No Australian tax consequences should arise for non-resident Wesfarmers Shareholders unless the shares are held through an Australian permanent establishment or the shareholder has made a residency election.

5.4 DEMERGER TAX RELIEF AVAILABLE

5.4.1 DIVIDEND

The Dividend will not be assessable to Australian resident Wesfarmers Shareholders.

For non-resident Wesfarmers Shareholders, the Dividend should not be assessable income in Australia nor subject to dividend withholding tax.

5.4.2 CAPITAL REDUCTION – CGT CONSEQUENCES

Australian resident Wesfarmers Shareholders should generally be eligible to choose Demerger Tax Relief in respect of their Wesfarmers Shares.

A Wesfarmers Shareholder who chooses Demerger Tax Relief will be able to disregard any capital gain that arises under CGT event G1 (capital payment for shares) from the Capital Reduction.

The way a Wesfarmers Shareholder prepares its income tax return will be sufficient evidence of the making of a choice to obtain Demerger Tax Relief. No formal election is required.

CGT event G1 will happen on the Implementation Date for Wesfarmers Shareholders who hold Post-CGT Wesfarmers Shares and who do not choose Demerger Tax Relief in respect of their Wesfarmers Shares:

- Under CGT event G1, a capital gain will arise to the extent (if any) that the Capital Reduction Pro-Rata Amount in respect of that Wesfarmers Share exceeds the cost base of that share.
- Australian resident Wesfarmers Shareholders may be entitled to discount CGT treatment on any capital gain arising in respect of the Capital Reduction. Discount CGT treatment is available for an Australian resident Wesfarmers Shareholder that is an individual, trust or complying superannuation entity and who acquired their Wesfarmers Shares at least 12 months before the Implementation Date. The discount factor will vary depending on the tax profile of the Wesfarmers Shareholder. Specifically, the discount factor for resident individuals and trusts is 1/2 and for complying superannuation entities is 1/3.

No CGT consequences should arise for Wesfarmers Shareholders in respect of Pre-CGT Wesfarmers Shares.

No Australian tax consequences should arise for non-resident Wesfarmers Shareholders unless the shares are held through an Australian permanent establishment or the shareholder has made a residency election. Where a capital gain arises for a non-resident Wesfarmers Shareholder, that shareholder should seek their own tax advice on whether Demerger Tax Relief is available.

5.4.3 CGT COST BASE IN WESFARMERS SHARES AND COLES SHARES

Irrespective of whether Demerger Tax Relief is chosen, Australian resident Wesfarmers Shareholders who hold Post-CGT Wesfarmers Shares must apportion the tax cost base of their Post-CGT Wesfarmers Shares just before the Demerger between the Post-CGT Wesfarmers Shares and Coles Shares held just after the Demerger.

The first element of the tax cost base of each Post-CGT Wesfarmers Share and corresponding Coles Share held by an Australian resident Wesfarmers Shareholder just after the Demerger will be determined as follows:

- calculate the total of the cost bases of Post-CGT Wesfarmers Shares held (worked out just before the Demerger); and
- apportion the result of the above calculation between the Post-CGT Wesfarmers Shares and corresponding Coles Shares held just after the Demerger, having regard to the market values (or a reasonable approximation thereof) of the shares just after the Demerger. Wesfarmers will provide Wesfarmers Shareholders with information to assist them in determining the respective cost bases of their Wesfarmers Shares and corresponding Coles Shares on the Wesfarmers website (www.wesfarmers.com.au) following the Demerger.

The tax cost base of Coles Shares in relation to Australian resident Wesfarmers Shareholders that hold Pre-CGT Wesfarmers Shares is as follows:

- if Demerger Tax Relief is chosen, Wesfarmers Shareholders will be able to treat their Coles Shares as pre-CGT assets (discussed further below in Section 5.4.4); and
- if Demerger Tax Relief is not chosen, Wesfarmers Shareholders will have a first element tax cost base and reduced cost base in their Coles Shares equal to their market value on the Implementation Date.

5.4.4 TIME OF ACQUISITION OF COLES SHARES

For Wesfarmers Shareholders who may be entitled to the CGT discount on the subsequent disposal of their Coles Shares, irrespective of whether Demerger Tax Relief is chosen, these shareholders will be treated as having acquired the corresponding Coles Shares on the same date as their Wesfarmers Shares.

Wesfarmers Shareholders that hold Pre-CGT Wesfarmers Shares and choose Demerger Tax Relief will be treated as having acquired the corresponding Coles Shares before 20 September 1985, i.e. the corresponding Coles Shares will be treated as pre-CGT assets.

Wesfarmers Shareholders that hold Pre-CGT Wesfarmers Shares and do not choose Demerger Tax Relief will be treated as having acquired the corresponding Coles Shares on the Implementation Date.

5.5 DEMERGER TAX RELIEF NOT AVAILABLE

If, contrary to the position outlined in the draft class ruling, the Commissioner rules that Demerger Tax Relief is not available, Australian resident Wesfarmers Shareholders:

- will be required to include the Dividend in their assessable income;
- will make a capital gain under CGT event G1 to the extent (if any) that the Capital Reduction Amount received by the Wesfarmers Shareholder exceeds the cost base of their Wesfarmers Shares;
- will have a first element tax cost base and reduced cost base in their Coles Shares equal to their market value on the Implementation Date; and
- will be taken to have acquired their Coles Shares on the Implementation Date for the purposes of determining eligibility for the CGT discount.

5.6 HOLDING COLES SHARES AFTER THE DEMERGER

The Australian income tax consequences for holding Coles Shares should generally be the same as holding Wesfarmers Shares.

5.6.1 DIVIDENDS

Australian resident Coles Shareholders will be required to include dividends in respect of Coles Shares in their assessable income for the income year in which the dividends are received.

Dividends may be franked to the extent determined by Coles.

For Australian resident Coles Shareholders:

- subject to the "qualified person" rules, the Coles Shareholder should include any franking credits in their assessable income and should be entitled to a tax offset equal to the franking credits received;
- a Coles Shareholder that is an individual or complying superannuation fund may be able to receive a tax refund in a particular year if the franking credits attached to the dividend exceed the tax payable on the Coles Shareholder's total taxable income for that income year;
- a Coles Shareholder that is a company will not be entitled to a tax refund of excess franking credits. Rather, the excess franking credits may be converted to a tax loss which can be carried forward to future years (subject to the Coles Shareholder satisfying certain loss carry forward rules); and
- Coles Shareholders that are trusts should obtain their own advice on the Australian tax treatment of dividends received from Coles and any franking credits attached.

For non-resident Coles Shareholders:

- to the extent a dividend is franked, no dividend withholding tax (**DWT**) should arise; and
- to the extent a dividend is unfranked, DWT of 30 per cent will arise subject to reductions under relevant double tax agreements with Australia and the country of residence of the shareholder.

5.6.2 SALE OF COLES SHARES

Australian resident Coles Shareholders will make a capital gain or capital loss depending on whether the sale proceeds from the disposal of the Coles Shares exceed the cost base of the shares sold.

Assuming Demerger Tax Relief is available, for the purpose of determining the CGT consequences from a sale of the Coles Shares:

- the cost base of the Coles Shares will be as outlined in Section 5.4.3;
- for the purpose of determining whether the Coles Shares are held for 12 months or more for the purpose of the CGT discount, shareholders will be treated as having acquired the corresponding Coles Shares on the same date as their Wesfarmers Shares (see Section 5.4.4); and
- any capital gain or capital loss on the disposal of Coles Shares deemed to have been acquired before 20 September 1985 will be disregarded.

A non-resident Coles Shareholder should not be subject to CGT unless their Coles Shares are held via an Australian permanent establishment.

5.7 SALE FACILITY

The Australian income tax implications of the Demerger outlined in Sections 5.4 and 5.5 should apply equally to Selling Shareholders whose Coles Shares are sold by the Sale Agent on the ASX under the Sale Facility.

Under the Sale Facility, Selling Shareholders should be regarded for CGT purposes as having disposed of their Coles Shares under CGT event A1 (disposal of a CGT asset). The disposal proceeds will equal the proceeds received under the Sale Facility.

Assuming Demerger Tax Relief is available, for the purpose of determining whether a capital gain or capital loss arises:

- the cost base of the Coles Shares will be as outlined in Section 5.4.3;
- for the purpose of determining whether the Coles Shares are held for 12 months or more for the purpose of the CGT discount, shareholders will be treated as having acquired the corresponding Coles Shares on the same date as their Wesfarmers Shares (see Section 5.4.4); and
- any capital gain or capital loss on the disposal of Coles Shares deemed to have been acquired before 20 September 1985 will be disregarded.

Selling Shareholders who elect to donate their Sale Facility proceeds to ShareGift may be entitled to a tax deduction for the proceeds donated.

No Australian income tax consequences should arise for Selling Shareholders who are non-residents unless their Coles Shares are held via an Australian permanent establishment.

5.8 OTHER MATTERS

5.8.1 AUSTRALIAN TAX FILE NUMBER (TFN) AND AUSTRALIAN BUSINESS NUMBER (ABN)

Following the Demerger, it is expected Wesfarmers Shareholders will be given the opportunity to quote their TFN, TFN exemption or their ABN in respect of their Coles Shares. These numbers will not be transferred or otherwise provided to Coles.

Wesfarmers Shareholders need not quote a TFN, TFN exemption or ABN in respect of their Coles Shares. However, if they do not, then TFN withholding may be required to be deducted from any dividends paid by Coles at the highest marginal tax rate plus the Medicare levy (currently 47 per cent in total).

5.8.2 GST

No GST should be payable by Wesfarmers Shareholders in relation to their participation in the Demerger.

However, the eligibility for Wesfarmers Shareholders to claim full or partial input tax credits in relation to GST incurred on advisor fees and other costs relating to their participation in the Demerger will depend on the individual circumstances of each shareholder.

5.8.3 STAMP DUTY

No stamp duty should be payable by Wesfarmers Shareholders in relation to their participation in the Demerger.

5.8.4 WESFARMERS EMPLOYEE SHARE PLANS

Wesfarmers has applied to the ATO and the Inland Revenue Department (**IRD**) of New Zealand for rulings in relation to share plan participants who hold Wesfarmers Shares pursuant to the various Wesfarmers employee share plans. Further information in relation to the tax treatment for employee share plan participants will be provided separately to employees once Wesfarmers has received the relevant rulings from the ATO and IRD.

6

INDEPENDENT ACCOUNTANT'S REPORT

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5 October 2018

The Board of Directors
Wesfarmers Limited
Brookfield Place Tower 2
123 St Georges Terrace
Perth WA 6000

The Directors and proposed directors
Coles Group Limited
800 Toorak Road
Melbourne VIC 3123

Dear Directors

PART 1 – INDEPENDENT LIMITED ASSURANCE REPORT ON WESFARMERS HISTORICAL FINANCIAL INFORMATION, WESFARMERS (POST DEMERGER) PRO FORMA HISTORICAL FINANCIAL INFORMATION AND COLES PRO FORMA HISTORICAL FINANCIAL INFORMATION

1. Introduction

We have been engaged by Wesfarmers Limited ("Wesfarmers") and Coles Group Limited ("Coles"), (together, "you") to report on the Wesfarmers historical financial information, Wesfarmers (post demerger) pro forma historical financial information and Coles pro forma historical financial information for inclusion in the scheme booklet ("Scheme Booklet") to be dated on or about 5 October 2018, and to be issued by Wesfarmers, in respect of the proposed demerger of Coles from Wesfarmers (the "Demerger").

Expressions and terms defined in the Scheme Booklet have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity which holds an Australian Financial Services Licence under the Corporations Act 2001. Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services") holds an appropriate Australian Financial Services Licence (AFS Licence Number 240585). Jo Barker is a Director and Representative of Ernst & Young Transaction Advisory Services. We have included our Financial Services Guide as Part 2 of this report.

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2. Scope

Wesfarmers Historical Financial Information

You have requested Ernst & Young Transaction Advisory Services to review the following historical financial information:

- the historical income statements of Wesfarmers for the years ended 30 June 2016, 30 June 2017 and 30 June 2018 as set out in Table 11 in Section 3.8.2 of the Scheme Booklet;
- the historical balance sheet of Wesfarmers as at 30 June 2018 as set out in Table 15 in Section 3.8.4 of the Scheme Booklet; and
- the historical cash flow statements of Wesfarmers for the years ended 30 June 2016, 30 June 2017 and 30 June 2018 as set out in Table 16 in Section 3.8.5 of the Scheme Booklet.

(Hereafter "the Wesfarmers Historical Financial Information")

The Wesfarmers Historical Financial Information has been derived from the financial statements of Wesfarmers for the years ended 30 June 2016, 30 June 2017 and 30 June 2018, which were audited by Ernst & Young in accordance with Australian Auditing Standards. Ernst & Young issued unqualified audit opinions on these financial statements.

The Wesfarmers Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards ("AAS"), which are consistent with International Financial Reporting Standards ("IFRS").

Wesfarmers (post Demerger) Pro Forma Historical Financial Information

You have requested Ernst & Young Transaction Advisory Services to review the following pro forma historical financial information of Wesfarmers post the Demerger of Coles:

- the Wesfarmers (post Demerger) pro forma historical income statements for the years ended 30 June 2016, 30 June 2017 and 30 June 2018 as set out in Table 12 in Section 3.8.3 of the Scheme Booklet;
- the Wesfarmers (post Demerger) pro forma historical balance sheet as at 30 June 2018 as set out in Table 15 in Section 3.8.4 of the Scheme Booklet; and
- the Wesfarmers (post Demerger) pro forma historical cash flows for the years ended 30 June 2016, 30 June 2017 and 30 June 2018 as set out in Table 17 of Section 3.8.6 of the Scheme Booklet.

(Hereafter the "Wesfarmers (post Demerger) Pro Forma Historical Financial Information").

The Wesfarmers (post Demerger) Pro Forma Historical Financial Information has been derived from the Wesfarmers Historical Financial Information, and adjusted for the effects of pro forma adjustments described in Sections 3.8.3.1, 3.8.4 and 3.8.6.1 of the Scheme Booklet.

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The Wesfarmers (post Demerger) Pro Forma Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in AAS), which are consistent with IFRS, other than that it includes adjustments which have been prepared in a manner consistent with AAS, that reflect (i) the recognition of certain items in periods different from the applicable period under AAS (ii) the exclusion of certain transactions that occurred in the relevant periods, and (iii) the impact of certain transactions as if they occurred as at 30 June 2018 in the pro forma historical balance sheet and from 1 July 2015 in the pro forma historical income statements and the pro forma historical cash flows.

Due to its nature, the Wesfarmers (post Demerger) Pro Forma Historical Financial Information does not represent Wesfarmers actual or prospective financial performance, financial position or cashflows.

Coles Pro Forma Historical Financial Information

You have requested Ernst & Young Transaction Advisory Services to review the following pro forma historical financial information of Coles:

- the Coles pro forma historical income statements for the years ended 30 June 2016, 30 June 2017 and 30 June 2018 as set out in Table 2 of Section 2.13.3 of the Scheme Booklet;
- the Coles pro forma historical balance sheet as at 30 June 2018 as set out in Table 6 of Section 2.13.6 of the Scheme Booklet; and
- the Coles pro forma historical cash flows for the years ended 30 June 2016, 30 June 2017 and 30 June 2018 as set out in Table 8 of Section 2.13.8 of the Scheme Booklet.

(Hereafter the "Coles Pro Forma Historical Financial Information").

The Coles Pro Forma Historical Financial Information has been derived from the historical financial information directly related to Coles in Wesfarmers accounting records, and adjusted for the effects of pro forma adjustments described in Table 3 of Section 2.13.3, Section 2.13.6 and Section 2.13.8 of the Scheme Booklet.

The Coles Pro Forma Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in AAS, which are consistent with IFRS, other than that it includes adjustments which have been prepared in a manner consistent with AAS, that reflect (i) the recognition of certain items in periods different from the applicable period under AAS (ii) the exclusion of certain transactions that occurred in the relevant periods, and (iii) the impact of certain transactions as if they occurred as at 30 June 2018 in the pro forma historical balance sheet and from 1 July 2015 in the pro forma historical income statements and the pro forma historical cash flows.

Due to its nature, the Coles Pro Forma Historical Financial Information does not represent Coles actual or prospective financial performance, financial position or cashflows.

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(Collectively, the Wesfarmers Historical Financial Information, the Wesfarmers (post Demerger) Pro Forma Historical Financial Information and the Coles Pro Forma Historical Financial Information are referred to as the "Financial Information").

The Financial Information is presented in the Scheme Booklet in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

3. Directors' Responsibility

The directors of Wesfarmers are responsible for the preparation and presentation of the Wesfarmers Historical Financial Information and the Wesfarmers (post Demerger) Pro Forma Historical Financial Information, including the basis of preparation, selection and determination of pro forma adjustments made to the Wesfarmers Historical Financial Information and included in the Wesfarmers (post Demerger) Pro Forma Historical Financial Information. This includes responsibility for such internal controls as the directors of Wesfarmers determine are necessary to enable the Wesfarmers Historical Financial Information and the Wesfarmers (post Demerger) Pro Forma Historical Financial Information to be prepared free from material misstatement, whether due to fraud or error.

The directors of Coles are responsible for the preparation and presentation of the Coles Pro Forma Historical Financial Information, including the basis of preparation, selection and determination of pro forma adjustments included in the Coles Pro Forma Historical Financial Information. This includes responsibility for such internal controls as the directors of Coles determine are necessary to enable the Coles Pro Forma Historical Financial Information to be prepared free from material misstatement, whether due to fraud or error.

4. Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Wesfarmers Historical Financial Information, Wesfarmers (post Demerger) Pro Forma Historical Financial Information and Coles Pro Forma Historical Financial Information based on the procedures performed and the evidence we have obtained.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information.

Our limited assurance procedures consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other limited assurance procedures. A limited assurance engagement is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an audit opinion.

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Our engagement did not involve updating or re-issuing any previously issued audit or limited assurance reports on any financial information used as a source of the Financial Information.

5. Conclusions

Wesfarmers Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Wesfarmers Historical Financial Information comprising:

- the historical income statements of Wesfarmers for the years ended 30 June 2016, 30 June 2017 and 30 June 2018 as set out in Table 11 in Section 3.8.2 of the Scheme Booklet;
- the historical balance sheet of Wesfarmers as at 30 June 2018 as set out in Table 15 in Section 3.8.4 of the Scheme Booklet; and
- the historical cash flow statements of Wesfarmers for the years ended 30 June 2016, 30 June 2017 and 30 June 2018 as set out in Table 16 in Section 3.8.5 of the Scheme Booklet,

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 3.8.1 of the Scheme Booklet.

Wesfarmers (post Demerger) Pro Forma Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Wesfarmers (post Demerger) Pro Forma Historical Financial Information comprising:

- the Wesfarmers (post Demerger) pro forma historical income statements for the years ended 30 June 2016, 30 June 2017 and 30 June 2018 as set out in Table 12 in Section 3.8.3 of the Scheme Booklet;
- the Wesfarmers (post Demerger) pro forma historical balance sheet as at 30 June 2018 as set out in Table 15 in Section 3.8.4 of the Scheme Booklet; and
- the Wesfarmers (post Demerger) pro forma historical cash flows for the years ended 30 June 2016, 30 June 2017 and 30 June 2018 as set out in Table 17 of Section 3.8.6 of the Scheme Booklet,

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 3.8.1 of the Scheme Booklet.

Coles Pro Forma Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Coles Pro Forma Historical Financial Information comprising:

- the Coles pro forma historical income statements for the years ended 30 June 2016, 30 June 2017 and 30 June 2018 as set out in Table 2 of Section 2.13.3 of the Scheme Booklet;
- the Coles pro forma historical balance sheet as at 30 June 2018 as set out in Table 6 of Section 2.13.6 of the Scheme Booklet; and

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- the Coles pro forma historical cash flows for the years ended 30 June 2016, 30 June 2017 and 30 June 2018 as set out in Table 8 of Section 2.13.8 of the Scheme Booklet,

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 2.13.1 of the Scheme Booklet.

6. Restriction on Use

Without modifying our conclusions, we draw attention to Sections 2.13.1 and 3.8.1 of the Scheme Booklet, which describes the purpose of the Financial Information. As a result, the Financial Information may not be suitable for use for another purpose.

7. Consent

Ernst & Young Transaction Advisory Services has consented to the inclusion of this limited assurance report in the Scheme Booklet in the form and context in which it is included.

8. Independence or Disclosure of Interest

Ernst & Young Transaction Advisory Services does not have any interests in the outcome of this Demerger other than in the preparation of this report for which normal professional fees will be received.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited

Jo Barker

Director and Representative

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5 October 2018

THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT LIMITED ASSURANCE REPORT

PART 2 - FINANCIAL SERVICES GUIDE

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 Limited Assurance 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.

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5. **Remuneration for our services**

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report is $195,000 (inclusive of GST).

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.

Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. **Associations with product issuers**

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 AFS Compliance Manager or the Chief Complaints Officer 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 Ombudsman Service Limited.

9. **Compensation Arrangements**

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

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Contacting Ernst & Young Transaction Advisory Services	Contacting the Independent Dispute Resolution Scheme:
AFS Compliance Manager Ernst & Young 200 George Street Sydney NSW 2000 Telephone: (02) 9248 5555	Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.

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7
CONCISE INDEPENDENT EXPERT'S REPORT

GRANT SAMUEL

5 October 2018

The Directors
Wesfarmers Limited
Level 14, Brookfield Place Tower 2
123 St Georges Terrace
Perth Western Australia 6000

Dear Directors

Concise Independent Expert's Report in relation to the Proposed Demerger of Coles Group Limited by Wesfarmers Limited

1 Introduction

On 16 March 2018, Wesfarmers Limited ("Wesfarmers") announced its intention to undertake a demerger of Coles Group Limited ("Coles"), owner of its *Coles* supermarkets, liquor, convenience and financial services businesses, to create a separate company listed on the Australian Securities Exchange ("ASX") (the "Demerger").

As part of the Demerger:

- Wesfarmers will retain a 15% interest in Coles, with the remaining Coles shares distributed to existing Wesfarmers shareholders on the basis of one Coles share for each Wesfarmers share held; and
- *flybuys* will be established as a standalone business held on a 50/50 joint venture basis by Wesfarmers and Coles.

To facilitate the Demerger, an internal restructure will be undertaken to separate and align the relevant businesses, assets and liabilities with the appropriate group. A number of steps have been, or will be, taken to establish Coles and *flybuys* as standalone entities. In particular, it is intended there will be:

- an internal restructure of corporate entities to remove Kmart Australia Limited ("Kmart"), Target Australia Pty Ltd ("Target") and Officeworks Limited ("Officeworks") from Coles Group Limited;
- simplification of Coles' corporate structure;
- a restructure of *flybuys*. Prior to implementation of the Demerger, it is expected that:
  - Wesfarmers and Coles will have entered into a Shareholders Agreement, setting out the ongoing ownership and governance arrangements for the joint venture; and
  - Coles and *flybuys* will have entered into a Participation Agreement, setting out the ongoing commercial and operational relationship between *flybuys* and Coles.

  flybuys will operate independently of Coles but will have a Transitional Services Agreement with Coles under which Coles will continue to provide certain core services to enable *flybuys* to continue business as usual operations while it establishes its standalone capability. Wesfarmers will also provide some ongoing support services to *flybuys* during the establishment period;
- an elimination of all intercompany loans between Coles (and its subsidiaries) and Wesfarmers (and its subsidiaries); and
- the establishment of standalone debt facilities by Coles.

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The Demerger is to be effected by a scheme of arrangement between Wesfarmers and its shareholders and a reduction of Wesfarmers' share capital. The following steps are required to implement the Demerger:

- Wesfarmers will reduce its share capital by an amount calculated by reference to the market values of Coles and Wesfarmers immediately after implementation of the Demerger;
- the capital reduction and a demerger dividend (collectively referred to as the "distribution amount") will be applied on behalf of Wesfarmers shareholders as payment for Coles shares; and
- an application will be made for Coles to be separately listed on the ASX.

The effect of the Demerger is that Wesfarmers shareholders (other than ineligible overseas shareholders[1] and selling shareholders[2]) will receive shares in Coles that represent, in aggregate, 85% of Coles' issued capital. Wesfarmers will hold the remaining 15% of Coles as well as its other business operations and will remain listed on the ASX. The ongoing company is referred to in this report, where the context requires it, as "Wesfarmers post Demerger".

Ineligible overseas shareholders and selling shareholders will not receive Coles shares. Such shareholders will receive in cash the proceeds (on an averaged basis) from the sale on the ASX of the Coles shares to which they would otherwise have been entitled, free of any brokerage costs or stamp duty. Selling shareholders may also elect to have the proceeds from the sale of these Coles shares donated to the charity ShareGift Australia.

The resolutions to approve the scheme of arrangement and capital reduction are interdependent. If either resolution is not approved, the Demerger will not proceed.

The directors of Wesfarmers have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Demerger is in the best interests of Wesfarmers shareholders. Grant Samuel has also been requested to give its opinion as to whether the capital reduction associated with the Demerger materially prejudices Wesfarmers' ability to pay its creditors.

This concise report contains a summary of Grant Samuel's opinion and main conclusions and will accompany the Notice of Meeting and Explanatory Memorandum ("Scheme Booklet" to be sent to shareholders by Wesfarmers. It includes all material information contained in the full report. The full report from which this concise report has been extracted is available on Wesfarmers' website and will be mailed to shareholders on request. Both reports have been submitted to the Australian Securities and Investments Commission ("ASIC") and the ASX.

2 Opinion

In Grant Samuel's opinion, the Demerger is in the best interests of Wesfarmers shareholders.

3 Summary and Conclusions

In some circumstances, there is a clear case for a demerger because the relevant businesses are in completely different industries or there is some "hidden" value that will emerge through re-rating by the market of the separate companies. This is not the situation with Wesfarmers. However, Wesfarmers' portfolio of businesses has evolved over the past ten years to the point where it makes sense to separate Coles from the rest of Wesfarmers given the size of Coles and the differing investment characteristics and growth profile of Coles and Wesfarmers' other businesses.

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1 Wesfarmers shareholders other than those with registered addresses in Australia, Canada, Hong Kong, New Zealand, Singapore, the United Kingdom or the United States or any other jurisdiction in which Wesfarmers reasonably believes it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer Coles shares to the Wesfarmers shareholder.

2 Wesfarmers shareholders holding 160 or fewer shares who elect to have all the Coles shares that they would otherwise receive under the Demerger sold on the ASX via a share sale facility.

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The main driver for the demerger of Coles is to put Wesfarmers in a better position to be able to achieve its longstanding primary objective to deliver satisfactory returns to shareholders over the long term, where satisfactory returns are defined as superior total shareholder return ("TSR") compared to the broader Australian market.

In recent years, Wesfarmers has generally performed in line with broader Australian market indices and has struggled to achieve any outperformance. The reasons for this have been twofold:

- successful completion of the turnaround of Coles under the Wesfarmers' protective "umbrella" following the acquisition of Coles Group in November 2007. Through the turnaround period, Coles generated very high returns (average annual EBIT growth of ~12% over the period from FY09 to FY16). However, EBIT has declined in the past two years (albeit primarily due to the actions of a key competitor) and future growth would be expected to be limited to estimated market growth (of 3-4% per annum). Coles is no longer in a position to achieve the earnings growth required for superior TSR relative to the broader Australian market (i.e. high single digits over the long term); and
- the size of Coles relative to the other businesses in Wesfarmers' portfolio. As at 30 June 2018, the capital investment in Coles was $16.4 billion, or 64% of Wesfarmers' total capital employed. In contrast, it generated 32% of Wesfarmers' EBIT in FY18 and its return on capital was 9.2%. Coles' relative size means that its performance overshadows that of the other businesses in Wesfarmers' portfolio (i.e. outperformance by businesses such as Bunnings ANZ and Kmart have had much less impact on Wesfarmers' overall EBIT growth and return on equity).

Wesfarmers has always believed that the diversified conglomerate model and active management of its portfolio of businesses provides the best opportunity to achieve its primary objective, and it has a long track record of success. Consequently, the Wesfarmers board determined that Wesfarmers would be better able to achieve its primary objective if Coles was no longer part of the Wesfarmers' portfolio of businesses.

The primary advantage of the Demerger is its attraction relative to alternative divestment methods such as trade sale or initial public offer ("IPO"). A trade sale would be challenging to execute. There are few, obvious, qualified buyers and it would be difficult to get value for the potential upside in the performance of Coles. A trade sale process would be protracted and would have no certainty of success. Importantly, the process and outcome would not be within Wesfarmers' control and an unsuccessful process could have an adverse impact on the Coles business. A 100% IPO of Coles is highly unlikely to be achievable. A staged exit, with progressive sell downs over time, is more realistic, but would be wholly dependent on market conditions and pricing at each stage would inevitably reflect some discount. Both a trade sale and an IPO would crystallise a significant capital gains tax liability for Wesfarmers.

In contrast, the Demerger:

- can be executed relatively quickly and with a higher degree of certainty;
- allows Wesfarmers shareholders to retain exposure to any upside from improved performance of Coles; and
- is expected to provide Wesfarmers shareholders with demerger tax relief, enabling them to defer any tax payable until the sale of their Coles shares.

The retention of a 50% interest in *flybuys* by Wesfarmers fits with its diversified conglomerate model and its focus on growing, high return businesses. It provides the opportunity to improve the loyalty offer across Wesfarmers' remaining retail brands and is consistent with its data and analytics strategy.

The rationale for Wesfarmers retention of a 15% interest in Coles is less obvious. The Wesfarmers board believes that the investment will provide alignment of interests (in relation to *flybuys* and the development of data and digital capabilities), and retention of the 15% shareholding is a sign of

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confidence in Coles as a standalone business but, in Grant Samuel's view, it is not essential. The investment represents a substantial capital commitment (~$2.3 billion or 19% of Wesfarmers' total capital employed), tied up in a relatively low growth business over which Wesfarmers will have limited influence. There is also no certainty that the investment or representation on the board of Coles would, on its own, resolve any significant issues that might arise in the *flybuys* joint venture. Cash flow from the investment will be in the form of dividends and will result in a lower return on equity than for a full demerger of Coles. While Coles will be a liquid investment listed on the ASX, the Wesfarmers 15% shareholding could create a potential overhang and the relatively large size of the shareholding may make it difficult to sell quickly or in one line (and may restrict the sale price).

The Demerger essentially returns Wesfarmers to its pre-Coles diversified conglomerate structure and will better position Wesfarmers to create shareholder value over the long term by:

- refocusing Wesfarmers on the growing, higher return businesses in its portfolio, in particular, Bunnings ANZ and Kmart; and
- reducing capital employed, so that successful growth initiatives in the remaining portfolio businesses and through acquisition will have a greater impact on returns.

In this regard, the Demerger will have an immediate impact on earnings growth (increasing it from low single digits to double digits on a pro forma basis) and return on capital (from 16.8% to in excess of 25% on a pro forma basis). However, this benefit, at least on a pro forma basis, is largely perception, as, from an existing Wesfarmers shareholder point of view, the combined return from Wesfarmers post Demerger and Coles is no different to the return generated by Wesfarmers in the absence of the Demerger.

The Demerger will have other benefits:

- shareholders will have greater flexibility to manage their exposures to the respective businesses as they see fit;
- Wesfarmers' board and corporate management will have increased capacity or "bandwidth" after the Demerger to focus solely on the growing businesses in the portfolio (as will investors and analysts) and new opportunities;
- Coles' decision making processes for significant initiatives (e.g. major capital expenditure, long term agreements) will be simplified; and
- staff incentives will be able to be offered to a wider range of Coles employees and there will be stronger alignment between employee performance and the value of shares.

At the same time, there are a number of disadvantages, costs and risks:

- Coles will be a standalone listed company subject to the pressure to deliver short term returns (although the Coles business is subject to much of this pressure in the existing Wesfarmers structure) and will no longer have access to Wesfarmers' protective "umbrella";
- Coles will have a new board of directors and a new Chief Executive Officer ("CEO") and the relationships between the board and Coles management and within the board itself are untested;
- there will be one-off transaction and implementation costs of around $148 million, $65 million of which will have been incurred prior to the Wesfarmers' shareholder meeting to vote on the Demerger as well as net incremental operating costs for Coles estimated at $56 million per annum[3]; and
- there will be risks associated with implementation of the Demerger and from joint ownership of the *flybuys* joint venture.

3 Although $28 million of these operating costs are transferred from Wesfarmers and therefore do not represent a reduction in earnings of the combined businesses.

While these negative aspects of the Demerger cannot be disregarded, each of the disadvantages has mitigating factors, the costs are not material in the overall context of the demerged entities and the risks are not outside the normal risks of any corporate restructuring transaction.

The critical question is whether shareholders are likely to realise greater value over time if the Demerger is implemented than if Wesfarmers' current structure is maintained. The evaluation is essentially subjective. While the benefits are real, they are largely not quantifiable or testable and some are a matter of perception, at least initially. However, in Grant Samuel's view, the demerger of Coles is sensible in the circumstances. The key outcome of the Demerger is that Wesfarmers is re-established as an industrial conglomerate that is better positioned to generate satisfactory returns to shareholders over the long term. The benefits of the Demerger are not individually compelling but collectively are meaningful and outweigh the disadvantages, costs and risks. While implementation of the Demerger is not a guarantee of future performance, on balance, shareholders are ultimately likely to be better off if the Demerger proceeds. Accordingly, in Grant Samuel's opinion, the Demerger is in the best interests of Wesfarmers shareholders.

4 Wesfarmers

4.1 Business Operations and Strategy

Business Operations

Wesfarmers is a diversified conglomerate that owns a portfolio of businesses across the retail and industrials sectors in Australia and New Zealand. It is one of Australia's largest listed companies, with a market capitalisation prior to announcement of the Demerger of almost $47 billion. It is also one of Australia's largest private sector employers with around 217,000 employees.

The key business operations in Wesfarmers' retail portfolio are summarised below:

WESFARMERS – RETAIL PORTFOLIO

DIVISION	BUSINESS	DESCRIPTION
Coles	coles	Full service supermarket providing fresh food, groceries and general merchandise with 809 supermarkets throughout Australia
	coles.com.au	Online supermarket with multiple delivery channels operating throughout Australia
	coles express	Fuel and convenience store retailer with 711 outlets throughout Australia operating under an exclusive alliance agreement with Viva Energy
	Liquorland Vintage Cellars first choice liquor	Liquor retailer with 899 stores throughout Australia
	spirit hotels	Operator of 88 hotels in Queensland, Western Australia, South Australia and New South Wales
	coles Financial Services	Distributor of *Coles* branded home, car and landlord insurance (manufactured by Insurance Australia Group) and credit cards (manufactured by Citigroup)
	flybuys	Loyalty program where members are able to earn and redeem points and rewards across most of Wesfarmers' retail businesses as well as a range of partner entities. Australia's largest rewards program with over 8 million active members covering around 6 million Australian households (around 72% of all households)[4]
Home Improvement	Bunnings warehouse Bunnings Bunnings Trade	Leading supplier of home improvement and outdoor living products in Australia and New Zealand to consumer and commercial customers through a network of 369 large warehouses, smaller format stores and trade centres

[4] *flybuys* is jointly owned by Wesfarmers Loyalty Management Pty Ltd and Coles and is operated by Coles. Notwithstanding the joint ownership, 100% of *flybuys'* revenue and earnings are included in the reported earnings of Coles.

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WESFARMERS – RETAIL PORTFOLIO (CONT)

DIVISION	BUSINESS	DESCRIPTION
Department Stores	Kmart	One of Australia's largest retailers of apparel and general merchandise at low prices with 228 stores throughout Australia and New Zealand
	Kmart Tyre & Auto Service	Retail automotive service, repair and tyre business, with 256 stores throughout Australia[5]
	Target	Retailer of apparel, homewares and general merchandise through a network of 303 stores across Australia
Officeworks	Officeworks	Leading retailer and supplier of office products and solutions for home, business and education through a network of 165 stores and four fulfilment centres across Australia

Source: Wesfarmers

The key business operations in the industrials portfolio are summarised below:

WESFARMERS – INDUSTRIALS PORTFOLIO

DIVISION	BUSINESS	DESCRIPTION
Chemicals, Energy and Fertilisers ("WesCEF")	CSBP	Manufacturer and supplier of ammonia, ammonium nitrate and industrial chemicals to the Western Australian market
	CSBP	Manufacturer, importer and distributor of phosphate, nitrogen and potassium-based fertilisers for the Western Australian agricultural sector and provider of a soil and plant analysis service in regional Western Australia
	Australian Vinyls MODWOOD	Supplier of polyvinyl chloride resins (used in piping, cable insulation, floor coverings, building profiles, packaging and compounds) and producer of wood-plastic composite products from recycled wood and plastic in Australia
	AGR	Manufacturer of sodium cyanide (used for gold extraction) which is distributed to the Western Australian and international gold mining industry (75% joint venture)
	QNP	Fully integrated ammonia/ammonium nitrate facility located near Moura, Queensland, with a manufacturing capacity of approximately 230,000 tonnes per annum (50% joint venture)
	Kleenheat EVOL LNG	Producer, importer and distributor of liquefied petroleum gas ("LPG") to residential and commercial markets across Western Australia and the Northern Territory, retailer of natural gas to residential and commercial markets and electricity to businesses in Western Australia and producer and supplier of liquefied natural gas ("LNG") as a fuel for remote power stations, industrial facilities, marine bunkering and transportation
	Quadrant Energy	Supplier of domestic gas in Western Australia and oil across Australia (13.2% ownership interest)[6]
Industrial and Safety ("WIS")	Blackwoods	Full service supplier of tools, safety gear, workwear and other industrial supplies to businesses in Australia
	NZ Safety Blackwoods	Leading supplier of safety equipment, engineering supplies, uniforms and packaging products to businesses in New Zealand
	GREENCAP	Integrated risk management and compliance business with more than 360 professional, technical and engineering staff based in 10 offices in Australia and Asia, servicing private and government clients across all sectors
	coregas	Producer of industrial, medical and specialty gases at two facilities in New South Wales and Queensland and a specialty gas laboratory in New South Wales servicing markets across Australia and New Zealand

[5] Wesfarmers announced the sale of its Kmart Tyre and Auto Service business to Continental AG for $350 million on 12 August 2018. The sale is expected to complete in the first quarter of FY19.

[6] Wesfarmers announced the sale of its 13.2% interest in Quadrant Energy to Santos Limited for approximately US$170 million on 22 August 2018. The sale is expected to complete in the second or third quarter of FY19.

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WESFARMERS – INDUSTRIALS PORTFOLIO (CONT)

DIVISION	BUSINESS	DESCRIPTION
Industrial and Safety ("WIS") (cont)	WORKWEAR GROUP	Portfolio of eight apparel and footwear brands including *King Gee*, *Hard Yakka*, *Stubbies*, *Bates*, *Wolverine*, *Totally Workwear*, *NNT* and *Incorporate Wear* which adopts an end-to-end, solution-focused approach, manufacturing more than a million units per annum and shipping to businesses of all sizes in more than 30 countries
Resources	BENGALLA	Open-cut coal mining joint venture in the Hunter Valley, New South Wales capable of producing approximately nine million tonnes per annum of thermal coal for domestic and export markets (40%)[7]

Source: Wesfarmers

In addition, Wesfarmers has non-controlling interests in a number of other businesses, including a 24.8% interest in BWP Trust (an ASX listed property trust which owns 81 retail (primarily Bunning ANZ) warehouse properties across Australia, a 50% interest in Gresham Partners Group Limited (an independent financial services business) and a 50% interest in Wespine Industries Pty Ltd (a plantation softwood sawmill in Dardanup, Western Australia).

Wesfarmers operates under a model of divisional autonomy. Each division in the group:

- has a strong management capability, with divisional management responsible for strategy development and execution as well as day-to-day operational performance; and
- is overseen by a divisional board of directors or steering committee that includes the Wesfarmers Managing Director and Chief Financial Officer ("CFO").

Strategy

The primary objective of Wesfarmers is to provide a satisfactory return to its shareholders over the long term through financial discipline and active management of a diversified portfolio of businesses. Returns are measured by comparing Wesfarmers' total shareholder return ("TSR") against the return achieved by the broader Australian market index. Wesfarmers aims to provide a superior TSR (relative to the broader Australian market) over time.

This primary objective is driven by four key strategies:

- strengthening Wesfarmers' existing businesses through operating excellence and satisfying customer needs;
- securing growth opportunities through entrepreneurial initiative;
- renewing the portfolio through value-adding transactions; and
- ensuring sustainability through responsible long-term management.

In this regard, Wesfarmers currently has three priorities:

- continuing to attract, develop and retain the best staff;
- accelerating its digital and data capabilities; and
- being entrepreneurial in taking opportunities, challenging the status quo and learning from mistakes.

At a divisional level, detailed strategies are developed specific to the opportunities to improve each of the individual business operations.

In actively managing its portfolio of businesses, Wesfarmers' approach to capital allocation is focused on opportunities to invest in and grow its existing portfolio of businesses, on adjacent opportunities that leverage Wesfarmers' existing assets and competencies and on disciplined investment in value accretive transactions.

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[7] Wesfarmers announced the sale of its 40% interest in the Bengalla joint venture to its joint venture partner, New Hope Corporation, for $860 million on 7 August 2018. The sale is expected to complete in the fourth quarter of 2018.

4.2 Key Financial Information

Wesfarmers' key financial information is summarised below:

WESFARMERS – KEY FINANCIAL INFORMATION ($ MILLIONS)

	YEAR ENDED 30 JUNE					
	2014 ACTUAL	2015 ACTUAL	2016 ACTUAL	2017 ACTUAL	2018 ACTUAL	2018 CONTINUING OPERATIONS[8]
Financial Performance						
Revenue	62,348	62,447	65,981	68,444	69,878	66,883
EBITDA[9]	4,909	4,978	4,903	5,668	5,571	5,565
EBIT[10]	3,786	3,759	3,607	4,402	4,288	4,367
Operating profit after tax[11]	2,398	2,440	2,353	2,873	2,772	2,904
Basic earnings per share (before signif. items)	*$2.09*	*$2.16*	*$2.10*	*$2.55*	*$2.45*	*$2.57*
Ordinary dividend per share	*$1.90*	*$2.00*	*$1.86*	*$2.23*	*$2.23*	*$2.23*
Ordinary dividend payout ratio	*91%*	*93%*	*89%*	*88%*	*91%*	*87%*
Amount of dividend franked	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
EBIT margin	*6.1%*	*6.0%*	*5.5%*	*6.4%*	*6.1%*	*6.5%*
Fixed charges cover[12]	*3.2x*	*3.0x*	*2.7x*	*3.1x*	*3.0x*	*3.0x*
Interest cover[13] (cash basis)	*15.9x*	*20.5x*	*16.8x*	*25.0x*	*30.4x*	*30.4x*
Return on capital[14]	*9.4%*	*9.8%*	*9.6%*	*12.4%*	*nc[15]*	*16.8%*
Financial Position						
Net working capital					1,890	
Total capital employed					25,941	
Net borrowings					(3,580)	
Net assets					22,754	
Net assets per share					*$20.07*	
Net tangible assets per share					*$4.32*	
Gearing[16]					*15.7%*	
Cash Flow						
Operating cash flow	3,226	3,791	3,365	4,226	4,086	
Cash realisation ratio[17]	*92%*	*104%*	*95%*	*102%*	*99%*	

Source: Wesfarmers and Grant Samuel analysis

8 FY18 continuing operations financial performance excludes discontinued operations (i.e. Curragh coal mine and Bunning United Kingdom and Ireland ("BUKI")) and significant items. It is prepared on the same basis as the Wesfarmers post Demerger financial performance set out in Section 6.2 of this concise report.

9 EBITDA is earnings before finance costs, tax, depreciation and amortisation and significant items. It includes share of profits of equity accounted associates and joint ventures and other income (including interest income), consistent with the basis on which Wesfarmers reports.

10 EBIT is earnings before finance costs, tax and significant items. It includes share of profits of equity accounted associates and joint ventures and other income (including interest income) consistent with the basis on which Wesfarmers reports.

11 Operating profit after tax is before significant items.

12 Fixed charges cover is (EBITDA (before significant items) plus minimum lease payments) divided by (finance costs (net of discount adjustment) plus minimum lease payments).

13 Interest cover (cash basis) is EBITDA (before significant items) divided by net cash interest expense (finance costs less non-cash finance costs).

14 Return on capital is calculated as EBIT (before significant items) divided by capital employed. Capital employed is working capital plus fixed assets and investments less provisions and other liabilities.

15 nc = not calculated.

16 Gearing is net borrowings divided by net assets, consistent with the basis on which Wesfarmers reports.

17 Cash realisation ratio is operating cash flow as a percentage of net profit after tax before depreciation and amortisation. It is calculated before significant one-off items, discontinued operations and non-trading items.

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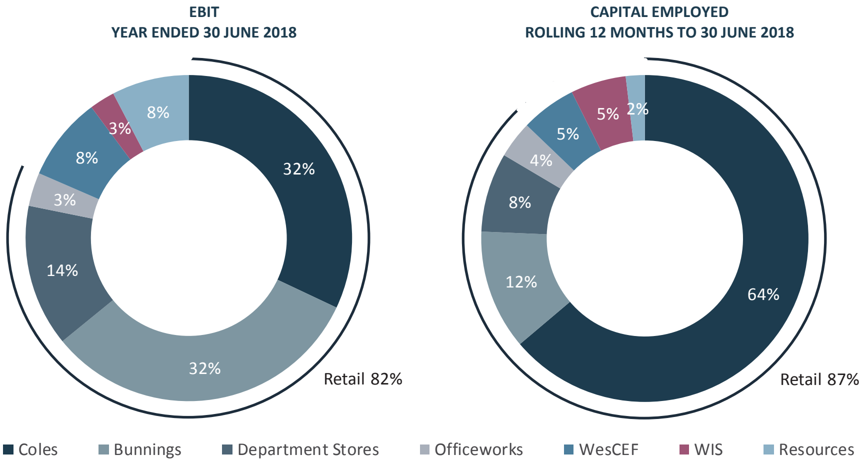
Wesfarmers' retail business operations are the largest contributor to Wesfarmers' EBIT (before corporate expenses and profits from associates) and represent the majority of capital employed by the group, with Coles representing 32% of group EBIT and 64% of capital employed:

WESFARMERS – CONTRIBUTION BY BUSINESS[18]

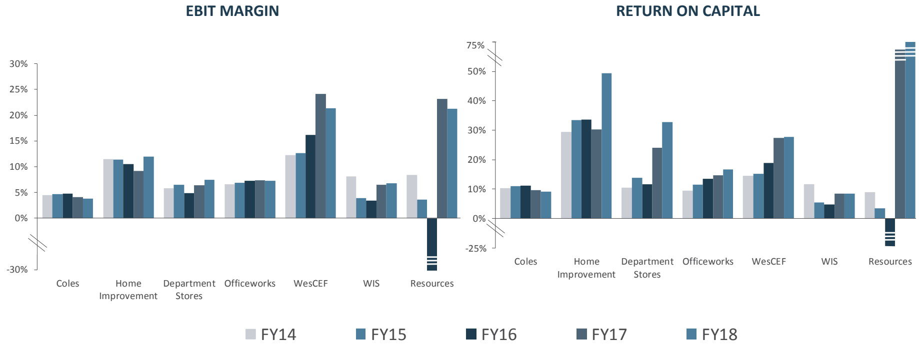


Source: Wesfarmers

The EBIT margin and return on capital for each of Wesfarmers' businesses are set out below:

WESFARMERS – EBIT MARGIN AND RETURN ON CAPITAL BY BUSINESS

FY14 TO FY18



Source: Wesfarmers

These charts highlight Coles as a low margin, low return on capital division relative to most of Wesfarmers' other divisions, albeit this primarily reflects the nature of the supermarket industry. The relatively low return on capital is exacerbated by the significant goodwill and intangible assets recognised on the acquisition of Coles in 2008.

Coles' EBIT margins have declined in recent years (from a peak of 4.7% in FY15 and FY16 to 3.8% in FY18). Home Improvement's EBIT margins have been impacted by losses in BUKI in FY17 and FY18 and

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18 EBIT includes Curragh (up to 29 March 2018) but exclude BUKI. Capital employed excludes Curragh and BUKI.

Department Stores' EBIT margins have been impacted by underperformance at Target, which is implementing a transformation program. However, over the past five years, Bunnings Australia and New Zealand ("Bunnings ANZ") has consistently achieved EBIT margins of around 11.5%, and Kmart has grown its EBIT margin from 8.7% in FY14 to 9.9% in FY17[19]. Similarly, Officeworks has grown its EBIT margin from 6.5% in FY14 to 7.3% in FY18.

Within the industrials division, WesCEF has consistently been Wesfarmers' highest margin business, almost doubling its EBIT margin from 12.2% in FY14 to 21.3% in FY18 (albeit it is a more capital intensive business). The WIS and Resources divisions' margins have been more variable, due to transformation projects at WIS and the impact of commodity prices on Resources' margins. The results of these transformation projects can be seen in FY17 and FY18, with WIS EBIT margins consistently improving and Resources EBIT margins matching those of WesCEF.

Relative returns on capital across the business divisions are broadly in line with EBIT margins. Excluding the variable performance of the Resources division, Bunnings ANZ achieves the highest return on capital of Wesfarmers' businesses at 49.4% (having increased from 29.3% in FY14). Department Stores, Officeworks and WesCEF have also reported increasing return on capital. Five years ago, Department Stores and Officeworks were achieving a return on capital not dissimilar to Coles (at around 10%), but both have increased their return on capital considerably (Department Stores to 32.8% and Officeworks to 16.6%) whereas Coles' return on capital peaked at just over 11% in FY16 and has fallen below 10% in FY17 and FY18. Equally, WesCEF has increased its return on capital from 14.4% in FY14 to 27.7% in FY18 and WIS has reported an increase in return on capital over the past four years (albeit still below FY14 levels).

As at 30 June 2018, Wesfarmers had relatively conservative book gearing of 15.7%. It has an investment grade credit rating of A-/Stable/A-2 from Standard & Poor's and A3/Stable/P-2 from Moody's.

Wesfarmers' businesses are highly cash generative, illustrated by the consistently high (~100%) cash realisation ratio. This has been primarily because of its heavy weighting to retail businesses, in particular, Coles (which has negative working capital). Where the cash realisation ratio has been below 100%, this has been due to one-off factors.

5 Demerger Process

If the Demerger is approved and implemented, Wesfarmers and Coles will operate independently of each other apart from the following arrangements:

- a Separation Deed, which deals with certain commercial, legal and transitional issues to facilitate the demerger of Coles from Wesfarmers and the establishment of Coles as a separate corporate group;
- a Transitional Services Agreement, which sets out the terms on which:
  - Coles will provide a number of IT, payroll, finance and other services to Kmart, Target and Officeworks; and
  - Wesfarmers will provide workers compensation services (including claims management), general insurance services and other services to Coles;

  for a transitional period of up to 24 months as those services migrate to, or are replicated by Coles, Kmart, Target and Officeworks;
- ongoing contractual agreements between Coles and Kmart, Target and Officeworks for the provision of certain services (payment switch services, production and management of gift cards and facilities management). Each agreement represents the formalisation of arrangements that have been in place between the parties for a number of years on terms and pricing consistent with existing arrangements; and

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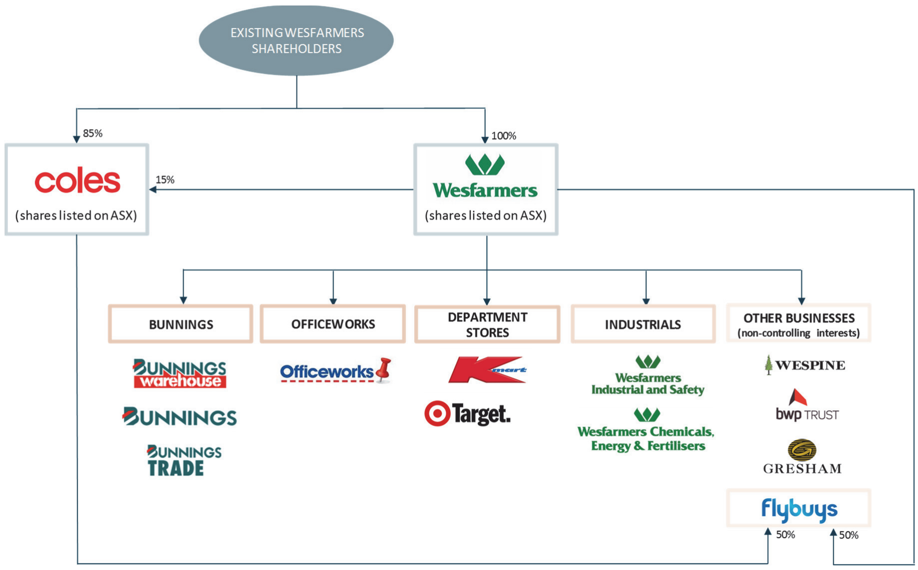
19 Wesfarmers did not report the performance of Kmart and Target separately in FY18.

- the Shareholders Agreement in relation to the joint ownership and operation of *flybuys*.

The effect of the Demerger on Wesfarmers' structure and ownership is shown below:

WESFARMERS STRUCTURE – AFTER THE DEMERGER



Source: Wesfarmers

Following the Demerger, the relative ownership interest held by each Wesfarmers shareholder (other than ineligible overseas shareholders and selling shareholders) in Coles will be equal to their ownership interest in Wesfarmers immediately prior to implementation of the Demerger. However, the ownership interest will be held 85% directly and 15% indirectly (via Wesfarmers).

6 Wesfarmers Post Demerger

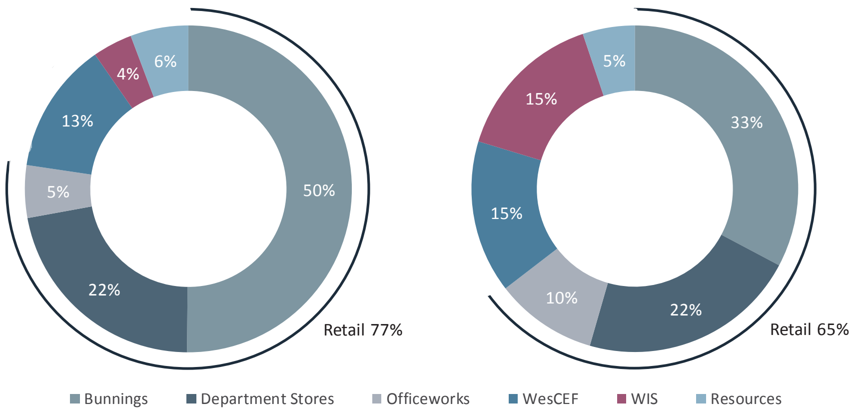
6.1 Business Operations and Strategy

If the Demerger is implemented, Wesfarmers will remain a diversified conglomerate, with a portfolio of cash generating businesses with strong market positions in growing markets. It will continue to be one of the largest companies listed on the ASX and will have around 105,000 employees.

Wesfarmers will still generate a substantial proportion of its earnings from, and have the majority of its capital invested in, retail businesses (in particular, Bunnings ANZ and Kmart):

WESFARMERS POST DEMERGER – CONTRIBUTION BY BUSINESS[20]

PRO FORMA EBIT YEAR ENDED 30 JUNE 2018 | **PRO FORMA CAPITAL EMPLOYED ROLLING 12 MONTHS TO 30 JUNE 2018**



Source: Scheme Booklet

Wesfarmers will continue its primary objective of providing a satisfactory return to shareholders over the long term. The groupwide and individual business strategies currently in place to drive this objective will also continue.

6.2 Key Financial Information

Wesfarmers post Demerger's key financial information is summarised below:

WESFARMERS POST DEMERGER – KEY FINANCIAL INFORMATION ($ MILLIONS)

	YEAR ENDED 30 JUNE		
	2016 PRO FORMA[21]	2017 PRO FORMA	2018 PRO FORMA
Financial Performance			
Revenue	24,928	25,696	27,485
EBITDA	2,792	3,281	3,587
EBIT	2,254	2,753	3,040
Operating profit after tax			2,077
Basic earnings per share (before significant items)			*$0.33*
EBIT margin	*9.0%*	*10.7%*	*11.1%*
Fixed charges cover			*3.8x*
Interest cover (cash basis)			*19.6x*
Return on capital			*25.9%*

[20] Contribution by business excludes discontinued operations (i.e. Curragh and BUKI). It also excludes share of profit of associates and joint ventures and therefore does not include any contribution from Wesfarmers' 15% interest in Coles or its 50% interest in *flybuys*.

[21] The presentation of Wesfarmers post Demerger FY16 pro forma financial performance differs from that set out in Section 3.8.3 of the Scheme Booklet at it excludes $145 million of restructuring costs and provisions for Target that was included as a significant item in FY16. As a result, pro forma EBITDA and EBIT are $145 million higher than the corresponding figures in the Scheme Booklet.

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WESFARMERS POST DEMERGER – KEY FINANCIAL INFORMATION ($ MILLIONS) (CONT)

	YEAR ENDED 30 JUNE		
	2016 PRO FORMA[21]	2017 PRO FORMA	2018 PRO FORMA
Financial Position			
Net working capital			1,909
Total capital employed			11,807
Net borrowings			(1,725)
Net assets			10,012
Net assets per share			*$8.83*
Net tangible assets per share			*$5.21*
Gearing			*17.2%*
Cash Flow			
Operating cash flow after interest and tax and before net capital expenditure			2,489
Cash realisation ratio			*95%*

Source: Scheme Booklet and Grant Samuel analysis

The basis on which the pro forma financial information for Wesfarmers post Demerger has been prepared is set out in Section 3.8 of the Scheme Booklet.

Wesfarmers post Demerger will be a higher growth, higher margin business compared to Wesfarmers. Average annual growth in pro forma EBIT from FY16 to FY18 was 16% (compared to 6% for Wesfarmers' continuing operations) and pro forma EBIT margins increase from 9.0% in FY16 to 11.1% in FY18 (compared to 6.1% to 6.5% for Wesfarmers' continuing operations). Total capital employed falls to $11.8 billion (compared to $25.9 billion for Wesfarmers). As a result, return on capital increases substantially to 25.7% (compared to 16.8% for Wesfarmers).

Wesfarmers' financial results for FY19 will fully consolidate Coles (including *flybuys*) up to the implementation date and after the implementation date will include its 15% interest in Coles and its 50% interest in the *flybuys* joint venture as equity accounted investments (i.e. Wesfarmers' share of Coles and *flybuys* net profit after tax from the implementation date to 30 June 2019 will be included in EBITDA and EBIT). FY20 will be the first full year following the demerger of Coles.

Following the Demerger, Wesfarmers will remain the head company of the Wesfarmers Australian consolidated tax group (from which Coles will have exited) and the franking credits and carried forward capital losses are expected to be preserved in Wesfarmers.

While the level of future dividend payments is a matter for the board of Wesfarmers, it is intended that there will be no change to dividend policy following the Demerger. Wesfarmers' first dividend post Demerger is expected to be for the half year ended 31 December 2018, for which it will have access to 100% of Coles' earnings for the period from 1 July 2018 to the implementation date (expected to be 28 November 2018). However, Wesfarmers will not receive any dividends from Coles until Coles declares its first dividend post implementation (which is expected to be a final dividend for the seven months of earnings post the Demerger and paid in September 2019).

The pro forma financial position of Wesfarmers post Demerger indicates that:

- its net investment in working capital will increase as the benefit of Coles' negative working capital position is removed;
- net assets per share falls from $20.07 to $8.83 but NTA per share increases from $4.32 to $5.21 as a result of the derecognition of goodwill and intangible assets associated with the acquisition of Coles in 2008; and

- net borrowings is reduced but pro forma book gearing increases marginally to 17.2% (from 15.7% for Wesfarmers) as a result of the substantial decline in net assets. All of Wesfarmers existing debt facilities are expected to remain in place and Wesfarmers post Demerger is expected to retain Wesfarmers' existing investment grade credit ratings. As a result, Wesfarmers post Demerger has substantial balance sheet capacity.

In addition, Wesfarmers post Demerger will have lease commitments totalling $8.6 million, 57% of which expire in less than five years.

Wesfarmers post Demerger will have significantly lower net capital expenditure as a result of no longer funding net capital expenditure associated with Coles (offset by loss of inflows from Coles' property sales). The FY18 cash realisation ratio falls from 99% to 95%.

6.3 Directors and Management

Wesfarmers' board will comprise the current directors of Wesfarmers, other than James Graham AM, who retired as a non-executive director of Wesfarmers on 23 July 2018, following announcement of his appointment as Chairman-elect of Coles[22]. In addition, Archie Norman will step down as an adviser to the Wesfarmers board and David Cheesewright, the Wesfarmers nominee on the Coles board, will be appointed an adviser to the Wesfarmers board.

Wesfarmers' senior management and the CEOs of each of Wesfarmers' business divisions following implementation of the Demerger will be unchanged other than previously announced changes that are unrelated to the Demerger.

7 Coles

7.1 Business Operations and Strategy

Business Operations

If the Demerger is implemented, Coles will be a standalone leading Australian retailer with a strong market share, well recognised brands and an extensive product and service range across food, liquor, convenience, finance services and loyalty with an omni-channel offer through its extensive store network and online platforms.

Coles will have three key divisions:

- Supermarkets, comprising the Coles network of 809[23] stores, Coles Online and Coles Financial Services;
- Liquor, which operates a range of liquor retailing formats through its 899[23] *Liquorland*, *First Choice Liquor* and *Vintage Cellars* stores (as well as operating 88 hotels[24]); and
- Convenience, where Coles operates 711[23] fuel and convenience outlets under an Alliance Agreement[25] with Viva Energy (co-branded *Coles Express* and *Shell*). The Alliance Agreement expires on 2 February 2024, but there is an option for either party to extend the term by five years to 2 February 2029.

Coles will also retain a 50% interest in *flybuys* and will continue to generate revenue and earnings from its property activities.

Coles will be a "pure play" consumer staples business with defensive growth characteristics (non-discretionary demand, resilient through economic cycles, cash generative business) where its scale and established relationships provide it with a competitive advantage. Coles Supermarkets has maintained a market share of

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22 Mr Paul Bassat will retire as a non-executive director of Wesfarmers at the conclusion of the Annual General Meeting on 15 November 2018, but this retirement is unrelated to the Demerger.

23 As at 30 June 2018.

24 Coles is currently undertaking a strategic review of its Spirit Hotels business including a potential transaction that would lead to the separation of hotel and gaming revenue. This review is ongoing and there is no certainty it will lead to a transaction.

25 Under the Alliance Agreement, Viva Energy acts as exclusive supplier of Shell branded products and provides a licence for *Coles Express* to operate a site using the Shell branding.

around 30% over the past five years, despite a number of new entrants (*ALDI*, Costco) and the actions of its key competitor, Woolworths. On the other hand, Coles is a relatively mature business.

Strategy

Following the Demerger, Coles will continue to pursue its own business strategy (as it has under Wesfarmers' autonomous model). This strategy is set out in Section 2.6 of Scheme Booklet, but in summary, comprises six key elements:

- transform its food offer through continuing to improve the fresh food offer and growing its own brand portfolio;
- continue to invest in price, with more products to be offered on "Every Day Low Prices";
- expand its ability to offer "anytime, anywhere" shopping, including through digital channels and convenient delivery options;
- improve its store network through store renewal programs as well as tailoring store size and layout and product range to the needs of local customers;
- reduce costs through leveraging technology to deliver a simpler store and supply chain model (including use of data and analytics to enhance decision making and drive efficiencies, simplifying product ranges and pricing terms and removing complexity from processes across the business).

  This includes modernising its supply chain through the development of two new automated distribution centres over a five year period, which are expected to deliver lower supply chain costs and higher service levels, improved efficiency and stock availability in stores, safer working environments and enhanced business competitiveness; and
- continue to engage with its employees, customers and communities (e.g. through the Coles Nurture Fund).

In addition, Coles Liquor will continue its transformation program involving filling in network gaps, improving the online offering, simplifying store processes and providing a more targeted product range to customers, and Coles Convenience will focus on initiatives to increase its shop sales (excluding fuel), including the rollout of an improved food-to-go offer and trialling of a fresh product offering.

The future strategy of Coles will be a matter for the Coles board and senior management to develop over time. While a new Managing Director and CEO has recently been appointed to Coles, the Coles board (including the new Managing Director and CEO) has confirmed that it intends to continue to focus on these strategic priorities following the Demerger.

7.2 Key Financial Information

Coles' key financial information is summarised below:

COLES – KEY FINANCIAL INFORMATION ($ MILLIONS)

	YEAR ENDED 30 JUNE		
	2016 PRO FORMA	2017 PRO FORMA	2018 PRO FORMA
Financial Performance			
Revenue	39,155	39,125	39,288
EBITDA	2,390	2,163	2,061
EBIT	1,779	1,522	1,414
EBIT margin	*4.5%*	*3.9%*	*3.6%*
Return on capital			*32.5%*

COLES – KEY FINANCIAL INFORMATION ($ MILLIONS) (CONT)

	YEAR ENDED 30 JUNE		
	2016 PRO FORMA	2017 PRO FORMA	2018 PRO FORMA
Financial Position			
Net working capital			(270)
Total capital employed			4,347
Net borrowings			(1,905)
Net assets			2,935
Net assets per share			*$2.20*
Net tangible assets per share			*$0.94*
Gearing			*64.9%*
Cash Flow			
Operating cash flow before interest and tax and after net capital expenditure			1,684

Source: Scheme Booklet and Grant Samuel analysis

The basis on which the pro forma financial information for Coles has been prepared is set out in Section 2.13 of the Scheme Booklet.

As a result of additional operating costs and equity accounting its 50% interest in the *flybuys* joint venture, on a pro forma basis, the standalone Coles' generates lower EBIT margins (around 20 basis point lower) than as part of Wesfarmers. However, return on capital increases considerably on a pro forma basis (from 9.2% to 32.5%) due to the derecognition of goodwill and intangible assets that arose from Wesfarmers' acquisition of Coles in 2008.

As the Demerger is expected to complete in November 2018, FY20 will be the first full year of Coles as a standalone listed company.

At the time of the Demerger, Coles will exit Wesfarmers' Australian income tax consolidated group. A decision as to whether Coles will form a new Australian income tax consolidated group will be made after completion of the Demerger. If Coles chooses not to tax consolidate for Australian income tax purposes, its effective tax rate may vary from what it would have been if it had remained part of Wesfarmers.

Coles' approach to dividends will be determined by the Coles' board at its discretion and may change over time. Coles currently intends to follow Wesfarmers' dividend policy, which has regard to current earnings and cash flows, available franking credits, future cash flow requirements and targeted credit metrics. This approach is expected to deliver a dividend payout ratio in the range 80-90%. Coles intends that its dividends will be franked, although the extent to which a dividend can be franked will depend on Coles' franking account balance, which immediately following the Demerger will be nil and will depend on the amount of Australian income tax paid by Coles. Coles expects to pay its first dividend in September 2019, which will be a final dividend for FY19, with reference to the seven months of earnings post Demerger.

Immediately following the Demerger, Coles is expected to have a relatively conservative capital structure although it will have pro forma book gearing of 64.9%. This higher level of gearing in part reflects Coles' lower intangible assets as a result of the derecognition of goodwill and intangible assets. It will have:

- committed unsecured revolving and term bilateral facilities of approximately $4.0 billion from a group of domestic and international banks with maturities of three to five years and pro forma drawn net debt as at 30 June 2018 of approximately $1.9 billion; and
- lease commitments totalling $9.8 billion and a weighted average lease profile of 6.1 years (compared to Woolworths' ~$19 billion in lease commitments), giving it flexibility in managing its store network.

This capital structure is expected to support a strong investment grade credit rating.

Coles will have significant headroom in its debt facilities to cover seasonal cash flow variations, including peak working capital requirements, capital expenditure (with net capital expenditure estimated at $600-800 million for FY19, including capital expenditure associated with the distribution centre automation), dividend payments and bank guarantees. Subject to market conditions, Coles intends to further diversify is funding sources and lengthen its maturity profile through capital markets issuances.

While it is not able to be calculated from the pro forma financial information provided, Coles is expected to have a strong cash realisation ratio (the pro forma cash realisation ratio for FY18 would be 111% assuming net interest of $80 million (based on average net debt of $2 billion at 4.18%[26]) and tax at 30%, and net interest and tax expense equivalent to net interest and tax paid[27]).

7.3 Directors and Management

Coles' board will comprise eight directors:

- one non-executive director, David Cheesewright, who will be Wesfarmers' nominee on the Coles board;
- six non-executive directors (independent of Wesfarmers), being James Graham AM (Chairman), Jacqueline Chow, Richard Freudenstein, Abi Cleland, Wendy Stops and Zlatko Todorcevski; and
- one executive director (Managing Director, Steven Cain).

In addition, Archie Norman will step down as Deputy Chairman of Coles and adviser to the Wesfarmers board to become an adviser to the new Coles board.

The senior management of Coles will comprise Coles' existing senior management team. Steven Cain (who commenced as CEO of Coles on 17 September 2018) will continue as CEO, Leah Weckert will continue as CFO and Greg Davis will continue as COO. The existing operational team is to remain in place. Further details of the board and senior management of Coles are set out in Section 2.10 of the Scheme Booklet.

7.4 Capital Structure and Ownership

On implementation of the Demerger, Coles will have approximately 1,333.9 million shares on issue. Wesfarmers shareholders will collectively hold 85% of the shares on issue and Wesfarmers will hold 15%. Other than the Wesfarmers shareholding, Coles will have a relatively open share register. Wesfarmers will be the only substantial shareholder.

Coles will also establish an Equity Incentive Plan to assist in the motivation, retention and reward of certain employees. The plan provides flexibility for Coles to grant rights, options and/or restricted shares as incentives subject to the satisfaction of performance rights and/or service conditions.

8 Evaluation of the Demerger

8.1 Approach to Evaluation

Wesfarmers shareholders are being asked to split their current investment into two parts, a shareholding in Wesfarmers post Demerger and a separate shareholding in Coles.

The transaction is a "clean" split in so far as there is no change in the underlying economic interest of each shareholder (except for ineligible overseas shareholders and selling shareholders). They will, in aggregate, continue to own 100% of the Coles business, but in a different form, with 85% held directly and 15% owned indirectly through their ongoing shareholding in Wesfarmers. There is:

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26 Equivalent to Wesfarmers' FY18 effective interest rate.

27 This calculation has been shown for illustrative purposes only, to assist Wesfarmers shareholders to understand the impact of the Demerger on the cash realisation ratio. The calculation does not purport to reflect the actual cash realisation ratio for Coles if it had operated as a standalone entity during FY18.

- no purchase or sale of equity in either Coles or Wesfarmers to third parties;
- no value leakage to third parties from either entity; and
- not expected to be any adverse tax consequences for the separate entities and for the vast majority of Wesfarmers shareholders.

Accordingly, the Demerger is definitionally fair as shareholders (except ineligible overseas shareholders) will hold exactly the same underlying economic interests in the Coles business before and after the Demerger is implemented. Evaluation of whether the Demerger is in the best interests of shareholders therefore involves weighing up the advantages and disadvantages of the Demerger for shareholders. This involves judgements about the advantages and benefits such as shareholder flexibility and management focus weighed against the disadvantages, costs and risks such as reduced scale, duplicated operating costs and transaction costs, rather than analysis of quantifiable financial or other verifiable factors.

8.2 Background to the Demerger

8.2.1 Wesfarmers Prior to the Acquisition of Coles Group

Since listing on the ASX in 1984, Wesfarmers has operated as a diversified conglomerate, undertaking investments, acquisitions and divestments across a range of industries, with the primary objective of delivering a satisfactory return to shareholders. The measure used to assess satisfactory returns has always been TSR, with a target to deliver superior returns relative to the broader Australian market index.

The growth strategies employed by Wesfarmers to achieve this objective have consistently been to:

- strengthen existing businesses through operating excellence and satisfying customer needs;
- secure growth opportunities through entrepreneurial initiative;
- renew the portfolio through value adding transactions; and
- ensure sustainability though responsible long-term management.

As a conglomerate, Wesfarmers has always operated a decentralised business model, where each division in the group has a strong management capability and is responsible for strategy development and execution as well as day-to-day operational performance.

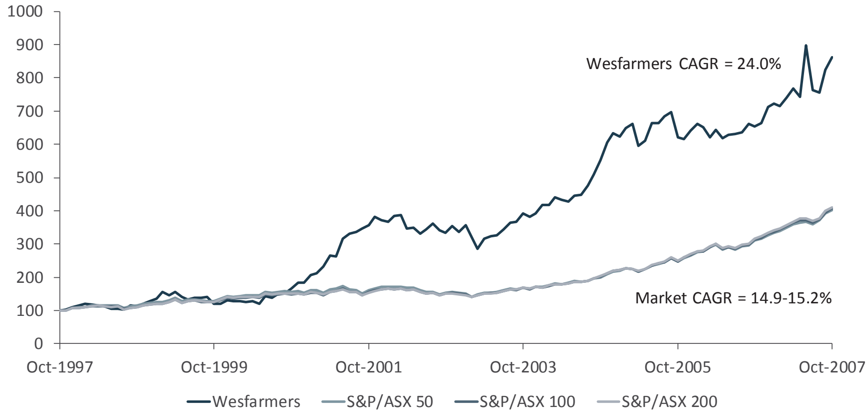
Examples of acquisitions and divestments that have delivered strong returns over time include:

- CSBP Limited ("CSBP"), in which an initial interest was acquired in 1977 and 100% control achieved in 1986. Under Wesfarmers' ownership, CSBP became a major producer of industrial chemicals while continuing to be Western Australia's leading fertiliser supplier;
- Curragh coal mine, which underwent a major expansion program following its acquisition for $200 million in 2000 and subsequently benefited from the resources boom (although it was also adversely impacted by low commodity prices and unfavourable exchange rate movements following the end of the resources boom);
- the $2.7 billion cash and scrip takeover of Howard Smith Limited ("Howard Smith") in 2001, where the BBC Hardware chain was consolidated with Bunnings ANZ to create the largest participant in the Australian hardware sector, and Howards Smith's distribution business, Blackwoods, led to the formation of WIS; and
- the 2003 sale of Wesfarmers' foundation rural services business, Landmark, for $825 million, generating significant value for shareholders.

Wesfarmers' success at achieving its objective is illustrated by the differential between Wesfarmers' TSR and various market accumulation indices over the ten-year period from October 1997 to October 2007:

WESFARMERS TOTAL SHAREHOLDER RETURN VS MARKET ACCUMULATION INDICES

OCTOBER 1997 TO OCTOBER 2007



Source: Bloomberg, IRESS

Over this decade, Wesfarmers delivered average annual TSR of 24%, compared to an average annual return for the broader Australian market (as measured by the S&P/ASX 100 accumulation index[28]) of 15%, an average outperformance of 9% per annum.

8.2.2 Coles Group Acquisition and Turnaround

Coles Group Acquisition

Wesfarmers acquired Coles Group in November 2007 in a cash and scrip takeover valued at $19.3 billion. It was a transformational acquisition for Wesfarmers:

- three new divisions were created (Coles food and liquor, Kmart and Target), with Officeworks initially combining with Bunnings ANZ in the Home Improvement and Office Supplies Division;
- earnings almost doubled, with FY07 EBIT increasing from $1.3 billion to $2.5 billion on a pro forma basis;
- the proportion of earnings from retail businesses increased from 39% to 66% (on a pro forma basis), making Wesfarmers one of Australia's largest retailers;
- it became one of Australia's largest listed companies with a market capitalisation of more than $30 billion. Former Coles Group shareholders accounted for approximately 44% of Wesfarmers' issued shares; and
- debt increased substantially, with acquisition debt of $8.1 billion increasing Wesfarmers total debt to $11.5 billion and net debt to $11.0 million (representing a book gearing ratio of almost 70% and pro forma interest cover of 4.2 times).

At the time of acquisition, Coles Group's businesses, (other than Target) were performing poorly. In particular, the earnings of Coles Supermarkets had fallen significantly in FY07 due to a variety of factors, including general deterioration in the customer offer, continued competitive pressure and management issues as well as a poorly executed conversion of the *Bi-Lo* chain to the *Coles* brand and a problematic implementation of a new centrally-managed range system across the supermarket network. Based on a

28 The average annual return for the S&P/ASX 50 accumulation index and the S&P/ASX 200 accumulation index over this period were similar to that of the S&P/ASX 100 accumulation index at 14.9% and 15.2% respectively.

comparison to domestic and international peers, the potential for a turnaround in performance in the medium term was substantial. The Coles Group had commenced group-wide initiatives to support further growth through business simplification (cost savings) and a transformation initiative focused on improving Coles Group's supply chain and IT. However, significant structural change was required to turn the businesses around.

The board of Wesfarmers believed that the acquisition of Coles Group was consistent with Wesfarmers' strategy in that it would provide a significant opportunity to add shareholder value over time by combining:

- Coles Group's significant retail brand platform, extensive non-replicable store network and established market position in sectors with high barriers to entry; with
- Wesfarmers' decentralised business model, financial discipline and execution capabilities, including Wesfarmers' considerable retail experience gained through more than ten years' ownership of Bunnings ANZ.

The board of Wesfarmers also believed that a change of ownership would provide the catalyst required for the transformation of Coles Group and an improvement in performance. Wesfarmers ownership would provide an "umbrella" of protection, with access to the capital required and the ability to execute the turnaround in Coles Group's performance over the medium term without the distractions of being a listed company and, in particular, the pressure to deliver short term returns.

The timing of the acquisition of Coles Group coincided with the global financial crisis. Ongoing volatility in global debt capital markets resulted in a $4 billion bridging loan used to finance the acquisition being replaced in part by a $2.5 billion equity raising (underwritten entitlement offer) in April/May 2008 at a substantial discount of ~20% to Wesfarmers' share price at the time. A second equity raising of $2.8 billion (comprising a partially underwritten entitlement offer at a discount of ~17% to Wesfarmers' share price at the time and a placement) was completed in January/February 2009 to reduce Wesfarmers' debt to a conservative gearing level and a debt maturity profile considered by the board to be appropriate for the prevailing uncertain economic times.

Transformation of Coles Group

Wesfarmers transformation of Coles Group included:

- restructuring the previously centralised functions to create autonomous retail divisions;
- completing commercial reviews including a review of Kmart;
- appointing new management teams;
- a cultural shift to a strong performance focus;
- continuing the simplification (cost reduction) program, targeting cost savings through overhead reductions of $385 million per annum on an annualised basis by late FY09;
- continuing the transformation initiative around supply chain re-engineering (procurement, information technology ("IT") and supply chain infrastructure and processes), with benefits of approximately $540 million to be achieved on an annualised basis by late FY13; and
- restoring sales momentum through a focus on the customer (implementing a stronger customer proposition around value and convenience as well as new store rollouts, increased store refurbishments and maintenance).

At the time of acquisition, it was expected that a sustained turnaround for Coles Group, particularly the Coles business (including Supermarkets, Liquor and Convenience), would take up to five years.

GRANT SAMUEL

The Coles Business

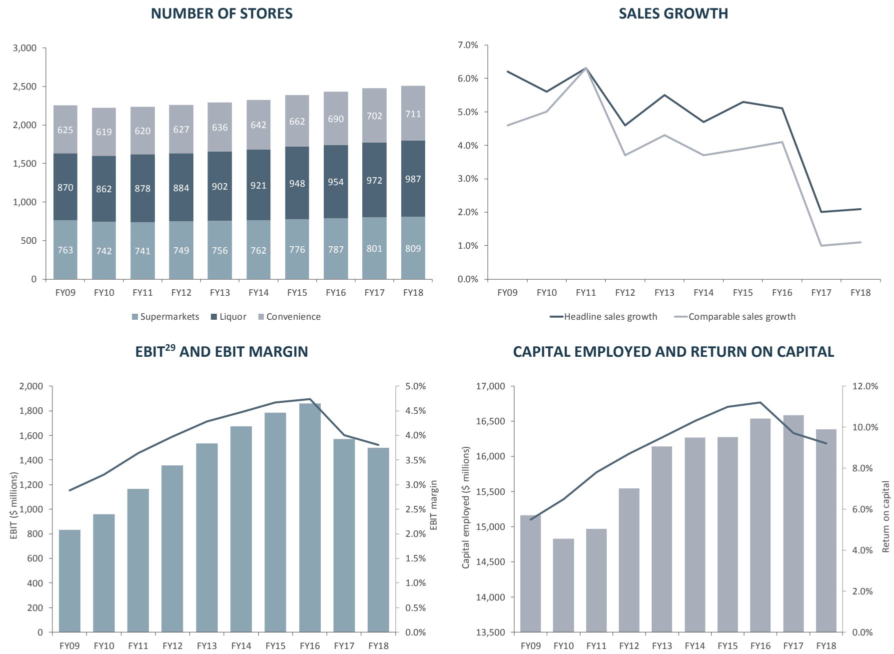
Since 2009, more than $9 billion of capital has been invested in Coles:

- 184 new supermarkets have opened, 134 supermarkets have been closed or relocated and 43 supermarkets have been rebranded;
- 90% of the supermarket network has been renewed as part of a refurbishment program focused on fresh, bakery, deli and meat; and
- omni-channel capabilities have been established with 1,000 "click & collect" sites operational at the end of FY18.

Wesfarmers successfully turned around Coles, achieving solid growth in EBIT (from FY09 to FY16) through a combination of sales and market share growth and margin improvement:

COLES FOOD AND LIQUOR BUSINESS – TURNAROUND IN PERFORMANCE

FY09 TO FY18



Source: Wesfarmers

Under Wesfarmers, Coles strengthened its position as a leading Australian retailer delivering long term sales and earnings growth and returns. While performance declined in FY17 and FY18, this has reflected a period of intense competition. In particular, Woolworths' large investment in price and service during FY16 and FY17 required Coles to respond with an accelerated investment in the customer offer, impacting sales revenue and margins. However, there has been some improvement in the second half of FY18, with comparable sales growth of 1.8% and price deflation of 0.6% in the fourth quarter of FY18 (compared to sales growth of 1.1% and price deflation of 1.2% for FY18 overall). Even allowing for the decline in EBIT In

[29] EBIT is shown before significant items but includes earnings from the Coles credit card business in FY16 and FY17 (prior to its sale in February 2017).

FY17 and FY18, Coles has achieved average annual growth in EBIT of 6.8%, reflecting above market sales growth and an improvement in EBIT margins (which have increased from 2.9% in FY09, peaked at 4.7% in FY15 and FY16 and were 4.0% in FY17 and 3.8% in FY18). Return on capital has more than doubled from 5.5% in FY09 to its peak of 11.2% in FY16 and was 9.2% in FY18.

Impact on Wesfarmers

Following the acquisition of Coles Group, Wesfarmers remained committed to its primary objective of providing a satisfactory return to shareholders over the long term and continued to believe that the diversified conglomerate model provided the best opportunity to achieve this objective. The group continued to actively manage its portfolio of businesses and make changes to its portfolio where this was consistent with improving long term returns to shareholders. Despite the substantial retail weighting in Wesfarmers' overall business portfolio, Wesfarmers continued to make acquisitions outside the retail sector although:

- no material acquisitions were made for a period of more than six years as Wesfarmers focused on the turnaround of Coles Group and responded to the global financial crisis; and
- acquisitions were on a much smaller scale.

Key acquisitions and divestments since the acquisition of Coles Group are summarised below:

WESFARMERS – ACQUISITIONS AND DIVESTMENTS AFTER COLES GROUP

	DATE	ACQUISITION PRICE (MILLIONS)	SALE PRICE (MILLIONS)	PRE TAX PROFIT/(LOSS) ON SALE (MILLIONS)
Acquisitions				
MDL 162 (adjacent to Curragh coal mine)	January 2014	$70		
Workwear Group	December 2014	$180		
50% interest in Coles credit card joint venture	May 2015	nd[30]		
13.5% interest in Quadrant Energy	June 2015	US$100		
Homebase (BUKI)	February 2016	£340		
Divestments				
Energy Generation (enGen)	August 2011		$101	$40
Premier Coal	December 2011		$297	$90
40% interest in Air Liquide WA	December 2013		nd	$95
Insurance division	June 2014		$2,855	$1,040
Kleenheat east coast gas distribution operations	February 2015		nd	$14
Coles credit card business	February 2017		$947[31]	-
Curragh coal mine	March 2018		$700[32]	$120
BUKI	June 2018		nominal[33]	$(375)
40% interest in Bengalla joint venture	August 2018[34]		$860	$670-680
Kmart Tyre and Auto Service business	August 2018[35]		$350	$270-275
13.2% interest in Quadrant Energy	August 2018[36]		US$170	US$98

Source: Wesfarmers

30 nd = not disclosed.

31 Gross value of receivables.

32 Wesfarmers will also participate in a value share mechanism under which it will receive 25% of Curragh's export coal revenue generated above a realised metallurgical coal price of $US145 per tonne, paid quarterly over a period of two years.

33 Wesfarmers will also participate in a value share mechanism whereby it is entitled to 20% of any equity distributions from the business.

34 Announced on 7 August 2018. Expected to complete in the fourth quarter of 2018. Profit on sale subject to completion adjustments.

35 Announced on 12 August 2018. Expected to complete in the first quarter of FY19. Profit on sale subject to completion adjustments.

36 Announced on 22 August 2018. Expected to complete in the second or third quarter of FY19.

Not all of Wesfarmers acquisitions have been successful in achieving Wesfarmers' primary objective of satisfactory returns to shareholders over the long term. The BUKI acquisition, in particular, has been acknowledged as being poorly executed, underestimating the importance of local management and compounded by the deterioration in the United Kingdom retail sector.

On the other hand, other Wesfarmers businesses have performed extremely well:

- an initial 9.7% interest in Bunnings Limited (then a publicly listed company) was acquired in 1987 and a takeover to achieve full control was completed in 1994. Wesfarmers was initially attracted to the forest and timber business, but it was the hardware business and the growing "do-it-yourself" market that became the cornerstone of growth over the past 24 years. Bunnings ANZ has grown (organically and through the acquisition of Howard Smith and its BBC hardware chain) to become the largest participant in the Australian home improvement sector, with an estimated market share of 20%. In FY18, Bunnings ANZ reported an EBIT of $1.5 billion and equalled Coles as Wesfarmers' largest contributor to earnings, achieving sales growth of 8.9%, an EBIT margin of 12.0% and a return on capital of 49.4%. Over the past ten years, sales and EBIT have grown at an average of 9% and 10% per annum respectively, EBIT margins have consistently been in the range 11-12% and return on capital has increased from 26 to 49%;
- the sale of Wesfarmers' insurance division, which was built over a number of years through organic growth and acquisition prior to its sale in FY14, generated a pre-tax profit on sale of $1.0 billion. The sale of the business was consistent with Wesfarmers' focus on disciplined portfolio management having regard to the long-term interests of its shareholders; and
- the investment in the Curragh coal mine, which delivered an after tax internal rate of return of approximately 49% per annum over its 17 year life, prior to its divestment in March 2018.

8.2.3 Wesfarmers Today

Coles Turnaround Complete

The turnaround of Coles has been completed and Coles is a mature business generating substantial cash flows. Future growth in Coles will be driven by:

- market growth (a function of population growth, consumption growth and food price inflation/deflation). Average market growth has been 4.0% per annum over the past ten years and 3.7% per annum over the past five years[37]. Market growth is expected to remain at around 3-4% per annum (on average) but could be lower if food price deflation continues at recent levels; and
- competition and its impact on market share, margins and earnings. The Australian supermarket industry is extremely competitive among both the incumbent major participants (Coles and Woolworths) as well as more recent entrants (*ALDI* and Costco Wholesale Corporation ("Costco"), along with the potential entry of German-based grocery chain *Kaufland* and the threat of *AmazonFresh*). In addition to competing on price and customer offer, there is also the potential for a focus on sales growth and market share to result in additional store space (i.e. new store rollouts) exceeding market growth. As evidenced by Coles' performance in FY17 and FY18, the actions of competitors, particularly Woolworths, can have a significant impact on Coles' performance.

As a result, while Wesfarmers expects that Coles will return to positive earnings growth in FY19 and beyond, future growth will be more moderate compared to the strong turnaround growth achieved over the past ten years (average annual EBIT growth of 6.8%). While there are competitive and structural risks, Coles is a strong competitor with an established brand, an extensive store network and opportunities for

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[37] Source: Australian Bureau of Statistics 8501.0 - Retail Trade, Australia, May 2018 (Total Turnover, Food Retailing, Original). Food retailing includes supermarket and grocery stores and non-petrol sales (convenience stores) of selected fuel retailing, liquor retailing and other specialised food retailing (fresh meat, fish and poultry, fruit and vegetable, other).

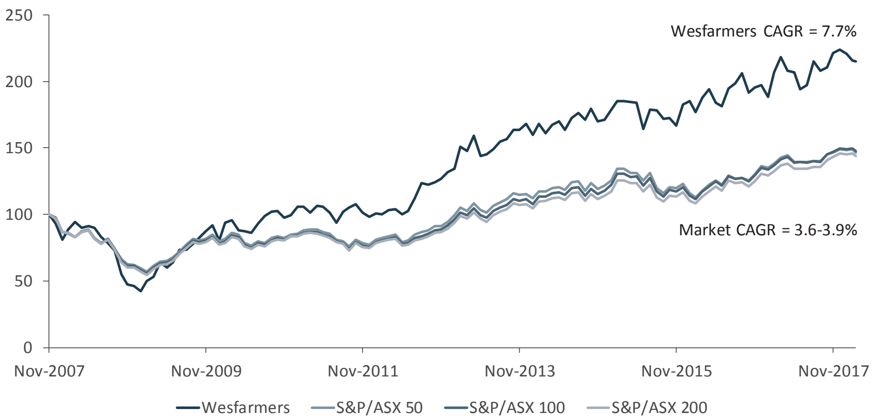
growth through ongoing improvements in its cost structure. On the assumption that Coles is able to maintain its market share and margins at current levels, future growth would be expected to be limited to estimated market growth of around 3-4% per annum.

Impact of Coles on Wesfarmers

The acquisition of Coles Group strengthened Wesfarmers' position as a diversified conglomerate. Wesfarmers has delivered strong returns to Wesfarmers' shareholders in the ten years following the acquisition:

WESFARMERS TOTAL SHAREHOLDER RETURN VS MARKET ACCUMULATION INDICES

30 NOVEMBER 2007 TO 15 MARCH 2018



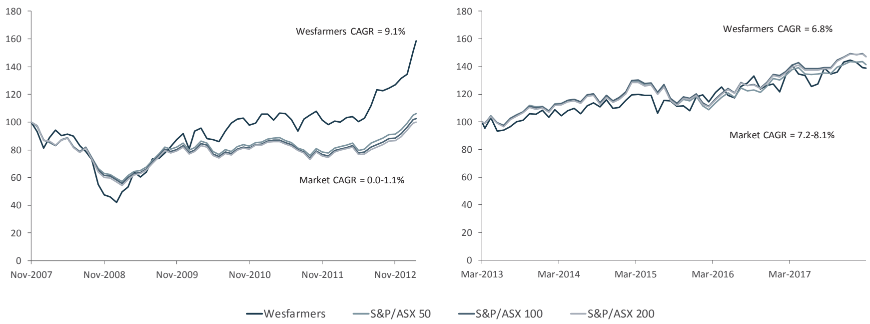
Source: Bloomberg, IRESS

From the acquisition of Coles Group in November 2007 to announcement of the Demerger, Wesfarmers delivered average annual TSR of 7.7% compared to an average annual return for the broader Australian market (as measured by the S&P/ASX 100 accumulation index[38]) of 3.9%, an average outperformance of 3.8% per annum. However, the majority of this outperformance was achieved over the first five years following the acquisition of Coles Group, when the impact of the turnaround was greatest. Over the subsequent five years, Wesfarmers has generally performed in line with the broader Australian market:

[38] The average annual return for the S&P/ASX 50 accumulation index and the S&P/ASX 200 accumulation index over this period were similar to that of the S&P/ASX 100 accumulation index at 3.8% and 3.6% respectively.

WESFARMERS TOTAL SHAREHOLDER RETURN VS MARKET ACCUMULATION INDICES

30 NOVEMBER 2007 TO 15 MARCH 2013 | **18 MARCH 2013 TO 15 MARCH 2018**



Source: Source: Bloomberg, IRESS

From the acquisition of Coles in November 2007 to 15 March 2013, Wesfarmers delivered average annual TSR of 9.1% compared to an average annual return for the broader Australian market (as measured by the S&P/ASX 100 accumulation index[39]) of 0.5%, an average outperformance of 8.6% per annum. In contrast, over the five years prior to announcement of the Demerger, Wesfarmers' average annual TSR at 6.8% was below the average annual return for the broader Australian market (as measured by the S&P/ASX 100 accumulation index[40]) of 8.1%.

The lack of outperformance by Wesfarmers over the past five years can in part be attributed to Coles:

- the size of Coles relative to other businesses in Wesfarmers' portfolio which creates challenges for the diversified conglomerate model because:
  - Coles represents a large proportion of earnings (32%) and capital employed (64%) and therefore has a significant impact on Wesfarmers' earnings growth and return on capital, regardless of the performance of Wesfarmers' other businesses. Conversely, any outperformance by smaller businesses in the portfolio has less impact on Wesfarmers' overall performance. While the underperformance of other portfolio businesses such as BUKI and Target would have also had an impact on Wesfarmers' TSR over the past five years, these two businesses have collectively represented only (2)-7% of earnings (before non-recurring items) and 9-12% of capital employed over the period to FY17[41];
  - Coles requires a disproportionate amount of corporate head office resources and focus. Although Coles has its own management and divisional board of directors responsible for strategy development and execution and operational performance, a significant proportion of corporate head office management time is spent on Coles-related investor relations, governance and compliance matters; and
  - it reduces the pool of acquisition targets that would have a meaningful impact on Wesfarmers' earnings and return on capital (i.e. acquisitions would need to be extremely large to have any material impact); and
- in recent years, Coles has not achieved earnings growth at a level that supports superior TSR for Wesfarmers relative to the broader Australian market. To achieve superior TSR, earnings need to

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39 The average annual return for the S&P/ASX 50 accumulation index and the S&P/ASX 200 accumulation index over this period were similar to that of the S&P/ASX 100 accumulation index at 1.1% and 0.0% respectively.

40 The average annual return for the S&P/ASX 50 accumulation index and the S&P/ASX 200 accumulation index over this period were similar to that of the S&P/ASX 100 accumulation index at 7.2% and 8.0% respectively.

41 Wesfarmers did not report the performance of Kmart and Target separately in FY18.

grow at a faster rate than the market, which generally requires high single digit earnings growth over the long term. In this context, the turnaround of Coles has been very successful (~12% average per annum growth in EBIT up to FY16). However, the business is now in a position where maintaining this level of growth will be difficult. The Coles business, while operationally sound, is mature. EBIT margins fell by around 70 basis points in FY17 to 4.0% (a level not seen since FY12) and fell a further 20 basis points to 3.8% in FY18, due to intense competition in the Australian supermarket sector. There is no indication that the level of competition will subside (and there is the possibility of an increase in competition from further new entrants). While Wesfarmers expects Coles to achieve moderate earnings growth from FY19, Wesfarmers' target of superior TSR requires a consistently higher level of growth over the long term.

Coles' return on capital peaked at 11.2% in FY16 (albeit having more than doubled from 5.5% in FY09) but went backwards in FY17, decreasing by 150 basis points to 9.7% and falling by a further 50 basis points to 9.2% in FY18, below its FY13 return on capital of 9.5%. The decline in Coles' return on capital in FY17 and FY18 has not had as great an impact on Wesfarmers' overall return on capital, which increased from around 10% to 12% in FY17 due to the impact of impairments in Target and the Resources business in the prior year and to 17% in FY18 as a result of very strong results from Wesfarmers' other portfolio businesses.

8.3 Rationale for and Benefits of the Demerger

8.3.1 Decision to Divest Coles

The decision to divest Coles followed a review of the Wesfarmers portfolio of businesses and an assessment of the composition of capital employed required to support higher levels of future growth and superior TSR over the long term.

To deliver superior TSR over the long term, Wesfarmers identified that it needed to:

- continue to invest in portfolio businesses where capital investment opportunities exceed return requirements;
- acquire or divest portfolio businesses where this is estimated to increase long term shareholder value; and
- manage its balance sheet to achieve an appropriate risk profile, optimise its cost of capital and have the flexibility to take advantage of opportunities as they arise.

As a result, the Wesfarmers board came to the conclusion that Wesfarmers would be better able to achieve its objective if Coles was no longer part of the Wesfarmers portfolio of businesses.

The decision to divest Coles and not Wesfarmers' other retail businesses that were acquired as part of the Coles Group acquisition in 2007 (Kmart, Target and Officeworks) and/or Bunnings ANZ has been justified by Wesfarmers on the basis that the divestment of Coles has the greatest impact on EBIT, EBIT growth and return on capital. Coles is a substantial and mature business with a moderate growth profile. The turnaround of Coles has been achieved and the value that Wesfarmers' ownership provided as an "umbrella" of protection during the transformation period is no longer necessary.

In contrast, Wesfarmers' other retail businesses are either:

- expected to continue to deliver strong growth and increasing returns to shareholders while requiring a relatively small capital allocation (Kmart, Bunnings ANZ). Kmart, in particular, has been transformed into a deep discount department store specialising in homewares and apparel. It is a niche participant with a differentiated offering in the department store sector and has moved away from categories most exposed to digital disruption (such as consumer electronics, books, music etc.); or

- relatively small in terms of earnings and capital employed (Officeworks) and/or in the midst of a turnaround (Target) that would be a distraction in any divestment. Target also offers the potential for earnings growth and return on capital upside as its turnaround is completed.

Furthermore, there are limited synergies between supermarkets and the other retail businesses.

8.3.2 Alternatives

Having made the decision to "divest" Coles, a number of alternative divestment methods were available to Wesfarmers. These included:

- trade sale (to a global supermarket operator or to private equity);
- IPO (of 100% or with retention of a cornerstone interest); or
- demerger (of 100% or with a retained interest).

While it is inevitable that any proposal will involve some compromises and drawbacks, the board and management of Wesfarmers have considered each of these alternatives and determined that the Demerger is the most effective means of achieving its objectives.

A trade sale would have its attractions, particularly if there was an acquirer that could extract significant synergies, but:

- there are no obvious acquirers of Coles. It is a very substantial business. The current median broker valuation of Coles is in excess of $20 billion (enterprise value):
  - few global supermarket operators would have the financial capacity to acquire Coles (for cash rather than equity) and any synergies with their existing businesses would be limited;
  - the largest global supermarket operators that might have the necessary financial capacity (such as Walmart Inc. ("Walmart")) may have some interest, but are facing increasing competitive pressures and declining margins in their existing businesses and acquisitions have focused on brands, e-commerce and logistics. Furthermore, offshore acquisitions in the supermarket sector have largely been unsuccessful in the past; and
  - a private equity funded acquisition of this scale would require a consortium of private equity funds and would be heavily leveraged, increasing execution risk and the ability to maximise the acquisition price;
- Wesfarmers believes that there is further opportunity to improve the performance of Coles. It would be difficult for Wesfarmers to get any value for this potential upside in a trade sale;
- a trade sale process would be protracted and disruptive and there would be no certainty of success. A failed trade sale process could have an adverse impact on the Coles business; and
- a trade sale would crystallise a significant capital gains tax liability for Wesfarmers.

In any event, there is no impediment to a trade sale taking place either before or after the Demerger. Coles will have an open register except for Wesfarmers' 15% interest so an interested party could make a takeover offer or other change of control proposal. Since announcement of the Demerger, Wesfarmers has not received any approaches from trade or financial investors in relation to an acquisition of Coles.

An IPO would have the advantage of creating a shareholder base of "natural holders" but would also have a number of drawbacks:

- the pricing would invariably be based on current earnings and would represent a portfolio price. Moreover, the pricing of a public issue would normally reflect a discount to the expected post issue trading price;

- the size of an IPO of Coles would be challenging for equity markets. The largest Australian IPO in the past ten years was the $5.7 billion IPO of Medibank Private Limited in November 2014. There is no certainty that a 100% IPO would be able to be completed and Wesfarmers would be exposed to the vagaries of market conditions.

  A staged exit, where there was an initial partial IPO of Coles with Wesfarmers retaining a cornerstone interest, followed by one or more sell downs over a period of time, could solve some of these issues but:

  - it would likely mean that Wesfarmers would remain exposed to Coles for several more years (depending on any escrow period). It would not achieve a quick, clean exit;
  - the exposure to market conditions would remain, arising at the time of each sell down; and
  - pricing at each stage would inevitably reflect some discount and the fact that Wesfarmers was a known seller would create the perception of an overhang that could adversely affect trading in Coles shares;
- an IPO would crystallise a significant capital gains tax liability for Wesfarmers; and
- an IPO would arguably result in an inefficient recycling of capital as:
  - most Wesfarmers shareholders would also be natural holders of Coles shares given that Coles is such a significant part of Wesfarmers; and
  - neither business has a critical need for the capital that would come with an IPO:
    - Wesfarmers post Demerger will have a conservative capital structure, expecting to retain its existing investment grade credit rating and with ample capacity to fund growth opportunities; and
    - Coles will be established with a prudent capital structure consistent with a strong investment grade credit rating. The business generates significant amounts of cash to fund dividend payments and has sufficient headroom in its debt facilities to fund its capital expenditure requirements (including the additional requirements relating to store refurbishments, expansion of digital capabilities and improvements in the supply chain) in the near future.

  Consequently, the capital raised through an IPO would be likely to be returned to Wesfarmers shareholders in the form of special dividends and/or capital returns (after allowing for tax leakage).

The key attractions of a demerger are that:

- it provides more certainty compared to the other options. The outcome is largely in the control of Wesfarmers;
- Wesfarmers shareholders are provided with the opportunity to retain exposure to the upside potential from any improvement in the performance of Coles and/or corporate activity. As a result of Wesfarmers' retaining a 15% interest in Coles, Wesfarmers will also benefit from this upside potential;
- it provides shareholders with ownership of Coles at its market value and, to the extent that shareholders wish to sell their Coles shares, they will receive the full market price (less brokerage) on sale and will (in general) have the flexibility to choose when to sell; and
- demerger tax relief should be available to Wesfarmers shareholders, deferring any tax payable until they sell any of their Coles shares.

Wesfarmers has decided to retain a 15% interest in Coles to demonstrate its confidence in Coles and to provide alignment of interests in relation to the *flybuys* joint venture and the development of its data and digital capabilities. The advantages and disadvantages of Wesfarmers' retention of an interest in Coles are discussed in Section 8.3.4 of this concise report.

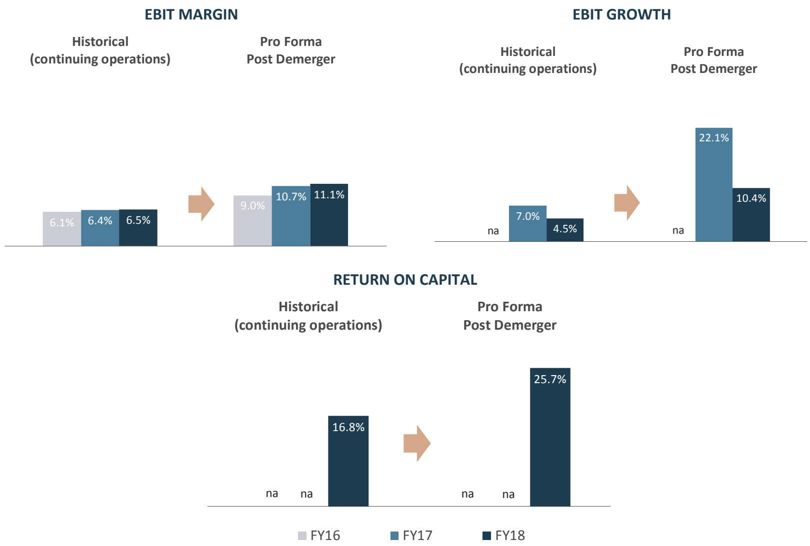
GRANT SAMUEL

8.3.3 Wesfarmers post Demerger

The demerger of Coles will re-establish Wesfarmers as an industrial conglomerate (rather than a diversified retailer) that is better positioned to create shareholder value over the long term. The Demerger will:

- refocus Wesfarmers' on the growing, higher return businesses in its portfolio, in particular, Bunnings ANZ and Kmart. On a pro forma basis, the EBIT margin, EBIT growth and return on capital for Wesfarmers post Demerger are significantly higher than for Wesfarmers in its current form:

WESFARMERS VS WESFARMERS POST DEMERGER



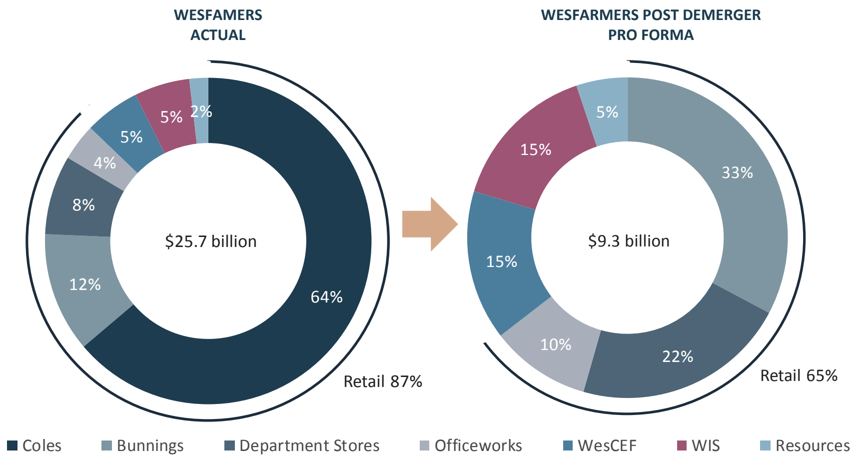
Source: Wesfarmers and Scheme Booklet

Importantly, Wesfarmers post Demerger's pro forma EBIT growth over the period from FY16 to FY18 has been in the low to high double digits (10-22%), above the level of growth necessary over the long term to enable Wesfarmers post Demerger to generate superior TSR relative to the broader Australian market (of high single digit EBIT growth); and

- reduce capital employed, so that successful growth initiatives in the remaining portfolio businesses and through acquisition will have a greater impact on returns:

CAPITAL EMPLOYED[42]

ROLLING 12 MONTHS TO JUNE 2018



Source: Wesfarmers and Scheme Booklet

Wesfarmers post Demerger remains substantially a retail business. Capital employed in retail businesses falls from 87% to 65% on a pro forma basis[42], albeit in the non-food rather than the food sector. Retail businesses contribute 77% of FY18 EBIT on a pro forma basis[42], with Bunnings ANZ representing 50% of group EBIT.

However, the reduced size and substantial balance sheet capacity of Wesfarmers post Demerger should make it a more nimble business. Wesfarmers post Demerger will be able to consider a broader universe of growth opportunities (both organic and inorganic) which, if successfully executed, will have a greater impact on shareholder returns.

Wesfarmers is agnostic as to where its capital is allocated. Its focus is on achieving strong returns, rather than portfolio composition or scale. While Wesfarmers post Demerger will have a less concentrated exposure to retail, this is not a driver of Wesfarmers' strategy.

While there is no guarantee that past performance on a pro forma basis is indicative of future performance, the Demerger better positions Wesfarmers to achieve the growth necessary to meet its objective of generating satisfactory returns for shareholders over the long term.

While Wesfarmers post Demerger will have a portfolio of cash generative businesses with good momentum and leading positions in growing markets, the short to medium term outlook for Wesfarmers is arguably more subdued than in prior years, with Bunnings ANZ and Kmart dependent on consumer discretionary spending and exposed to the economic cycle and the WesCEF businesses being price takers in competitive markets with earnings dependent on volatile commodity prices. As a result, Wesfarmers post Demerger may need to turn to business expansion/extension or acquisitions to generate the necessary levels of growth. Acquisitions carry with them the associated execution risk (as demonstrated by the experience with recent acquisitions such as BUKI).

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42 Calculated on a rolling monthly basis and before taking into account the capital invested in, and the share of net profit after tax from, Wesfarmers' 15% interest in Coles and its 50% interest in *flybuys* (which are treated as associates and as part of "other" activities). Including the 15% interest in Coles in these calculations would increase the pro forma capital employed in retail businesses from 65% to 70% but would only increase the pro forma EBIT contribution from retail businesses from 77% to 78%.

8.3.4 Investments in *flybuys* and Coles

Following the Demerger, Wesfarmers will retain a:

- 50% interest in *flybuys* (with Coles retaining the other 50% interest); and
- 15% interest in Coles and have one representative on the board of Coles[43].

In a typical demerger, it would be expected that a loyalty program such as *flybuys*, which is integral to Coles' Supermarkets business, would be demerged with Coles. However, Wesfarmers' diversified conglomerate model and its focus on growing, high return businesses provide a strong rationale for investing in *flybuys* as a separate business:

- Wesfarmers will retain a strong retail exposure and will have an opportunity, with Coles as it joint venture partner, to further develop the *flybuys* loyalty offer, which will benefit its remaining retail divisions and Coles. Data and digital are increasingly important capabilities for all retail businesses to remain competitive. A number of opportunities linked to *flybuys* are under consideration which are expected to:
  - deliver greater value to retail customers;
  - enable more informed business decision-making in relation to, for example, product range and purchasing, targeted marketing and store location and layout; and
  - create new revenue streams.

  Wesfarmers' ongoing investment in *flybuys* will assist it in successfully taking advantage of these opportunities;
- it is consistent with Wesfarmers' data and analytics strategy as it:
  - enhances its data analytics capabilities; and
  - forms a substantial basis from which Wesfarmers will be able to grow its presence in the data and digital sector; and
- it meets Wesfarmers' objective of investing in growing businesses.

The rationale for Wesfarmers retaining a 15% interest in Coles is less obvious, albeit Wesfarmers does have a history of holding large minority interests in businesses for long periods of time. One example is BWP Trust, in which Wesfarmers has held a ~25% interest since its listing on the ASX in September 1998. BWP Trust owns the majority of properties tenanted by Bunnings ANZ and a wholly owned subsidiary of Wesfarmers is the responsible entity for the trust.

Wesfarmers' stated rationale for retaining a 15% interest in Coles is that it:

- provides alignment of interests, particularly in relation to *flybuys* and the development of data and digital capabilities; and
- demonstrates to the market Wesfarmers' confidence in the demerged Coles. This is regarded as important for retail shareholders, who hold approximately 50% of Wesfarmers' issued shares.

The 15% interest in Coles should provide Wesfarmers with a "voice" at board meetings, particularly in relation to *flybuys*, as well as insight into Coles' thinking in relation to *flybuys*. Wesfarmers will be able to be an advocate for the broader scope for *flybuys* to the Coles board and may also be able to ameliorate any tensions that might arise in the *flybuys* joint venture as a result of it having a better understanding of Coles' position and strategy. However, in Grant Samuel's view, the investment in Coles is not essential:

[43] Under a Relationship Deed entered into between Wesfarmers and Coles, Wesfarmers will be entitled to appoint one person as a director to the Coles board for as long as it retains a shareholding of at least 10% of Coles.

- *flybuys* is a very small (albeit high growth) part of the Wesfarmers business post Demerger. The 15% interest in Coles represents a significant amount of capital (~$2.3 billion or around 19% of capital employed) tied up in a relatively low growth business over which Wesfarmers will have limited direct influence; and
- there is no certainty that the investment or representation on the board would, on its own, solve any significant issues that might arise in the *flybuys* joint venture. The success of *flybuys* will depend more on the *flybuys* board and management interactions between it, Coles and Wesfarmers.

Furthermore, cash flows from the investment in Coles will be in the form of dividends received twice per year with Wesfarmers having limited influence over the dividend policy and will result in lower return on capital and return on equity relative to a full demerger of Coles.

While Coles will be a liquid investment listed on the ASX:

- the Wesfarmers investment in Coles could create a potential overhang if Wesfarmers was perceived either as a seller or not a long term holder of the interest. In this regard, Wesfarmers has indicated that it does not regard its investment in Coles as a short term investment (although as part of its objective to provide satisfactory returns to shareholders, has also stated that all of its businesses/investments are for sale at the right price); and
- the relatively large size of Wesfarmers' shareholding (as Coles' largest shareholder) may mean that it is difficult to sell quickly or in one line and may restrict the price at which Wesfarmers is able to sell its interest.

8.3.5 Other Benefits of the Demerger

Shareholder Flexibility

Immediately following the Demerger, Wesfarmers shareholders (except ineligible overseas shareholders and selling shareholders) will retain the same economic exposure to Wesfarmers' businesses, but will hold it through two separate investments:

- shares in Coles, which will provide direct ownership of, and a pure exposure to, Coles' Supermarkets, Liquor and Convenience businesses (including a 50% interest in *flybuys*); and
- shares in Wesfarmers, which will provide exposure to 15% of the Coles business, together with all of Wesfarmers' other businesses (Bunnings ANZ, Kmart, Target, Officeworks, WesCEF, WIS, Resources and its non-controlling investments, including a 50% interest in *flybuys*). Shareholders' interests will not change (including the number of shares held) from their current interest except that Wesfarmers shares will now provide only a limited direct exposure (15%) to Coles. The 15% interest in Coles and the retained 50% interest in *flybuys* will be treated as equity accounted investments along with Wesfarmers' existing non-controlling interests in BWP Trust, Gresham Partners and Wespine.

This arrangement will provide shareholders with increased flexibility to manage their exposures to the respective businesses as they see fit. The Demerger will enable shareholders to retain their existing ownership of Coles and provide the opportunity to increase or decrease that exposure by trading Coles shares. Shareholders attracted to Coles' defensive investment characteristics and strong cash generation to support dividend payments could increase their exposure to Coles if they wished. Alternatively, they could decrease their exposure to the Coles business by selling Coles shares if they were more attracted to the higher growth prospects (and higher risk) of Wesfarmers post Demerger.

The ability to make a more precise targeted investment into the demerged Coles and Wesfarmers businesses (or adjust allocations between these businesses) should be attractive to shareholders, certainly compared to the current structure where they are locked into the relativities implicitly set by 100% ownership.

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Increased Capacity to Focus on Wesfarmers post Demerger Businesses

Despite Wesfarmers' autonomous management model, the size, public profile and turnaround of Coles has demanded a significant commitment of time and resources by the Wesfarmers' board and corporate head office i.e. it has consumed significant management "bandwidth". As a result, there has been less capacity to pursue other opportunities.

The Demerger will increase the capacity of the Wesfarmers' board and corporate management to focus solely on the growing businesses in the portfolio and new opportunities. In particular, it will eliminate the need for board and corporate head office management resources to be devoted to Coles.

In Grant Samuel's opinion, this benefit is real but is not directly measurable and will only be manifested in performance measures over the medium and longer term.

The demerger of Coles may also increase investor and analyst awareness and understanding of Wesfarmers' remaining businesses. At present, these businesses receive relatively little attention in meetings with investors or analysts.

Streamlined Decision Making for Coles

The Demerger will result in simplification of Coles' decision making processes for significant initiatives. While Coles operates on an autonomous basis, at present, certain significant decisions (e.g. large capital expenditure, long tenure agreements) involve all of Coles and Wesfarmers management (including Wesfarmers' business development team), the Coles divisional board and the Wesfarmers board. Inevitably, this results in longer decision making processes for significant initiatives and the potential for second guessing of those "on the ground". The Demerger should therefore lead to greater speed of decision making for significant initiatives which will be important in the highly competitive retail supermarket sector.

More Targeted and Flexible Staff Incentives for Coles

Under the current Wesfarmers incentive scheme, Wesfarmers' executives are already rewarded for achieving objectives for which they are accountable and responsible. Under Wesfarmers' Key Executive Equity Performance Plan ('KEEPP"), the granting of equity incentives is based on divisional financial measures (EBIT, return on capital, store sales growth and transaction growth) (60%) and divisional strategic measures (40%). However, only the Coles CEO is entitled to participate in the KEEPP. Management and staff below the CEO are able to receive grants of Wesfarmers shares (subject to a time lock).

As a standalone listed company:

- incentives will be able to be offered to a wider range of executives (i.e. below CEO level) and store managers; and
- there will be stronger alignment between executive/store manager performance and the value of shares provided as incentives because Coles will be able to offer equity in a pure Coles business rather than the diversified Wesfarmers' business (albeit given Coles' relative size, Wesfarmers shares are often regarded as a proxy for Coles).

8.3.6 Other Considerations

The rationale for the Demerger is not conventional. It is specific to Wesfarmers and is driven by the desire to reposition Wesfarmers as a diversified industrial conglomerate focused on providing satisfactory returns to shareholders. The Demerger is not being driven by the expectation of a market re-rating or by some of the other typical benefits of demergers.

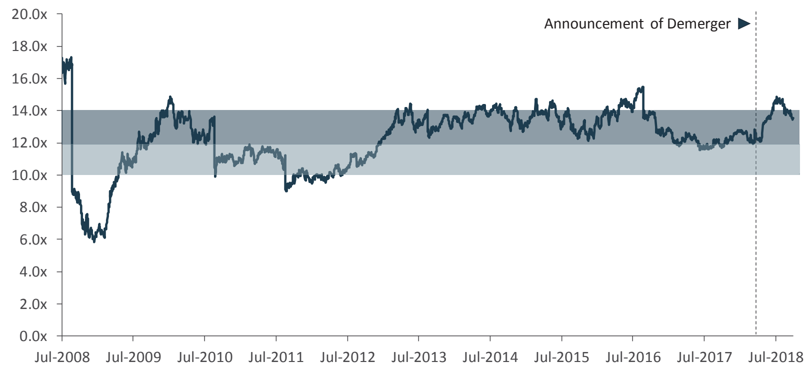
Sharemarket Re-Rating

The case for any short-term market re-rating is not strong:

- there does not appear to be any material mis-pricing of Wesfarmers shares:
  - Wesfarmers is currently trading broadly in line with its long term average trading multiples:

WESFARMERS – FORWARD EBIT TRADING MULTIPLE

JULY 2008 TO SEPTEMBER 2018



Source: S&P Global Market Intelligence

Over the past ten years, Wesfarmers has consistently traded in the range 10-14 times forward EBIT (other than for a short period of time during the global financial crisis). Over the past six years, the range has been even tighter at around 12-14 times forward EBIT. While there has been an increase in Wesfarmers' forward EBIT trading multiple since announcement of the Demerger (to as high as 15 times), this has been in the context of a general rise in equities markets (the S&P/ASX 200 has increased by 5% over the same period) as well as company specific factors that did not necessarily impact forward earnings forecasts at the time, such as the exit from BUKI on better than expected terms (announced on 25 May 2018 and completed on 2 June 2018), the annual strategy briefing day held on 7 June 2018 and the announcement of Wesfarmers' FY18 results on 15 August 2018;

  - broker "sum of the parts" valuations for Wesfarmers on announcement of the Demerger were generally in line with the trading range for Wesfarmers' shares at the time:

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WESFARMERS – BROKER VALUATIONS

ON ANNOUNCEMENT OF DEMERGER (16 MARCH 2018)[44]

	BROKER VALUATIONS[45] ($ MILLIONS)		
	LOW	MEDIAN	HIGH
Coles	18,995		20,063
Bunnings ANZ	18,674		22,868
Department stores	7,255		8,138
Officeworks	904		2,110
Industrials	4,533		5,471
Corporate and other	(2,840)		396
Enterprise value	**47,521**	**51,026**	**59,046**
Net borrowings	(3,579)	(3,964)	(3,720)
Equity value	**43,942**	**47,062**	**55,326**
Equity value per share	**$38.75**	**$41.51**	**$48.70**

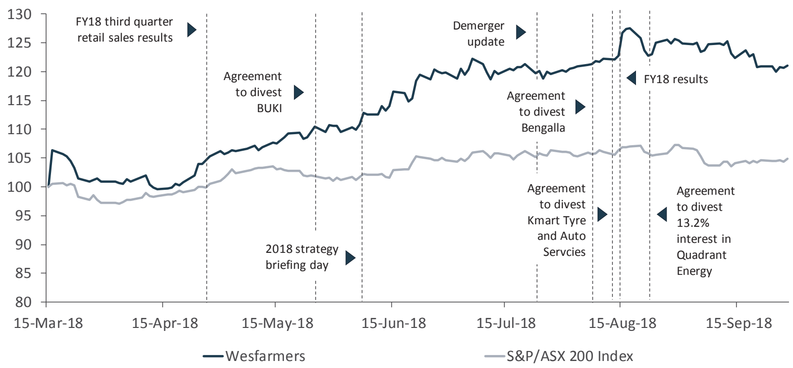
Source: Broker's reports and Grant Samuel analysis

There is evidence that diversified conglomerates often trade at a discount to the identifiable market value of their portfolio businesses (known as the "conglomerate discount"). The quantum of the discount and the reasons for it vary from case to case and typically relate to disadvantages in relation to resource allocation, management focus, decision making and incentives. However, the conglomerate discount does not appear to apply to Wesfarmers. The median broker "sum of the parts" valuation for Wesfarmers at the time of announcement of the Demerger ($41.51) was generally in line with the then trading range of $40.29-42.65; and

- the increase in Wesfarmers' share price immediately following announcement of the Demerger was not sustained:

WESFARMERS VS S&P/ASX 200 INDEX

15 MARCH 2018 TO 28 SEPTEMBER 2018



Source: IRESS

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[44] 6 of the 10 brokers following Wesfarmers when the Demerger was announced published research on or around 16 March 2018 that included "sum of the parts" valuations and have been used in the analysis. The valuations are not presented on a consistent basis as they reflect each broker's approach to analysis of Wesfarmers. In this analysis, Grant Samuel has attempted to present the valuations on a consistent basis, however, some inconsistencies may exist (e.g. in relation to the treatment of BUKI).

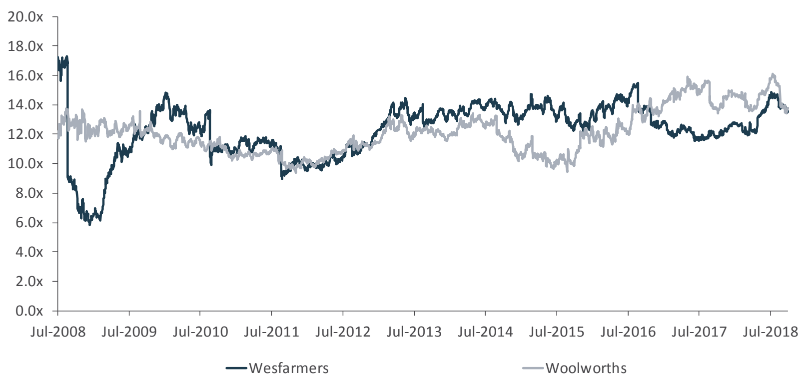
[45] Grant Samuel's analysis of low, high and median broker valuations is based on enterprise value. As a result, median values for each business have not been shown (as they do not add to the median enterprise value).

Following announcement of the Demerger on 16 March 2018, Wesfarmers' share price increased by over 6% to close at $43.80. However, over the following weeks (while the market as a whole was relatively flat), all of this gain was lost, with the share price reverting to pre-announcement levels by mid-April 2018. While Wesfarmers shares have subsequently outperformed the S&P/ASX 200 index substantially, it is difficult to isolate the extent to which this outperformance might be related to the Demerger given other significant announcements over this period. In particular, it is likely that there would have been a positive share price reaction to the announcements of FY18 third quarter sales results on 26 April 2018 that showed growing sales momentum for Coles' food and liquor business, the agreement to divest BUKI on better than expected terms on 25 May 2018 and the 2018 strategy briefing day held on 7 June 2018. The share price also reacted very positively to the release of Wesfarmers' FY18 results on 15 August 2018 (increasing by $1.61 or 3.2% on the day of announcement);

- the trading multiples for a separately listed Coles would not be expected to be materially different to Wesfarmers' trading multiples as Wesfarmers is currently rated by the market largely based on the Coles business due to its relative size and high profile:
  - Coles' closest competitor and ASX listed peer, Woolworths, provides value parameters against which a separately listed Coles would be benchmarked (albeit Woolworths has a stronger liquor offering but also includes the underperforming BIG W discount department store business). The forward EBIT trading multiples for Wesfarmers and Woolworths over the past ten years are shown in the chart below:

WESFARMERS AND WOOLWORTHS FORWARD EBIT TRADING MULTPLES

JULY 2008 TO SEPTEMBER 2018



Source: S&P Global Market Intelligence

Over the past ten years, the forward EBIT trading multiples for Wesfarmers and Woolworths have been reasonably consistent, other than for a short period of time during the global financial crisis when Wesfarmers' share price was severely impacted by several factors, including increased debt levels associated with the acquisition of Coles, a dilutive $2.8 billion equity capital raising and a reduction in dividends.

The periods of Wesfarmers' relative outperformance (from mid-2013 to late-2015) and underperformance (from late-2016 to mid-2018), coincided with relative strength of the Coles and Woolworths customer offerings (and as a result, sales and EBIT growth) over these periods. The gap between the Wesfarmers and Woolworths forward EBIT trading multiples has largely closed following Wesfarmers' announcement of its FY18 third quarter sales results on 26 April 2018; and

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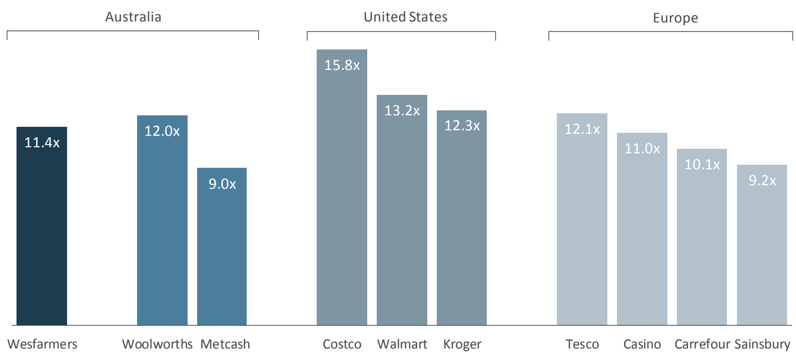
- a review of the values attributed to Coles in the six "sum of the parts" valuations used in the broker valuations analysis above indicates that brokers adopted multiples in the range 11.6-14.4 times (median 12.2 times) to apply to their FY19 EBIT forecasts for Coles. These multiples are not dissimilar to the trading multiples of listed companies comparable to Coles immediately prior to announcement of the Demerger:

COLES - COMPARABLE COMPANY FORECAST FY19 EBIT MULTIPLES

AS AT 15 MARCH 2018



Source: S&P Global Market Intelligence

The forecast FY19 EBIT trading multiple for Woolworths at 12.0 times is consistent with the range for Coles adopted by brokers of 11.6-14.4 times, and almost identical to the median of 12.2 times. It is also only a slight premium to the trading multiple for Wesfarmers prior to announcement of the Demerger. The forecast trading multiple for Metcash Limited ("Metcash") is less relevant due to its significantly smaller size and its operation as a lower margin (~2% EBIT margin) wholesale distribution and marketing company across food, liquor, hardware and automotive parts and accessories (supplying independent supermarkets in Australia). Metcash's trading multiples have fallen further following announcement of the loss of a major customer at the end of May 2018.

The forecast trading multiples for the selected comparable international listed companies indicate that the United States companies are trading at slightly higher multiples and the European companies are trading at slightly lower multiples. The supermarket sector in the United States and Europe is more competitive than it is in Australia, with the dominant market position of Coles and Woolworths more entrenched compared to global peers. As a result, the global peers tend to have lower EBIT margins (despite owning rather than leasing the majority of their properties).

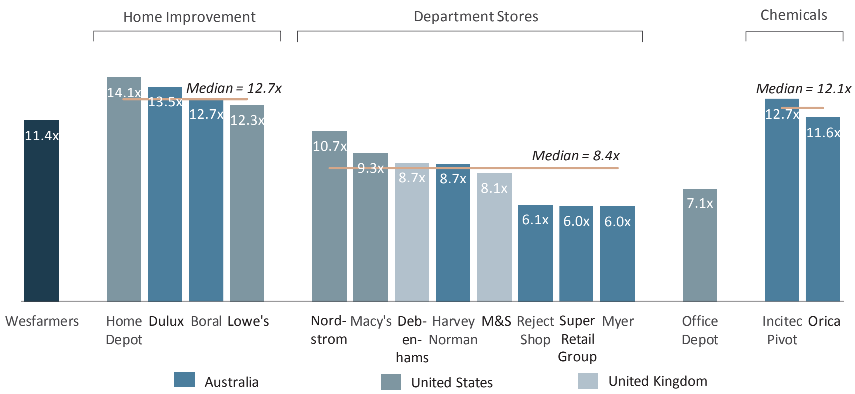
The higher multiples for United States companies, particularly Costco and Walmart, would in part reflect their considerably larger size, multi-national operations and strong bargaining power and, in the case of Costco, its warehouse style stores and membership-based model with lower prices and fewer product lines. In relation to the European companies, the relatively lower trading multiples for Groupe Casino ("Casino") and J Sainsbury plc ("Sainsbury") may reflect their considerably smaller size relative to Coles. In contrast, Carrefour SA ("Carrefour"), which is a similar size to Coles, is at the start of a five-year transformation announced in January 2018 (following two profit downgrades and a loss in FY17) and the forecast turnaround in earnings is not yet reflected in its share price; and

- Wesfarmers post Demerger will retain many of its current characteristics in that it:
  - will continue to disclose performance by business division;
  - will be followed by a broad investor and analyst market;
  - will have a strong balance sheet and the ability to act when opportunities arise; and
  - is expected to retain its existing investment grade credit rating and high dividend payout ratio.

Wesfarmers has historically traded broadly in line with domestic and international retail peers (refer to the charts above), reflecting the fact that retail represents around 80% of earnings and 90% of broker "sum of the parts" valuations. Wesfarmers post Demerger will still be primarily a retail business, with Bunnings ANZ, Kmart, Target and Officeworks representing around 70% of earnings and 80% of broker "sum of the parts" valuations. As a result, domestic and international retail peers will remain a relevant benchmark. A comparison of Wesfarmers' FY19 forecast EBIT multiple to the FY19 forecast EBIT multiples of domestic and international home improvement, department store, office supplies and chemicals businesses is shown in the chart below:

WESFARMERS POST DEMERGER - COMPARABLE COMPANY FORECAST FY19 EBIT MULTIPLES

AS AT 15 MARCH 2018



Source: S&P Global Market Intelligence

While it is difficult to draw any definitive conclusions given the diversified nature of Wesfarmers' business activities, there is nothing to suggest that Wesfarmers was trading materially out of line with other (non-supermarket) domestic and international peers prior to announcement of the Demerger, particularly taking into account the heavy weighting towards Bunnings ANZ (where comparable companies were trading at a relatively higher median FY19 EBIT multiple of 12.7 times), offset by the exposure to Department Stores and Officeworks (where comparable companies were trading at relatively lower median FY19 EBIT multiples in the range 7.1-8.4 times).

The impact of higher earnings growth and return on capital for Wesfarmers post Demerger is likely to be offset by an increase in volatility (i.e. greater exposure to consumer discretionary rather than defensive consumer staples retail) and an increase in risk due to the increased weighting of underperforming businesses (e.g. Target and Blackwoods).

There may be the potential for some re-rating of Wesfarmers shares following the Demerger, but this is only likely to be achieved over time as Wesfarmers executes on its strategy and the market and analysts turn their attention to Wesfarmers' other businesses.

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Typical Advantages of Demergers

As a result of the:

- relative size of Coles as the largest of Wesfarmers' portfolio of businesses (representing 32% of FY18 EBIT and 64% of capital employed for the rolling 12 months to 30 June 2018); and
- nature of Wesfarmers as a diversified conglomerate, where:
  - each business, including Coles, is operated on an autonomous basis with its own management responsible for strategy development and execution as well as day-to-day operational performance; and
  - capital is allocated to the portfolio businesses or investments based on the ability to achieve long term value creation,

many of the typical advantages and benefits of demergers do not apply.

The Demerger does not result in any substantial improvement for Coles in terms of:

- transparency. Wesfarmers has reported Coles as a separate segment since its acquisition in FY08. A significant amount of information on Coles is already disclosed by Wesfarmers, including:
  - revenue split between food and liquor and convenience; and
  - key financial metrics such as comparable sales growth (quarterly), price inflation/(deflation), store numbers and movements, and sales and EBIT per square metre and per store (albeit some information, such as Coles' food and liquor EBIT margin, has not been disclosed in recent years).

  While a separately listed Coles will inevitably provide more information (and with greater granularity), the market already has access to sufficient information to enable assessment of Coles' performance and outlook (and comparison to its peers);
- access to capital. Under Wesfarmers' current structure, there is no shortage of capital for any of the businesses in the portfolio, including Coles. Wesfarmers has:
  - strong cash flow generation across the group with a cash realisation ratio in excess of 100%;
  - conservative leverage, with book gearing at 30 June 2018 of around 16% and interest cover of around 30 times;
  - ample headroom of ~$3.1 billion under its bank loan facilities (as at 30 June 2018); and
  - the ability to raise equity if necessary:
    - the equity markets have not been accessed since January/February 2009; and
    - through its active dividend reinvestment plan (although this has generally had relatively low take up due to its 0% discount and there has been no take up since March 2017).

  The ability to apply capital is limited only by opportunity, rather than through the rationing of a limited amount of capital among the portfolio businesses.

  While Coles' capital expenditure has declined over the past five years, this reflects the cyclical nature of store renewals (i.e. the timing of previous renewals (there was a large renewal program in the initial years of the Coles turnaround) and the timing needs to be right in terms of lease expiry etc) and does not reflect any withholding of capital by Wesfarmers. Coles' share of group capital expenditure has consistently been in the range 40-48%;
- strategic, operational and financial flexibility:
  - Coles already has a divisional board and management focussed solely on developing and optimising the performance of the Coles business and pursuing its own strategic and operational priorities;

- while Coles is being established with its own capital structure and will have a higher level of borrowings and higher gearing than Wesfarmers post Demerger and will set its own dividend policy:
  - the level of borrowings reflects Coles' defensive characteristics and strong and stable cash generation, which provide greater debt servicing capacity (despite the need for continued investment in the customer offer);
  - Coles' debt facilities allow for the ~20% increase in gross capital expenditure (to around $1 billion) forecast for FY19 (and for capital expenditure to remain at that level in the medium term);
  - Coles' pro forma credit metrics (other than its book gearing) compare favourably with those of its main competitor, Woolworths, with pro forma FY18 interest cover of 24.7 times[46] (compared to 23.7 times for Woolworths). Book gearing will be higher at 65% (compared to 11% for Woolworths) but this reflects in part Coles' lower intangible assets as a result of the derecognition of goodwill and intangible assets associated with Wesfarmers' acquisition of Coles in 2008. As at 30 June 2018, Coles' intangible assets represented 38% of pro forma capital employed whereas Woolworths' intangible assets represented 54% of capital employed; and
  - Coles' dividend payments will reflect its performance and funding requirements, but it is expected that dividends declared by Coles and Wesfarmers post Demerger for FY19 will be broadly equivalent to the dividends that Wesfarmers would otherwise have declared in the absence of the Demerger; and

- focus and scrutiny. As a result of its size and autonomous management, Coles is already subject to considerable focus and scrutiny as part of Wesfarmers:
  - it has an extremely high public profile as one of Australia's leading supermarket chains;
  - it is the subject of focussed research by analysts as Wesfarmers' largest portfolio business; and
  - there is regular interaction between Coles' CEO and analysts and institutional investors. The Coles' CEO is part of the investor roadshows and a considerable portion of these meetings is devoted to Coles.

  While there will be additional focus and scrutiny through higher levels of financial disclosure, standalone Coles roadshows/investor meetings and the requirement to hold annual general meetings, any additional pressure on Coles management is likely to be minimal.

Being a separate listed company will inevitably involve some changes to transparency, access to capital, strategic, operational and financial flexibility and focus and scrutiny for Coles. However, any impact is likely to be incremental rather than transformational.

The Demerger is also unlikely to result in any increase in takeover potential for the demerged entities. Coles and Wesfarmers post Demerger will be substantial entities, and both will be amongst the 30 largest companies listed on the ASX. The size of both entities will be a deterrent to any takeover, as will Wesfarmers' conglomerate nature. While a greater focus on, and higher profile of, the remaining businesses in Wesfarmers' portfolio may elicit interest from potential purchasers, any increased interest in the portfolio businesses as a direct result of the Demerger is likely to be minimal.

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[46] Coles' Pro forma FY18 interest cover has been estimated by Grant Samuel assuming pro forma average net borrowings of $2 billion and an interest rate of 4.18% (equivalent to Wesfarmers' FY18 effective interest rate). This calculation has been shown for illustrative purposes only, to assist Wesfarmers shareholders to understand the impact of the Demerger on credit metrics. The calculations do not purport to reflect the actual credit metrics for Coles if it had operated as a standalone entity during FY18.

8.4 Disadvantages, Costs and Risks of the Demerger

Due to the unusual rationale for the Demerger, a number of disadvantages usually associated with demergers do not apply. The Demerger is unlikely to have any material impact, for Coles or Wesfarmers post Demerger, on:

- market liquidity:
  - Coles and Wesfarmers post Demerger will be substantial listed companies, with both amongst the 30 largest companies listed on the ASX;
  - for index tracking or benchmarked investors, Wesfarmers post Demerger and Coles will both be included in all relevant indices (S&P/ASX 50, S&P/ASX 100 and, most importantly, the S&P/ASX 200), even after allowing for Wesfarmers' 15% retained interest in Coles which would not be part of the free float. Consequently, the proportionate exposure of these investors to Wesfarmers prior to the Demerger will be the same as their proportionate exposure to Coles and Wesfarmers post Demerger; and
  - there may be some short-term impacts, but the net effect is likely to be minimal. For example:
    - selling by holders of small parcels of Coles shares, although the share sale facility made available to Wesfarmers shareholders holding 160 or fewer shares will allow these Coles shares to be placed with investors in a more structured manner that should minimise any impact on the Coles share price;
    - selling by Coles shareholders who are not attracted to its lower growth, lower return on capital profile. However, given the substantial proportion of Wesfarmers represented by Coles (32% of EBIT and 64% of capital employed), it is likely that most shareholders invest in Wesfarmers for exposure to supermarkets, so any selling is likely to be limited; and
    - buying from investors more attracted to Coles (yield focused investors or active retail managers) and Wesfarmers post Demerger (growth focused investors); and
- vulnerability to external shocks. The Demerger will result in two smaller and less diversified companies than Wesfarmers. Definitionally, this means that each will be individually less able to readily absorb the financial and business impact of significant adverse events as the events will have a greater relative impact. These adverse events might include, for example, disappointing outcomes from the strategies to increase Coles comparable sales growth and grow EBIT (store refurbishment, digital expansion, increased range and penetration of private label products) or failure by Wesfarmers to deliver the planned turnaround in underperforming businesses (e.g. Target, Blackwoods). However:
  - Coles and Wesfarmers will both be very substantial businesses. Coles has pro forma FY18 revenue of $39.3 billion and pro forma FY18 EBIT of $1.4 billion and Wesfarmers post Demerger has pro forma FY18 revenue of $27.5 billion and pro forma FY18 EBIT of $3.0 billion;
  - Coles operates in the consumer staples retail sector, which has defensive investment characteristics and is less volatile than other retail and market sectors. It is therefore less prone (although not exempt from) shock events;
  - Wesfarmers will remain a diversified conglomerate with exposure to a portfolio of businesses that should result in reduced risk and volatility in overall returns relative to market conditions;
  - both Coles and Wesfarmers post Demerger will have reasonably modest levels of financial leverage with pro forma FY18 book gearing ratios of around 65% for Coles and 17% for Wesfarmers post Demerger (which translates to interest cover ratios of around 25 times[47] and 20 times); and

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[47] Coles' Pro forma FY18 interest cover has been estimated by Grant Samuel assuming pro forma average net borrowings of $2 billion and an interest rate of 4.18% (equivalent to Wesfarmers' FY18 effective interest rate). This calculation has been shown for illustrative purposes only, to assist Wesfarmers shareholders to understand the impact of the Demerger on credit metrics. The calculations do not purport to reflect the actual credit metrics for Coles if it had operated as a standalone entity during FY18.

- both Coles and Wesfarmers should have ready access to equity markets to raise additional equity capital if necessary.

However, there are a number of disadvantages that do apply:

Single Focus of Coles

Coles will be standalone company focused on the supermarkets, liquor and convenience sectors of the retail industry in Australia. As a listed company, it will be subject to pressure to deliver short term returns. It will no longer have access to the Wesfarmers protective "umbrella" that provided access to capital and the ability to make medium term decisions without the distractions of being a listed company. However:

- having achieved the turnaround in Coles' performance, it is arguable that there is no longer any need for the "umbrella" of protection; and
- in any event, Coles' management and performance has been the focus of investors and analysts even as part of Wesfarmers.

Lack of Track Record

Coles will be a new standalone company with a new board of directors including six recently appointed non-executive directors. The relationships between the new board and Coles management and the relationships within the board itself are untested and, inevitably, there is a risk that it does not work as planned. In addition:

- Coles' new CEO, Steven Cain, has only been recently appointed and commenced in mid-September 2018 and the relationship between the new CEO and the new board and management is untested; and
- the CFO, Leah Weckert has only been in the role since March 2018 and does not have previous experience in this role in a publicly listed company (although she has held various positions in Coles over the past eight years).

However:

- the board will have continuity and experience with the business through the appointment of James Graham as Chairman. James Graham was a non-executive director on the Wesfarmers' board for 20 years prior to his resignation in July 2018 and his tenure includes the entire period Wesfarmers' has owned Coles. While some investors have raised concerns about James Graham's independence (he is also Chairman of, and a shareholder in, Gresham Partners, which is 50% owned by Wesfarmers and which has provided corporate advisory services to Wesfarmers), he knows the Coles business well and should be able to assist Coles in making a smooth transition from a Wesfarmers business unit to a standalone listed company;
- Archie Norman will become an adviser to the Coles board (although he will step down as deputy chairman of Coles). Archie Norman has extensive retail experience and knows the Coles business well;
- Steven Cain has extensive local and international retail experience, including with Kingfisher plc and supermarket chain Asda as well as his prior role as CEO of Supermarkets and Convenience at Metcash. He was also Managing Director of food, liquor and fuel at Coles Myer for a short period in 2003-2004 and advised Wesfarmers on its takeover of Coles Group in 2007. In addition, John Durkan, the current CEO, will remain in an advisory role until FY19 or FY20 to ensure a seamless transition to the new CEO; and
- most other key members of the Coles senior operational management team have been with Coles for some time (at least four, and up to 25, years).

Any organisational change involves some degree of risk. However, change is a regular part of corporate development and any negative impact is unlikely to be material.

One-off Transaction and Implementation Costs

Wesfarmers has estimated the total transaction and implementation costs of the Demerger to be approximately $148 million (before tax). These costs include advisers' fees, restructure costs (including stamp duty and other taxes), establishment fees for debt facilities, fees associated with the ASX listing of Coles and other costs. Approximately $65 million of the total costs will have been incurred prior to the Wesfarmers shareholders' meeting to vote on the Demerger. Therefore, the additional costs to be incurred if the Demerger proceeds are approximately $83 million.

It is expected that all of the transaction costs will be incurred and paid for by Wesfarmers.

While the quantum of the one-off transaction costs associated with the Demerger is significant, they are not material relative to Wesfarmers' assets and market capitalisation. Total one-off transaction costs represent around 0.25% of Wesfarmers' current market capitalisation.

In addition, Coles is expected to incur approximately $25 million in separation costs to set up new systems and processes to allow it to operate as an independent entity. There may also be additional separation costs incurred by Coles and/or Wesfarmers at the expiry of the Transitional Services Agreement in the process of establishing systems or services to replace the transitional services. These costs are uncertain and have not been included in the one-off transaction and implementation costs.

Incremental Operating Costs

The Demerger will result in loss of the financial benefits of operating Coles and Wesfarmers under a single corporate structure. These benefits are largely derived from operating a corporate head office and the central provision of a number of administrative functions.

Although Coles already operates independently in many respects, it currently shares corporate overheads, shared services and costs related to being an ASX listed company. While certain services will be covered by a Transitional Services Agreement for a period of time, ultimately Coles and Wesfarmers will have to support these overheads from their own resources (except for those services that Coles will continue to provide to Kmart, Target and Officeworks under ongoing contractual agreements which are on terms and pricing consistent with the existing arrangements).

Following the Demerger, additional operating costs will be incurred in relation to:

- Coles establishing its own corporate office functions. The support services provided by Wesfarmers' corporate office to Coles include legal (although a substantial legal division already exists within Coles), company secretarial, external reporting, internal audit, tax, treasury, investor relations, insurance and statutory reporting. Coles will also incur additional costs related to being an ASX listed company such as directors' fees, other board costs, ASX listing fees, share registry costs, annual general meeting costs and preparation of annual reports. Wesfarmers estimates the incremental cost to Coles will be approximately $38 million per annum, although they will be partially offset by $10 million of operating costs previously incurred by Coles that will be incurred by *flybuys* post the Demerger; and
- restructuring group wide arrangements that currently rely on Coles' presence within Wesfarmers, including self-insurance costs and internal audit costs. Coles is self-insured for workers' compensation insurance either under a Wesfarmers licence or a Coles licence. Coles will need to move to its own self-insurance licence where it currently operates under a Wesfarmers licence. Wesfarmers estimates that the costs transferred from Wesfarmers to Coles will be approximately $28 million per annum.

The impact of these net incremental costs (totalling $56 million) is reflected in the pro forma financial performance for Coles set out in Section 7.2 of this concise report. These costs collectively represent approximately 4% of Coles' pro forma FY18 EBIT (and just over 1% of the combined EBIT of Coles and Wesfarmers post Demerger).

flybuys will also incur incremental standalone operating costs of $10 million per annum and both Coles and Wesfarmers post Demerger will reflect their share of these costs in the share of profits of equity accounted associates and joint ventures. The impact of these incremental costs is also reflected in the pro forma financial performance for Coles set out in Section 7.2 of this concise report.

Any incremental costs for Wesfarmers have not been reflected in the pro forma financial performance for Wesfarmers post Demerger on the basis that they are not material.

In addition, Coles is a smaller business than Wesfarmers. All other things being equal, its reduced scale and diversity and its expected credit rating would definitionally mean that it will incur higher interest margins than Wesfarmers would have incurred in the same circumstances. It is not straightforward to isolate the impact because the funding strategies, the timing of accessing the debt markets and the markets accessed are different. Coles is putting in place a reasonably vanilla funding structure comprising bank debt, while Wesfarmers has a diversified funding mix including capital markets debt (domestic, Euro and United States bonds) as well as bank debt.

Coles has received very attractive proposals from the banks and it expects to pay margins on its debt facilities that are not materially different to those that Wesfarmers is currently paying. Nevertheless, in Grant Samuel's view, if Wesfarmers had sought a similar quantum of bank debt today, it would have been able to secure margins that were in the order of 15 basis points lower. Based on $2 billion of average net borrowings, this indicates that the Demerger would result in additional borrowing costs of $3 million per annum. This is immaterial in the context of Coles' FY18 pro forma profit before tax.

Just as important as interest cost are the other terms of the facilities (in particular financial and other covenants) as these can have a significant impact on financial flexibility. The key covenants of the Coles bank facilities contain financial covenants and undertakings that are customary for facilities of this nature including financial covenants, provision of information, negative pledge and restrictions on subsidiary indebtedness and disposals of assets.

Transition and Implementation Risks

Any separation of two organisations is a complicated exercise at an operational level. There are inevitably risks relating to implementation of the Demerger, including:

- delays and increased costs in achieving legal and practical separation of the businesses, including a full support service capacity for Coles;
- failure to obtain any third party consents required as a result of triggering change of control clauses in supplier or service contracts or property leases;
- disruption and management distraction during the implementation period that affects the performance of Coles; and
- retention of key management personnel.

Grant Samuel does not regard these risks as being outside the normal risks of any corporate restructuring transaction. In any event:

- Coles is already established as a separate, autonomous business with its own premises. The operational separation largely relates to corporate office functions, shared infrastructure and the restructuring of group wide arrangements and there is a dedicated transaction team to isolate these activities from the operation of the core business;
- Coles and Wesfarmers have assessed the need to obtain consents from key suppliers and lessors and have begun the process of contacting the relevant counterparties; and
- there is a detailed Transitional Services Agreement which provides for the sharing of support services for a period post the Demerger. This should facilitate the smooth establishment of standalone support services capacity at Coles over time.

Ongoing Risks from Joint Ownership of *flybuys*

flybuys is a successful and fundamental part of Coles' strategy in terms of marketing and sales and it is operated as an integral part of Coles' business (even though it is currently jointly owned by Coles and Wesfarmers).

Under the Demerger, *flybuys* will be a separate joint venture, 50% owned by Coles and 50% owned by Wesfarmers. The relationship between Coles and Wesfarmers as joint owners of *flybuys* will be set out in a shareholders' agreement and the ongoing commercial relationship between *flybuys* and Coles will be set out in a participation agreement. While these new agreements contain provisions to protect the existing *flybuys* business, and Coles management believes that these arrangements will be effective, there is always the risk that as a separate, standalone business that is jointly owned by two separate, publicly listed companies, the relationship between *flybuys* and Coles could change, particularly over time.

8.5 Other Matters

8.5.1 Dividends

Following implementation of the Demerger, the level of dividends paid will be a matter for the boards of each company. In this context:

- there will be no change to Wesfarmers' dividend policy which will continue to consider earnings, cash flows, franking credits and credit metrics. Over the past five years, this policy has resulted in Wesfarmers paying around 90% of NPAT before significant items as dividends (with the dividend payout ratio ranging from 88% to 93%);
- Coles currently intends to follow a dividend policy which is the same as Wesfarmers' current dividend policy and is expected to deliver a payout ratio ranging from 80% to 90%; and
- Wesfarmers has stated that it expects the combined dividends declared by Coles and Wesfarmers for FY19 to be broadly equivalent to the dividends that Wesfarmers would have declared in the absence of the Demerger (including in relation to franking).

However:

- the absolute level of profits from which Wesfarmers will be able to pay dividends will be reduced, given its ownership of only 15% of Coles and a Coles dividend payout ratio of less than 100% of profits;
- it is estimated that, in aggregate, Coles will incur incremental corporate and operating costs of $56 million if the Demerger proceeds; and
- the extent to which any dividend paid by Coles can be franked will depend on Coles' franking account balance, which immediately following the Demerger will be nil and will depend on the amount of Australian income tax paid by Coles.

8.5.2 Ineligible Overseas Shareholders

Ineligible overseas shareholders will not be entitled to receive Coles shares under the Demerger. The Coles shares that would otherwise have been distributed to them will be transferred to a sale agent and sold on the ASX on their behalf and they will receive the net proceeds (free of any brokerage costs or stamp duty). Ineligible overseas shareholders may also be required to pay tax on any profit on that disposal (in their country of residence). However:

- the Coles shares will be sold for market value;
- they can acquire Coles shares through the ASX following listing if they wish to retain (or increase) their exposure to the Coles business; and
- shareholders representing less than 0.05% of Wesfarmers' issued capital are expected to be impacted by these provisions.

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9 Impact on Wesfarmers' Ability to Pay its Creditors

In Grant Samuel's opinion, existing Wesfarmers creditors will not be materially prejudiced by the capital reduction for the following reasons:

- Wesfarmers Limited and certain of its controlled entities (including most of its Australian operating subsidiaries) are parties to a deed of cross guarantee under which each company guarantees the debts of the others. As part of the Demerger, a Revocation Deed was lodged with ASIC on 2 July 2018 to revoke the guarantee in respect of Coles subsidiaries (i.e. the deed of guarantee will continue in effect for Wesfarmers post Demerger). The revocation will take effect six months after the date of lodgement (2 January 2019). It is intended that Coles will establish its own deed of cross guarantee. The consequences of this arrangement are that:
  - creditors of any Wesfarmers entity that is subject to the deed of cross guarantee currently have an effective exposure to the overall financial health of the Wesfarmers group rather than the individual entity to which they have provided credit (in effect they are all creditors of Wesfarmers Limited);
  - creditors of entities that are not part of the deed of cross guarantee group will continue to depend entirely on the financial health of that individual entity. The capital reduction has no impact on the capital base or other financial attributes of these entities (as it occurs at the Wesfarmers Limited level);
  - most trade creditors are short term in nature (i.e. repayable within 60 days at any point in time) and accordingly:
    - in respect of any credit exposure as at the implementation date (expected to be 28 November 2018) they will be covered by the existing deed of cross guarantee as the revocation does not become effective until 2 January 2019. Therefore, they will continue to have access to all of the resources of the current Wesfarmers deed of cross guarantee group (i.e. there is no change to their risk profile) until this time. In this context, it is important to note that the capital reduction is non-cash, so there is no net outflow of cash (except for transaction and implementation costs) from the combined Coles and Wesfarmers group as a consequence of the Demerger; and
    - they will have the opportunity to reassess for themselves whether they wish to continue to grant credit to Wesfarmers post Demerger or Coles; and
  - existing creditors with an exposure (to relevant entities) that extends beyond 2 January 2019 (i.e. not repayable until after that date) will end up with a risk exposure to either Wesfarmers post Demerger or Coles (depending on where the individual entity with which they have contracted sits). As both Wesfarmers post Demerger and Coles will have deeds of cross guarantee, that exposure is to the overall financial health of each group rather than the individual entity;
- in terms of the overall financial robustness and risk profile of Wesfarmers post Demerger and Coles:
  - Wesfarmers post Demerger and Coles will still each be of a meaningful size:

IMPACT OF DEMERGER ON KEY FINANCIAL PARAMETERS ($ MILLIONS)

YEAR ENDED/AS AT 30 JUNE 2018	WESFARMERS ACTUAL	WESFARMERS' CONTINUING OPERATIONS	WESFARMERS POST DEMERGER PRO FORMA	COLES PRO FORMA
Financial Performance				
Revenue	69,878	66,883	27,495	39,288
EBITDA	5,571	5,565	3,584	2,068
EBIT	4,288	4,367	3,037	1,414
Financial Position				
Total assets	36,933	36,933	18,864	9,547
Net borrowings	3,580	3,580	1,725	1,905
Net assets	22,754	22,754	9,967	2,935

Source: Wesfarmers and Grant Samuel analysis

- Wesfarmers post Demerger will have less leverage in its capital structure than Coles (and Wesfarmers), while Coles will have higher leverage than Wesfarmers (and Wesfarmers post Demerger), at least initially:

IMPACT OF DEMERGER ON LIQUIDITY AND LEVERAGE METRICS ($ MILLIONS)

YEAR ENDED/AS AT 30 JUNE 2018	WESFARMERS ACTUAL	WESFARMERS' CONTINUING OPERATIONS	WESFARMERS POST DEMERGER PRO FORMA	COLES PRO FORMA[48]
Gearing	15.7%	15.7%	17.2%	64.9%
Debt cover (net financial debt/EBITDA)	0.6x	0.6x	0.5x	0.9x
Fixed charges cover	3.0x	3.0x	3.8x	2.9x
Interest cover	30.4x	30.4x	19.6x	24.7x

Source: Wesfarmers and Grant Samuel analysis

Wesfarmers post Demerger will initially have a relatively conservative gearing level. The allocation of debt to Coles and the deconsolidation of Coles' lease liabilities results in steady or improved group credit metrics for Wesfarmers post Demerger. Coles will be more highly geared and will have higher debt cover than Wesfarmers post Demerger and will also have higher book gearing than Woolworths (11.3% as at 30 June 2018). However, pro forma interest cover for both Wesfarmers post Demerger and Coles is very conservative (and, in the case of Coles, above Woolworths' FY18 interest cover of 23.7 times). Coles also has more conservative fixed charges cover than Woolworths (at 3.1 times compared to 1.1 times); and

- Wesfarmers has an investment grade credit rating of A-/Stable/A-2 from Standard & Poor's and A3/Stable/P-2 from Moody's. Wesfarmers is expected to retain its current investment grade credit rating following the Demerger, albeit the target metrics for these ratings are expected to be more restrictive.

  The standalone credit ratings for Coles are also expected to support a strong investment grade credit rating;

- following the Demerger, Coles is expected to have committed bank facilities totalling $4.0 billion from a group of domestic and international banks. The providers of these new facilities have made their own judgements as to the financial risk of Coles in full knowledge of its financial position as a standalone entity. The funding commitments of these parties suggest that the financial leverage of Coles is reasonable;
- Wesfarmers' existing bank facilities (which are all unsecured and therefore rank equally with other creditors) will remain in place. These lenders are not required to approve the Demerger, but is should be noted that a number of existing lenders to Wesfarmers have agreed to participate in the new facilities for Coles. It is reasonable to assume that these banks are comfortable with the risks attached to their existing exposure to Wesfarmers (and therefore their ongoing exposure to Wesfarmers post Demerger);
- Coles and Wesfarmers are both cash generative businesses:
  - Coles is a leading Australian retailer with a strong market share operating in a mature industry. It exhibits defensive characteristics (e.g. an earnings profile that is resilient through economic cycles and with relatively high barriers to entry); and
  - Wesfarmers post Demerger will own a growth focused portfolio of businesses, weighted towards Bunnings ANZ and Kmart;

[48] The liquidity metrics for Coles have been calculated by Grant Samuel assuming average net borrowings of $2 billion, an effective interest rate of 4.18% (equivalent to Wesfarmers' FY18 effective interest rate), an effective tax rate of 30% and minimum lease payments of $1.2 billion. These calculations have been shown for illustrative purposes only, to assist Wesfarmers shareholders to understand the impact of the Demerger on liquidity and leverage metrics. The calculations do not purport to reflect the actual liquidity and leverage metrics for Coles if it had operated as a standalone entity during FY18.

- as substantial listed companies, Wesfarmers' post Demerger and Coles would, if necessary, have access to the public equity markets to fund creditor payments (although there is absolutely no indication that this might be required); and
- the directors of Wesfarmers have stated that in their opinion, the Demerger and in particular, the capital reduction, will not materially prejudice Wesfarmers' ability to pay its creditors.

Grant Samuel makes no warranty, express or implied, as to the potential recoverability of existing or contingent debts owed by Wesfarmers at the date of this report or at any subsequent time. Grant Samuel's opinion relates only to the impact of the Demerger on Wesfarmers' ability to pays its existing creditors. Future creditors must rely on their own investigations of the financial positions of Wesfarmers post Demerger and Coles.

10 Other Matters

This concise report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Wesfarmers shareholders. Accordingly, before acting in relation to their investment, 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 Wesfarmers in relation to the Demerger.

Voting for or against the Demerger is a matter for individual shareholders, based on their own views as to value, their expectations about future market conditions and their particular 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 should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in Wesfarmers (pre or post the Demerger) or Coles. These are investment decisions independent of a decision on whether to vote for or against the Demerger upon which Grant Samuel does not offer an opinion. Shareholders should consult their own professional adviser in this regard.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included as Appendix 1 to this concise report.

This concise report is a summary of Grant Samuel's full independent expert's report. The full report from which this concise report has been extracted is available on Wesfarmers' website at www.wesfarmers.com.au or available to Wesfarmers shareholders on request. All limitations, disclaimers and declarations set out in the full report apply to this concise report.

The opinion is made as at the date of this concise report and reflects circumstances and conditions as at that date.

Yours faithfully
GRANT SAMUEL & ASSOCIATES PTY LIMITED

Grant Samuel & Associates

GRANT SAMUEL

APPENDIX 1

FINANCIAL SERVICES GUIDE

Grant Samuel & Associates Pty Limited ("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") or a concise independent expert's report ("Concise 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 and the Concise 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 and Concise Reports, Grant Samuel's client is the Entity to which it provides the Report and the Concise Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report and the Concise Report for Wesfarmers Limited in relation to proposed demerger of Coles Group Limited ("the Wesfarmers Report" and "the Wesfarmers Concise Report respectively), Grant Samuel will receive a fixed fee of $1.5 million plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 8.3 of the Wesfarmers 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 Wesfarmers Report and the Wesfarmers Concise Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report and a Concise Report. The guidelines for independence in the preparation of Reports and Concise Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 8.3 of the Wesfarmers 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 business or professional relationship with Wesfarmers or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Demerger.***
>
> ***Grant Samuel had no part in the formulation of the Demerger. Its only role has been the preparation of this report.***
>
> ***Grant Samuel will receive a fixed fee of $1.5 million for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Demerger. 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 Regulatory Guide 112 issued by the ASIC on 30 March 2011."***

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929. If you have any concerns regarding the Wesfarmers Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Financial Ombudsman Service at GPO Box 3 Melbourne VIC 3001 or 1300 780 808. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the Wesfarmers Report, the Wesfarmers Concise Report and their respective FSGs. 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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8
ADDITIONAL INFORMATION

8.1 WESFARMERS DIRECTORS

The Wesfarmers Directors at the date of lodgement of this Scheme Booklet for registration by ASIC are:

- Anthony Howarth
- Diane Smith-Gander
- Wayne Osborn
- Vanessa Wallace
- Paul Bassat
- Jennifer Westacott
- Michael Chaney
- Robert Scott
- Bill English

8.2 INTENTION OF DIRECTORS

8.2.1 COLES

Other than as disclosed in this Scheme Booklet, the Coles Directors have indicated to the Wesfarmers Board that it is their present intention following implementation of the Demerger:

- to continue the businesses of Coles, as set out in Section 2.5;
- to not make any major changes to the businesses of Coles, except as contemplated within this Scheme Booklet; and
- to continue the present policies of Coles relating to the employment of its employees.

8.2.2 WESFARMERS

Other than as disclosed in this Scheme Booklet, it is the present intention of the Wesfarmers Board following the implementation of the Demerger:

- to continue the businesses of Wesfarmers, as set out in Section 3.1;
- to not make any major changes to the businesses of Wesfarmers, except as contemplated within this Scheme Booklet; and
- to continue the present policies of Wesfarmers relating to the employment of its employees.

8.3 INTERESTS OF WESFARMERS AND COLES DIRECTORS

8.3.1 INTERESTS

No marketable securities of Wesfarmers are held by or on behalf of Wesfarmers Directors or Coles Directors other than the following interests:

Wesfarmers Directors or Coles Directors	Wesfarmers Shares held at 3 October 2018	
	Direct holdings of Wesfarmers Shares	Indirect holdings of Wesfarmers Shares
Paul Bassat	-	19,411
Michael Chaney	87,347	250
Bill English	1,023	-
Anthony Howarth	5,830	13,191
Wayne Osborn	2,621	12,107
Robert Scott	3,796	444,138
Diane Smith-Gander	-	12,045
Vanessa Wallace	971	12,512
Jennifer Westacott	4,507	986
James Graham	10,802	444,353
Steven Cain	-	-
David Cheesewright	-	-
Jacqueline Chow	-	-
Abi Cleland	-	1,816
Richard Freudenstein	-	-
Wendy Stops	-	6,910
Zlatko Todorcevski	-	2,506

No Wesfarmers Director or Coles Director held any options over Wesfarmers Shares as at the date of this Scheme Booklet, other than Rob Scott. As at 3 October 2018, Rob Scott holds 34,299 performance rights granted pursuant to the terms of the 2015 Wesfarmers Long Term Incentive Plan (WLTIP). Each performance right is a right to acquire one fully paid ordinary Wesfarmers share, subject to satisfaction of the performance conditions. Wesfarmers performance rights held by, or on behalf of, participants in the WLTIP do not carry a right to participate in the Demerger and participants will not receive Coles Shares in respect of them. Refer Section 4.6.2 for further details.

No marketable securities of Coles are held by or on behalf of Wesfarmers Directors or Coles Directors as at the date of this Scheme Booklet.

Wesfarmers Directors and Coles Directors who hold Wesfarmers Shares will be entitled to vote at the Meetings and receive Coles Shares under the Demerger on the same terms as all other Wesfarmers Shareholders.

8.3.2 AGREEMENTS OR ARRANGEMENTS WITH WESFARMERS DIRECTORS IN CONNECTION WITH THE DEMERGER

Other than the Coles Directors' fee and indemnity arrangements referred to in Section 2.15, there are no agreements or arrangements made between any Wesfarmers Director and any other person in connection with or conditional upon the outcome of the Demerger.

Mr James Graham will receive a fee of $25,000 per month for the period from 23 July 2018 up to his appointment as a director of Coles, and Mr Richard Freudenstein a total fee of $40,000, from Wesfarmers in respect of work undertaken in connection with the Demerger, in their capacities as Chairman-elect and director-elect of Coles respectively.

As previously disclosed by Wesfarmers, Mr James Graham is currently a director and chairman of Gresham Partners, which is owned by Gresham Partners Group Limited. Mr James Graham has a majority shareholding interest in a company which jointly owns Gresham Partners Group Limited on an equal basis with a wholly owned subsidiary of Wesfarmers. Gresham Partners has been engaged by Wesfarmers as a financial advisor to Wesfarmers on the Demerger. Details of the advisory fees payable by Wesfarmers in connection with the Demerger, which include the fees payable to Gresham Partners, are set out in Section 3.8.10.

Other than as set out above or elsewhere in this Scheme Booklet, no director or proposed director of Coles, and no firm in which a director or proposed director of Coles is a partner or was a partner in the last two years, holds, or held at any time during the last two years before the date of this Scheme Booklet, any interest in:

- the formation or promotion of Coles;
- any property acquired or proposed to be acquired by Coles in connection with its formation or promotion or the Demerger; or
- the Demerger.

and no amounts (whether in cash or securities or otherwise) have been paid or agreed to be paid, and no one has given or agreed to give a benefit, to any director or proposed director of Coles either to induce them to become, or to qualify them as, a director of Coles, or otherwise for services rendered by them in connection with the formation or promotion of Coles or the Demerger.

8.3.3 PAYMENTS AND OTHER BENEFITS TO WESFARMERS DIRECTORS, SECRETARIES OR EXECUTIVE OFFICERS

It is not proposed that any payment or other benefit will be made or given to any Wesfarmers Director, secretary or executive officer of Wesfarmers, or any body corporate related to Wesfarmers, as compensation for loss of, or as consideration for or in connection with, his or her retirement from office as director, secretary or executive officer of Wesfarmers or a body corporate connected with Wesfarmers as a consequence of or in connection with the Demerger.

8.4 SUMMARY OF RIGHTS AND LIABILITIES ATTACHING TO COLES SHARES AND OTHER MATERIAL PROVISIONS OF THE COLES CONSTITUTION

8.4.1 INTRODUCTION

The rights and liabilities attaching to ownership of Coles Shares arise from a combination of the Coles Constitution, statute, the ASX Listing Rules and general law.

A summary of the significant rights, liabilities and obligations attaching to the Coles Shares and a description of other material provisions of the Coles Constitution are set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Coles Shareholders. The summary assumes that Coles is admitted to the official list of the ASX.

8.4.2 MEETING OF MEMBERS

Each Coles Shareholder is entitled to receive notice of, attend, and vote at, general meetings of Coles and to receive all notices, accounts and other documents required to be sent to Coles Shareholders under the Coles Constitution, Corporations Act and ASX Listing Rules. Coles must give at least 28 days' written notice of a general meeting.

8.4.3 VOTING AT A GENERAL MEETING

At a general meeting of Coles, every Coles Shareholder present in person or by proxy, representative or attorney and entitled to vote is entitled to one vote on a show of hands and, on a poll, one vote for each Coles Share held by the Coles Shareholder (with adjusted voting rights for partly paid shares). If the votes are equal on a proposed resolution, the chairperson of the meeting has a casting vote in addition to any deliberative vote.

8.4.4 DIVIDENDS

The Coles Board may pay any dividends that, in its judgement, the financial position of Coles justifies. The Coles Board may also pay any dividend required to be paid under the terms of issue of a Coles Share, and fix a record date for a dividend and method of payment.

8.4.5 TRANSFER OF COLES SHARES

Subject to the Coles Constitution and to any restrictions attached to a Coles Share, Coles Shares may be transferred by proper ASTC transfer effected in accordance with the ASX Settlement Operating Rules, Corporations Act and ASX Listing Rules or by a written transfer in any usual form or in any other form approved by the Coles Board and permitted by the relevant laws and ASX requirements. The Coles Board may decline to register, or prevent registration of, a transfer of Coles Shares or apply a holding lock to prevent a transfer in accordance with the Corporations Act or the ASX Listing Rules.

8.4.6 ISSUE OF FURTHER SHARES

The Coles Board may, subject to the Coles Constitution, Corporations Act and ASX Listing Rules issue, allot or grant options for, or otherwise dispose of, Coles Shares on such terms as the Coles Board decides.

8.4.7 PREFERENCE SHARES

Coles may issue preference shares including preference shares which are, or at the option of Coles or a holder are, liable to be redeemed or convertible to Coles Shares. The rights attaching to preference shares are those set out in the Constitution unless other rights have been approved by special resolution of Coles.

8.4.8 WINDING UP

If Coles is wound up, then subject to the Constitution, the Corporations Act and any rights or restrictions attached to any Coles Shares or classes of shares, Coles Shareholders will be entitled to a share in any surplus property of Coles in proportion to the number of shares held by them.

If Coles is wound up, the liquidator may, with the sanction of a special resolution, divide among the Coles Shareholders the whole or part of Coles property and decide how the division is to be carried out as between Coles Shareholders or different classes of Coles Shareholders.

8.4.9 NON-MARKETABLE PARCELS

In accordance with the ASX Listing Rules, the Coles Board may sell Coles Shares that constitute less than a marketable parcel by following the procedures set out in the Coles Constitution. A marketable parcel of Coles Shares is defined in the ASX Listing Rules and is generally a holding of Coles Shares with a market value of not less than $500.

8.4.10 PROPORTIONAL TAKEOVER PROVISIONS

The Coles Constitution contains provisions requiring Coles Shareholder approval in relation to any proportional takeover bid. These provisions will cease to apply unless renewed by Coles Shareholders passing a special resolution by the third anniversary of either the date those rules were adopted or the date those rules were last renewed.

8.4.11 VARIATION OF CLASS RIGHTS

The procedure set out in the Coles Constitution must be followed for any variation of rights attached to the Coles Shares. Under the Coles Constitution, and subject to the Corporations Act and the terms of issue of a class of shares, the rights attached to any class of shares may be varied:

(a) with the written consent of the holders of 75 per cent of the shares of the class; or

(b) by a special resolution passed at a separate meeting of the holders of shares of the class.

8.4.12 DIRECTORS – APPOINTMENT AND RETIREMENT

Under the Coles Constitution, the number of directors shall be a minimum of three directors and a maximum of ten directors, unless Coles resolves otherwise at a general meeting. Directors are elected or re-elected at general meetings of Coles.

No Coles Director (excluding the CEO) may hold office without re-election beyond the third annual general meeting following the meeting at which that director was last elected or re-elected. The Coles Board may also appoint any eligible person to be a Coles Director, either to fill a casual vacancy on the Coles Board or as an addition to the existing directors, who will then hold office until the conclusion of the next annual general meeting of Coles following their appointment.

A person is eligible for election to the office of a Coles Director at a general meeting if they are nominated or recommended by the Coles Board or not less than the number of Coles Shareholders required to give notice of a resolution under the Corporations Act (subject to timing requirements).

8.4.13 DIRECTORS – VOTING

Questions arising at a meeting of the Coles Board must be decided by a majority of votes of the Coles Directors present at the meeting and entitled to vote on the matter. In the case of an equality of votes on a resolution, the chairperson of the meeting has a casting vote in addition to his or her deliberative vote, unless there are only two Coles Directors present or entitled to vote, in which case the chairperson of the meeting does not have a second or casting vote and the proposed resolution is taken as lost.

A written resolution of the Coles Board may be passed without holding a meeting of the Coles Board, if all of the eligible Coles Directors sign or consent to the resolution.

8.4.14 DIRECTORS – REMUNERATION

Under the Coles Constitution, the Coles Board may decide the remuneration to which each Coles Director is entitled for his or her services as a director. The total aggregate amount provided to all Non-Executive Directors for their services as directors must not exceed in any financial year the amount fixed by Coles in general meeting. The remuneration of a Coles Director (who is not the CEO or an Executive Director) must not include a commission on, or a percentage of, profits or operating revenue. The current maximum aggregate sum of Non-Executive Director remuneration is set out in Section 2.15.2. Any change to that maximum aggregate amount needs to be approved by Coles Shareholders.

Coles Directors are entitled to be paid for all travelling and other expenses incurred in attending to Coles' affairs, including attending and returning from general meetings of Coles or meetings of the Coles Board or Coles Board committees. Any Coles Director who performs extra services, makes any special exertions for the benefit of Coles or otherwise performs services, which, in the opinion of the Coles Board, are outside the scope of ordinary duties of a Non-Executive Director, may be remunerated for the services (as determined by the Coles Board) out of the funds of Coles.

Coles Directors' remuneration is discussed further in Section 2.15.

8.4.15 POWER AND DUTIES OF COLES DIRECTORS

The business and affairs of Coles are to be managed by or under the direction of the Coles Board, which (in addition to the powers and authorities conferred on it by the Coles Constitution) may exercise all powers and do all things that are within the power of Coles and that are not required by law or by the Coles Constitution to be done by Coles in general meeting.

8.4.16 ACCESS TO RECORDS

Coles may enter into contracts with a Coles Director or former Coles Director agreeing to provide continuing access, for a specified period after the Coles Director ceases to be a director of Coles, to Coles Board papers, books, records and documents of Coles which relate to the period during which the director or former director was a Coles Director on such terms and conditions as the Coles Board thinks fit. Coles may procure that its Subsidiaries provide similar access to board papers, books, records or documents.

8.4.17 INDEMNITIES

Coles must indemnify each officer of Coles on a full indemnity basis and to the full extent permitted by law against all losses, liability, costs, charges and expenses incurred by that person as an officer of Coles or of a related body corporate.

Coles may, to the extent permitted by law, purchase and maintain insurance or pay, or agree to pay, a premium for insurance for each officer of Coles against any liability incurred by that person as an officer of Coles or of a related body corporate, including but not limited to liability for negligence or for reasonable costs and expenses incurred in defending or responding to proceedings (whether civil or criminal and whatever the outcome).

8.4.18 AMENDMENT

The Coles Constitution can only be amended by special resolution passed by at least three quarters of Coles Shareholders present (in person or by proxy, attorney or representative) and entitled to vote on the resolution at a general meeting of Coles.

8.4.19 SHARE CAPITAL

On implementation of the Demerger, the only class of security on issue by Coles will be fully paid ordinary shares.

8.5 SUBSTANTIAL INTERESTS IN WESFARMERS

As at 4 October 2018, the following shareholders are substantial shareholders for the purposes of Part 6C.1 if the Corporations Act:

- BlackRock Group (BlackRock Inc. and subsidiaries) holding 5.00 per cent; and
- The Vanguard Group, Inc., holding 5.00 per cent.

Information in regard to substantial shareholdings arising, changing or ceasing after 4 October 2018 or in respect of which the relevant announcement is not available on the ASX's website is not included above.

8.6 REGULATORY WAIVERS AND CONSENTS

8.6.1 ASIC

ASIC has granted relief from certain disclosure requirements that would otherwise apply to this Scheme Booklet under the Corporations Act, including with respect to payments to directors and officers in relation to their loss of office or retirement.

Relief has been sought from ASIC in relation to:

- the prospectus provisions in the Corporations Act, in relation to their application to secondary trading in Coles Shares following the Demerger;
- various provisions in the Corporations Act (including the provisions relating to managed investment schemes, licensing and product disclosure that may otherwise apply to the Sale Facility; and
- various provisions in the Corporations Act (including the provisions relating to disclosure, licensing, advertising and hawking) that may otherwise apply to the offers to be made in the three months following the Demerger under the new Coles Group employee incentive plan.

8.6.2 ASX

The ASX has:

- confirmed that for the purpose of Listing Rule 1.1, condition 3, Coles may:
  - issue an information memorandum if it complies with the information memorandum requirements of Listing Rule 1.4 and if the information memorandum incorporates this Scheme Booklet, rather than a prospectus for the purpose of its admission to the ASX; and
  - the Coles pro forma historical financial information contained in this Scheme Booklet may be used for the purpose of the assets test under the Listing Rules;
- confirmed that chapter 11 of the Listing Rules does not apply to the Demerger and the approval of Wesfarmers Shareholders is not required under the Listing Rules;
- provided an in-principle waiver from Listing Rule 10.14 to the extent necessary to permit Coles to issue shares to the CEO, under the Equity Incentive Plan on the terms set out in this Scheme Booklet without obtaining Coles Shareholder approval.

8.7 CONSENTS AND DISCLAIMERS

Each of the parties named in this section as consenting parties:

- has given and has not, before lodgement of this Scheme Booklet with ASIC, withdrawn its written consent to be named in this Scheme Booklet in the form and context in which it is named;
- has given and has not, before the lodgement of this Scheme Booklet with ASIC, withdrawn its written consent to the inclusion of the respective statements and reports (where applicable) noted next to its name in this section, and the references to those statements and reports in the form and context in which they are included in this Scheme Booklet;
- does not make, or purport to make, any statement in this Scheme Booklet other than those statements referred to in this section in respect of that party's name (and as consented to by that party); and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements in or omissions from this Scheme Booklet.

Role	Consenting party
Legal advisor	Herbert Smith Freehills
Financial advisors	Gresham Advisory Partners Goldman Sachs Macquarie Capital
Independent Accountant	Ernst & Young Transaction Advisory Services Limited, in relation to the Independent Accountant's Report in Section 6.
Independent Expert	Grant Samuel & Associates Pty Limited, in relation to the concise Independent Expert's Report in Section 7 and any statements based on that report.
Taxation advisor	Greenwoods & Herbert Smith Freehills Pty Ltd, in relation to Section 5 and any related tax statements.
Auditor and provider of financial due diligence	Ernst & Young

8.8 REGULATORY AND LEGAL

8.8.1 FOREIGN EXCHANGE CONTROLS

There are currently Australian exchange controls which restrict the remittances of dividends, interest or other payments by Wesfarmers or Coles to non-resident shareholders outside Australia, if they are certain persons or entities designated by the Australian Minister of Foreign Affairs or Minister for Trade (as applicable) as being associated with the Democratic People's Republic of Korea (North Korea), Iran, Libya, the former government of the Federal Republic of Yugoslavia, Myanmar, Russia, Ukraine, Syria or Zimbabwe.

The Australian Government has also implemented certain financial sanctions made by the United Nations Security Council (which prevents dealing with financial resources owned by or giving financial resources to designated persons) in relation to: Al-Qaida, the Central African Republic, Counter-Terrorism, the Democratic Republic of Congo, Eritrea, Guinea-Bissau, Iran, Iraq, ISIL (Da'esh), Lebanon, Libya, North Korea, Somalia, South Sudan, Sudan, the Taliban, and Yemen.

For information on designated persons or entities, refer to the Department of Foreign Affairs and Trade's website at http://www.dfat.gov.au/un/unsc_sanctions/.

8.8.2 RESTRICTIONS ON FOREIGN OWNERSHIP

There are no limitations under Australian law on the right of non-residents to hold or vote Coles Shares other than as set out below.

Generally, the Foreign Acquisitions and Takeovers Act 1975 (Cth) (**FATA**) applies to acquisitions of shares and voting power in a company of 20 per cent or more by a single foreign person and its associates (**Substantial Interest**), or 40 per cent or more by two or more unassociated foreign persons and their associates (**Aggregate Substantial Interest**). Where a foreign person holds a Substantial Interest in Coles or foreign persons hold an Aggregate Substantial Interest in Coles, Coles may (subject to certain exceptions) itself be a 'foreign person' for the purpose of the FATA.

Where an acquisition of a Substantial Interest or an Aggregate Substantial Interest meets certain criteria, the acquisition may not occur unless notice of it has been given to the Federal Treasurer and the Federal Treasurer has either stated that there is no objection to the proposed acquisition in terms of the Australian Government's Foreign Investment Policy (**Policy**) or a statutory period has expired without the Federal Treasurer objecting. An acquisition of a Substantial Interest or an Aggregate Substantial Interest meeting certain criteria may also lead to divestment orders unless a process of notification, and either a statement of non-objection or expiry of a statutory period without objection, has occurred.

In addition, in accordance with the Policy, acquisitions of a direct investment in an Australian company by foreign governments and their related entities should be notified to the Foreign Investment Review Board for approval, irrespective of value. Under the Policy, a 'direct investment' will typically include any investment of 10 per cent or more of the shares (or other securities or equivalent economic interest or voting power) in an Australian company but may also include investment of less than 10 per cent where the investor is building a strategic stake in the target or obtains potential influence or control over the target investment.

8.8.3 FOREIGN SELLING RESTRICTIONS

This Scheme Booklet does not constitute an offer of Coles Shares in any jurisdiction in which it would be unlawful. In particular, this Scheme Booklet may not be distributed to any person, and the Coles Shares may not be offered or sold, in any country outside Australia except to the extent provided below.

CANADA

The Coles Shares will be transferred by Wesfarmers in reliance upon exemptions from the prospectus and registration requirements of the applicable Canadian securities law in each province and territory of Canada.

No securities commission in Canada has reviewed or in any way passed upon this document or the merits of the Demerger.

HONG KONG

The contents of this Scheme Booklet have not been reviewed or approved by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the Demerger. If you are in any doubt about any of the contents of this Scheme Booklet, you should obtain independent professional advice.

This Scheme Booklet does not constitute an offer or invitation to the public in Hong Kong to acquire or subscribe for or dispose of any securities. This Scheme Booklet also does not constitute a prospectus (as defined in section 2(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong)) or notice, circular, brochure or advertisement offering any securities to the public for subscription or purchase or calculated to invite such offers by the public to subscribe for or purchase any securities, nor is it an advertisement, invitation or document containing an advertisement or invitation falling within the meaning of section 103 of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

Accordingly, unless permitted by the securities laws of Hong Kong, no person may issue or cause to be issued this Scheme Booklet in Hong Kong, other than to persons who are "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder or in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance or which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

No person may issue or have in its possession for the purposes of issue, this Scheme Booklet or any advertisement, invitation or document relating to Coles securities, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than any such advertisement, invitation or document relating to securities that are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made thereunder.

Copies of this Scheme Booklet may be issued to a limited number of persons in Hong Kong in a manner which does not constitute any issue, circulation or distribution of this Scheme Booklet, or any offer or an invitation in respect of these securities, to the public in Hong Kong. The document is for the exclusive use of Wesfarmers Shareholders in connection with the Demerger, and no steps have been taken to register or seek authorisation for the issue of this Scheme Booklet in Hong Kong.

This Scheme Booklet is confidential to the person to whom it is addressed and no person to whom a copy of this Scheme Booklet is issued may issue, circulate, distribute, publish, reproduce or disclose (in whole or in part) this Scheme Booklet to any other person in Hong Kong or use for any purpose in Hong Kong other than in connection with the consideration of the Demerger by the person to whom this Scheme Booklet is addressed.

NEW ZEALAND

This Scheme Booklet is not a New Zealand disclosure document and has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with the Financial Markets Conduct Act 2013 (or any other relevant New Zealand law). The distribution of Coles Shares under the Scheme is being made to existing shareholders of Wesfarmers in reliance upon the Financial Markets Conduct (Incidental Offers) Exemption Notice 2016 and, accordingly, this Scheme Booklet may not contain all the information that a disclosure document is required to contain under New Zealand law.

SINGAPORE

This Scheme Booklet and any other document or material in connection with the offer, sale or distribution, or invitation for subscription, purchase or receipt of Coles Shares have not been and will not be registered as a prospectus with the Monetary Authority of Singapore and this offering is not regulated by any financial supervisory authority pursuant to any legislation in Singapore. Accordingly, statutory liabilities in connection with the contents of prospectuses under the Securities and Futures Act, Cap. 289 (the SFA) will not apply.

This Scheme Booklet and any other document or material in connection with the offer, sale or distribution, or invitation for subscription, purchase or receipt of Coles Shares may not be offered, sold or distributed, or be made the subject of an invitation for subscription, purchase or receipt, whether directly or indirectly, to persons in Singapore except pursuant to exemptions in Subdivision (4) Division 1, Part XIII of the SFA, including the exemption under section 273(1)(c) of the SFA, or otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Any offer is not made to you with a view to Coles Shares being subsequently offered for sale to any other party. You are advised to acquaint yourself with the SFA provisions relating to on-sale restrictions in Singapore and comply accordingly.

The investments contained or referred to in this document may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investment. Nothing in this document constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you.

Neither Wesfarmers nor Coles is in the business of dealing in securities or hold itself out or purport to hold itself out to be doing so. As such, Wesfarmers and Coles are neither licensed nor exempted from dealing in securities or carrying out any other regulated activities under the SFA or any other applicable legislation in Singapore.

UNITED KINGDOM

Neither this Scheme Booklet nor any other document relating to the Demerger has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended (the **FSMA**)) has been published or is intended to be published in respect of the Coles Shares.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 FSMA) received in connection with the transfer of the Coles Shares has only been communicated, and will only be communicated, in the United Kingdom in circumstances in which section 21(1) FSMA does not apply to Wesfarmers or Coles. In the United Kingdom, this Scheme Booklet is being distributed only to, and is directed at, persons to whom it may lawfully be distributed or directed within the circumstances described in Article 43 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and/or any other persons to whom it may lawfully be communicated (all such persons being referred to as **Relevant Persons**).

The investment to which this Scheme Booklet relates is available only to, and any invitation, offer or agreement to purchase will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this Scheme Booklet or any of its contents.

UNITED STATES

This Scheme Booklet has not been filed with, or reviewed by, the US Securities and Exchange Commission or any state securities authority and none of them has passed upon or endorsed the merits of the Demerger or the accuracy, adequacy or completeness of the Scheme Booklet. Any representation to the contrary is a criminal offence.

The Coles Shares have not been, and will not be, registered under the US Securities Act 1933 or the securities laws of any US state or other jurisdiction. No offer of Shares is being made in any US state or other jurisdiction where it is not legally permitted to do so.

US shareholders of Wesfarmers should note that the Demerger is made of securities of an Australian company in accordance with the laws of Australia and the listing rules of the ASX. The Demerger is subject to disclosure requirements of Australia that are different from those of the United States.

It may be difficult for you to enforce your rights and any claim you may have arising under US federal securities laws, since Wesfarmers and Coles are located in Australia and most of its officers and directors are residents of Australia. You may not be able to sue their respective officers or directors in Australia for violations of the US securities laws. It may be difficult to compel Wesfarmers and Coles to subject themselves to a US court's judgment.

8.9 OTHER INFORMATION MATERIAL TO THE MAKING OF A DECISION IN RELATION TO THE DEMERGER

Except as set out in this Scheme Booklet, there is no other information material to the making of a decision in relation to the Demerger Resolutions being information that is within the knowledge of any Wesfarmers Director, or any director of any related body corporate of Wesfarmers, which has not previously been disclosed to Wesfarmers Shareholders.

8.10 SUPPLEMENTARY INFORMATION

Wesfarmers will issue a supplementary document to this Scheme Booklet if it becomes aware of any of the following between the date of lodgement of this Scheme Booklet for registration by ASIC and the Effective Date:

- a material statement in this Scheme Booklet is false or misleading;
- a material omission from this Scheme Booklet;
- a significant change affecting a matter included in this Scheme Booklet; or
- a significant new matter has arisen and it would have been required to be included in this Scheme Booklet if it had arisen before the date of lodgement of this Scheme Booklet for registration by ASIC.

Depending on the nature and timing of the changed circumstances and subject to obtaining any relevant approvals, Wesfarmers may circulate and publish any supplementary document by:

- placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia;
- posting the supplementary document on Wesfarmers' website (www.wesfarmers.com.au); or
- making an announcement to the ASX.

Any updated information about the Demerger which is not materially adverse to investors is likely to be made available by announcement to the ASX and on Wesfarmers' website (www.wesfarmers.com.au). Where updated information about the Demerger is materially adverse to investors, a supplementary document will be issued and made available in accordance with regulatory requirements. ASIC's policy is that shareholders should be given at least 10 days to consider any supplementary documentation before voting on a scheme of arrangement.

Prior to the Meetings, Wesfarmers will provide a copy of the updated information free of charge, to any person who requests a copy by calling the Shareholder Information Line on 1300 558 062 (within Australia) or +61 3 9415 4631 (international) on weekdays between 8:30am and 8:00pm (AEDT).

9
GLOSSARY

GLOSSARY

$ or A$	Australian dollars.
$m	million Australian dollars.
AAS	Australian Accounting Standards issued by the Australian Accounting Standards Board.
ACCC	the Australian Competition and Consumer Commission.
Alliance Agreement	the Alliance Agreement dated 27 May 2003 between Coles Express, Viva Energy Australia and certain of their respective affiliates, as amended, restated and supplemented from time to time.
Annual General Meeting	the Annual General Meeting of Wesfarmers Shareholders to be held at 10:30am (Perth time) on 15 November 2018.
ASIC	Australian Securities and Investments Commission.
ASTC	ASX Settlement Pty Limited ABN 49 008 504 532 as a holder of a licence to operate a clearing and settlement facility.
ASX	ASX Limited, or the financial market operated by the Australian Securities Exchange, as the context requires.
ASX Listing Rules	the official Listing Rules of the ASX.
ATO	Australian Taxation Office.
BUKI	Bunnings United Kingdom and Ireland.
Business Day	has the meaning given in the ASX Listing Rules.
CAGR	compound annual growth rate.
Capital Reduction	the reduction in the capital of Wesfarmers by the Capital Reduction Amount to be applied equally against each Wesfarmers Share on issue as at the Record Date in accordance with the terms of the Capital Reduction Resolution.
Capital Reduction Amount	the amount of the capital of Wesfarmers that is to be reduced in accordance with the Capital Reduction Resolution, calculated as follows: A = (B / (B + C)) x D where: A = Capital Reduction Amount; B = Coles Market Value; C = Wesfarmers Market Value; and D = Wesfarmers Share Capital Amount.
Capital Reduction Pro-Rata Amount	the Capital Reduction Amount divided by the number of Wesfarmers Shares on issue on the Record Date.
Capital Reduction Resolution	an ordinary resolution of Wesfarmers Shareholders relating to the reduction of capital in Wesfarmers and in the form set out in the Notice of General Meeting.
CHESS	the clearing house electronic subregister system of share transfers operated by ASX Settlement Pty Limited.
Coles or Coles Group	Coles Group Limited (ACN 004 089 936) and/or its Subsidiaries following the Demerger, as the context requires.
Coles Board	the board of directors of Coles immediately following the Effective Date, or from time to time following the Effective Date, as the context requires.
Coles Constitution	the constitution of Coles, with effect from the Effective Date.
Coles Director	a director of Coles immediately following the Effective Date, or from time to time following the Effective Date, as the context requires.
Coles Facilities	$4 billion collectively in bilateral bank loan facilities.
Coles KMP	as defined in item 2 of the explanatory notes of the Notice of General Meeting.
Coles Listing	the listing of Coles on the ASX.
Coles Market Value	the VWAP of Coles Shares for the first five Business Days starting from the date of the commencement of trading (including on a deferred settlement basis) of Coles Shares on the ASX multiplied by the number of Coles Shares transferred to Wesfarmers Shareholders under the Demerger (which will equal the number of Wesfarmers Shares on issue on the Record Date).
Coles Pro Forma Historical Financial Information	comprises: 1. Coles pro forma historical income statements for the years ended 30 June 2016, 30 June 2017 and 30 June 2018; 2. Coles pro forma historical balance sheet as at 30 June 2018; and 3. Coles pro forma historical cash flows for the years ended 30 June 2016, 30 June 2017 and 30 June 2018.
Coles Share	a fully paid ordinary share in the capital of Coles.
Coles Share Registry	Computershare Investor Services Pty Limited (ACN 078 279 277).
Coles Shareholder	a holder of a Coles Share.
Corporate Restructure	the restructure steps set out in the Restructure Agreement.
Corporations Act	*Corporations Act 2001* (Cth).

Court	the Supreme Court of Western Australia.
Curragh	Wesfarmers Curragh Pty Ltd.
Deed Poll	the deed poll in favour of Wesfarmers Shareholders, in the form set out in Section 11 (subject to any amendments permitted by its terms), under which Coles undertakes to take the steps required to be taken by it for implementation of the Demerger.
Demerger	the proposed Demerger of Coles from Wesfarmers, to be implemented through: 1. the Corporate Restructure; 2. the Scheme, Capital Reduction and Dividend; and 3. the Coles Listing.
Demerger Entitlement	the entitlement of each Wesfarmers Shareholder to Coles Shares under the Demerger, being in relation to a Wesfarmers Shareholder, one Coles Share for each Wesfarmers Share held by that Wesfarmers Shareholder as at the Record Date.
Demerger Principle	as described in Section 4.9.4.
Demerger Resolutions	the Capital Reduction Resolution and the Scheme Resolution.
Department Stores	the Wesfarmers division comprising the Kmart and Target businesses.
Distribution Amount	the VWAP of Coles Shares on the ASX, whether on a deferred or normal settlement basis, over the first five trading days after the Effective Date, multiplied by the number of Wesfarmers Shares on issue at the Record Date.
Dividend	the dividend to be declared and paid on each Wesfarmers Share as part of the Scheme, being equal to the Dividend Amount divided by the number of Wesfarmers Shares on issue at the Record Date.
Dividend Amount	the Distribution Amount less the total Capital Reduction Amount.
EBIT	earnings before interest and tax expenses.
EBITDA	earnings before interest, tax, depreciation and amortisation expenses.
Effective	the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the Scheme.
Effective Date	the date on which the Scheme becomes Effective.
Eligible Shareholder	a Wesfarmers Shareholder whose registered address on the Wesfarmers Share Register on the Record Date is in: • Australia, New Zealand, Canada, Hong Kong, Singapore, the United Kingdom or the United States; or • a jurisdiction in which Wesfarmers reasonably believes it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer the Coles Shares to the Wesfarmers Shareholder.
Entitlement	one Coles Share for each Wesfarmers Share held at the Record Date.
FATA	***Foreign Acquisitions and Takeovers Act 1975*** **(Cth).**
Financial Information	collectively refers to the **Wesfarmers Historical Financial Information**, the **Wesfarmers (post Demerger) Pro Forma Historical Financial Information** and the **Coles Pro Forma Historical Financial Information**.
First Court Hearing	the day on which an application was made to the Court for orders under section 411(1) of the Corporations Act convening the Scheme Meeting to consider the Scheme, being 5 October 2018.
FSMA	*Financial Services and Markets Act 2000* (UK), as amended.
FY	financial year.
General Meeting	the General Meeting of Wesfarmers Shareholders convened to consider the Capital Reduction Resolution and the Termination Benefits Resolution to be held at the later of 1:30pm or 30 minutes after the conclusion of the Annual General Meeting on 15 November 2018.
Group	Wesfarmers and its Subsidiaries from time to time, including the Coles Group in respect of the period before the Implementation Date.
IFRS	International Financial Reporting Standards adopted by the International Accounting Standards Board.
Implementation Date	the date of implementation of the Demerger and the transfer or distribution of Coles Shares to Wesfarmers Shareholders (apart from Ineligible Overseas Shareholders and Selling Shareholders), which is expected to be 28 November 2018, or such other date as determined by Wesfarmers.
Implementation Deed	the deed between Wesfarmers and Coles under which each party undertakes specified obligations to give effect to the Demerger, a summary of which is set out in Section 4.9.2.
Independent Accountant	Ernst & Young Transaction Advisory Services Limited.
Independent Accountant's Report	the independent limited assurance report of the Independent Accountant on the Coles Pro Forma Historical Financial Information, Wesfarmers Historical Financial Information and Wesfarmers (post Demerger) Pro Forma Historical Financial Information presented in this Scheme Booklet, as set out in Section 6.
Independent Expert	Grant Samuel & Associates Pty Limited.

Independent Expert's Report	the report of the Independent Expert. A concise version is contained in Section 7 and a copy of the full version can be obtained free of charge by calling the Shareholder Information Line or from Wesfarmers' website at www.wesfarmers.com.au.
Ineligible Overseas Shareholder	a Wesfarmers Shareholder who is not an Eligible Shareholder.
IPO	initial public offering.
Loyalty Pacific	Loyalty Pacific Pty Ltd (ACN 057 931 334).
LTI	long term incentive.
LTI Offer	the grant of restricted shares Coles will make to the Managing Director and Chief Executive Officer, Chief Financial Officer and select members of the senior management team following Implementation Date.
Meetings	the General Meeting and the Scheme Meeting.
Net debt	total loans and borrowings and bank overdrafts, less cash on deposit.
Non-Executive Director	a member of a board of directors of a company who does not form part of the executive management team.
Notice of General Meeting	the notice of meeting for the General Meeting set out in Section 12.
Notice of Scheme Meeting	the notice of meeting for the Scheme Meeting set out in Section 13.
Official List	the official list of the ASX.
Performance Period	period commencing on the Implementation Date and ending on 30 June 2021 that Performance Shares will be subject to.
Performance Shares	Coles Shares that will vest subject to satisfaction of performance conditions.
Plan	the Long Term Incentive Plan or Restricted Share Offer, as appropriate.
Proxy Form	the proxy form for the General Meeting and the Scheme Meeting.
Record Date	4:00pm on 22 November 2018.
Redkite	Redkite (registered charity ABN 65 104 710 787), which is an Australian cancer charity providing essential support to children and young people (0–24 years) with cancer, and the family and support network who care for them.
Relationship Deed	the relationship deed between Wesfarmers and Coles dealing with certain matters associated with Wesfarmers' shareholding in Coles, a summary of which is set out in Section 4.9.7.
Restricted Shares	Coles Shares that will vest subject to the satisfaction of a continued service condition.
Restricted Share Offer	the offer of Restricted Shares made to Coles senior managers following the Implementation Date.
Restructure Agreement	the agreement between Wesfarmers and Coles dealing with certain corporate restructuring steps, a summary of which is set out in Section 4.9.1.
Return on capital or ROC	earnings before interest and tax divided by capital employed.
Sale Agent	the nominee appointed by Wesfarmers to sell or facilitate the transfer of the Coles Shares to which Ineligible Overseas Shareholders and Selling Shareholders are entitled.
Sale Facility	the facility to be established by the Sale Agent under which Coles Shares to which Overseas Shareholders and Selling Shareholders are entitled, will be sold as described more fully in Section 4.8.
Sale Facility Form	the sale facility form which accompanies this Scheme Booklet or such other form as Wesfarmers may permit or agree to in connection with the sale of Coles Shares under the Sale Facility, including an online sale election submitted at www.colessalefacility.com.au.
Scheme	the scheme of arrangement under part 5.1 of the Corporations Act between Wesfarmers and the Wesfarmers Shareholders as described in this Scheme Booklet and as set out in Section 10, subject to any alterations or conditions made or required by the Court pursuant to section 411 of the Corporations Act.
Scheme Booklet	this booklet.
Scheme Meeting	the meeting of Wesfarmers Shareholders ordered by the Court to be held at the later of 1:45pm or the conclusion of the General Meeting on 15 November 2018, to consider the Scheme Resolution.
Scheme Resolution	the resolution to approve the Scheme to be considered by Wesfarmers Shareholders at the Scheme Meeting set out in the Notice of Scheme Meeting.
SecondBite	SecondBite (registered charity ABN 66 116 251 613), which exists to provide food for Australians in need primarily by providing food rescue services to the retail sector supported by its national partner Coles.
Second Court Date	the date of the Second Court Hearing.
Second Court Hearing	the hearing of the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.
Section	a section of this Scheme Booklet.
Selling Shareholder	a Small Shareholder who elects to have all the Coles Shares that they would otherwise receive under the Scheme sold using the Sale Facility.
Separation Deed	the deed dated between Wesfarmers and Coles dealing with certain commercial, transitional and legal issues arising in connection with the legal and economic demerger of Coles from Wesfarmers, a summary of which is set out in Section 4.9.4.
SFA	*Securities and Futures Act, Cap. 289* (Singapore).

ShareGift	the trustee for ShareGift Australia (registered charity ABN 27 086 590 485).
Shareholder Information Line	the information line set up for the purpose of answering enquiries from Wesfarmers Shareholders in relation to the Demerger. The information line numbers are 1300 558 062 (within Australia) or +61 3 9415 4631 (international) and the hours of operation are weekdays between 8:30am and 8:00pm (AEDT).
Shell	Royal Dutch Shell plc (company number 04366849) and its controlled entities.
Small Shareholder	1. an Eligible Shareholder who holds 160 Wesfarmers Shares or less as at the Record Date; or 2. a former or current employee of the Group who individually holds or has a beneficial interest (through Wesfarmers Shares held by CPU Share Plans Pty Limited and/or CRS Nominees Limited) in 160 Wesfarmers Shares or less as at the Record Date.
STI	short term incentive.
Subsidiary	has the meaning given in the Corporations Act.
Termination Benefits Resolution	an ordinary resolution of Wesfarmers Shareholders, subject to and conditional on the Scheme becoming effective, to approve for all purposes, including sections 200B and 200E of the Corporations Act, for the giving of benefits to any current or future person who holds or has held a managerial or executive office in Coles Group Limited or a related body corporate in connection with that person ceasing to hold an office or position in Coles Group Limited or a related body corporate, in the form set out in the Notice of General Meeting.
Timetable	the timetable set out in the section outlining Actions for Wesfarmers Shareholders.
TOFA	Taxation of financial arrangements.
Trading Day	has the meaning given in the ASX Listing Rules.
Trading Restriction Period	the three-year disposal restriction applied to Restricted Shares commencing on the date the Restricted Shares are allocated.
TSA	Transitional Services Agreement.
TSR or total shareholder return	the change in share value over a period of time, assuming that all dividends are reinvested as received.
USD	United States dollars.
Vitol	Vitol Investment Partnership Limited and includes Vitol Holding B.V. and/or its Subsidiaries, as the context requires.
Viva Energy	Viva Energy Group Limited (ACN 626 661 032) and includes Viva Energy Holding Pty Ltd (ACN 167 883 525) and/or its Subsidiaries, as the context requires.
Viva Energy Australia	Viva Energy Australia Pty Ltd (ACN 004 610 459).
VWAP	the volume weighted average price of the relevant shares traded on the ASX during the relevant period except for trades otherwise than in the ordinary course of trading.
Wesfarmers	Wesfarmers Limited (ACN 008 984 049).
Wesfarmers Board	the board of directors of Wesfarmers.
Wesfarmers Cross Guarantee	the deed of cross guarantee between Wesfarmers and certain of its Subsidiaries, as described in Section 4.2.4.
Wesfarmers Director	a director of Wesfarmers.
Wesfarmers Employee Share Plans	the employee incentive plans administered by Wesfarmers.
Wesfarmers Group	Wesfarmers, together with its Subsidiaries, following the Demerger.
Wesfarmers Historical Financial Information	comprises: 1. The historical income statements for the years ended 30 June 2016, 30 June 2017 and 30 June 2018; 2. The historical balance sheet as at 30 June 2018; and 3. The historical cash flow statements for the years ended 30 June 2016, 30 June 2017 and 30 June 2018.
Wesfarmers Market Value	the VWAP of Wesfarmers Shares for the first five Business Days starting from the date of the commencement of trading (including on a deferred settlement basis) of Coles Shares on the ASX multiplied by the number of Wesfarmers Shares on issue on the Record Date.
Wesfarmers (post Demerger) Pro Forma Historical Financial Information	comprises: 1. The pro forma historical income statements of Wesfarmers (post Demerger) for the years ended 30 June 2016, 30 June 2017 and 30 June 2018; 2. The pro-forma historical balance sheet of Wesfarmers (post Demerger) as at 30 June 2018; and 3. The pro forma historical cash flows of Wesfarmers (post Demerger) for the years ended 30 June 2016, 30 June 2017 and 30 June 2018.
Wesfarmers Retail Holdings	Wesfarmers Retail Holdings Pty Ltd (ACN 126 199 022).
Wesfarmers Share	a fully paid ordinary share in the capital of Wesfarmers.
Wesfarmers Share Capital Amount	the balance in the Wesfarmers share capital account immediately prior to the Implementation Date.
Wesfarmers Shareholder	a registered holder of Wesfarmers Shares.
Wesfarmers Share Register	the register of Wesfarmers Shareholders maintained under section 169 of the Corporations Act.
Wesfarmers Share Registry	Computershare Investor Services Pty Limited (ACN 078 279 277).
Wespine	Wespine Industries Pty Ltd (ACN 052 954 337).
WGSP	Wesfarmers Group Super Plan, as described in Section 2.11.2.

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10

SCHEME OF ARRANGEMENT

HERBERT SMITH FREEHILLS

Scheme of arrangement

Wesfarmers Limited

Wesfarmers Shareholders

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HERBERT SMITH FREEHILLS

Scheme of arrangement

This scheme of arrangement is made under section 411 of the *Corporations Act 2001* (Cth)

Between the parties

Wesfarmers	Wesfarmers Limited (**Wesfarmers**) ABN 28 008 984 049 of Brookfield Place Tower 2, Level 14, 123 St Georges Terrace, Perth WA 6000
Wesfarmers Shareholders	Holders of fully paid ordinary shares in Wesfarmers

1 Definitions, interpretation and scheme components

1.1 Definitions

Schedule 1 contains definitions used in this Scheme.

1.2 Interpretation

Schedule 1 contains interpretation rules for this Scheme.

1.3 Scheme components

This Scheme includes any schedule to it.

2 Conditions

2.1 Conditions precedent

This Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

(a) between the date of the Scheme Booklet and the Scheme Meeting, a majority of the directors of Wesfarmers recommending and not changing or withdrawing their recommendation to Wesfarmers Shareholders to vote in favour of the Scheme and the Capital Reduction Resolution;

(b) Wesfarmers Shareholders approving this Scheme by the required majorities under the Corporations Act at the Scheme Meeting;

(c) Wesfarmers Shareholders passing the Capital Reduction Resolution by the required majority under the Corporations Act at the General Meeting;

(d) all Regulatory Approvals being obtained and not revoked before 8.00am on the Second Court Date either unconditionally or on conditions reasonably satisfactory to Wesfarmers;

(e) before 8.00am on the Second Court Date, ASX approving the admission of Coles to the official list of ASX and the official quotation of the Coles Shares on ASX, subject only to this Scheme taking effect and any other conditions which are acceptable to Wesfarmers and Coles; and

(f) the Court approving this Scheme in accordance with section 411(4)(b) of the Corporations Act (either unconditionally and without alteration or with alterations or conditions consented to in accordance with clause 6.5) and the lodgement with ASIC of an office copy of that Court order pursuant to section 411(10) of the Corporations Act.

2.2 Certificate

(a) Wesfarmers will provide to the Court on the Second Court Date a certificate, or such other evidence as the Court requests, confirming (in respect of matters within its knowledge) whether or not all of the conditions precedent (other than the condition in clause 2.1(f)) have been satisfied.

(b) The certificate referred to in clause 2.2(a) constitutes conclusive evidence that such conditions precedent (other than the condition in clause 2.1(f)) were satisfied.

2.3 Effective Date

Subject to the satisfaction of the conditions precedent set out in clause 2.1 and subject to clause 2.4 of this Scheme, this Scheme will come into effect on and from the Effective Date.

2.4 End Date

This Scheme will lapse and be of no further force or effect if the Effective Date does not occur on or before the End Date.

3 Implementation of this Scheme

3.1 Lodgement of Court orders with ASIC

Wesfarmers must lodge with ASIC, in accordance with subsection 411(10) of the Corporations Act, an office copy of the Court order approving this Scheme as soon as possible after the Court approves this Scheme and in any event by 5.00pm on the first Business Day after the day on which the Court approves this Scheme.

3.2 Implementation of the Capital Reduction, Demerger Dividend and Scheme

On the Implementation Date, without the need for any further act by any Scheme Participant, Wesfarmers will:

(a) reduce its share capital by the Capital Reduction Amount in accordance with the Capital Reduction Resolution;

(b) pass the Demerger Dividend Resolution and declare the Demerger Dividend;

(c) apply the Capital Reduction Entitlement and the Demerger Dividend Entitlement of each Scheme Participant in accordance with clause 3.3; and

(d) be obliged to pay the Distribution Amount to Wesfarmers Retail Holdings.

3.3 Entitlements of Scheme Participants

The Capital Reduction Entitlement and Demerger Dividend Entitlement of each Scheme Participant will, on the Implementation Date, be applied (without the need for any further act by a Scheme Participant) as follows:

(a) for each Eligible Shareholder, by Wesfarmers as consideration in full for the transfer to that Eligible Shareholder of that number of Coles Shares which is equal to one Coles Share for each Wesfarmers Share held by that Eligible Shareholder on the Record Date;

(b) for each Ineligible Overseas Shareholder, by Wesfarmers as consideration in full for the transfer to the Sale Agent of that number of Coles Shares which is equal to one Coles Share for each Wesfarmers Share held by that Ineligible Overseas Shareholder on the Record Date; and

(c) for each Selling Shareholder, by Wesfarmers as consideration in full for the transfer to the Sale Agent of that number of Coles Shares which is equal to one Coles Share for each Wesfarmers Share held by that Selling Shareholder on the Record Date,

in accordance with clause 3.4.

3.4 Transfer of Coles Shares

The obligations of Wesfarmers under clause 3.3 will be discharged by Wesfarmers procuring:

(a) that Wesfarmers Retail Holdings transfers all the Coles Shares (other than the Wesfarmers Retained Shareholding) to the Scheme Participants (or in the case of Ineligible Overseas Shareholders and Selling Shareholders, to the Sale Agent) in the numbers determined in accordance with clause 3.3; and

(b) the entry in the Coles Share Register:

(1) of the name of each Scheme Participant (other than Ineligible Overseas Shareholders and Selling Shareholders) in respect of the Coles Shares transferred to the relevant Scheme Participant; or

(2) of the name of the Sale Agent in respect of those Coles Shares referred to in:

(A) clause 3.3(b) for Ineligible Overseas Shareholders; and

(B) clause 3.3(c) for Selling Shareholders.

3.5 Dispatch of holding statements

As soon as practicable after the Implementation Date and in accordance with the Listing Rules, Wesfarmers will procure that Coles sends to each Scheme Participant (who is not an Ineligible Overseas Shareholder or Selling Shareholder) or the Sale Agent (as applicable), holding statements for the Coles Shares transferred in accordance with clause 3.3, by pre-paid post to their registered address at the Record Date, or as otherwise directed by the relevant Scheme Participant or Sale Agent.

3.6 Joint holders

In the case of Scheme Participants (who are not Ineligible Overseas Shareholders or Selling Shareholders) who are joint holders of Wesfarmers Shares:

(a) entry in the Coles Share Register must take place in the same order as the holders' names appear in the Wesfarmers Register; and

(b) holding statements in relation to the Coles Shares will be issued in the name of the joint holders and will be forwarded to the holder whose name appears first in the Wesfarmers Register on the Record Date.

3.7 Status of Coles Shares

Wesfarmers, in procuring that Wesfarmers Retail Holdings transfers Coles Shares to a Scheme Participant or the Sale Agent pursuant to clause 3.4, is deemed to have warranted to the relevant transferee that each such Coles Share is, at the date of the transfer, fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests and other interests, whether legal or otherwise, of the Wesfarmers Group or any person claiming through, under or in trust for the Wesfarmers Group, and restrictions on transfer of any kind, and that it has full power and capacity to transfer the Coles Shares to Scheme Participants and the Sale Agent (together with any rights and entitlements attaching to those Coles Shares) pursuant to the Scheme.

4 Sale Facility

4.1 The Sale Facility

(a) Selling Shareholders may elect for all but not some of the proceeds of sale attributable to them following the sale of the Coles Shares to which they would otherwise be entitled under this Scheme and the Sale Facility to be remitted to ShareGift.

(b) Wesfarmers will procure in accordance with the terms of the Sale Facility that:

(1) the Sale Agent, as soon as reasonably practicable (and in any event no later than the end of the Sale Period), sells on a Licensed Market all the Coles Shares transferred to the Sale Agent under clause 3.4 in consideration for the application of the Distribution Entitlement of that Ineligible Overseas Shareholder or Selling Shareholder;

(2) the Wesfarmers Registry accounts to each Ineligible Overseas Shareholder, Selling Shareholder or ShareGift (as applicable) for the proceeds of sale and any income attributable to those Coles Shares (on an averaged basis so that Ineligible Overseas Shareholders, Selling Shareholders and ShareGift receive the same price per Coles Share, subject to rounding up to the nearest whole cent);

(3) for each Ineligible Overseas Shareholder and Selling Shareholder that has not elected for the proceeds of sale attributable to them to be donated on their behalf to ShareGift, the Wesfarmers Registry remits the proceeds of sale due to each Ineligible Overseas Shareholder and Selling Shareholder to the Ineligible Overseas Shareholder or Selling

Shareholder (as the context requires) no later than 7 Business Days after the end of the Sale Period, such amounts to be dispatched by:

(A) direct credit to the nominated bank account of each Ineligible Overseas Shareholder and Selling Shareholder as noted in the Wesfarmers Register at the Record Date; or

(B) where a bank account has not been nominated by an Ineligible Overseas Shareholder or Selling Shareholder for the purpose of paragraph 4.1(b)(3)(A), cheque to be mailed to the address of that Ineligible Overseas Shareholder or Selling Shareholder as shown in the Wesfarmers Register at the Record Date or in the case of an Ineligible Overseas Shareholder or Selling Shareholder who is a joint holder of Wesfarmers Shares, by cheque issued in the name of the joint holders and to be mailed to the address of that Ineligible Overseas Shareholder or Selling Shareholder as shown in the Wesfarmers Register whose name appears first in the Wesfarmers Register on the Record Date. This does not apply if the Ineligible Overseas Shareholder or Selling Shareholder does not have a registered address, or where Wesfarmers believes that such Ineligible Overseas Shareholder or Selling Shareholder is not known at their registered address.

(4) for each Selling Shareholder that has elected for the proceeds of sale attributable to them to be donated on their behalf to ShareGift, the Wesfarmers Registry remits the proceeds of sale due to each Selling Shareholder to ShareGift by cheque to be mailed to the registered address of ShareGift, payable in Australian dollars.

4.2 Satisfaction of obligations

Wesfarmers, by complying with the terms of clause 4.1 in respect of an Ineligible Overseas Shareholder or Selling Shareholder, will be taken to have satisfied and discharged its obligations to the relevant Ineligible Overseas Shareholder or Selling Shareholder under the terms of the Capital Reduction Resolution, the Demerger Dividend Resolution and the Scheme. An Ineligible Overseas Shareholder or Selling Shareholder will have no claim against Wesfarmers or Coles for any entitlement they would have had to Coles Shares but for the terms of this Scheme.

4.3 Acknowledgement

Under this Scheme, each Ineligible Overseas Shareholder and Selling Shareholder (including those Ineligible Overseas Shareholders and Selling Shareholders who do not attend the Scheme Meeting to approve the Scheme or General Meeting to approve the Capital Reduction Resolution, do not vote at either meeting or vote against the Scheme or Capital Reduction Resolution) agrees and acknowledges that the sale in respect of that person's Distribution Entitlement under the Sale Facility or this Scheme by operation of clause 4.1 constitutes satisfaction of all that person's entitlements in and to that person's Distribution Entitlement.

4.4 Appointment as agent

Each Ineligible Overseas Shareholder and Selling Shareholder appoints Wesfarmers as its agent to receive on its behalf any financial services guide or other notices which may be given by the Sale Agent to that Ineligible Overseas Shareholder or Selling Shareholder.

5 Dealings in Wesfarmers Shares

5.1 Wesfarmers Register

Subject to the Corporations Act, the Listing Rules and the Settlement Operating Rules, the establishment of who are Scheme Participants and their respective entitlements, will be determined solely on the basis of the Wesfarmers Register and this Scheme.

5.2 Determination of Scheme Participants

To establish the identity of the Scheme Participants and their respective entitlements, dealings in Wesfarmers Shares or other alterations to the Wesfarmers Register will only be recognised if:

(a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Wesfarmers Register as the holder of the relevant Wesfarmers Shares on or before the Record Date; and

(b) in all other cases, registrable transfers or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received on or before the Record Date at the Wesfarmers Registry,

and Wesfarmers will not accept for registration, nor recognise for any purpose, any transfer or transmission application or other request received after such times, or received prior to such times but not in registrable or actionable form, as appropriate.

6 General Scheme provisions

6.1 Agreement to become a member of Coles

Under this Scheme, each Scheme Participant (including those Scheme Participants who do not attend the Scheme Meeting to approve the Scheme or General Meeting to approve the Capital Reduction Resolution, do not vote at either meeting or vote against the Scheme or Capital Reduction Resolution) who will receive Coles Shares:

(a) agrees to become a member of Coles, to have their name entered in the Coles Share Register, accepts the Coles Shares transferred to them and agrees to be bound by the Coles Constitution; and

(b) agrees and acknowledges that the transfer of Coles Shares in accordance with clause 3.3 constitutes satisfaction of all that person’s entitlements in and to that person’s Distribution Entitlement,

without the need for any further act by a Scheme Participant.

This clause 6.1 does not apply to Ineligible Overseas Shareholders and Selling Shareholders.

6.2 Appointment of agent and attorney

(a) Each Scheme Participant, without the need for any further act, irrevocably appoints Wesfarmers as its agent and attorney for the purpose of executing any document or doing any other act necessary or desirable to give effect to the terms of this Scheme, including without limitation:

(1) the execution and delivery of any form or document required to effect the transfer of Coles Shares to Eligible Shareholders, the Sale Agent or any other person in accordance with the terms of this Scheme, and the delivery of any such form to Coles;

(2) executing any document or doing any other act necessary to give effect to the terms of this Scheme, including, without limitation, the communication of the Eligible Shareholder's consent, agreement, notification or instructions under clauses 4, 6.1, 6.3, 6.4 or 6.5; and

(3) the enforcement of the Deed Poll against Coles,

and Wesfarmers accepts such appointment.

(b) Wesfarmers, as agent of each Scheme Participant, may sub-delegate its functions under clause 6.2(a) to all or any of its directors and secretaries (jointly and severally).

6.3 Instructions to Wesfarmers

To the extent permitted by law, binding instructions or notifications between an Eligible Shareholder and Wesfarmers relating to Wesfarmers Shares or an Eligible Shareholder's status as a Wesfarmers Shareholder (including, without limitation, any instructions in relation to payment of dividends (excluding Wesfarmers dividend investment plan) or communications from Wesfarmers) will, from the Record Date, be deemed by reason of this Scheme to be similarly binding instructions or notifications to, and accepted by, Coles in respect of the Coles Shares transferred to Eligible Shareholders until those instructions or notifications are, in each case, revoked or amended in writing addressed to Coles at its share registry.

6.4 Scheme Participants' consent

Each Scheme Participant irrevocably consents to Wesfarmers doing all things necessary, incidental or expedient to the implementation and performance of the Scheme and acknowledge that the Scheme binds Wesfarmers and all of the Scheme Participants from time to time (including those who do not attend the Scheme Meeting to approve the Scheme or the General Meeting to approve the Capital Reduction Resolution, do not vote at either meeting or vote against the Scheme or Capital Reduction Resolution).

6.5 Amendments to the Scheme

Wesfarmers may, by its counsel and with the consent of Coles, consent, on behalf of all persons concerned (including a Scheme Participant), to any alterations or conditions to this Scheme as the Court thinks just to impose.

6.6 Further steps

Wesfarmers will execute all documents and do all acts and things necessary or desirable for the implementation and performance of its obligations under this Scheme and will, on behalf of Scheme Participants, procure Coles to execute all documents and do all acts and things necessary or desirable for the implementation and performance of the steps attributed to Coles under this Scheme.

6.7 Scheme binding

To the extent of any inconsistency between this Scheme and the Constitution, this Scheme overrides the Constitution and binds Wesfarmers and all Scheme Participants.

6.8 Enforcement of Deed Poll

Wesfarmers undertakes in favour of each Scheme Participant that it will enforce the Deed Poll against Coles on behalf of and as agent and attorney for Scheme Participants.

7 General

7.1 Costs and stamp duty

Wesfarmers will pay any costs, and any stamp duty and any related fines or penalties, which are payable on or in respect of this Scheme or on any document referred to this Scheme, including, without limitation, all brokerage and stamp duty payable in connection with the transfer of Coles Shares to Scheme Participants (or in the case of Ineligible Overseas Shareholders and Selling Shareholders, to the Sale Agent) in accordance with this Scheme.

7.2 Notices

(a) If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to Wesfarmers, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at Wesfarmers' registered office or at the office of the Wesfarmers Registry.

(b) The accidental omission to give notice of the Scheme Meeting or General Meeting or the non-receipt of such notice by a Wesfarmers Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting, the General Meeting or the proceedings of the Scheme Meeting or General Meeting.

7.3 Governing law and jurisdiction

(a) This Scheme is governed by the law in force in Western Australia, Australia.

(b) Each party irrevocably submits to the non-exclusive jurisdiction of courts exercising jurisdiction in Western Australia, Australia and courts of appeal from them in respect of any proceedings arising out of or in connection with this Scheme. Each party irrevocably waives any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

7.4 No liability when acting in good faith

Each Scheme Participant agrees that neither Wesfarmers nor Coles nor any director, officer, secretary or employee of either of those companies will be liable for anything done or omitted to be done in the performance of this Scheme or the Deed Poll in good faith.

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Schedule 1

Definitions and interpretation

1 Definitions

The meanings of the terms used in this Scheme are set out below.

Term	Meaning
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited (ABN 98 008 624 691), or the financial market operated by it as the context requires.
ASX Listing Information Memorandum	the information memorandum lodged by Coles with ASX in connection with Coles' application for admission to the official list of ASX.
ASX Operating Rules	the market operating rules of ASX as amended, varied or waived from time to time.
ASX Settlement	ASX Settlement Pty Limited (ABN 49 008 504 532) as the holder of a licence to operate a clearing and settlement facility.
Business Day	has the meaning given to that term in the Listing Rules.
Capital Reduction	the reduction in the capital of Wesfarmers by the Capital Reduction Amount to be applied equally against each Wesfarmers Share on issue as at the Record Date in accordance with the terms of the Capital Reduction Resolution.
Capital Reduction Amount	the amount of the capital of Wesfarmers that is to be reduced in accordance with the Capital Reduction Resolution, calculated as follows: A = (B / (B + C)) x D where: A = Capital Reduction Amount;

Term	Meaning
	B = Coles Market Value; C = Wesfarmers Market Value; and D = Wesfarmers Share Capital Amount.
Capital Reduction Entitlement	in relation to a Scheme Participant, the Capital Reduction Pro-Rata Amount multiplied by the number of Wesfarmers Shares held by the Scheme Participant on the Record Date.
Capital Reduction Pro-Rata Amount	the Capital Reduction Amount divided by the number of Wesfarmers Shares on issue on the Record Date.
Capital Reduction Resolution	the ordinary resolution concerning the Capital Reduction to be considered by Wesfarmers Shareholders at the General Meeting in the form set out in the Wesfarmers 2018 notice of general meeting.
CHESS	Clearing House Electronic Sub-register System, operated in accordance with the Corporations Act.
Coles	Coles Group Limited (ABN 11 004 089 936).
Coles Board	the board of directors of Coles.
Coles Constitution	the constitution of Coles as amended from time to time.
Coles Director	a director of Coles.
Coles Listing	the listing of Coles on the ASX.
Coles Market Value	the VWAP of Coles Shares for the first 5 Business Days starting from the date of the commencement of trading (including on a deferred settlement basis) of Coles Shares on the ASX multiplied by the number of Coles Shares transferred to Wesfarmers Shareholders under the Demerger (which will equal the number of Wesfarmers Shares on issue on the Record Date).
Coles Share	a fully paid ordinary share in Coles.

Term	Meaning
Coles Share Register	the register of members of Coles.
Coles Shareholder	a person who is registered in the Coles Share Register as a holder of a Coles Share following implementation of the Demerger.
Constitution	the constitution of Wesfarmers as amended from time to time.
Corporate Restructure	the restructure steps set out in the Restructure Agreement.
Corporations Act	the *Corporations Act 2001* (Cth) and the regulations made under that Act.
Court	the Supreme Court of Western Australia.
Deed Poll	the deed poll by Coles in favour of Scheme Participants in the form of Section 11 of the Scheme Booklet (subject to any amendments permitted by its terms).
Demerger	the proposed demerger of Coles from Wesfarmers, to be implemented through: 1 the Corporate Restructure; 2 the Scheme, Demerger Dividend and Capital Reduction; and 3 the Coles Listing.
Demerger Dividend	the special dividend for an amount, per Wesfarmers Share, which is equal to the Demerger Dividend Pro-Rata Amount.
Demerger Dividend Amount	the Distribution Amount less the Capital Reduction Amount.
Demerger Dividend Pro-Rata Amount	the Demerger Dividend Amount divided by the number of Wesfarmers Shares on issue at the Record Date.
Demerger Dividend Entitlement	in relation to a Scheme Participant, the Demerger Dividend Pro-Rata Amount multiplied by the number of Wesfarmers Shares held by the Scheme Participant on the Record Date.

Term	Meaning
Demerger Dividend Resolution	a resolution of the Wesfarmers Board to approve the declaration of a dividend equal to the Demerger Dividend Pro-Rata Amount for each Wesfarmers Share on issue at the Record Date.
Disclosure Documents	1 the Scheme Booklet; and 2 the ASX Listing Information Memorandum.
Distribution Amount	the VWAP of Coles Shares on the ASX, whether on a deferred or normal settlement basis, over the first five trading days after the Effective Date, multiplied by the number of Wesfarmers Shares on issue at the Record Date.
Distribution Entitlement	one Coles Share for each Wesfarmers Share held at the Record Date.
Effective Date	the date on which the office copy of the Court order approving the Scheme is lodged with ASIC pursuant to section 411(10) of the Corporations Act.
Eligible Shareholder	a Scheme Participant whose registered address on the Wesfarmers Register as at the Record Date is in: 1 Australia, Canada, New Zealand, Hong Kong, Singapore, the United Kingdom or the United States of America; or 2 any other place where Wesfarmers reasonably believes that it is not prohibited and not unduly onerous or impractical to implement the Scheme and to transfer Coles Shares to Scheme Participants in that place.
End Date	31 December 2018 or such later date as is specified by Wesfarmers.
General Meeting	the general meeting of Wesfarmers Shareholders convened to consider, among others, the Capital Reduction Resolution and includes any adjournment of that meeting.
Government Agency	means a government or a governmental, semi-governmental or judicial entity or authority. It also includes a self-regulatory organisation established under statute or a stock exchange.
Group	Wesfarmers and any of its subsidiaries, including Coles and any of its subsidiaries.

Term	Meaning
Implementation Date	28 November 2018 or such other date as determined by Wesfarmers.
Ineligible Overseas Shareholder	a Scheme Participant who as at the Record Date is not an Eligible Shareholder.
Licensed Market	a financial market the operation of which is authorised by an Australian market licence under section 795B of the Corporations Act.
Listing Rules	the official listing rules of ASX from time to time as modified by any express written waiver or exemption given by ASX.
Record Date	the date for determining entitlements to Coles Shares in accordance with clause 3.3, being 4.00pm (Perth time) on 22 November 2018 or such other date as determined by Wesfarmers.
Regulatory Approvals	such approvals, consents, waivers or other acts from or by Regulatory Authorities as are necessary or, in the reasonable opinion of Wesfarmers, desirable in connection with or to implement the Demerger.
Regulatory Authority	includes: 1 ASX, ASIC and the Australian Competition and Consumer Commission; 2 a government or governmental, semi-governmental or judicial entity or authority; 3 a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; and 4 any regulatory organisation established under statute.

Term	Meaning
Restructure Agreement	the agreement between Wesfarmers and Coles dealing with certain corporate restructuring steps, a summary of which is set out in Section 4.9.1 of the Scheme Booklet.
Sale Agent	the nominee appointed by Wesfarmers to sell or facilitate the transfer of the Coles Shares attributable to Ineligible Overseas Shareholders and Selling Shareholders as contemplated by clause 4 of the Scheme and in accordance with the Sale Facility.
Sale Facility	the facility to be established and implemented by Wesfarmers under which Coles Shares may be sold, the terms of which are more fully described in Section 4.8 of the Scheme Booklet.
Sale Period	the period on and from the Implementation Date to and including the 15th Business Day after that date (or, subject to obtaining any necessary ASIC exemptions or waivers, such longer period of time which Wesfarmers and the Sale Agent determine).
Scheme	the scheme of arrangement under Part 5.1 of the Corporations Act between Wesfarmers and the Wesfarmers Shareholders as set out in this document, subject to any alterations or conditions made or required by the Court pursuant to section 411 of the Corporations Act.
Scheme Booklet	the scheme booklet explaining the Demerger and containing, among other things, the Scheme, an explanatory statement in relation to the Scheme as required by Part 5.1 of the Corporations Act and the notice of meeting for the Scheme Meeting.
Scheme Meeting	the meeting of Wesfarmers Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider the resolution set out in the notice of meeting for the Scheme set out in Section 13 of the Scheme Booklet, and includes any adjournment of that meeting.
Scheme Participant	subject to clause 5.1, a Wesfarmers Shareholder as at the Record Date.
Second Court Date	the date on which the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme is heard (or, if adjourned to a later date, that date).
Selling Shareholder	a Small Shareholder who elects to have all the Coles Shares that

Term	Meaning
	they would otherwise receive under the Scheme sold using the Sale Facility.
Settlement Operating Rules	the operating rules of ASX Settlement.
ShareGift	the trustee for ShareGift Australia (registered charity ABN 27 086 590 485).
Small Shareholder	1 an Eligible Shareholder who holds 160 Wesfarmers Shares or less as at the Record Date; or 2 a former or current employee of the Group who individually holds or has a beneficial interest (through Wesfarmers Shares held by CPU Share Plans Pty Limited and/or CRS Nominees Limited) in 160 Wesfarmers Shares or less as at the Record Date.
VWAP	the volume weighted average price of the relevant shares traded on the ASX during the relevant period except for trades otherwise than in the ordinary course of trading.
Wesfarmers Board	the board of directors of Wesfarmers.
Wesfarmers Group	Wesfarmers and any of its subsidiaries, other than Coles and any of its subsidiaries.
Wesfarmers Market Value	the VWAP of Wesfarmers Shares for the first 5 Business Days starting from the date of the commencement of trading (including on a deferred settlement basis) of Coles Shares on the ASX multiplied by the number of Wesfarmers Shares on issue on the Record Date.
Wesfarmers Register	the register of members of Wesfarmers.
Wesfarmers Registry	Computershare Investor Services Pty Limited (ABN 48 078 279 277) in its capacity as provider of registry services in respect of the Wesfarmers Register.
Wesfarmers Retail Holdings	Wesfarmers Retail Holdings Pty Ltd (ABN 14 126 199 022).

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Term	Meaning
Wesfarmers Retained Shareholding	the number of Coles Shares held or retained by Wesfarmers Retail Holdings, being 15 per cent of all Coles Shares on issue as at the Implementation Date.
Wesfarmers Share	a fully paid ordinary share in Wesfarmers.
Wesfarmers Share Capital Amount	the balance in the Wesfarmers share capital account immediately prior to the Implementation Date.
Wesfarmers Shareholder	a person who is registered in the Wesfarmers Register as the holder of a Wesfarmers Share.

2 Interpretation

In this Scheme:

(a) headings and bold type are for convenience only and do not affect the interpretation of this Scheme;

(b) the singular includes the plural and the plural includes the singular;

(c) words of any gender include all genders;

(d) other parts of speech and grammatical forms of a word or phrase defined in this Scheme have a corresponding meaning;

(e) a reference to a person includes any company, partnership, joint venture, association, corporation or other body corporate and any Government Agency as well as an individual;

(f) a reference to a clause, party, schedule, attachment or exhibit is a reference to a clause of, and a party, schedule, attachment or exhibit to, this Scheme;

(g) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or reenactments of any of them (whether passed by the same or another Government Agency with legal power to do so);

(h) a reference to a document (including this Scheme) includes all amendments or supplements to, or replacements or novations of, that document;

(i) a reference to ‘$’, ‘A$’ or ‘dollar’ is to Australian currency;

(j) a reference to any time is, unless otherwise indicated, a reference to that time in Perth, Australia;

(k) a term defined in or for the purposes of the Corporations Act, and which is not defined in clause 1 of this Schedule 1, has the same meaning when used in this Scheme;

(l) a reference to a party to a document includes that party's successors and permitted assignees;

(m) no provision of this Scheme will be construed adversely to a party because that party was responsible for the preparation of this Scheme or that provision;

(n) any agreement, representation, warranty or indemnity by two or more parties (including where two or more persons are included in the same defined term) binds them jointly and severally;

(o) any agreement, representation, warranty or indemnity in favour of two or more parties (including where two or more persons are included in the same defined term) is for the benefit of them jointly and severally;

(p) a reference to a body, other than a party to this Scheme (including an institute, association or authority), whether statutory or not:

(1) which ceases to exist; or

(2) whose powers or functions are transferred to another body,

is a reference to the body which replaces it or which substantially succeeds to its powers or functions;

(q) if a period of time is specified and dates from a given day or the day of an act or event, it is to be calculated exclusive of that day;

(r) a reference to a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later;

(s) if an act prescribed under this Scheme to be done by a party on or by a given day is done after 5.00pm on that day, it is taken to be done on the next day; and

(t) a reference to the Listing Rules and the ASX Operating Rules includes any variation, consolidation or replacement of these rules and is to be taken to be subject to any waiver or exemption granted to the compliance of those rules by a party.

3 Interpretation of inclusive expressions

Specifying anything in this Scheme after the words 'include' or 'for example' or similar expressions does not limit what else is included.

4 Business Day

Where the day on or by which any thing is to be done is not a Business Day, that thing must be done on or by the next Business Day.

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Attachment 1

Deed Poll

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11 DEED POLL

HERBERT SMITH FREEHILLS

Deed

Execution version

Deed Poll

Coles Group Limited

101 Collins Street Melbourne Vic 3000 Australia
GPO Box 128A Melbourne Vic 3001 Australia

T +61 3 9288 1234 **F** +61 3 9288 1567
herbertsmithfreehills.com DX 240 Melbourne

HERBERT SMITH FREEHILLS

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HERBERT SMITH FREEHILLS

Deed Poll

Date ▸ 27 September 2018

This deed poll is made by

Coles	**Coles Group Limited** ABN 11 004 089 936 of 800 Toorak Road, Hawthorn East VIC 3123 (**Coles**)
in favour of	each holder of fully paid ordinary shares in Wesfarmers Limited ABN 28 008 984 049 (**Wesfarmers**) as at the Record Date (**Scheme Participants**)
Recitals	1 On or about the date of this deed poll, Coles and Wesfarmers entered into the Demerger Implementation Deed. 2 In the Demerger Implementation Deed, Coles agreed to enter into this deed poll. 3 Coles is entering into this deed poll for the purpose of covenanting in favour of Scheme Participants to perform its obligations under the Demerger Implementation Deed and the Scheme.

This deed poll witnesses:

1 Definitions and interpretation

1.1 Definitions

Unless indicated otherwise, terms defined in the Scheme have the same meaning as in this deed poll. In addition, in this deed poll the following terms have the meaning set out below.

Term	Meaning
Demerger Implementation Deed	the Demerger Implementation Deed entered into by Wesfarmers and Coles on or about the date of this deed poll in relation to the implementation of the Scheme, and the other steps required for the Demerger.
Scheme	the scheme of arrangement under Part 5.1 of the Corporations Act between Wesfarmers and Wesfarmers Shareholders as set out in the Scheme Booklet, subject to any alterations or conditions made or required by the Court pursuant to section 411 of the Corporations Act.

1.2 Interpretation

In this deed poll:

(a) headings and bold type are for convenience only and do not affect the interpretation of this deed poll;

(b) the singular includes the plural and the plural includes the singular;

(c) words of any gender include all genders;

(d) other parts of speech and grammatical forms of a word or phrase defined in this deed poll have a corresponding meaning;

(e) a reference to a person includes any company, partnership, joint venture, association, corporation or other body corporate and any Government Agency as well as an individual;

(f) a reference to a clause, party, schedule, attachment or exhibit is a reference to a clause of, and a party, schedule, attachment or exhibit to, this deed poll;

(g) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or reenactments of any of them (whether passed by the same or another Government Agency with legal power to do so);

(h) a reference to a document (including this deed poll) includes all amendments or supplements to, or replacements or novations of, that document;

(i) the word ‘includes’ in any form is not a word of limitation;

(j) a reference to ‘$’, ‘A$’ or ‘dollar’ is to Australian currency;

(k) a reference to any time is, unless otherwise indicated, a reference to that time in Perth, Australia;

(l) a term defined in or for the purposes of the Corporations Act has the same meaning when used in this deed poll; and

(m) a reference to the Listing Rules includes any variation, consolidation or replacement of these rules and is to be taken to be subject to any waiver or exemption granted to the compliance of those rules by a party.

1.3 Business Day

Where the day on or by which any thing is to be done is not a Business Day, that thing must be done on or by the next Business Day.

1.4 Nature of deed poll

Coles acknowledges that this deed poll may be relied on and enforced by any Scheme Participant in accordance with its terms even though the Scheme Participants are not party to it.

2 Condition to obligations

2.1 Conditions

Coles' obligations under this deed poll are subject to the satisfaction of each of the conditions in clause 2.1 of the Scheme.

2.2 Termination

If the conditions precedent in clause 2.1 of the Scheme are not satisfied on or before the End Date (or such later date agreed by Wesfarmers and Coles in writing and, if required, approved by the Court), subject to clause 2.3, Coles' obligations under this deed poll automatically terminate.

2.3 Consequences of termination

If this deed poll is terminated under clause 2.2, in addition and without prejudice to any other rights, powers or remedies available to it:

(a) Coles is released from its obligations to further perform this deed poll; and

(b) Scheme Participants retain the rights they have against Coles in respect of any breach of this deed poll which occurs before it is terminated.

3 Transfer of Coles Shares

3.1 Agreement to become members of Coles

Under clause 6.1 of the Scheme, each Scheme Participant (other than Ineligible Overseas Shareholders and Selling Shareholders) provides their agreement to become a member of Coles, to have their name entered in the Coles Share Register, to accept the Coles Shares transferred to them and to be bound by the Coles Constitution.

3.2 Obligation to update Coles Share Register

On the Implementation Date, Coles must enter into the Coles Share Register:

(a) each Scheme Participant (other than Ineligible Overseas Shareholders and Selling Shareholders) in respect of the Coles Shares to which they are entitled under the Scheme; and

(b) the Sale Agent, in respect of the Coles Shares transferred to the Sale Agent and referrable to the Ineligible Overseas Shareholders and Selling Shareholders, under the Scheme.

3.3 Confirmation of allotment

(a) In accordance with clause 3.5 of the Scheme, as soon as practicable after the Implementation Date and in accordance with the Listing Rules, Coles must dispatch or procure the dispatch to:

(1) each Scheme Participant (other than Ineligible Overseas Shareholders and Selling Shareholders) holding statements for the Coles Shares to which they are entitled under the Scheme; and

(2) the Sale Agent the holding statements for the Coles Shares transferred to the Sale Agent in respect of the Ineligible Overseas Shareholders and Selling Shareholders,

by prepaid post to their registered address as at the Record Date, unless that Scheme Participant (other than Ineligible Overseas Shareholders and Selling Shareholders) or Sale Agent has validly directed otherwise.

(b) In the case of Scheme Participants (who are not Ineligible Overseas Shareholders or Selling Shareholders) who are joint holders of Wesfarmers Shares:

(1) entry in the Coles Register must take place in the same order as the holders' names appear in the Wesfarmers Register; and

(2) holding statements in relation to the Coles Shares will be issued in the name of the joint holders and will be forwarded to the holder whose name appears first in the Wesfarmers Register on the Record Date.

(c) This clause 3.3 does not apply to a Scheme Participant (other than Ineligible Overseas Shareholders and Selling Shareholders) who does not have a registered address, or where Wesfarmers and Coles believe that such Scheme Participant (other than Ineligible Overseas Shareholders and Selling Shareholders) is not known at their registered address.

4 Other Obligations of Coles

4.1 Official quotation of Coles Shares

Coles must apply for admission of Coles to the official list of ASX and apply for the granting by ASX of permission for official quotation of Coles Shares to be transferred pursuant to the Scheme on a financial market operated by ASX, subject only to the

Scheme taking effect and such other conditions that are acceptable to the Wesfarmers Board and the Coles Board.

4.2 General

Coles covenants in favour of Scheme Participants to perform:

(a) the steps attributed to it under, and otherwise comply with, the Scheme as if a party to the Scheme; and

(b) all steps required of it under, and to otherwise comply with, the Demerger Implementation Deed (insofar as it relates to the Scheme).

5 Warranties

Coles represents and warrants that:

(a) it is a corporation validly existing under the laws of its place of registration;

(b) it has the corporate power to enter into and perform, or cause to be performed, 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 on it.

6 Continuing obligations

This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until:

(a) Coles has fully performed its obligations under this deed poll; or

(b) the earlier termination of this deed poll under clause 2.

7 Notices

7.1 How and where Notices may be sent

A notice or other communication in respect of this deed poll (**Notice**) must be in writing and delivered by hand or sent by pre-paid post or email to Coles at the address or the email address for Coles set out below or as otherwise specified by Coles by Notice:

Attention: Company Secretary

Address: 800 Toorak Road, Hawthorn East VIC 3123

Email address: company.secretary@coles.com.au

7.2 Notices to be in legible writing in English

A Notice to or by Coles must be in legible writing and in English.

7.3 How a Notice must be signed

A Notice must be signed by the person giving the Notice or by a person duly authorised by that person.

7.4 Notice must not be given by electronic communication

A Notice must not be given by electronic means of communication (other than email as permitted in clause 7.1).

7.5 When Notices are taken to have been given and received

(a) A Notice sent by post is regarded as given and received in the ordinary course of post.

(b) A Notice sent by email is regarded as given and received when the email (including any attachment) comes to the attention of the recipient or a person acting on the recipient's behalf.

(c) A Notice delivered or received other than on a Business Day or after 4.00pm (recipient's time) is regarded as received at 9.00am on the following Business Day and a Notice delivered or received before 9.00am (recipient's time) is regarded as received at 9.00am.

8 General

8.1 Governing law and jurisdiction

(a) This deed poll is governed by the law in force in Victoria, Australia.

(b) Coles irrevocably submits to the non-exclusive jurisdiction of courts exercising jurisdiction in Victoria, Australia and courts of appeal from them in respect of any proceedings arising out of or in connection with this deed poll. Coles irrevocably waives any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

8.2 Waiver

(a) Coles may not rely on the words or conduct of any Scheme Participant as a waiver of any right unless the waiver is in writing and signed by the Scheme Participant granting the waiver.

(b) No Scheme Participant may rely on the words or conduct of Coles as a waiver of any right unless the waiver is in writing and signed by Coles.

(c) The meanings of the terms used in this clause are set out below.

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Term	Meaning
conduct	includes delay in the exercise of a right.
right	any right arising under or in connection with this deed poll and includes the right to rely on this clause.
waiver	includes an election between rights and remedies, and conduct which might otherwise give rise to an estoppel.

8.3 Variation

A provision of this deed poll may not be varied unless the variation is agreed to by Wesfarmers in writing (and if required, the Court), in which event Coles will enter into a further deed poll in favour of the Scheme Participants giving effect to the amendment.

8.4 Cumulative rights

The rights, powers and remedies of Coles and the Scheme Participants under this deed poll are cumulative and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

8.5 Assignment

(a) The rights created by this deed poll are personal to Coles and each Scheme Participant and must not be dealt with at law or in equity.

(b) Any purported dealing in contravention of clause 8.5(a) is invalid.

8.6 Further action to be taken at Coles' expense

Coles must, at its own expense (unless agreed to be borne by Wesfarmers), do all things and execute all documents necessary to give effect to this deed poll.

HERBERT SMITH FREEHILLS

Signing page

Executed as a deed poll

Signed sealed and delivered for
Coles Group Limited
by its attorney

sign here ▶	Attorney	*sign here* ▶	Witness
print name	TIMOTHY BULT	*print name*	SHELDON RENKEMA

in the presence of

72070006

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12 NOTICE OF GENERAL MEETING

SECTION 12
NOTICE OF GENERAL MEETING

Wesfarmers Limited (ABN 28 008 984 049) gives notice that a General Meeting of Wesfarmers Shareholders will be held on Thursday 15 November 2018 at the later of 1:30pm (Perth time) or 30 minutes after the conclusion of the Annual General Meeting, for the purpose of transacting the following business. The General Meeting will be held at the Perth Convention and Exhibition Centre, Mounts Bay Road, Perth, Western Australia.

Terms used in this notice have the same meaning as set out in the Glossary in Section 9 of this Scheme Booklet (of which this notice forms part), unless indicated otherwise.

WESFARMERS SHAREHOLDERS ENTITLED TO ATTEND AND VOTE AT THE GENERAL MEETING

The Wesfarmers Board has determined that you will be entitled to attend and vote at the General Meeting if you are a registered shareholder of Wesfarmers as at **4:00pm (Perth time) on Tuesday 13 November 2018**.

BUSINESS OF THE GENERAL MEETING

The purpose of the meeting is to consider and, if thought fit, to pass the following resolutions as ordinary resolutions. Ordinary resolutions require a simple majority of votes cast by shareholders entitled to vote on the resolution.

ITEM 1: APPROVAL OF CAPITAL REDUCTION

To consider and, if thought fit, approve the following resolution as an ordinary resolution:

"That, pursuant to section 256C(1) of the Corporations Act, subject to and conditional on the scheme of arrangement proposed to be made between Wesfarmers and the holders of its fully paid ordinary shares, to be considered at the meeting of Shareholders this day (**Scheme**) becoming effective in accordance with section 411(10) of the Corporations Act, Wesfarmers' share capital be reduced on the Implementation Date by the Capital Reduction Amount, with the reduction being effected and satisfied by applying such amount equally against each ordinary share in Wesfarmers on issue at the Record Date and in accordance with the Scheme."

ITEM 2: APPROVAL OF POTENTIAL TERMINATION BENEFITS TO COLES KMP

To consider and, if thought fit, approve the following resolution as an ordinary resolution:

"That, subject to and conditional on the Scheme becoming Effective, approval be given for all purposes, including sections 200B and 200E of the Corporations Act, for the giving of benefits to any current or future person who holds or has held a managerial or executive office in Coles Group Limited or a related body corporate in connection with that person ceasing to hold an office or position in Coles Group Limited or a related body corporate, on the terms set out in the Explanatory Notes attached to this Notice of Meeting."

VOTING EXCLUSION STATEMENT

If any Wesfarmers Shareholder is a current or potential employee or director of Coles Group Limited or a related body corporate and wishes to preserve the benefit of the resolution in Item 2 for themselves, then that Wesfarmers Shareholder and their associates should ***not*** *vote on the resolution.*

EXPLANATORY NOTES

For further details regarding each resolution, please read the Explanatory Notes accompanying and forming part of this Notice of Meeting.

WEBCAST

The General Meeting will be webcast on the Wesfarmers website at www.wesfarmers.com.au.

By order of the Board

Linda Kenyon
Company Secretary

5 October 2018

VOTING AND PROXY INSTRUCTIONS

VOTING PROCEDURE

Voting at the General Meeting will be conducted by way of a poll. Voting results will be announced to the ASX as soon as practicable after the General Meeting.

The chairman of the General Meeting intends to vote all available proxies in favour of the resolutions.

HOW TO LODGE YOUR VOTE

A Wesfarmers Shareholder entitled to attend and vote can do so either by:

- attending the General Meeting and voting in person or by attorney or, in the case of corporate shareholders, by corporate representative; or
- appointing not more than two proxies to attend and vote at the General Meeting on behalf of the Wesfarmers Shareholder, using the Proxy Form accompanying this Scheme Booklet (of which this notice forms part).

Direct voting is not available for the General Meeting.

VOTING IN PERSON (OR BY ATTORNEY OR CORPORATE REPRESENTATIVE)

You should arrive at the meeting venue 30 minutes before the time designated for the General Meeting, if possible, so that your shareholding can be checked against the Wesfarmers Register and attendances noted.

An Attorney attending the General Meeting must provide the Wesfarmers Share Registry – Computershare Investor Services Pty Limited with an original or certified copy of the power of attorney under which they have been authorised to attend and vote at the General Meeting by no later than time specified for lodging a Proxy Form (being 4:00pm (Perth time) on Tuesday 13 November 2018) unless it has been previously provided.

A representative of a company attending the meeting should bring to the General Meeting satisfactory evidence of their appointment, including any authority under which that appointment is signed, unless previously given to the Wesfarmers Share Registry – Computershare Investor Services Pty Limited.

VOTING BY PROXY

- All Wesfarmers Shareholders who are entitled to attend and vote at the General Meeting have the right to appoint a proxy to attend the General Meeting and vote in their place. A proxy need not be a Wesfarmers Shareholder.
- If you wish to appoint a proxy, you must complete and return the Proxy Form or lodge your Proxy Form online. You can direct your proxy how to vote (i.e. to vote 'for' or 'against' or to 'abstain' from voting on the resolutions) by following the instructions on the Proxy Form.
- If you are entitled to cast two or more votes, you may appoint two proxies and you may specify the proportion or number of votes that each proxy is appointed to exercise. If your appointment does not specify the proportion or number of your voting rights, each proxy may exercise half your votes (disregarding fractions).
- **Chairman of the General Meeting as proxy:** Wesfarmers Shareholders who return their Proxy Form(s) with a direction how to vote but do not nominate the identity of their proxy will be taken to have appointed the chairman of the General Meeting as their proxy to vote on their behalf. If a Proxy Form is returned but the nominated proxy does not attend the General Meeting or chooses not to vote on a poll, the chairman of the General Meeting will act in place of the nominated proxy and vote in accordance with any instructions. The chairman of the General Meeting intends to vote all available proxies in favour of the resolutions.

LODGING YOUR PROXY FORM

- To be effective, Proxy Forms must be received by no later than **4:00pm (Perth time) on Tuesday 13 November 2018**.
- Completed Proxy Form(s) must be sent to the Wesfarmers Share Registry – Computershare Investor Services Pty Limited by:
  - **Website:** lodging on line at www.investorvote.com.au. To submit your proxy voting instructions you will need your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) and allocated Control Number, as shown on your Proxy Form; or
  - **Smartphone:** by using your smartphone to scan the QR code that appears on the Proxy Form, and following the instructions provided. To scan the code you need to have already downloaded a free QR code reader app to your smartphone. When scanned, the QR code will take you directly to the mobile proxy voting instructions site; or
  - **In person:** Share Registry – Computershare Investor Services Pty Limited, Yarra Falls, 452 Johnston Street, Abbotsford Victoria 3067, Australia; or
  - **Mail:** Share Registry – Computershare Investor Services Pty Limited, GPO Box 242, Melbourne Victoria 3001, Australia (using the envelope provided); or
  - **Fax:** 1800 783 447 (within Australia) or (+61 3) 9473 2555 (outside Australia).

Please refer to the Proxy Form for more information about submitting proxy voting instructions online.

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POWER OF ATTORNEY

Where the appointment of a proxy is signed by the appointor's attorney, the original power of attorney under which the proxy form was signed, or a certified copy must be received by the Wesfarmers Share Registry – Computershare Investor Services Pty Limited by 4:00pm (Perth time) on Tuesday 13 November 2018 (unless it has been previously provided).

CUSTODIANS AND NOMINEES

Custodians and nominees that are Intermediary Online subscribers are able to lodge a proxy vote online by visiting www.intermediaryonline.com.

QUESTIONS FROM WESFARMERS SHAREHOLDERS

Wesfarmers welcomes questions from Wesfarmers Shareholders who are attending the General Meeting in person. In the interests of all present, please confine your questions to matters before the General Meeting that are relevant to Wesfarmers Shareholders as a whole. Wesfarmers staff will be available at the Shareholder Information desk in the foyer on the day of the meeting to discuss individual questions from Wesfarmers Shareholders and customers.

EXPLANATORY NOTES

ITEM 1: APPROVAL OF CAPITAL REDUCTION

The Capital Reduction Resolution is being put to shareholders to obtain approval under section 256C of the Corporations Act to an equal capital reduction in Wesfarmers Limited's ordinary share capital under section 256B of the Corporations Act.

The Capital Reduction is a return of capital on Wesfarmers Shares which, under the Scheme, will be applied, together with the Demerger Dividend, as consideration for the transfer of Coles Shares to Scheme Participants (or in the case of Ineligible Overseas Shareholders and Selling Shareholders, to the Sale Agent) in accordance with the Scheme.

Under the Scheme, the Capital Reduction Amount will be calculated as follows:

Capital Reduction Amount = (B / (B+C)) x D

where:

B = the market value of Coles, calculated as the VWAP of Coles Shares for the first five Business Days starting from the date of the commencement of trading (including on a deferred settlement basis) of Coles Shares on the ASX multiplied by the number of Coles Shares transferred to Wesfarmers Shareholders under the Demerger (which will equal the number of Wesfarmers Shares on issue on the Record Date);

C = the market value of Wesfarmers, calculated as the VWAP of Wesfarmers Shares for the first five Business Days starting from the date of the commencement of trading (including on a deferred settlement basis) of Coles Shares on the ASX multiplied by the number of Wesfarmers Shares on issue on the Record Date; and

D = the balance in the Wesfarmers share capital account immediately prior to the Implementation Date.

The Capital Reduction Resolution is being proposed in connection with the Scheme and is, as a result, conditional on the Scheme becoming Effective. Accordingly, the Capital Reduction Resolution will not come into effect unless and until the Scheme becomes Effective in accordance with section 411(10) of the Corporations Act. Similarly, for the Scheme to become Effective, certain conditions need to be satisfied, including the approval of the Capital Reduction Resolution by the requisite majority of Wesfarmers Shareholders.

The effect on Wesfarmers and its shareholders if the Capital Reduction Resolution is passed, together with all other factors that are material to the making of a decision by Wesfarmers Shareholders whether to approve the Capital Reduction Resolution, is set out in the Scheme Booklet, of which this notice forms part.

If the Capital Reduction Resolution is passed by the required majority, it will take effect provided the Scheme is approved by the required majority of Wesfarmers Shareholders and the Court and all other conditions to the Scheme are satisfied (or waived).

The Wesfarmers Directors are of the view that, taking into account all relevant matters, the Demerger (which includes the Capital Reduction and the Scheme) is in the best interests of Wesfarmers Shareholders and will not materially prejudice Wesfarmers' ability to pay its creditors.

The Board recommends Wesfarmers Shareholders vote in favour of the resolution in Item 1. Each Wesfarmers Director intends to vote all Wesfarmers Shares controlled by them in favour of the resolution.

ITEM 2: APPROVAL OF POTENTIAL TERMINATION BENEFITS TO COLES KMP

WHO IS COVERED BY THIS APPROVAL?

Approval is being sought in respect of any current or future person who holds or has held a 'managerial or executive office' (as defined in the Corporations Act) in Coles Group Limited (**Coles**) or a related body corporate (together, the **Coles Group**), including:

(a) as a member of the Coles Group Limited KMP (as that term is defined in the Corporations Act); or

(b) as a director of a Coles Group company,

at the time of their termination or within the three years prior to their termination (**Coles KMP**).

It is not anticipated that Coles KMP will be ceasing employment, but this approval is being sought so that the Coles Board can be in a position to treat Coles KMP fairly and appropriately upon ceasing to hold office for any reason.

This approval is not being sought in relation to current members of KMP of Wesfarmers Limited.

WHY IS SHAREHOLDER APPROVAL BEING SOUGHT?

The Corporations Act restricts the benefits which can be given to a person who holds a 'managerial or executive office' on leaving employment or upon retirement with the Coles Group. Under section 200B of the Corporations Act, a company may only give a person a 'benefit' in connection with their ceasing to hold a managerial or executive office in the company if it is approved by the members of the company and, where applicable, the listed holding company, or an exemption applies.

The principal purpose of this approval is to provide flexibility to the Coles Group to allow payments in accordance with existing contractual and legal entitlements, the Coles Group remuneration policies and in accordance with applicable laws and market practice.

Approval does not guarantee that the Coles KMP will receive any termination benefits, but rather preserves the discretion of the Coles Board or the board of the employer to determine the most appropriate termination package in accordance with the relevant employment agreement, terms of appointment, incentive and equity arrangements and other prevailing governance expectations and practices at the time the Coles KMP ceases employment or office, and also having regard to the circumstances in which the Coles KMP ceases employment or office.

Coles is committed to transparency in communicating its remuneration arrangements to shareholders and a summary of the executive arrangements for its senior management team is set out in Section 2.16 of the Scheme Booklet.

As Coles is, at the date of the General Meeting, a subsidiary of Wesfarmers Limited, approval from Wesfarmers Shareholders is required. Shareholder approval is also being sought from the shareholders of Coles and Coles Supermarkets Australia Pty Ltd, Eureka Operations Pty Ltd and Liquorland (Australia) Pty Ltd.

TERMINATION BENEFITS FOR WHICH APPROVAL IS SOUGHT

Approval is being sought so that termination benefits may be provided to Coles KMP under:

- their employment agreement;
- their terms of appointment;
- the Coles Group's incentive and equity plans, including awards that may be granted under the Coles Group's Equity Incentive Plan (**EIP**);
- local laws, policy and practice,

in addition to any other amounts required to be paid by law (such as statutory entitlements, including superannuation, annual leave and long service leave) and any minor incidental benefits that may be provided on termination.

The termination benefits for which approval is being sought are set out in the table below:

Description	Potential benefits
Employment agreements	
Termination by the employer or Coles KMP (other than for cause*) or by mutual agreement	***Payment in lieu of notice*** The employer may pay up to 12 months of the Coles KMP's total fixed compensation (which includes the aggregate value of all base salary, benefits, taxation, superannuation, withholdings and other entitlements payable, except for any bonus) in lieu of notice, depending on the proportion of the notice period (if any) required to be worked. ***Severance, termination or redundancy payment*** In addition, the employer may pay a severance, termination or redundancy payment (howsoever described) equivalent to up to six months total fixed compensation. ***Restraint payment*** The employer may pay a restraint payment equal to the Coles KMP's monthly total fixed compensation for each month during the period from termination of employment until the end of the restraint period.
Short-term incentive	
Cessation for any reason other than for cause*	The Coles Board or the board of the employer may award or exercise its discretion to: • pay or accelerate payment of; • vest or accelerate vesting of; • release; and/or • leave on foot, some or all of the Coles KMP's short-term, bonus or other incentive awards (including any deferred component if applicable), subject to the terms of the incentive award or the plan rules (if applicable).
Long-term incentive & equity arrangements	
Cessation for any reason other than for cause*	The Coles Board or the board of the employer may award or exercise its discretion to: • pay or accelerate payment of; and/or • vest, accelerate vesting, release, or leave on foot, some or all of the securities or other incentive awards held by or on behalf of the Coles KMP and may determine to settle an award in cash, subject to the terms of the award or the plan rules (if applicable).
Other	
Cessation in any circumstances	Coles KMP may receive any unpaid salary, fees and accrued and untaken annual leave and long service leave up to and including the date of cessation.
Superannuation plans	Employment benefits typically include participation in a superannuation scheme. The relevant employer may make employer contributions to such plans and may also facilitate employee contributions through salary sacrifice arrangements. The contributions or entitlements may exceed the minimum statutory requirement. This approval is intended to cover such contributions or entitlements.
Redundancy policy or practice	If termination is a result of redundancy, the terms of the relevant local policy or practice may apply. The Coles Group redundancy policy and practices generally provide for a payment determined by reference to the number of years of service and total fixed compensation of the person at the cessation date. In some cases, redundancy payments may be in excess of that which is otherwise permitted under the Corporations Act. This approval is intended to cover all such redundancy payments.
Non-contractual entitlements and incidental payments	In addition to the Coles KMP's contractual entitlements on cessation, there may be additional benefits payable at law depending on the jurisdiction in which the Coles KMP is based at the time he or she ceases employment or holding a managerial or executive office and any changes in law that occur prior to the cessation date. This approval is intended to cover any such payments. Circumstances may arise from time to time where it will be appropriate for Coles or the employer to make small incidental payments to departing Coles KMP, including allowing them to retain certain property following cessation (such as phones or other electronic devices) or making retirement gifts to recognise the contribution they made to the Coles Group. Approval is sought to grant such incidental benefits provided that they are reasonable and not significant in all the circumstances (and have an aggregate value that is less than 10 per cent of their fees or total fixed compensation (as applicable) at the cessation date).

* Termination 'for cause' typically includes where a Coles KMP ceases employment or ceases to hold office due to fraud, dishonesty, serious or wilful misconduct, negligence, a serious breach of their employment contract or where the Coles KMP is convicted of an offence punishable by imprisonment or is otherwise summarily dismissed.

In addition, approval is being sought to pay additional benefits to a Coles KMP, including all contractual entitlements, up to a maximum of 12 months annual base salary averaged over the previous three years.

The actual amount and value of the termination benefits that may be provided cannot be ascertained in advance. This is because various matters, events and circumstances will, or are likely to, affect the calculation of the amount and value, including the following:

- the circumstances in which the Coles KMP ceases to hold office or ceases employment and whether he or she serves all or part of any applicable notice period;
- the Coles KMP's base salary or fees at the time of cessation and at the time the relevant incentive or equity awards are made;
- the Coles KMP's length of service and the portion of any relevant performance periods that have expired at the time of cessation;
- the number of unvested equity entitlements held by the Coles KMP at the time he or she ceases and the number that the Coles Board determines to vest, lapse, release or leave on foot;
- the share price of Coles at the relevant time;
- any other factors that the Coles Board considers relevant when exercising its discretions (such as the assessment of the performance of the Coles KMP up to the cessation date);
- the jurisdiction and location in which the Coles KMP is based at the time he or she ceases to hold office or ceases employment, and the applicable laws in that jurisdiction; and
- any changes in law between the date Coles or the employer entered into the employment agreement with the Coles KMP and the date the Coles KMP ceases employment.

APPROVAL IS SOUGHT FOR A THREE-YEAR PERIOD

If Wesfarmers Shareholder approval is obtained, it will be effective from the date the resolution is passed until the conclusion of the Coles 2021 Annual General Meeting (**AGM**) (that is, for a period of approximately three years).

That is, shareholder approval will be effective:

- if the Coles Board or the board of the employer exercises certain discretions under the Coles Group incentive and equity plans;
- in relation to any incentive and equity awards (including rights, options and shares) granted under the Coles Group incentive and equity plans; and/or
- if a Coles KMP ceases to hold office,

during the period beginning at the conclusion of this General Meeting and expiring at the conclusion of the Coles 2021 AGM. If considered appropriate, the Coles Board may seek a further Coles shareholder approval at the 2021 AGM.

It can be reasonably anticipated that aspects of the relevant employment agreements, incentive or equity plan, superannuation arrangements and redundancy policies and practices will be amended from time to time in line with market practice and changing governance standards. Where relevant, changes in relation to Coles KMP will be reported in the Coles Group Remuneration Report. However, it is intended that this approval will remain valid for as long as these agreements, incentive and equity plans and policies or practices provide for the treatment on cessation of employment within the limits set out above.

The Board recommends that Wesfarmers Shareholders vote in favour of this resolution.

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13
NOTICE OF SCHEME MEETING

SECTION 13
NOTICE OF SCHEME MEETING

Wesfarmers Limited (ABN 28 008 984 049) (**Wesfarmers**) gives notice that by order of the Supreme Court of Western Australia made on 5 October 2018 pursuant to section 411(1) of the Corporations Act, a meeting of holders of fully paid ordinary shares in Wesfarmers (**Scheme Meeting**) will be held on Thursday 15 November 2018 at the later of 1:45pm (Perth time) or the conclusion of the Wesfarmers General Meeting. The Scheme Meeting will be held at the Perth Convention and Exhibition Centre, Mounts Bay Road, Perth, Western Australia.

INFORMATION ABOUT THE SCHEME

Information on the scheme of arrangement proposed to be made between Wesfarmers and the holders of its fully paid ordinary shares (Scheme) is set out in the Scheme Booklet (of which this notice forms part). Terms used in this notice have the same meaning as set out in the Glossary in Section 9 of the Scheme Booklet, unless indicated otherwise.

WESFARMERS SHAREHOLDERS ENTITLED TO ATTEND AND VOTE AT THE SCHEME MEETING

The Wesfarmers Board has determined that you will be entitled to attend and vote at the Scheme Meeting if you are a registered Wesfarmers Shareholder as at **4:00pm (Perth time) on Tuesday 13 November 2018**.

CHAIRMAN OF THE SCHEME MEETING

The Court has directed that Michael Chaney, or failing him Anthony Howarth, or failing both, any Wesfarmers Director be chairman of the meeting.

BUSINESS OF THE SCHEME MEETING

SCHEME RESOLUTION

The purpose of the meeting is to consider and, if thought fit, to agree (with or without modification) to the following resolution:

"That pursuant to, and in accordance with, section 411 of the Corporations Act, the scheme of arrangement proposed between Wesfarmers Limited and the holders of its fully paid ordinary shares as contained in and more precisely described in the Scheme Booklet of which the notice convening this meeting forms part, is approved (with or without modification as approved by the Supreme Court of Western Australia)."

REQUIRED VOTING MAJORITIES

The Scheme Resolution is required to be passed by:

- a majority in number of Wesfarmers Shareholders present and voting at the Scheme Meeting (whether in person or by proxy); and
- at least 75 per cent of the total number of votes cast on the Scheme Resolution by Wesfarmers Shareholders present and voting at the Scheme Meeting (whether in person or by proxy).

COURT APPROVAL

In accordance with section 411(4)(b) of the Corporations Act, the Scheme (with or without modification) must be approved by an order of the Court. If the Scheme Resolution put to this meeting is passed by the required majorities and the other conditions to the Scheme are satisfied (including the Capital Reduction Resolution being passed at the General Meeting), Wesfarmers intends to apply to the Court on 19 November 2018 for approval of the Scheme.

WEBCASTING

The Scheme Meeting will be webcast on the Wesfarmers website at www.wesfarmers.com.au.

By order of the Board

Linda Kenyon
Company Secretary

5 October 2018

VOTING AND PROXY INSTRUCTIONS

VOTING PROCEDURE

Voting at the Scheme Meeting will be conducted by way of a poll. Voting results will be announced to the ASX as soon as practicable after the Scheme Meeting.

The chairman of the Scheme Meeting intends to vote all available proxies in favour of the Scheme Resolution.

HOW TO LODGE YOUR VOTE

A Wesfarmers Shareholder entitled to attend and vote can do so either by:

- attending the Scheme Meeting and voting in person or by attorney or, in the case of corporate shareholders, by corporate representative; or
- appointing not more than two proxies to attend and vote at the Scheme Meeting on behalf of the Wesfarmers Shareholder, using the Proxy Form accompanying this Scheme Booklet (of which this notice forms part).

Direct voting is not available for the Scheme Meeting.

VOTING IN PERSON (OR BY ATTORNEY OR CORPORATE REPRESENTATIVE)

You should arrive at the meeting venue 30 minutes before the time designated for the Scheme Meeting, if possible, so that your shareholding can be checked against the Wesfarmers Register and attendances noted.

An Attorney attending the Scheme Meeting must provide the Wesfarmers Share Registry – Computershare Investor Services Pty Limited with an original or certified copy of the power of attorney under which they have been authorised to attend and vote at the Scheme Meeting by no later than time specified for lodging a Proxy Form (being 4:00pm (Perth time) on Tuesday 13 November 2018) unless it has been previously provided.

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  - **In person:** Share Registry – Computershare Investor Services Pty Limited, Yarra Falls, 452 Johnston Street, Abbotsford Victoria 3067, Australia; or
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CORPORATE DIRECTORY

WESFARMERS

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WESFARMERS SHARE REGISTRY

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Design by ideate

Wesfarmers

HERBERT SMITH FREEHILLS

Annexure B

Coles supply chain announcement

News Release

Wesfarmers

5 October 2018

Coles supply chain modernisation

Wesfarmers today announced that Coles has entered into a Heads of Agreement with Witron Australia, the Australian subsidiary of Witron Logistik + Informatik GmbH (Witron), to develop two new automated ambient distribution centres for Coles over a five year period. Witron is a market leader in the design and realisation of dynamic warehouse and order picking systems for distribution centres, with over 50 automated projects for major retailers around the world.

Wesfarmers Managing Director Rob Scott said the decision to make this investment followed an extensive evaluation process and assessment of global best practice to ensure that the project supports Coles' strategy over the long term.

"We are pleased to partner with Witron, a global leader in this field, to invest in world-class technology to modernise Coles' supply chain," Mr Scott said. "Following a comprehensive review of all options this investment is expected to deliver significant productivity improvements over the medium to long term."

Coles Managing Director Steven Cain said the investment demonstrates Coles' commitment towards modernising its supply chain, which delivers more than one billion cartons to stores each year, through investment in technology and automation.

"Coles is committed to improving efficiency and stock availability in stores and delivering higher service levels for our customers," Mr Cain said. "The investment we are making in this technology is expected to lower supply chain costs, provide safer working environments and enhance our business competitiveness."

The total investment required to develop the two new automated ambient distribution centres will be managed within Coles' overall capital expenditure budget by applying its established capital allocation processes and return hurdles. Future capital expenditure requirements associated with this investment were taken into account in determining the appropriate level of net debt for Coles as a standalone company, and the investment is supported by the incoming Coles Board.

The 2019 financial year capital expenditure associated with this project is included in Coles' net capital expenditure guidance of $600 million to $800 million. Coles expects to recognise provisions of approximately $130 million to $150 million before tax in the 2019 financial year, relating to redundancies and lease exit costs for a number of existing distribution centres that will be closed over a five year period.

For further information:

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HERBERT SMITH FREEHILLS

Annexure C

Coles first quarter sales results

News Release

Wesfarmers

2019 First Quarter Retail Sales Results

15 October 2018

Coles First Quarter Sales ($m)	2019	2018	Variance %
Supermarkets[1]	7,657	7,239	*5.8*
Liquor[1,2]	744	729	*2.1*
Convenience[1,3]	1,437	1,402	*2.5*
Total Coles	**9,838**	**9,370**	***5.0***

Refer to Appendix Three for footnotes.

Wesfarmers Limited today announced the Coles retail sales results for the first quarter of the 2019 financial year. Managing Director Rob Scott said that the results reflected continued good momentum in Coles, driven by a successful 'Little Shop" promotional campaign, improved in-store execution and investments in flybuys promotions.

"Coles Supermarkets' headline sales increased 5.8 per cent during the quarter, and its total sales increased by 5.0 per cent," Mr Scott said.

"Strong growth in basket size, transaction numbers and units sold, as well as improvements in fresh market share supported the sales result. Coles' liquor and convenience segments also recorded headline sales growth for the quarter.

"The result for the first quarter was pleasing as it demonstrated the ability of the Coles team to continue to focus on improving in-store execution while preparations continued for the proposed shareholder vote on the demerger of Coles," Mr Scott said.

Subject to shareholder approval of the proposed demerger, Coles plans to continue to report quarterly sales as a standalone listed company in future quarters.

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www.wesfarmers.com.au

Supermarkets

Coles Supermarkets recorded sales for the first quarter of $7,657 million, up 5.8 per cent on the prior corresponding period. Comparable food sales increased 5.1 per cent for the quarter driven by significant growth in average customer basket size, units sold and transaction growth.

Sales in the quarter were driven by the highly successful 'Coles Little Shop' campaign, improved in-store execution and flybuys promotional campaigns. During the quarter, Coles also removed single-use plastic bags which saw additional costs incurred, relating to investments in service, flybuys investments and reusable plastic bag giveaways, to assist customers to transition to the change. The EBA introduced in April also saw additional costs in the quarter compared to the prior corresponding period.

Supply-side cost pressures in key fresh categories underpinned price inflation of 0.6 per cent for the quarter. The higher cost of grain and lower supply of livestock as a result of the drought impacted pricing in the bakery and meat categories during the quarter. Fresh produce costs also increased, reflecting heavily deflated prices in the prior corresponding period due to favourable growing conditions. Excluding fresh and tobacco, underlying price deflation was 0.8 per cent as Coles continued to invest in the customer offer.

Coles Managing Director Steven Cain said the Coles team around Australia was focused on making life easier for our customers.

"Our 116,000 team members continue to passionately engage and build trust with our customers, positioning us well for long term growth," Mr Cain said.

"In-store execution improved during the quarter underpinned by improved availability through our stockless stockrooms and new initiatives such as the roll out of monster ends. The impact of these initiatives was reflected in improved operational metrics.

"Coles continued to focus on improving the quality and range of fresh products within the business which supported further growth in fresh market share for the quarter despite inflationary headwinds from the drought and seasonal impacts."

Coles Online achieved over 30 per cent sales growth for the quarter and is on track to surpass $1,000 million of sales for the current financial year. At the end of the period, there were over 1,000 Click & Collect locations rolled out across the network as further investment was made to provide convenient solutions to customers.

Coles continued to improve and optimise its store network, opening four supermarkets and closing four during the quarter, resulting in a total of 809 supermarkets at the end of the period. During the quarter, five supermarket renewals were completed.

Liquor

The Liquor division recorded sales, including hotels, for the first quarter of $744 million, an increase of 2.1 per cent on the prior corresponding period. Comparable liquor sales increased 1.3 per cent for the quarter driven by growth in basket size and transactions.

The transformation program continued to deliver growth in sales, with significant opportunities remaining to improve product range through exclusive brands and deliver greater convenience for customers. Investment in the store network continued in the quarter with 21 store renewals, including the next evolution Liquorland format and seven First Choice Liquor Market brand conversions.

Coles continued to improve its liquor network, opening five stores and closing five stores during the quarter, resulting in a total of 900 retail liquor sites and 87 hotels at the end of the period.

Convenience

Coles Express recorded sales, including fuel, for the quarter of $1,437 million, an increase of 2.5 per cent on the prior corresponding period.

Headline convenience store sales grew by 2.4 per cent for the quarter and 3.4 per cent on a comparable store basis. Growth in convenience store sales continued to be driven by improvements to the overall food-to-go offering and convenience range.

For the quarter, headline fuel volumes decreased 14.8 per cent and comparable fuel volumes decreased 15.9 per cent. Fuel volumes in the quarter were impacted by a substantial increase in the cost price of fuel caused by higher global oil prices, a lower Australian dollar, and the ongoing impact of changes to the commercial terms of the Alliance. The business continues to work with its Alliance partner to provide a more competitive fuel offer.

Coles Express continued to optimise its network during the quarter, opening one new site and closing one site, maintaining the total network at 711 sites.

Refer to Appendix Three for footnotes.

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APPENDIX ONE

2019 FIRST QUARTER COLES SALES RESULTS – KEY METRICS

Key Metrics (%)	**First Quarter 2019**	**Fourth Quarter 2018**	**Third Quarter 2018**	**Second Quarter 2018**	**First Quarter 2018**
COLES					
Supermarkets					
Comparable store sales growth	5.1	1.8	0.9	1.3	0.3
Comparable store sales growth adjusted for Easter & New Year's Day timing)	5.1	1.8	1.3	1.0	0.3
Price inflation/(deflation)	0.6	(0.6)	(0.7)	(0.9)	(2.3)
Liquor[2]					
Comparable store sales growth	1.3	2.0	0.7	1.6	1.6
Comparable store sales growth adjusted for Easter & New Year's Day timing)	1.3	2.0	0.7	1.6	1.6
Convenience					
Total fuel volume growth	(14.8)	(14.6)	(14.6)	(17.0)	(20.2)
Comparable fuel volume growth	(15.9)	(15.8)	(15.9)	(17.7)	(21.0)
Total convenience store sales growth (excl. fuel sales)	2.4	3.7	0.9	(0.6)	2.7
Comparable convenience store sales growth (excl. fuel sales)	3.4	4.6	1.3	0.6	0.2

n.a. - not applicable
Refer to Appendix Three for footnotes.

APPENDIX TWO

COLES STORE NETWORK

FINANCIAL YEAR 2019, YEAR TO DATE

	Open at 1 Jul 2018	Opened	Closed	Re-branded	Open at 30 Sep 2018
COLES					
Supermarkets	**809**	**4**	**(4)**	**-**	**809**
Liquor					
1st Choice	98	-	(1)	-	97
Vintage Cellars	84	-	-	-	84
Liquorland	717	5	(3)	-	719
Hotels	88	-	(1)	-	87
Total Liquor	**987**	**5**	**(5)**		**987**
Convenience	**711**	**1**	**(1)**	**-**	**711**
Selling Area (m^2)					
Supermarkets	1,865,983	n.a.	n.a.	n.a.	1,864,397
Liquor (excluding hotels)	213,511	n.a.	n.a.	n.a.	213,039

APPENDIX THREE

FOOTNOTES

1. Financial Year 2019 for the 13 week period 25 June 2018 to 23 September 2018 and Financial Year 2018 for the 13 week period 26 June 2017 to 24 September 2017.

2. Includes hotels, excludes gaming revenue and property income.

3. Includes fuel sales.

HERBERT SMITH FREEHILLS

Annexure D

Biography of Kris Webb

KRIS WEBB – CHIEF PEOPLE OFFICER

Kris has more than 30 years of human resources experience across a range of industries.

Appointed as Chief People Officer in October 2018 following an international search, Kris is responsible for leading the People & Culture function at Coles.

Prior to this appointment, Kris spent 11 years with GlaxoSmithKline in Australia, Singapore and the UK, most recently as Senior Vice President HR. Previously, Kris was National Human Resources Director for the Australian law firm Clayton Utz, HR Director – Asia Pacific for PriceWaterhouseCoopers Financial Advisory Services, and earlier in her career spent 10 years with BP Australia in a range of business roles.

Qualifications: BBus, RMIT

Annexure E

Extract from the Annual General Meeting transcript of Wesfarmers

Turning to Coles, in a very competitive environment, and as we proceed to consider its demerger, Coles remains focused on customers and delivering sustainable earnings growth.

We recently reported first quarter sales growth of 5.8 per cent, supported by the successful ‘Coles Little Shop’ campaign, improved in-store execution and flybuys promotional campaigns.

This in turn led to strong growth in basket size, transaction numbers and units sold – as well as improvements in Fresh market share.

In the continuing competitive environment post ‘Little Shop’, Coles Supermarkets business reflects trading broadly in line with the fourth quarter of the 2018 financial year.

Pleasingly, customer satisfaction metrics have been maintained during this period of change for Coles with in-store execution improvements underpinned as a result of better availability through our stockless stockrooms.

Coles online sales have continued to grow strongly on the prior year, and are expected to surpass $1 billion of sales for the current financial year, supported by over 1,000 customer collection points across the Coles network.

As we highlighted at our first quarter sales results, our Convenience business continues to experience difficult trading conditions with fuel volumes and earnings continuing to be impacted by high global oil prices, a lower Australian dollar and the ongoing impact of changes to the commercial terms with our Alliance partner.