

This is an important document and requires your immediate attention.
You should read it in its entirety before deciding whether or not to vote in favour of the Scheme.

If you are in any doubt about how to deal with this document, you should contact your broker, financial adviser or legal adviser immediately.



Coles Group Limited

ABN 11 004 089 936

Scheme Booklet

For a scheme of arrangement in relation to the proposed acquisition of all your Coles Group Limited shares by Wesfarmers Retail Holdings Pty Ltd (ACN 126 199 022), a wholly owned subsidiary of Wesfarmers Limited (ABN 28 008 984 049)

VOTE YES

Your directors unanimously recommend that you vote in favour of the Scheme in the absence of a superior proposal

LAZARD CARNEGIE WYLIE

Deutsche Bank



FINANCIAL ADVISERS

Freehills

LEGAL ADVISER

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What you should do

STEP 1: READ THIS BOOKLET IN FULL

You should read this Scheme Booklet in its entirety before deciding whether to vote in favour of the Scheme. If you have any questions, please contact the Coles Group Information Line on 1300 663 897 (within Australia) or +61 3 9415 4314 (outside Australia).

STEP 2: VOTE ON THE SCHEME

Vote on the Scheme by doing one of the following:

- By proxy, complete and return the white proxy form accompanying this Scheme Booklet so that it is received by the Coles Group Share Registry by no later than 11:00am (Melbourne time) on 5 November 2007;
- By online proxy, log on to Coles Group's website at www.colesgroup.com.au by no later than 11:00am (Melbourne time) on 5 November 2007; or
- In person, attend the Scheme Meeting in person at Hamer Hall, Victorian Arts Centre, Melbourne on Wednesday, 7 November 2007, commencing at 11:00am (Melbourne time).

Your Coles Group Directors unanimously recommend that you vote in favour of the Scheme in the absence of a superior proposal.

STEP 3: DECIDE ON YOUR PREFERRED CONSIDERATION

Under the Scheme, you will receive the standard Scheme Consideration of \$4.00 cash and 0.14215 New Wesfarmers Ordinary Shares and 0.14215 Wesfarmers PPS.

Alternatively, you may elect to maximise the New Wesfarmers Ordinary Shares you receive or maximise the amount of cash consideration you receive, subject to the offsetting elections of other Scheme Shareholders.

If you are a Small Shareholder (being a Scheme Shareholder who holds 100 Coles Group Shares or less as at the Record Date), you may use the pink Election Form to have all the New Wesfarmers Ordinary Shares and Wesfarmers PPS that you would receive under the Scheme sold on ASX by the Sale Agent and remitted to you, free of any brokerage costs.

If you wish to make an election, you must return the pink Election Form accompanying this Scheme Booklet so that it is received by the Coles Group Share Registry by no later than 7:00pm (Melbourne time) on 16 November 2007. Alternatively you can make an election by logging on to Coles Group's website at www.colesgroup.com.au and following the relevant instructions.



Important notices

Nature of this document

This Scheme Booklet provides Coles Group Shareholders with information about the acquisition of Coles Group by Wesfarmers (through its wholly-owned subsidiary, Wesfarmers Retail).

If you have sold all of your Coles Group Shares, then please ignore this Scheme Booklet.

In addition to this Scheme Booklet, a Scheme Booklet Supplement, containing a copy of the complete Independent Expert's Report, Investigating Accountant's Report and the Scheme Implementation Agreement may be obtained by contacting the Coles Group Information Line on 1300 663 897 (within Australia) or +61 3 9415 4314 (outside Australia), or from Coles Group's website at www.colesgroup.com.au.

Defined terms

A number of defined terms are used in this Scheme Booklet. These terms are explained in Section 14 of this Scheme Booklet.

Under the Scheme, your Coles Group Shares will be acquired by Wesfarmers Retail. The consideration will be provided directly or indirectly by Wesfarmers. For ease of reference, a reference in the Scheme Booklet to the acquisition of Coles Group or Coles Group Shares by Wesfarmers means the acquisition of the Coles Group or Coles Group Shares by Wesfarmers through Wesfarmers Retail.

No investment advice

The information contained in this Scheme Booklet does not constitute financial product advice and has been prepared without reference to your own investment objectives, financial situation, taxation position and particular needs. It is important that you read the Scheme Booklet in its entirety before making any investment decision and any decision as to whether or not to vote in favour of the Scheme. If you are in any doubt in relation to these matters, you should consult your financial, legal, taxation or other professional adviser.

Regulatory information

This document is the explanatory statement for the Scheme between Coles Group and the holders of its fully paid ordinary shares as at the Record Date (other than Excluded Shareholders) for the purposes of section 412(1) of the Corporations Act. A copy of the proposed Scheme is included in this Scheme Booklet as Annexure B.

A copy of this Scheme Booklet was lodged with ASIC for registration by ASIC under section 412(6) of the Corporations Act and was registered by ASIC under that section before being sent to Coles Group Shareholders (other than Excluded Shareholders).

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

A copy of this Scheme Booklet has been provided to ASX. Neither ASX nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

Disclaimer as to forward-looking statements

This Scheme Booklet contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements.

All forward-looking statements in this Scheme Booklet reflect views only as at the date of this Scheme Booklet, and generally may be identified by the use of forward-looking words such as "believe", "aim", "expect", "anticipate", "intending", "foreseeing", "likely", "should", "planned", "may",

"estimate", "potential", "target", or other similar words. Similarly, statements that describe Coles Group's or Wesfarmers' objectives, plans, goals or expectations are or may be forward-looking statements. The Wesfarmers Merged Group does not come into existence until the Implementation Date. For this reason, all statements in this Scheme Booklet concerning the Wesfarmers Merged Group are forward-looking statements.

The statements contained in this Scheme Booklet about the impact that the Scheme may have on the results of Coles Group's operations, and the advantages and disadvantages anticipated to result from the Scheme, are also forward-looking statements.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to differ materially from the anticipated results, performance or achievements, expressed, projected or implied by these forward-looking statements.

The operations and financial performance of Coles Group and Wesfarmers are subject to various risks summarised in this Scheme Booklet that may be beyond the control of Coles Group and/or Wesfarmers. Coles Group Shareholders should note that the historical financial performance of Coles Group and Wesfarmers is no assurance of future financial performance of Coles Group, Wesfarmers and/or the Wesfarmers Merged Group (whether the Scheme becomes Effective or not). Those risks and uncertainties include factors and risks specific to the industry in which each of Coles Group and Wesfarmers respectively operates as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. As a result, the actual results of operations and earnings of Coles Group, Wesfarmers and/or the Wesfarmers Merged Group following the Scheme, as well as the actual advantages of the Scheme, may differ significantly from those that are anticipated in respect of timing, amount or nature and may never be achieved.

The Risk Factors (described in Sections 2, 6.7, 7.6 and 8.7) could affect future results, causing these results to differ materially from those expressed, projected or implied in any forward-looking statements. These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any forward-looking statements. Other unknown factors could also have a material adverse effect on future results of Coles Group, Wesfarmers or the Wesfarmers Merged Group.

The forward-looking statements included in this Scheme Booklet are based on reasonable grounds and are made only as of the date of this Scheme Booklet. None of Coles Group, Wesfarmers, Coles Group's officers, Wesfarmers' officers, any persons named in this Scheme Booklet with their consent or any person involved in the preparation of this Scheme Booklet, makes any representation or warranty (express or implied) as to the likelihood of fulfilment of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement. You are cautioned not to place undue reliance on any forward-looking statement.

You should review carefully all of the information in this Scheme Booklet. Sections 1 and 2 set out the advantages and disadvantages of the Scheme.

All subsequent written and oral forward-looking statements attributable to Coles Group or Wesfarmers or any person acting on their behalf are qualified by this cautionary statement.

Subject to any continuing obligations under relevant laws or the listing rules of a relevant exchange (and except as set out in Section 13.8), Coles Group and Wesfarmers do not give any undertaking to update or revise any such statements after the date of this Scheme Booklet, to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

Important notices

Responsibility statement

Coles Group has been solely responsible for preparing the Coles Group Information. The information concerning Coles Group and the intentions, views and opinions of Coles Group and the Coles Group Directors contained in this Scheme Booklet have been prepared by Coles Group and the Coles Group Directors and is the responsibility of Coles Group. Wesfarmers and the Wesfarmers Directors and Wesfarmers' officers do not assume any responsibility for the accuracy or completeness of any such Coles Group Information.

Wesfarmers has been solely responsible for preparing the Wesfarmers Information. The information concerning Wesfarmers and the intentions, views and opinions of Wesfarmers and the Wesfarmers Directors contained in this Scheme Booklet have been prepared by Wesfarmers and the Wesfarmers Directors and are the responsibility of Wesfarmers. Coles Group and the Coles Group Directors and Coles Group's officers do not assume any responsibility for the accuracy or completeness of any such Wesfarmers Information. Subject to Coles Group taking responsibility for the information which it has provided to Wesfarmers for the purpose of Wesfarmers preparing information on the Wesfarmers Merged Group, Wesfarmers takes responsibility for all information relating to the Wesfarmers Merged Group in this Scheme Booklet.

Ernst & Young has prepared the Investigating Accountant's Report and takes responsibility for that report. A copy of that report is contained in the Scheme Booklet Supplement.

Grant Samuel has prepared the Independent Expert's Report in relation to the Scheme and takes responsibility for that report. A summary of the Independent Expert's Report is set out in Section 11. A copy of the complete Independent Expert's Report is set out in the Scheme Booklet Supplement.

Foreign shareholders

This Scheme Booklet and the Scheme are subject to Australian disclosure requirements which may be different from those applicable in other jurisdictions. This Scheme Booklet and the Scheme do not in any way constitute an offer of securities in any place in which, or to any person to whom, it would not be lawful to make such an offer.

Foreign Shareholders, being Coles Group Shareholders in jurisdictions outside Australia and its external territories and New Zealand, should refer to Section 5.18 of this Scheme Booklet to determine whether they are Ineligible Foreign Shareholders.

Coles Group Shareholders that are considered to be Ineligible Foreign Shareholders will not be able to receive New Wesfarmers Ordinary Shares or Wesfarmers PPS under the Scheme. New Wesfarmers Ordinary Shares and Wesfarmers PPS that would otherwise be issued to these shareholders in connection with the Scheme will be issued to the Sale Agent (or their nominees) to be sold on ASX, with the net proceeds of such sale to be paid to Ineligible Foreign Shareholders.

Coles Group Shareholders resident outside Australia for tax purposes should seek specific taxation advice in relation to the Australian and overseas taxation implications of the Scheme.

Important Notice to U.S. Shareholders

Coles Group and Wesfarmers intend to rely on an exemption from the registration requirements of the U.S. Securities Act of 1933 (the "U.S. Securities Act") provided by Section 3(a)(10) of the U.S. Securities Act in connection with the consummation of the Scheme and the issuance of New Wesfarmers Ordinary Shares and Wesfarmers PPS. Approval of the Scheme by the Court will be relied upon by Coles Group and Wesfarmers for the purposes of qualifying for the Section 3(a)(10) exemption.

U.S. shareholders should note that this offer is made for the securities of an Australian company in accordance with the laws of Australia and ASX Listing Rules. The Scheme is subject to disclosure requirements of Australia that are different from those of the United States. For example, the financial statements included in this Scheme Booklet have been prepared in accordance with Australian Accounting Standards and Australian equivalents to International Financial Reporting Standards ("A-IFRS"), which may not be comparable to the financial statements of U.S. companies prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP").

It may be difficult for you to enforce your rights and any claim you may have arising under U.S. federal securities laws, since Wesfarmers is located in Australia, and some or all of its officers and directors are residents of Australia. You may not be able to sue Wesfarmers or its officers or directors in Australia for violations of the U.S. securities laws. It may be difficult to compel Wesfarmers and its affiliates to subject themselves to a U.S. court's judgment.

You should be aware that Wesfarmers may purchase securities otherwise than under the Scheme, such as in open market or privately negotiated purchases.

This Scheme Booklet has not been filed with or reviewed by the SEC or any state securities authority and none of them has passed upon or endorsed the merits of the Scheme or the accuracy, adequacy or completeness of this Scheme Booklet. Any representation to the contrary is a criminal offence.

The New Wesfarmers Ordinary Shares and Wesfarmers PPS to be issued pursuant to the Scheme have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any U.S. state or other jurisdiction. The Scheme Consideration will not be issued to any Coles Group Shareholders in any U.S. state or other jurisdiction where it is not legally permitted to do so or that require registration or qualification.

Important Notice to Hong Kong Shareholders

WARNING

The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Privacy

Coles Group and Wesfarmers may collect personal information in the process of implementing the Scheme. Such information may include the name, contact details, bank account details and shareholdings of Coles Group Shareholders and the name of persons appointed by those persons to act as a proxy, attorney or corporate representative at the Scheme Meeting. The primary purpose of the collection of personal information is to assist Coles Group and Wesfarmers to conduct the Scheme Meeting and implement the Scheme. Personal information of the type described above may be disclosed to the Coles Group Share Registry and Wesfarmers Share Registry, print and mail service providers, authorised securities brokers and Related Bodies Corporate of Coles Group and Wesfarmers. Coles Group Shareholders have certain rights to access personal information that has been collected. Coles Group Shareholders should contact the Coles Group Share Registry in the first instance if they wish to access their personal information. Coles Group Shareholders who appoint a named person to act as their proxy, attorney or corporate representative should ensure that they inform that person of these matters.

Date of this Scheme Booklet

This Scheme Booklet is dated 27 September 2007.

Key dates

Latest time and date for receipt or internet registration of proxy forms or powers of attorney for the Scheme Meeting	11:00am (Melbourne time) on 5 November 2007
Time and date for determining eligibility to vote at Scheme Meeting	7:00pm (Melbourne time) on 5 November 2007
Scheme Meeting to be held at Hamer Hall, Victorian Arts Centre, Melbourne	11:00am (Melbourne time) on Wednesday, 7 November 2007

If the Scheme is agreed to by Coles Group Shareholders:

Second Court Date for approval of the Scheme	9 November 2007
Effective Date	9 November 2007
Court order lodged with ASIC and announcement to ASX	
Last day of trading in Coles Group Shares – Coles Group Shares suspended from trading on ASX from close of trading on ASX	
New Wesfarmers Ordinary Shares and Wesfarmers PPS commence trading on ASX on a deferred settlement basis	12 November 2007
Latest time and date by which Election Forms must be received by Coles Group Share Registry or be made via Coles Group's website	7:00pm (Melbourne time) on 16 November 2007
Record Date for Scheme Consideration	7:00pm (Melbourne time) on 16 November 2007
Record Date for Coles Fully Franked Final Dividend	7:00pm (Melbourne time) on 16 November 2007
Implementation Date	23 November 2007
Payment of Cash Consideration and issue of New Wesfarmers Ordinary Shares and Wesfarmers PPS	
Payment of Coles Fully Franked Final Dividend	
Despatch of holding statements for New Wesfarmers Ordinary Shares and Wesfarmers PPS	By 30 November 2007
Trading of New Wesfarmers Ordinary Shares and Wesfarmers PPS commence on ASX on a normal settlement basis	By 3 December 2007

All dates following the date of the 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 above timetable (which may include an earlier date for the Second Court Date) will be announced through ASX and notified on Coles Group's website at www.colesgroup.com.au.

All references to time in this Scheme Booklet are references to Melbourne time unless otherwise stated. Any obligation to do an act by a specified time in an Australian time zone must be done at the corresponding time in any other jurisdiction.

Letter from the Chairman of Coles Group

27 September 2007

Dear Shareholder,

On 2 July 2007, your Board entered into an agreement with Wesfarmers to recommend a Scheme of Arrangement, under which Wesfarmers would acquire Coles Group, subject to your approval as Coles Group shareholders.

This followed an ownership review and competitive auction process that commenced in February 2007 during which the Board considered a range of strategic alternatives and proposals from interested parties with a view to maximising value for its shareholders.

The Wesfarmers proposal was subsequently enhanced on 5 September 2007 to provide greater certainty for Coles Group shareholders.

Your Board unanimously recommends that you support the Wesfarmers proposal, in the absence of a superior proposal, by voting in favour of the proposed scheme of arrangement necessary to effect the acquisition. Your directors believe that the Scheme is likely to deliver benefits to Coles Group shareholders greater than other alternatives which have been considered, including Coles Group continuing as a stand-alone entity or divesting certain businesses.

Under the Scheme, you will be entitled to receive the following consideration for each Coles Group share you hold at the relevant record date:

- \$4.00 cash;
- 0.14215 ordinary shares in Wesfarmers; plus
- 0.14215 Wesfarmers partially protected shares (PPS).

In addition, you will also be entitled to receive the Coles Group fully franked final dividend of \$0.25 per share. This dividend will be paid regardless of whether the Scheme proceeds.

The Wesfarmers PPS have the same rights as Wesfarmers ordinary shares (including in respect of dividends). They will be reclassified as fully paid Wesfarmers ordinary shares at a future date.

The Wesfarmers PPS offer a level of downside price protection in certain circumstances as shareholders may, upon reclassification, be provided with additional Wesfarmers ordinary shares. If the Wesfarmers ordinary share price is less than \$45 at a date which is between four and four and a half years after the Implementation Date (subject to extension for up to four years in certain circumstances), up to a maximum of 0.25 additional Wesfarmers ordinary shares will be issued for every 1 Wesfarmers PPS held. Please see pages 10 to 11 for further information.

Under the Scheme, you may also participate in a mix and match facility, under which you may be able to maximise the number of ordinary shares in Wesfarmers you receive or maximise the amount of cash consideration you receive, subject in each case to the off-setting elections of other shareholders. The Wesfarmers PPS are not part of the mix and match facility.

By receiving share consideration under the Scheme, you will be able to participate in the future growth potential of the Coles Group business as part of the Wesfarmers merged group and may be eligible to receive scrip for scrip capital gains tax roll-over relief.

The independent expert has valued Coles Group at **\$16.21** to **\$18.23** per share and has valued the aggregate of the Wesfarmers proposal and the Coles Group final dividend at **\$14.87** to **\$15.44** per share based on Wesfarmers share prices of \$38.00 to \$40.00, less the Wesfarmers final dividend of \$1.40 which Coles Group shareholders will not receive.

The assessed value of Wesfarmers' proposal is at a discount to the assessed value of Coles Group and therefore less than the fair value range the independent expert attributed to Coles Group shares and does not deliver a full premium for control.



The independent expert acknowledges that the Wesfarmers proposal is finely balanced and the assessment of it is not straightforward. Further, recent volatility in financial markets means there is uncertainty around the valuation conclusions. However, the independent expert has concluded that the Wesfarmers' proposal is in the best interests of Coles Group shareholders in the absence of a superior proposal.

As the independent expert observes, there are a number of relevant factors, including:

- Coles Group shareholders will have a 44 per cent economic interest in the Wesfarmers merged group;
- the Wesfarmers proposal was the outcome of an extensive worldwide sale process and was the only firm offer for all of Coles Group; and
- continued ownership uncertainty is likely to be damaging for Coles Group, particularly Coles Group's supermarkets.

The Scheme requires court approval and the approval of Coles Group shareholders at a special meeting to be held on Wednesday, 7 November 2007 in Melbourne. The Scheme is also subject to a number of conditions which are outlined in Section 5.9 of this booklet.

Further information in relation to the Scheme is contained in this booklet, including the reasons for your directors' recommendation and a summary of the findings of the independent expert. You should also have regard to the disadvantages and risks associated with the Scheme which are summarised in Section 2, and set out in Sections 6.7, 7.6 and 8.7. Please read this booklet carefully before making your decision and voting at the Scheme meeting.

If you have any questions in relation to the Scheme, please contact the Coles Group Information Line on 1300 663 897 (within Australia) or +61 3 9415 4314 (outside Australia), or go to Coles Group's website at www.colesgroup.com.au.

Yours sincerely,

R H Allert AM

Chairman, Coles Group Limited

Letter from the Chairman of Wesfarmers

27 September 2007

Dear Coles Group Shareholder,

The Wesfarmers Board is very pleased to provide you with further information regarding the proposed Scheme and the opportunity to deliver enhanced value for both Wesfarmers and Coles Group shareholders. We unanimously support this transaction and believe the business combination will be beneficial for all shareholders and for other stakeholders, in particular employees, customers and suppliers.

We encourage you to:

- read this Scheme Booklet in full;
- vote at the Scheme Meeting; and
- consider your preferences for the mix and match elections.

Wesfarmers is well known for its successful management of a wide range of businesses and for delivering strong shareholder returns. This Scheme provides an opportunity to become a shareholder in one of Australia's premier companies and to participate in the revitalisation of Coles Group's irreplaceable business assets. Approval of the Scheme will also mean that Coles Group remains Australian owned and operated.

As Coles Group's largest shareholder with 10.6 per cent of Coles Group Shares, Wesfarmers is excited by the opportunities that lie ahead by bringing together these two great Australian companies. We are committed to realising substantial and sustainable benefits for shareholders by lifting the performance of Coles Group businesses through initiatives aimed at increasing customer satisfaction and by implementing programmes which will lead to more efficient operations and cost reductions.

Wesfarmers has a track record of delivering strong returns to shareholders. Over the last ten financial years, Wesfarmers has achieved a compound total shareholder return of 21 per cent per annum and significantly outperformed the All Ordinaries Accumulation Index. During this period, our annual fully franked dividend per Wesfarmers Ordinary Share has increased by over 240 per cent from \$0.66 to \$2.25. We look forward to continuing our record of success in the future and expect to pay a fully franked dividend in excess of \$2.00 per Wesfarmers Ordinary Share and Wesfarmers PPS for the 2008 and 2009 financial years, subject to the availability of retained earnings and franking credits. Further information in relation to the Wesfarmers dividend guidance is set out in Section 8.3.

The Independent Expert has concluded that the Scheme is in the best interests of Coles Group Shareholders in the absence of a superior proposal. Further information in relation to the Independent Expert's conclusions and analysis is set out in Section 11.

In addition to the benefits outlined above, the majority of Australian Coles Group Shareholders should be able to defer any capital gains tax liability in relation to the share consideration component of the Scheme Consideration they will receive for their Coles Group Shares. There is also a level of downside protection through the Wesfarmers PPS.

On behalf of the Wesfarmers Board, I encourage you to vote in favour of the Scheme at the meeting on 7 November 2007 and look forward very much to welcoming you as a shareholder of the Wesfarmers Merged Group if the Scheme succeeds.

Yours sincerely,



Trevor Eastwood AM

Chairman, Wesfarmers Limited



What you will receive under the Scheme

Under the terms of the Scheme, Coles Group Shareholders (other than Excluded Shareholders and Ineligible Foreign Shareholders) will receive the following Scheme Consideration for each Coles Group Share held at the Record Date:

- **Cash Consideration** of \$4.00 cash; and
- **Share Consideration** of 0.14215 New Wesfarmers Ordinary Shares and 0.14215 Wesfarmers PPS.

The Record Date is currently expected to be 7:00pm (Melbourne time) on 16 November 2007.

The value of the Scheme Consideration will depend on the price of Wesfarmers Ordinary Shares and Wesfarmers PPS.

Each Coles Group Shareholder at the Record Date will also receive a Coles Fully Franked Final Dividend of \$0.25 cash for each Coles Group Share, regardless of whether or not the Scheme proceeds.

Coles Group Shareholders will not receive the Wesfarmers Final Dividend of \$1.40, which is to be paid to Wesfarmers Shareholders on 29 November 2007.

Implied value of the Scheme Consideration

The table below illustrates the implied value of the Scheme Consideration as concluded in the Independent Expert's Report. The actual value of the Scheme Consideration will depend on the price of Wesfarmers Ordinary Shares and Wesfarmers PPS.

The 10 day VWAP for Wesfarmers Ordinary Shares as at 25 September 2007 was \$39.77 and the closing price on 25 September 2007 was \$40.09 (unadjusted for the Wesfarmers Final Dividend which Coles Group Shareholders will not receive).

Implied value of Scheme Consideration per Coles Group Share for varying Wesfarmers Ordinary Share prices

Wesfarmers Ordinary Share price ¹ (including \$1.40 Wesfarmers Final Dividend)	Wesfarmers Ordinary Share price (excluding \$1.40 Wesfarmers Final Dividend)*	Value of Wesfarmers Ordinary Share Consideration ^{2*}	Value of Wesfarmers PPS Consideration ^{2, 3*}	Value of Cash Consideration	Implied value of Scheme Consideration per Coles Group Share ²	Value of Coles Group Fully Franked Final Dividend	Implied value per Coles Group Share including Coles Fully Franked Final Dividend ²
\$38.00	\$36.60	\$5.20	\$5.42	\$4.00	\$14.62	\$0.25	\$14.87
\$40.00	\$38.60	\$5.49	\$5.70	\$4.00	\$15.19	\$0.25	\$15.44

¹ Wesfarmers Ordinary Share price range based on Independent Expert range.

² Based on the Wesfarmers Ordinary Share price excluding the Wesfarmers Final Dividend.

³ Value of Wesfarmers PPS premium to Wesfarmers Ordinary Shares based on bottom end of \$1.50 to \$2.00 range for \$38.00 share price and the top end of \$1.00 to \$1.50 range for the \$40.00 share price.

* Rounded to the nearest cent.

Note: These figures do not have regard to any individual investor tax circumstances.

Mix and match

A Scheme Shareholder (being a Coles Group Shareholder (other than an Excluded Shareholder) at the Record Date) may, subject to the terms of the Scheme, elect one of the following consideration alternatives:

- (1) **Maximum Share Election:** maximise the New Wesfarmers Ordinary Share component of the Share Consideration they will receive under the Scheme; or
- (2) **Maximum Cash Election:** maximise the Cash Consideration component they will receive under the Scheme.

Mix and match does not apply to entitlements to Wesfarmers PPS. It only applies to the New Wesfarmers Ordinary Share component of the Share Consideration.

To the extent that valid elections can be satisfied, Scheme Shareholders who make a Maximum Share Election will receive New Wesfarmers Ordinary Shares instead of cash and Scheme Shareholders who make a Maximum Cash Election will receive cash instead of New Wesfarmers Ordinary Shares. For this purpose, the New Wesfarmers Ordinary Shares will be valued based on the Wesfarmers VWAP over the five Trading Days after the Effective Date.

The outcome of mix and match elections will depend on the extent to which other Scheme Shareholders make offsetting elections. The total number of New Wesfarmers Ordinary Shares to be issued and the maximum amount of cash to be paid in aggregate by Wesfarmers under the Scheme does not change.

To the extent that valid elections cannot be satisfied in full, they will be scaled down on a pro rata basis. **This may mean that Scheme Shareholders making an election will receive a mix and match outcome that is between the maximum of their election and what they would have received had they made no election.**

What you will receive under the Scheme (continued)

By way of example, the following table based on a \$40.00 Wesfarmers Ordinary Share price (adjusted for the Wesfarmers Final Dividend) and using a \$1.50 premium for the Wesfarmers PPS¹ illustrates the outcome of Maximum Cash elections and Maximum Share elections under different relative elections (showing the implied cash value of shares received):

	Scenario A	Scenario B	Scenario C
Elections (% Coles Group Shares outstanding)*			
Maximum Cash	15.0%	25.0%	35.0%
Maximum Shares	35.0%	25.0%	15.0%
No Election	50.0%	50.0%	50.0%
Maximum Cash Election			
Cash	\$9.49	\$8.00	\$5.71
New Wesfarmers Ordinary Shares	\$0.00	\$1.49	\$3.77
Wesfarmers PPS	\$5.70	\$5.70	\$5.70
Total Consideration	\$15.19	\$15.19	\$15.19
Maximum Share Election			
Cash	\$1.65	\$0.00	\$0.00
New Wesfarmers Ordinary Shares	\$7.84	\$9.49	\$9.49
Wesfarmers PPS	\$5.70	\$5.70	\$5.70
Total Consideration	\$15.19	\$15.19	\$15.19
No Election (Standard Scheme Consideration)			
Cash	\$4.00	\$4.00	\$4.00
New Wesfarmers Ordinary Shares	\$5.49	\$5.49	\$5.49
Wesfarmers PPS	\$5.70	\$5.70	\$5.70
Total Consideration	\$15.19	\$15.19	\$15.19

* Diluted shares outstanding excluding Wesfarmers existing holding of 10.6%

In Scenario A, Maximum Share elections are received for a greater number of Coles Group Shares than Maximum Cash elections. Demand for New Wesfarmers Ordinary Shares exceeds the demand for cash in the mix and match facility and, as a result, those shareholders electing Maximum Cash receive the maximum cash consideration and no New Wesfarmers Ordinary Shares. Shareholders making a Maximum Share election have their New Wesfarmers Ordinary Share allocation "scaled back", and receive a greater proportion of their consideration in the form of New Wesfarmers Ordinary Shares than the standard Scheme Consideration and a lesser proportion in cash.

In Scenario B, Maximum Share elections are received for the same number of Coles Group Shares as Maximum Cash elections. As New Wesfarmers Ordinary Shares represent a greater proportion of the standard Scheme Consideration than cash does, demand for New Wesfarmers Ordinary Shares exceeds the demand for cash in the mix and match facility and, as a result, those shareholders electing Maximum Shares receive the maximum New Wesfarmers Ordinary Share consideration and no cash. Shareholders making a Maximum Cash election have their cash allocation "scaled back", and receive a greater proportion of their consideration in the form of cash than the standard Scheme Consideration and a lesser proportion in New Wesfarmers Ordinary Shares.

In Scenario C, Maximum Cash elections are received for a greater number of Coles Group Shares than Maximum Share elections. Demand for cash exceeds the demand for New Wesfarmers Ordinary Shares in the mix and match facility and, as a result, those shareholders electing Maximum Shares receive the maximum New Wesfarmers Ordinary Shares consideration and no cash. Shareholders making a Maximum Cash election have their cash allocation "scaled back", and receive a greater proportion of their consideration in the form of cash than the standard Scheme Consideration and a lesser proportion in New Wesfarmers Ordinary Shares.

The consideration received by Scheme Shareholders who make no election does not change as a result of the level of Maximum Share and Maximum Cash elections made by other Scheme Shareholders.

¹ Based on the upper end of the Independent Expert's valuation range for a \$40.00 Wesfarmers Ordinary Share price.



All Scheme Shareholders will receive 0.14215 Wesfarmers PPS per Scheme Share, as mix and match does not apply to entitlements to Wesfarmers PPS. Scheme Shareholders who do not make an election will receive the standard Scheme Consideration.

To participate in mix and match, you must complete the pink Election Form accompanying this Scheme Booklet. An Election Form will only be valid if it is completed in accordance with the instructions on the Election Form and returned so that it is received by the Coles Group Share Registry by 7:00pm (Melbourne time) on 16 November 2007. Alternatively you can make an election by logging on to Coles Group's website at www.colesgroup.com.au and following the relevant instructions. **If you do not make a valid election you will receive the standard Scheme Consideration.**

You do not need to return the Election Form or make an election via Coles Group's website if you wish to receive the standard Scheme Consideration.

Foreign Shareholders

Foreign Shareholders (Coles Group Shareholders outside Australia and its external territories and New Zealand) should refer to Section 5.18 for further details about the consideration they will receive.

Small Shareholders

If you are a Small Shareholder (being a Scheme Shareholder who holds 100 Coles Group Shares or less as at the Record Date) you may use the Election Form to have all the New Wesfarmers Ordinary Shares and Wesfarmers PPS that you would receive under the Scheme sold on ASX by the Sale Agent, free of any brokerage costs. Refer to Section 5.19 for further details about this process.

Timing for payment of the Scheme Consideration

The Scheme Consideration will be provided to Scheme Shareholders on the Implementation Date, which is currently expected to be 23 November 2007. Foreign Shareholders and Electing Small Shareholders should refer to Section 5.19 for further details about the timing for payment of the consideration they will receive.

What are Wesfarmers PPS?

Wesfarmers PPS are a new class of Wesfarmers Ordinary Shares, which will be issued to Scheme Shareholders under the Scheme by Wesfarmers and trade on ASX.

The key terms of Wesfarmers PPS are summarised below. This summary should be read in conjunction with and subject to the terms of issue of Wesfarmers PPS which are set out in Annexure A.

Basic rights	<p>Each Wesfarmers PPS confers rights on a Wesfarmers PPS Holder that are the same in all respects to those conferred by a Wesfarmers Ordinary Share on holders of Wesfarmers Ordinary Shares, including in relation to:</p> <ul style="list-style-type: none"> • voting rights; • dividends; • participation in surplus assets and profits on winding up; and • returns of capital.
Reclassification following Lapse Date	<p>Within six months of the Lapse Date (which is four years from the date of issue, unless extended (see "Extension of Lapse Date" below)), Wesfarmers must issue a Lapse Notice. Within 20 Business Days of issuing the Lapse Notice, each Wesfarmers PPS will be reclassified into one Wesfarmers Ordinary Share and additional Wesfarmers Ordinary Shares may be issued as described below.</p>
Partial price protection	<p>Wesfarmers PPS provide a level of downside price protection in certain circumstances in the sense that holders may receive a bonus issue of additional Wesfarmers Ordinary Shares depending on the two month VWAP for Wesfarmers Ordinary Shares at the date of the Lapse Notice.</p> <p>They are <i>not</i> "capital guaranteed" securities which would entitle holders to at least a minimum amount on maturity, nor do they guarantee a price in all circumstances.</p> <p>Here's how they work:</p> <ul style="list-style-type: none"> • If the two month VWAP for Wesfarmers Ordinary Shares is greater than \$36.00 but less than \$45.00 at the date of the Lapse Notice, holders of Wesfarmers PPS will receive a bonus issue of Wesfarmers Ordinary Shares (up to 0.25 Wesfarmers Ordinary Shares per Wesfarmers PPS) such that the total value of Wesfarmers Ordinary Shares received will be \$45.00. If the two month VWAP for Wesfarmers Ordinary Shares is greater than \$45.00, holders of Wesfarmers PPS will not receive any bonus issue. • However, if the two month VWAP for Wesfarmers Ordinary Shares is below \$36.00 on the date of the Lapse Notice there is no additional price protection and Wesfarmers PPS Holders will receive the maximum bonus issue of 0.25 Wesfarmers Ordinary Shares per Wesfarmers PPS. <p>The following examples illustrate this effect. If the two month VWAP for Wesfarmers Ordinary Shares at the date of the Lapse Notice is:</p> <ul style="list-style-type: none"> • \$46.00, your Wesfarmers PPS will reclassify into one Wesfarmers Ordinary Share per Wesfarmers PPS and you will not receive any additional Wesfarmers Ordinary Shares; • \$45.00, your Wesfarmers PPS will reclassify into one Wesfarmers Ordinary Share per Wesfarmers PPS and you will not receive any additional Wesfarmers Ordinary Shares; • \$40.00, your Wesfarmers PPS will reclassify into one Wesfarmers Ordinary Share per Wesfarmers PPS and you will receive an additional 0.125 Wesfarmers Ordinary Share per Wesfarmers PPS; • \$36.00, your Wesfarmers PPS will reclassify into one Wesfarmers Ordinary Share per Wesfarmers PPS and you will receive an additional 0.25 Wesfarmers Ordinary Share per Wesfarmers PPS; • \$35.00, your Wesfarmers PPS will reclassify into one Wesfarmers Ordinary Share per Wesfarmers PPS and you will receive an additional 0.25 Wesfarmers Ordinary Share per Wesfarmers PPS.



Dilutive effect	<p>If Wesfarmers PPS are reclassified for Scheme Shareholders on a basis of greater than one Wesfarmers Ordinary Share for each Wesfarmers PPS, this will dilute the EPS attributable to all Wesfarmers Ordinary Shares and may impact the value of Wesfarmers Ordinary Shares.</p> <p>In the event that additional shares are issued in respect of Wesfarmers PPS, the total number of additional shares to be issued will be up to approximately 38.5 million Wesfarmers Ordinary Shares. Assuming the number of Wesfarmers Ordinary Shares on issue otherwise remains constant, this would represent additional shares of up to approximately 5.2 per cent of total Wesfarmers Ordinary Shares following the reclassification. Consequently, the potential EPS dilution to Wesfarmers Ordinary Shares may be between 0 per cent and 5.2 per cent at the time of reclassification in four to four and a half years time (unless the Lapse Date is extended).</p>
Extension of Lapse Date	<p>If the S&P/ASX 200 Industrials Index averages less than 6,500 for the two months immediately prior to the Lapse Date, Wesfarmers can extend the Lapse Date by 12 months. Wesfarmers can extend the Lapse Date on each of the next three anniversaries (for 12 months each time) if the index averages below 6,500 for the two month period immediately prior to each anniversary so that the Lapse Date can be up to a maximum of eight years from the date of issue.</p> <p>As at the close of trade on 25 September 2007, the ASX/S&P 200 Industrials Index was 7,041.</p>
Other reclassification events	<p>Automatic reclassification</p> <p>If the VWAP of Wesfarmers Ordinary Shares exceeds \$45.00 over a period of 20 consecutive Business Days, Wesfarmers PPS will be automatically reclassified into Wesfarmers Ordinary Shares on a one-for-one basis (and holders will not receive any additional Wesfarmers Ordinary Shares).</p> <p>Early reclassification at election of Wesfarmers</p> <p>Wesfarmers can require reclassification of Wesfarmers PPS into Wesfarmers Ordinary Shares at any time, but only on the basis that Wesfarmers PPS Holders receive such number of Wesfarmers Ordinary Shares which have a value (based on a two month VWAP) of \$45.00 for each Wesfarmers PPS held.</p> <p>Reclassification at election of holder</p> <p>Any holder of Wesfarmers PPS can require reclassification of that holder's Wesfarmers PPS into Wesfarmers Ordinary Shares on a one-for-one basis at any time (but the holder will not receive any additional Wesfarmers Ordinary Shares).</p>
Discretion to adjust certain terms	<p>Where Wesfarmers undertakes a reconstruction, consolidation, bonus or rights issue, buy-back, return of capital or any other corporate action that may have a dilutive or concentrative effect on the relative value of Wesfarmers PPS and Wesfarmers Ordinary Shares, the Wesfarmers Directors may:</p> <ul style="list-style-type: none"> • make such alterations to these terms as considered appropriate or necessary; and/or • extend an entitlement to the Wesfarmers PPS Holders to participate in such distribution or pro rata offer, <p>in order to maintain the relative values of the Wesfarmers Ordinary Shares and the Wesfarmers PPS.</p> <p>The terms of the Wesfarmers PPS may be altered without the approval of Wesfarmers PPS Holders in certain circumstances, including where:</p> <ul style="list-style-type: none"> • the amendments are of a minor or technical nature or are made to cure any ambiguity or correct any manifest error; or • the amendments are considered by Wesfarmers not to be materially prejudicial to the interests of Wesfarmers PPS Holders.
Obligation to issue additional Wesfarmers Ordinary Shares	<p>The obligation to issue additional Wesfarmers Ordinary Shares in the circumstances described above is subject to the discretion of the Wesfarmers Board. However, if the Wesfarmers Board exercises its discretion not to issue the additional Wesfarmers Ordinary Shares, Wesfarmers is prohibited from paying dividends on Wesfarmers Ordinary Shares until the additional shares are issued.</p>

1 Why you should vote in favour of the Scheme

This section should be read in conjunction with Section 2 which sets out a summary of the disadvantages and risks associated with the Scheme.



The Coles Group Board has conducted an extensive review of ownership options and unanimously recommends that you vote in favour of the Scheme in the absence of a superior proposal



The Independent Expert has concluded that the Scheme is in the best interests of Coles Group Shareholders in the absence of a superior proposal



The Scheme allows you to retain exposure to potential operational upside in the Coles Group businesses, with Scheme Shareholders owning approximately 44 per cent of the Wesfarmers Merged Group



As a Wesfarmers PPS Holder you will receive a level of downside protection on your shareholding in Wesfarmers



You will become a shareholder in Wesfarmers, a company that has a track record of strong financial and operational performance



As a New Wesfarmers Shareholder you will potentially receive a significant dividend uplift



Most Australian Scheme Shareholders will be eligible to receive scrip for scrip CGT roll-over relief on the share consideration component of any capital gain they make



If the Scheme does not proceed, and no alternative proposal emerges, the Coles Group Share price is likely to fall



The Coles Group Board has conducted an extensive review of ownership options and unanimously recommends that you vote in favour of the Scheme in the absence of a superior proposal

- The Coles Group Board commenced a comprehensive review of ownership options in February 2007 following a number of approaches from interested parties.
- The ownership review process involved discussions with numerous international and domestic retailers and private equity firms.
- The Coles Group Board considered a range of strategic alternatives for the entire Coles Group, as well as for individual businesses within the Coles Group, with a view to maximising value for Coles Group Shareholders. See Section 5.3 for further information.
- Having considered numerous ownership options for Coles Group, as well as the disadvantages and risks of the Scheme as set out in Section 2, the Coles Group Board unanimously recommends that Coles Group Shareholders vote in favour of the Scheme, in the absence of a superior proposal.
- Each Coles Group Director who holds Coles Group Shares, or on whose behalf Coles Group Shares are held at the time of the Scheme Meeting, intends to vote in favour of the Scheme, in the absence of a superior proposal.



The Independent Expert has concluded that the Scheme is in the best interests of Coles Group Shareholders in the absence of a superior proposal

- The Independent Expert, Grant Samuel, has concluded that the Wesfarmers proposal is in the best interests of Coles Group Shareholders in the absence of a superior proposal. Further information in relation to the Independent Expert's conclusions and analysis is set out in Section 11.
- The Independent Expert has valued Coles Group at **\$16.21 to \$18.23** per Coles Group Share and has valued the aggregate of the Wesfarmers proposal and the Coles Fully Franked Final Dividend at **\$14.87 to \$15.44** per Coles Group Share based on Wesfarmers Ordinary Share prices of \$38.00 to \$40.00, less the Wesfarmers Final Dividend of \$1.40 which Coles Group Shareholders will not receive, and including a premium for the value of Wesfarmers PPS.
- Although the assessed value of the Wesfarmers' proposal is at a discount to the assessed value of Coles Group, the Independent Expert has highlighted several mitigating factors, including:
 - Coles Group Shareholders will have a 44 per cent economic interest in the Wesfarmers Merged Group, which mitigates the discount;
 - the Wesfarmers proposal was the outcome of an extensive worldwide sale process and was the only firm offer for all of Coles Group; and
 - continued ownership uncertainty is likely to be damaging for Coles Group, particularly Coles Group's supermarkets.
- The Independent Expert has also concluded that in the absence of the Wesfarmers proposal or speculation regarding some alternative transaction, Coles Group Shares are likely to trade below \$14.87 to \$15.44, being its assessed value of the Wesfarmers proposal.
- A summary of the Independent Expert's Report is contained in Section 11. You are encouraged to read this summary. A copy of the complete Independent Expert's Report is contained in the Scheme Booklet Supplement, which may be obtained by contacting the Coles Group Information Line on 1300 663 897 (within Australia) or +61 3 9415 4314 (outside Australia), or from Coles Group's website at www.colesgroup.com.au.



The Scheme allows you to retain exposure to potential operational upside in the Coles Group businesses, with Scheme Shareholders owning approximately 44 per cent of the Wesfarmers Merged Group

- If the Scheme becomes Effective, Scheme Shareholders will hold approximately 44 per cent of the total shares in the Wesfarmers Merged Group.
- Through this significant holding, Scheme Shareholders will be able to retain exposure to the potential operational and financial upside available in the Coles Group businesses, including:
 - Benefits resulting from business improvements and cost reductions;

1 Why you should vote in favour of the Scheme (continued)

- Turnaround of the supermarkets business;
- Continued performance and growth of other Coles Group businesses; and
- Sharing any synergies that may arise through the combination of Coles Group and the Wesfarmers businesses, as detailed in Section 8.6(m).
- Scheme Shareholders will share in the benefits generated by Wesfarmers' existing businesses, including diversification across a range of industries including home and garden improvement, building supplies, coal, insurance, industrial and safety, chemicals and fertilisers, energy and other businesses.



As a Wesfarmers PPS Holder you will receive a level of downside protection on your shareholding in Wesfarmers

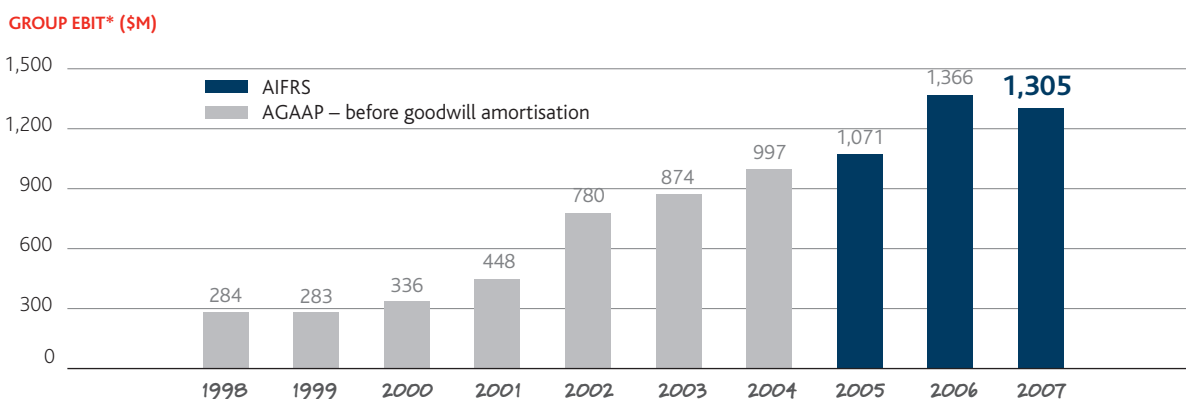
- Wesfarmers PPS provide greater certainty for Scheme Shareholders in the value of the consideration offered.
- Wesfarmers PPS may provide holders with up to an additional 0.25 Wesfarmers Ordinary Shares per Wesfarmers PPS on a date which is between four and four and a half years from the Implementation Date (subject to extension for up to four years in specific circumstances and certain other reclassification events) if the Wesfarmers Ordinary Share price is less than \$45.00.
- In the event that additional shares are issued in respect of Wesfarmers PPS, the total additional shares to be issued to Wesfarmers PPS Holders will be up to approximately 38 million Wesfarmers Ordinary Shares.
- Wesfarmers PPS are not "capital guaranteed" securities which would entitle holders to at least a minimum amount on maturity, nor do they guarantee a price in all circumstances. Refer to pages 10 to 11 for further information.
- The terms of issue of Wesfarmers PPS are set out in full in Annexure A.



You will become a shareholder in Wesfarmers, a company that has a track record of strong financial and operational performance

- Wesfarmers has a track record of strong financial performance:
 - Compound annual growth rate in earnings before interest and tax of 18.5 per cent over the last ten financial years.

Figure 1.1: Wesfarmers EBIT over last ten financial years

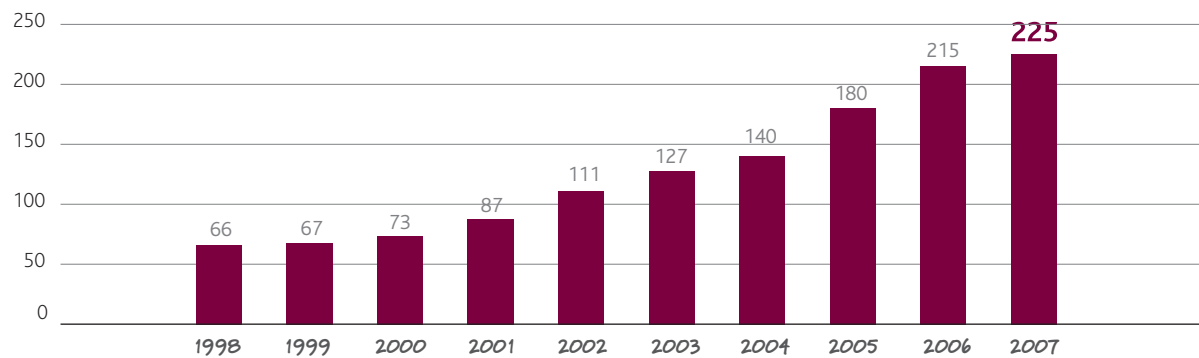


* excludes earnings from the sale of Girrah (FY2003), Landmark (FY2004) and Australian Railroad Group (FY2006).

- Dividend per share compound annual growth rate of 14.6 per cent over the last ten financial years.

Figure 1.2: Dividends per Wesfarmers Ordinary Share over last ten financial years

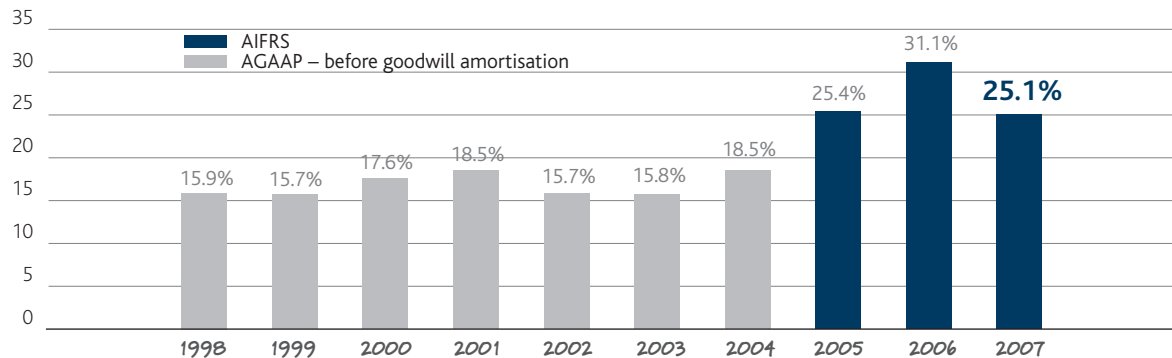
DIVIDEND PER SHARE (CENTS)



- Wesfarmers has a track record of strong operational performance:
 - Average return on equity across its combined divisions of 19.9 per cent over the last ten financial years.

Figure 1.3: Wesfarmers' return on equity over last ten financial years

RETURN ON EQUITY* (%)

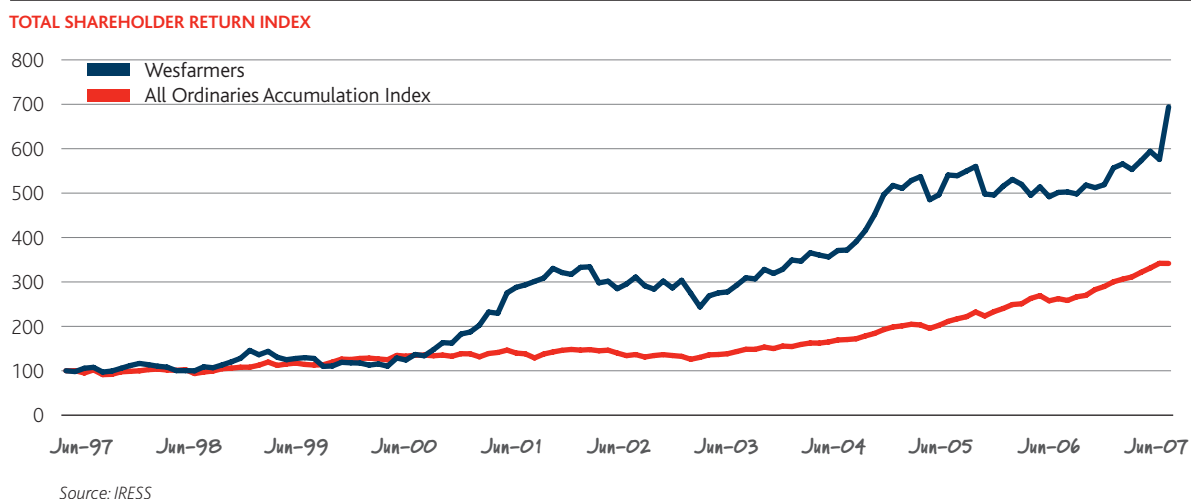


* excludes earnings from the sale of Girrah (FY2003), Landmark (FY2004) and Australian Railroad Group (FY2006). For FY1998 to FY2001 average equity is calculated using the prior year and current year closing balances. For FY2002 to FY2007 average equity is calculated using the twelve month-end balances over the financial year.

1 Why you should vote in favour of the Scheme (continued)

- Wesfarmers believes its history of acquisition integration and management in a range of industries has contributed to achieving a compound total shareholder return of 21 per cent per annum over the last ten financial years, outperforming the All Ordinaries Accumulation Index over the equivalent period.

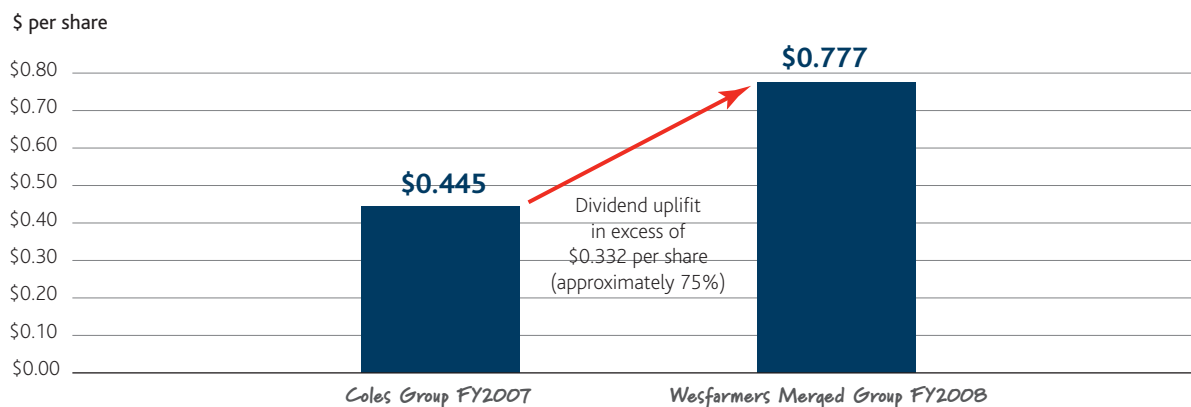
Figure 1.4: Wesfarmers total shareholder return index over last ten financial years



As a New Wesfarmers Shareholder you will potentially receive a significant dividend uplift

- Wesfarmers expects to pay a fully franked dividend in excess of \$2.00 per Wesfarmers Ordinary Share and Wesfarmers PPS for the 2008 and 2009 financial years, subject to the availability of retained earnings and franking credits. See Section 8.3 for further information in relation to the Wesfarmers dividend guidance.
- Coles Group Shareholders will receive total dividends of \$0.445 per Coles Group Share in respect of the 2007 financial year.² If the Scheme proceeds, Scheme Shareholders would be expected to receive in excess of \$0.777 per Coles Group Share in respect of the 2008 financial year, assuming reinvestment of the Cash Consideration in Wesfarmers Ordinary Shares.³ For Scheme Shareholders, this represents a potential increase in dividend income of approximately 75 per cent.

Figure 1.5: Potential fully franked dividend profile of a New Wesfarmers Shareholder



² \$0.195 per Coles Group Share as the FY2007 interim dividend and the Fully Franked Final Dividend of \$0.25 per Coles Group Share.

³ Based on a Wesfarmers FY2008 dividend in excess of \$2.00 per Wesfarmers Ordinary Share and Wesfarmers PPS, Coles Group Shareholders receiving the standard Scheme Consideration of 0.14215 New Wesfarmers Shares and 0.14215 Wesfarmers PPS and \$4.00 cash for each Coles Group Share and investing the \$4.00 cash in Wesfarmers Ordinary Shares at \$38.37 per share, being the 10 day VWAP to 25 September 2007, adjusted for Wesfarmers Final Dividend of \$1.40 per Wesfarmers Ordinary Share. This calculation does not account for any tax on the receipt of the Cash Consideration and/or brokerage costs that may be associated with the reinvestment of the Cash Consideration.



Most Australian Scheme Shareholders will be eligible to receive scrip for scrip CGT roll-over relief on the Share Consideration component of any capital gain they make

- Coles Group has requested a class ruling from the ATO to confirm that the majority of Scheme Shareholders will be eligible for scrip for scrip CGT roll-over relief in relation to New Wesfarmers Ordinary Shares and Wesfarmers PPS that they receive in exchange for Coles Group Shares.
- Scrip for scrip CGT roll-over relief enables Australian Scheme Shareholders to defer this part of any CGT liability they would otherwise incur on disposal of their Coles Group Shares until the time they dispose of New Wesfarmers Ordinary Shares or Wesfarmers PPS they receive under the Scheme.



If the Scheme does not proceed, and no alternative proposal emerges, the Coles Group Share price is likely to fall

- In the absence of the Wesfarmers proposal, or speculation regarding some alternative transaction, it is likely that Coles Group Shares would trade at prices below the range of value of \$14.87 to \$15.44 per share attributed by the Independent Expert to the Wesfarmers proposal. This accords with the Independent Expert's view on page 5 of the summary of the Independent Expert's Report, as set out in Section 11.
- As at the date of this Scheme Booklet no alternative proposal has emerged. In the absence of a superior proposal, the Coles Group Board unanimously recommends that you vote in favour of the Scheme.

Figure 1.6: Two year share price history for Coles Group



Source: IRESS

2 Disadvantages and risks associated with the Scheme

The Scheme has a number of potential disadvantages and risks that Coles Group Shareholders should consider in deciding whether or not to vote in favour of the Scheme.

While the Coles Group Directors are of the opinion that these disadvantages and risks are outweighed by the Scheme's advantages (as set out in Section 1) and that the Scheme is in the best interests of Coles Group Shareholders in the absence of a superior proposal, Coles Group Shareholders should consider their individual circumstances and make their own determination on the Scheme.

A summary of the potential disadvantages and risks associated with the Scheme are as follows:

Less than full premium for control

- The Independent Expert has concluded that, while the Wesfarmers proposal is in the best interests of Coles Group Shareholders in the absence of a superior proposal, the assessed value of the Wesfarmers proposal is at a discount to the assessed value of Coles Group and therefore currently less than the fair value range the Independent Expert attributed to Coles Group Shares. This suggests that Coles Group Shareholders are not receiving a full premium for control under the Wesfarmers proposal.

Possibility of a superior proposal emerging

- The Coles Group Board is not presently aware of a superior proposal. If the Scheme does not proceed, it is possible that an alternative acquirer or merger partner could emerge that offers greater value for Coles Group Shareholders than would be realised under the Scheme.

The Share Consideration involves a change in the nature of investment for Coles Group Shareholders and an exposure to additional risks inherent in owning shares in the Wesfarmers Merged Group

- If the Scheme proceeds, Scheme Shareholders (other than Ineligible Foreign Shareholders) will receive a significant proportion of their Scheme Consideration in New Wesfarmers Ordinary Shares (subject to the outcome of mix and match) and Wesfarmers PPS. In holding these shares, those shareholders will be exposed to three broad sets of risks – Coles Group existing business risks, Wesfarmers existing business risks and risks relating to the Wesfarmers Merged Group.
- Coles Group Shareholders are currently exposed to a series of risks relating to the holding of Coles Group Shares. These risks are set out in Section 6.7 and include risks relating to changes in economic conditions, change in government and regulatory policy, competition and general business risks. If the Scheme proceeds, Scheme Shareholders who receive New Wesfarmers Ordinary Shares or Wesfarmers PPS under the Scheme will continue to have exposure to these risks as Coles Group will form part of the Wesfarmers Merged Group.
- If the Scheme proceeds, Scheme Shareholders who receive New Wesfarmers Ordinary Shares or Wesfarmers PPS as part of the Scheme Consideration will be exposed to a range of new risks:
 - Risks relating to the existing Wesfarmers business will be new risks for those shareholders, as they relate to industries that those shareholders are not currently exposed to, for example, interests in coal, insurance, energy and other businesses. These risks are set out in Section 7.6, and include, but are not limited to, exposure to commodity price volatility (such as coal and LPG), foreign exchange risk, rural seasonal conditions risk and other general operating risks relating to the existing Wesfarmers businesses.
 - Risks relating to the Wesfarmers Merged Group. Some of these risks are summarised in this Section 2 and are set out in full in Section 8.7. These risks include culture and management team capability, key personnel, integration, quotation and trading of New Wesfarmers Ordinary Shares and Wesfarmers PPS, change of control restrictions in Coles Group contracts and licences, leverage of Wesfarmers Merged Group, credit risk, workers' compensation self-insurance, brand reputation, ACCC inquiry into Unleaded Petrol Prices and Wesfarmers PPS risks.
- These factors should be considered by Coles Group Shareholders in assessing the value of the Share Consideration they will receive under the Scheme and therefore in determining whether or not to vote in favour of the Scheme.

Fixed Share Consideration ratio

- Under the Scheme, and in the case of New Wesfarmers Ordinary Shares, depending on the outcome of mix and match elections, Scheme Shareholders (other than Ineligible Foreign Shareholders) are being offered 0.14215 New Wesfarmers Ordinary Shares and 0.14215 Wesfarmers PPS per Coles Group Share. The Share Consideration is fixed and will not vary even if the value of Coles Group Shares increases and the value of Wesfarmers Ordinary Shares decreases, or vice versa, prior to the Implementation Date. The market value of Wesfarmers Ordinary Shares may vary from their market value on the date of the Scheme Meeting.

Potential share price volatility

- Under the Scheme, Wesfarmers will issue approximately 153.8 million New Wesfarmers Ordinary Shares and approximately 153.8 million Wesfarmers PPS to Scheme Shareholders (including the Share Consideration issued to the Sale Agent in respect of Ineligible Foreign Shareholders). This is equivalent to 79 per cent of the existing Wesfarmers capital. If the Scheme proceeds there may be some short term volatility in Wesfarmers Ordinary Shares and Wesfarmers PPS trading on ASX if a significant number of Scheme Shareholders sell their New Wesfarmers Ordinary Shares and/or Wesfarmers PPS.

Potential risks and disadvantages associated with Wesfarmers PPS

- Under the Scheme, Scheme Shareholders (other than Ineligible Foreign Shareholders) are being offered 0.14215 Wesfarmers PPS per Coles Group Share. The risks involved in investing in Wesfarmers PPS are generally consistent with the risk of investing in Wesfarmers Ordinary Shares except for the additional risks associated with the specific terms of Wesfarmers PPS, including:
 - The market for Wesfarmers PPS may be less liquid than the market for Wesfarmers Ordinary Shares;
 - Wesfarmers has the option to convert Wesfarmers PPS into Wesfarmers Ordinary Shares at any time which may not accord with the preference of a Wesfarmers PPS holder;
 - Wesfarmers PPS will trade on ASX as a separate class of Wesfarmers ordinary shares and it is difficult to predict how the market will value Wesfarmers PPS relative to Wesfarmers Ordinary Shares; and
 - Wesfarmers has the option to extend the date on which the Wesfarmers PPS will be reclassified for a period of 12 months if the average of the ASX/S&P 200 Industrials Index at the close of trading for the two month period prior to the Lapse Date is less than 6,500. The Lapse Date is four years from the date of issue of the Wesfarmers PPS unless extended. This right of extension may be exercised by Wesfarmers for up to four consecutive 12 month periods so that the Lapse Date can be up to a maximum of eight years from the date of issue.
- A summary of the Wesfarmers PPS is contained on pages 10 to 11 and the full terms of issue are set out in Annexure A. We recommend that you read these sections in conjunction with the information outlined above.
- Risks associated with Wesfarmers PPS are covered in more detail in Section 8.7(j).

2 Disadvantages and risks associated with the Scheme (continued)

Potential dilution from Wesfarmers PPS

- If Wesfarmers PPS are reclassified for Scheme Shareholders on a basis of greater than one Wesfarmers Ordinary Share for each Wesfarmers PPS, this will dilute the earnings per share attributable to all Wesfarmers Ordinary Shares and may impact the value of Wesfarmers Ordinary Shares. Further information is provided under the heading “Dilutive effect” in the “What are Wesfarmers PPS?” section of this Scheme Booklet on page 11.

Tax consequences for Scheme Shareholders

- If the Scheme proceeds, there are likely to be tax consequences for Scheme Shareholders which may include tax payable on any gain on the disposal of Scheme Shares. Further information on the relevant tax consequences for Australian resident Scheme Shareholders is included in Section 12 of this Scheme Booklet. However, Scheme Shareholders should seek their own professional advice regarding the individual tax consequences applicable to them.

Management team capability

- While Wesfarmers has integrated a number of acquisitions and has strong retail capability through Bunnings, Wesfarmers has limited management experience in supermarket, clothing or fashion retailing. Further, Wesfarmers has not made an acquisition of the size of Coles Group.
- Consequently, there are risks associated with the execution of the intentions outlined in Section 8.
- Wesfarmers’ intentions with respect to strengthening management expertise are described at Section 8.6(c).

Loss of key staff

- It is possible that there may be a loss of key staff from Coles Group leading up to the Scheme and following implementation of the Scheme.
- Both Wesfarmers and Coles Group have qualified and experienced management teams. The loss of any key members of these teams, or Wesfarmers’ inability to attract the requisite personnel, could have an adverse effect on Wesfarmers and the performance of the Wesfarmers Merged Group. There is no assurance as to the continued availability of any such key personnel.
- If the Scheme proceeds, there are likely to be a number of changes to the senior management team within Coles Group. It may take time to recruit key staff and additional managers and could lead to a period of instability which may impact on the short term performance of the Coles Group businesses, the Wesfarmers Merged Group and execution of the intentions outlined in Section 8.

Integration risks

- There are integration risks associated with a merger of this size and complexity.
- The risk exists that any integration or strategy implementation may take longer than expected or that the extraction of efficiencies and potential synergies does not occur or may incur additional costs, which would impact the Wesfarmers Merged Group's financial performance.

Leverage of and interest cost of the Wesfarmers Merged Group

- If the Scheme proceeds, the net debt of the Wesfarmers Merged Group will be approximately \$11.0 billion. This will result in a significant increase in the net debt/equity ratio of the Wesfarmers Merged Group as compared to the ratio of Coles Group on a stand alone basis. As set out in the pro-forma balance sheet contained in Section 8.8(c), the ratio for Wesfarmers excluding the debt to fund the acquisition of a strategic stake in Coles Group was 83.5 per cent at 30 June 2007, and the Coles Group ratio was 33.6 per cent at 29 July 2007. The net debt/equity ratio for the Wesfarmers Merged Group cannot be precisely forecast, however, by way of illustration, based on the pro-forma financial information in Section 8.8(c) the net debt/equity ratio of the Wesfarmers Merged Group would indicatively have been 70.7 per cent at the end of the Illustrative Period.
- Similarly, as set out in the pro-forma income statement in Section 8.8(b), the finance costs cover for the Wesfarmers Merged Group would have been 4.2 times, which compares to Wesfarmers finance costs cover prior to the acquisition of a strategic stake in Coles Group of 9.9 times and Coles Group cover of 12.7 times.
- This will result in a general increase in interest margins paid by the Wesfarmers Merged Group.

Credit risk

- Wesfarmers currently has an A- credit rating assigned by Standard & Poor's. This rating is currently on negative watch. The reduction in debt cover ratios referred to in the preceding paragraph, together with various operational considerations, could result in a reduction in rating. This may affect the extent of the increase in interest margins referred to in the preceding paragraph.

Change of control restrictions in Coles Group contracts and licences

- A number of contracts and licences to which Coles Group and its subsidiaries are party contain 'change of control' or similar clauses which may be triggered if the Scheme becomes Effective. There is a risk that counterparties to these contracts may seek to terminate these agreements if the counterparty's consent to the Scheme is not obtained. For more information on this risk, refer to Section 8.7(e).

3 Frequently asked questions

This section answers some frequently asked questions about the Scheme. It is not intended to address all relevant issues for Coles Group Shareholders. This section should be read together with all other parts of this Scheme Booklet.

Question	Answer	More Information
SCHEME		
What is the Scheme?	<p>The Scheme is a scheme of arrangement between Coles Group and Scheme Shareholders.</p> <p>The Scheme will effect the acquisition of Coles Group by Wesfarmers Retail, a wholly-owned subsidiary of Wesfarmers, and Coles Group will become a wholly-owned subsidiary of Wesfarmers.</p>	Section 5 contains a summary of the Scheme and a copy of the Scheme is contained in Annexure B.
Who is entitled to participate in the Scheme?	<p>Coles Group Shareholders (other than Excluded Shareholders) as at the Record Date are Scheme Shareholders and are entitled to participate in the Scheme.</p> <p>An Excluded Shareholder is any member of the Wesfarmers Group or any Coles Group Shareholder who holds a Coles Group Share on behalf of, or for the benefit of, any member of the Wesfarmers Group.</p>	Section 5.8 provides further information on the ability of Executive Optionholders and holders of Performance Shares to receive Coles Group Shares and to participate in the Scheme.
Why should I vote in favour of the Scheme?	<p>The Coles Group Board has undertaken a comprehensive review of ownership options and considers that the Scheme is likely to deliver greater benefits to Coles Group Shareholders than the other alternatives. The Coles Group Board considers that the Scheme is in the best interests of Coles Group Shareholders, in the absence of a superior proposal. Further, the Independent Expert has concluded that the Scheme is in the best interests of Coles Group Shareholders in the absence of a superior proposal.</p>	Further information regarding the advantages of the Scheme are set out in Section 1 and the consideration of other alternatives to the Scheme by the Coles Group is set out in Section 5.3. A summary of the Independent Expert's Report is contained in Section 11. A copy of the complete Independent Expert's Report is contained in the Supplementary Scheme Booklet.
What do the Coles Group Directors recommend?	<p>The Coles Group Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a superior proposal.</p>	Section 5.2 provides further information as to the recommendation of Coles Group Directors.
What is the opinion of the Independent Expert?	<p>The Independent Expert has concluded that the Scheme is in the best interests of Coles Group Shareholders in the absence of a superior proposal.</p>	A summary of the Independent Expert's Report is contained in Section 11. A copy of the complete Independent Expert's Report is contained in the Supplementary Scheme Booklet.

Question	Answer	More Information
SCHEME CONSIDERATION AND MIX AND MATCH		
What will I receive if the Scheme proceeds?	<p>If the Scheme becomes Effective and you are a Scheme Shareholder (other than an Ineligible Foreign Shareholder), you will receive:</p> <ul style="list-style-type: none"> • Cash Consideration of \$4.00; and • Share Consideration of 0.14215 New Wesfarmers Ordinary Shares and 0.14215 Wesfarmers PPS, <p>for each Coles Group Share held on the Record Date.</p> <p>A Scheme Shareholder may, subject to the terms of the Scheme, participate in mix and match and elect to maximise the Cash Consideration or the Share Consideration they will receive. To the extent that valid elections cannot be satisfied in full, they will be scaled down on a pro rata basis.</p> <p>Foreign Shareholders and Electing Small Shareholders should refer to Section 5.19 for further details about the consideration they will receive.</p> <p>In addition, Coles Group Shareholders at the Record Date will receive a Coles Fully Franked Final Dividend of \$0.25 cash for each Coles Group Share, regardless of whether or not the Scheme proceeds.</p>	Sections 5.6 to 5.15 provide further information regarding Scheme Consideration.
Will I receive the Wesfarmers Final Dividend?	No. The Wesfarmers Final Dividend of \$1.40 will be paid to Wesfarmers Shareholders on 29 November 2007. Coles Group Shareholders will not receive the Wesfarmers Final Dividend.	
What is mix and match?	<p>A Scheme Shareholder may elect one of the following consideration alternatives:</p> <ul style="list-style-type: none"> • Maximum Share Election: maximise the New Wesfarmers Ordinary Share component of the Share Consideration they will receive under the Scheme; or • Maximum Cash Election: maximise the Cash Consideration component they will receive under the Scheme. <p>The mix and match election only applies to the New Wesfarmers Ordinary Share component of the Share Consideration. It does not apply to the Wesfarmers PPS component of the Share Consideration.</p> <p>The outcome of mix and match elections will depend on the extent to which other Scheme Shareholders make offsetting elections under the facility. To the extent that elections cannot be satisfied in full, they will be scaled down on a pro rata basis.</p>	See Section 5.7 for further information.
How do I make a Maximum Share Election or a Maximum Cash Election?	<p>To participate in mix and match, you must complete the pink Election Form enclosed with this Scheme Booklet or log on to Coles Group's website at www.colesgroup.com.au and follow the relevant instructions.</p> <p>You do not need to return the Election Form or make an election via Coles Group's website if you wish to receive the standard Scheme Consideration.</p>	See Section 5.7 for further information.
What if I don't make an election as to the form of consideration I will receive?	If the Scheme proceeds and you are a Scheme Shareholder and do not make an election in relation to the form of consideration you will receive, you will receive the standard Scheme Consideration.	Further information regarding the Scheme Consideration is set out in Section 5.6.

3 Frequently asked questions (continued)

Question	Answer	More Information
When will I receive my Scheme Consideration?	<p>If the Scheme becomes Effective, you will be paid the Scheme Consideration on the Implementation Date, expected to be 23 November 2007.</p> <p>Holding statements detailing your holding of New Wesfarmers Ordinary Shares and Wesfarmers PPS are expected to be despatched to you within five Business Days after the Implementation Date, being by 30 November 2007.</p> <p>Foreign Shareholders and Electing Small Shareholders should refer to Section 5.19 for further details about the timing for payment of the consideration they will receive.</p>	Sections 5.13, 5.18 and 9.8 provide further information about the payment of Scheme Consideration.
How will my Cash Consideration be paid?	<p>The Cash Consideration will be paid by making a deposit into your nominated bank account with the Coles Group Share Registry as at the Record Date.</p> <p>If you do not have a nominated bank account with the Coles Group Share Registry as at the Record Date, you will be sent a cheque for the Cash Consideration.</p>	Sections 5.13 and 9.8 provide further information about the payment of Scheme Consideration.
When can I start trading my New Wesfarmers Ordinary Shares and Wesfarmers PPS on ASX?	<p>Trading on ASX of New Wesfarmers Ordinary Shares and Wesfarmers PPS issued as part of the Scheme Consideration is expected to commence on a deferred settlement basis on 12 November 2007. It is the responsibility of each New Wesfarmers Shareholder to confirm their holding before trading in New Wesfarmers Ordinary Shares or Wesfarmers PPS.</p> <p>Trading on ASX of New Wesfarmers Ordinary Shares and Wesfarmers PPS on a normal settlement basis is expected to commence by 3 December 2007.</p>	Sections 5.13 and 9.8 provide further information about the trading of New Wesfarmers Ordinary Shares and Wesfarmers PPS.
WESFARMERS PPS		
What are Wesfarmers PPS?	Wesfarmers PPS are a new class of Wesfarmers Ordinary Shares, which will be issued to Scheme Shareholders under the Scheme by Wesfarmers and trade on ASX.	A complete copy of the terms of Wesfarmers PPS is set out in Annexure A.
Where can I find out more information on the Wesfarmers PPS?	<p>Further information in relation to Wesfarmers PPS is set out on pages 10 to 11, including answers to the following questions:</p> <ul style="list-style-type: none"> • What dividend entitlements attach to the Wesfarmers PPS? • What is reclassification and when will it occur? • How many Wesfarmers Ordinary Shares will I receive on reclassification? • Can I elect to reclassify my Wesfarmers PPS? 	Refer to the summary on pages 10 to 11 and the complete terms in Annexure A.
What are the tax implications of reclassification of my Wesfarmers PPS?	The tax implications of reclassification of Wesfarmers PPS are set out in Section 12.	Refer to Section 12 for further information.

Question	Answer	More Information
SCHEME MEETING, AGREEMENT AND APPROVAL		
When and where will the Scheme Meeting be held?	The Scheme Meeting will be held on Wednesday, 7 November 2007 at Hamer Hall, Victorian Arts Centre, Melbourne commencing at 11:00am (Melbourne time).	The Notice of Meeting set out in Annexure D contains further information on the Scheme Meeting.
Am I entitled to vote at the Scheme Meeting?	If you are registered as a Coles Group Shareholder (other than an Excluded Shareholder) on the Coles Group Register as at 7:00pm (Melbourne time) on 5 November 2007, you will be entitled to vote at the Scheme Meeting.	Section 4 contains further details on how to vote.
Should I vote?	The Coles Group Directors believe that the Scheme is an important opportunity for all Coles Group Shareholders and urge you to read this Scheme Booklet carefully and to vote in favour of the Scheme, in the absence of a superior proposal. However, voting is not compulsory.	Section 5 contains details on the Coles Group Directors' recommendation and the reasons for it.
How do I vote if I'm not able to attend the Scheme Meeting?	Even if you can't attend the Scheme Meeting in person, you can still vote as follows: <ul style="list-style-type: none"> • By proxy, complete and return the white proxy form accompanying this Scheme Booklet so that it is received by the Coles Group Share Registry by no later than 11:00am (Melbourne time) on 5 November 2007; or • By online proxy, log on to Coles Group's website at www.colesgroup.com.au by no later than 11:00am (Melbourne time) on 5 November 2007. 	Section 4 contains further details on how to vote.
How will the Scheme be approved?	Section 9 provides further information on how the Scheme will be implemented.	
Are there any conditions to the Scheme?	Sections 5.9, 10 and 13.6 set out details of the conditions of the Scheme.	
When will the result of the Scheme Meeting be known?	The result of the Scheme Meeting will be available shortly after the conclusion of the Scheme Meeting and will be announced to ASX once available. Even if the Resolution is passed by the Scheme Meeting, the Scheme is subject to the approval of the Court.	
What happens if the Scheme does not proceed?	<p>If the Scheme is not agreed to at the Scheme Meeting (or is agreed to at the Scheme Meeting but is not approved by the Court), then the Scheme will not be Effective and will not proceed. Coles Group Shareholders will not receive the Scheme Consideration but will retain their Coles Group Shares and Coles Group will continue to operate as a stand-alone company listed on ASX.</p> <p>Coles Group Shareholders on the Record Date will receive the Coles Fully Franked Final Dividend, regardless of whether or not the Scheme proceeds.</p> <p>Depending on the reasons for the Scheme not proceeding, Coles Group may be liable to pay a Break Fee of \$150 million to Wesfarmers. No Break Fee is payable merely because Coles Group Shareholders do not approve the Scheme.</p> <p>The Coles Group Directors are of the opinion that, if the Scheme does not proceed, and no alternative proposal emerges, the Coles Group Share price is likely to fall.</p>	Section 5.10 provides further information on the implications for Coles Group Shareholders if the Scheme does not proceed. Section 5.3 provides information on the other alternatives considered by the Coles Group Directors.

3 Frequently asked questions (continued)

Question	Answer	More Information
What happens to my Coles Group Shares if I do not vote, or if I vote against the Scheme and the Scheme proceeds?	<p>If the Scheme proceeds and you are a Scheme Shareholder (other than an Ineligible Foreign Shareholder), you will receive the Scheme Consideration for your Coles Group Shares.</p> <p>This is so even if you did not vote, or voted against the Scheme.</p> <p>Foreign Shareholders should refer to Section 5.18 for further details about the consideration they will receive.</p>	Section 5.6 provides further information regarding Scheme Consideration.
OTHER QUESTIONS		
What will happen to Coles Group if the Scheme proceeds?	If the Scheme proceeds, Coles Group will be acquired by Wesfarmers, delisted from ASX and will become part of the Wesfarmers Merged Group.	Wesfarmers' intentions for Coles Group if the Scheme proceeds are set out in Section 8.6 of this Scheme Booklet.
What happens if a superior proposal emerges?	If a superior proposal emerges, this will be announced to ASX and the Coles Group Directors will carefully reconsider the Scheme and advise you of their recommendation.	
Can I sell my Coles Group Shares now?	You can sell your Coles Group Shares on market at any time before the close of trading on ASX on the Effective Date at the prevailing market price. The Effective Date is expected to be 9 November 2007.	
What are the taxation implications of the Scheme?	<p>This Scheme Booklet contains a discussion of the main Australian taxation implications for Scheme Shareholders.</p> <p>Your decision on how to vote on the Scheme should be made only after consultation with a financial, legal, taxation or other professional adviser based on your own investment objectives, financial situation, taxation position and particular needs.</p>	Section 12 contains a summary of the main Australian taxation implications for Scheme Shareholders.
What are the forms accompanying this Scheme Booklet?	<p>There are two forms accompanying this Scheme Booklet:</p> <ul style="list-style-type: none"> A white personalised proxy form – If you wish to appoint a proxy to vote on your behalf at the Scheme Meeting you should complete and sign the proxy form and return it to the Coles Group Share Registry in accordance with the instructions on that form. <p>Alternatively you can appoint a proxy to vote on your behalf by logging on to Coles Group's website at www.colesgroup.com.au and following the relevant instructions (to use this facility you will need your Coles Group Shareholder ID).</p> <ul style="list-style-type: none"> A pink Election Form – To elect to receive the maximum Cash Consideration or maximum Share Consideration under the mix and match facility, you must complete the pink Election Form in accordance with its instructions and return it so that it is received by the Coles Group Share Registry by the Election Time (expected to be 7:00pm (Melbourne time) on 16 November 2007). Small Shareholders should also use this form if they wish to elect to have all their New Wesfarmers Ordinary Shares and Wesfarmers PPS sold by the Sale Agent. Alternatively you can make an election by logging on to Coles Group's website at www.colesgroup.com.au and following the relevant instructions. <p>You do not need to return the Election Form or make an election via Coles Group's website if you wish to receive the standard Scheme Consideration.</p>	Section 4.3 provides further details about the proxy form. Section 5.7 provides further details about making an election.

Question	Answer	More Information
What is the Scheme Booklet Supplement and how do I obtain a copy?	<p>The Scheme Booklet Supplement contains a copy of the complete Independent Expert's Report, Investigating Accountant's Report and the Scheme Implementation Agreement. A summary of the Independent Expert's Report and the Scheme Implementation Agreement is contained in this Scheme Booklet.</p> <p>You can obtain a copy of the Scheme Booklet Supplement by contacting the Coles Group Information Line on 1300 663 897 (within Australia) or +61 3 9415 4314 (outside Australia), or from Coles Group's website at www.colesgroup.com.au.</p>	
Where can I get further information?	<p>For further information, you can call the Coles Group Information Line on 1300 663 897 (within Australia) or +61 3 9415 4314 (outside Australia).</p> <p>If you are in any doubt about anything in this Scheme Booklet, please contact your financial, legal, taxation or other professional adviser.</p>	

4 How to vote

4.1 Your vote is important

For the Scheme to proceed, it is necessary that sufficient Coles Group Shareholders (other than Excluded Shareholders) vote in favour of the Scheme.

If you are registered as a Coles Group Shareholder (other than an Excluded Shareholder) at 7:00pm (Melbourne time) on 5 November 2007, you will be entitled to vote on the Resolution.

4.2 Notice of Meeting

The Scheme will be voted on by Coles Group Shareholders (other than Excluded Shareholders) at a meeting to be held at Hamer Hall, Victorian Arts Centre, Melbourne on Wednesday, 7 November 2007, commencing at 11:00am (Melbourne time).

4.3 Procedure

You may vote by attending the Scheme Meeting in person, or by proxy, attorney or, in the case of a corporation which is a Coles Group Shareholder (other than an Excluded Shareholder), by corporate representative.

(a) Voting in person

To vote in person at the Scheme Meeting, you must attend the Scheme Meeting (see Section 4.2 above).

A Coles Group Shareholder (other than an Excluded Shareholder) who wishes to attend and vote at the Scheme Meeting in person will be admitted to the Scheme Meeting and given a voting card at the point of entry to the Scheme Meeting on disclosing their name and address.

(b) Voting by proxy

If you wish to appoint a proxy to vote on your behalf at the Scheme Meeting, you must either:

- (1) complete and sign the original loose leaf white personalised proxy form sent to you with this Scheme Booklet, and send it to the Coles Group Share Registry using the reply paid envelope provided or by facsimile in accordance with the instructions on the proxy form;
- (2) complete and sign the original loose leaf white personalised proxy form and return it in person to the Coles Group Share Registry in accordance with the instructions on the proxy form; or
- (3) log on to Coles Group's website at www.colesgroup.com.au and follow the relevant instructions (to use this facility you will need your Coles Group Shareholder ID).

Proxy forms must be received by the Coles Group Share Registry (whether in person or by mail, facsimile or internet) by no later than 11:00am (Melbourne time) on 5 November 2007 (or if the Scheme Meeting is adjourned, at least 48 hours before the resumption of the Scheme Meeting in relation to the resumed part of the Scheme Meeting).

A proxy will be admitted to the Scheme Meeting and given a voting card at the point of entry to the Scheme Meeting on providing written evidence of their name and address.

A Coles Group Shareholder (other than an Excluded Shareholder) who sends a proxy form as set out above will not be precluded from attending in person and voting at the Scheme Meeting at which the Coles Group Shareholder is entitled to attend and vote. In such case, the attendance and voting in person overrides the previously submitted proxy form.

(c) Voting by attorney

If you wish to appoint an attorney to vote on your behalf you must either:

- (1) send any powers of attorney or authority to the Coles Group Share Registry using the reply paid envelope provided or by facsimile in accordance with the instructions on the proxy form;
- (2) deliver any powers of attorney or authority in person to the Coles Group Share Registry in accordance with the instructions on the proxy form; or
- (3) log on to Coles Group's website at www.colesgroup.com.au and follow the relevant instructions (to use this facility you will need your Coles Group Shareholder ID).

Powers of attorney must be received by the Coles Group Share Registry (whether in person or by mail, facsimile or internet) by no later than 11:00am (Melbourne time) on 5 November 2007 (or if the Scheme Meeting is adjourned, at least 48 hours before the resumption of the Scheme Meeting in relation to the resumed part of the Scheme Meeting).

An attorney will be admitted to the Scheme Meeting and given a voting card at the point of entry to the Scheme Meeting on providing written evidence of their appointment, their name and address and the identity of their appointor.

A Coles Group Shareholder (other than an Excluded Shareholder) who sends a power of attorney will not be precluded from attending in person and voting at the Scheme Meeting at which the Coles Group Shareholder is entitled to attend and vote. In such case, the attendance and voting in person overrides the previously submitted power of attorney.

(d) Voting by corporate representative

To vote at the meeting (other than by proxy or attorney), a corporation that is a Coles Group Shareholder (other than an Excluded Shareholder) must appoint a person to act as its representative. The appointment must comply with section 250D of the Corporations Act.

An authorised corporate representative will be admitted to the Scheme Meeting and given a voting card at the point of entry to the Scheme Meeting on providing written evidence of their appointment including any authority under which it is signed, their name and address and the identity of their appointor.

4.4 Voting entitlement

Each Coles Group Shareholder (other than an Excluded Shareholder) who is registered on the Coles Group Register at 7:00pm (Melbourne time) on 5 November 2007 is entitled to attend and vote at the Scheme Meeting, in person or by proxy or attorney or, in the case of a corporation which is a Coles Group Shareholder, by its representative appointed in accordance with the Corporations Act. Accordingly, registrable transmission applications or transfers registered after this time will be disregarded in determining entitlements to vote at the Scheme Meeting.

In the case of Coles Group Shares held by joint holders, only one of the joint shareholders is entitled to vote. If more than one shareholder votes in respect of jointly held Coles Group Shares, only the vote of the Coles Group Shareholder whose name appears first in the Register will be counted.

5 Summary of the Scheme

5.1 Background

On 2 July 2007, Coles Group and Wesfarmers announced a proposal for the acquisition of Coles Group by Wesfarmers (through its wholly-owned subsidiary, Wesfarmers Retail) by way of a scheme of arrangement. The Wesfarmers proposal was subsequently enhanced on 5 September 2007 to provide greater certainty for Coles Group Shareholders.

If the Scheme proceeds, Coles Group will be de-listed from ASX and become a wholly-owned subsidiary of Wesfarmers.

This Scheme Booklet contains important information that the Coles Group Board believes Coles Group Shareholders should consider in deciding whether or not to vote in favour of the Scheme.

5.2 Recommendation of Coles Group Directors and reasons why you should vote in favour of the Scheme

The Coles Group Directors unanimously recommend that, in the absence of a superior proposal, Coles Group Shareholders vote in favour of the Scheme at the Scheme Meeting for the reasons set out in Section 1.

The Coles Group Directors believe that the reasons for Coles Group Shareholders to vote in favour of the Scheme clearly outweigh the reasons to vote against the Scheme.

Each Coles Group Director who holds Coles Group Shares, or on whose behalf Coles Group Shares are held at the time of the Scheme Meeting, intends to vote in favour of the Scheme, in the absence of a superior proposal.

In making their recommendation and determining how to vote on the Scheme, the Coles Group Directors have considered the advantages and disadvantages of the Scheme and in particular, the following:

- (1) the reasons for Coles Group Shareholders to vote in favour of the Scheme, as set out in Section 1;
- (2) the potential disadvantages of the Scheme, as set out in Section 2;
- (3) the risks associated with Coles Group, Wesfarmers, Wesfarmers PPS and the Wesfarmers Merged Group's businesses, as set out in Sections 2, 6.7, 7.6 and 8.7; and
- (4) the report of the Independent Expert, a summary of which is set out in Section 11 and a complete copy of which is set out in the Scheme Booklet Supplement (which may be obtained as outlined in Section 5.20).

The Coles Group Directors have also considered the other alternatives to the Scheme, as set out in Section 5.3.

In considering whether to vote in favour of the Scheme, your Coles Group Directors encourage you to:

- read the whole of this Scheme Booklet (and, if you require a copy of the complete Independent Expert's Report, Investigating Accountant's Report and the Scheme Implementation Agreement, the Scheme Booklet Supplement);
- have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances; and
- obtain financial advice from your broker or financial adviser on the Scheme and obtain taxation advice on the effect of the Scheme becoming Effective.

The interests of Coles Group Directors are disclosed in Section 13.1 of this Scheme Booklet.

Coles Group Shareholders should seek professional advice on their particular circumstances, as appropriate.

5.3 Other alternatives considered

Before deciding to recommend the Wesfarmers proposal, the Coles Group Board conducted an extensive ownership review process and considered a range of alternatives. The major alternatives the Coles Group Board considered were:

- continuing as a stand alone group;
- a sale of 100 per cent of the group;
- a demerger of parts of the business;
- a trade sale of parts of the business;
- the introduction of a new cornerstone investor; and
- various combinations of these alternatives.

Proposals received under the ownership review process and all other alternatives were evaluated by the Coles Group Board against their ability to maximise shareholder value, to address the challenges facing the Coles Group and the certainty of outcome and implementation time frame.

The Board considered that the Wesfarmers proposal offered the best outcome available for shareholders as it offered the greatest certainty of outcome and was the only firm offer for 100 per cent of the group following an extensive process.

No other proposal for the group has emerged as at the date of this Scheme Booklet.

In addition, the Wesfarmers proposal was considered likely to give a better outcome for shareholders than maintaining the current ownership structure and implementing a turnaround strategy, which the Board considered was subject to considerable execution and competitive risk, even if coupled with a sale or demerger of parts of the business. The risks that course would entail include:

- a requirement for a change of leadership and a need to recruit and retain high quality management, particularly in Supermarkets;
- uncertainty around timing and extent of turnaround in the Supermarkets business;
- continuing strong competition, particularly in Supermarkets; and
- an ability to execute existing strategic initiatives to plan, including transformation and simplification initiatives.

A decision to pursue an independent turnaround strategy would prolong ongoing ownership uncertainty which has negatively impacted the company's underlying trading performance and ability to manage the business. This was reflected in the weaker trading performance of the Supermarkets business at the full year result which was announced on 19 September 2007. It has also led to an inability to recruit and retain key management, which are required to successfully implement the turnaround strategy.

5.4 Potential disadvantages of the Scheme

The Scheme has a number of potential disadvantages and risks that Coles Group Shareholders must consider in deciding whether or not to vote in favour of the Scheme. While the Coles Group Directors are of the opinion that these disadvantages are outweighed by the Scheme's advantages and that the Scheme is in the best interests of Coles Group Shareholders in the absence of a superior proposal, Coles Group Shareholders should consider their individual circumstances and make their own determination.

Please refer to Section 2 of this Scheme Booklet for a summary of the potential disadvantages associated with the Scheme.

5.5 Independent Expert's conclusions

Coles Group commissioned the Independent Expert, Grant Samuel, to prepare a report on the Scheme to ascertain whether the transaction contemplated by the Scheme is in the best interests of Coles Group Shareholders.

The Independent Expert has concluded that the Wesfarmers proposal is in the best interests of Coles Group Shareholders in the absence of a superior proposal.

The Independent Expert has valued Coles Group at \$16.21 to \$18.23 per Coles Group Share and has valued the aggregate of the Wesfarmers proposal and the Coles Fully Franked Final Dividend at \$14.87 to \$15.44 per Coles Group Share based on Wesfarmers Ordinary Share prices of \$38.00 to \$40.00, less the Wesfarmers Final Dividend of \$1.40 which Coles Group Shareholders will not receive, and including a premium for the value of Wesfarmers PPS.

A summary of the Independent Expert's Report is set out in Section 11. A copy of the complete Independent Expert's Report is contained in the Scheme Booklet Supplement.

A copy of the Scheme Booklet Supplement may be obtained by calling the Coles Group Information Line on 1300 663 897 (within Australia) or +61 3 9415 4314 (outside Australia), or from Coles Group's website at www.colesgroup.com.au.

5.6 Scheme Consideration

Under the terms of the Scheme, Scheme Shareholders (other than Ineligible Foreign Shareholders) will receive the following Scheme Consideration for each Coles Group Share held at the Record Date:

- **Cash Consideration** of \$4.00 cash; and
- **Share Consideration** of 0.14215 New Wesfarmers Ordinary Shares and 0.14215 Wesfarmers PPS.

The Record Date is currently expected to be 7:00pm (Melbourne time) on 16 November 2007.

Scheme Shareholders may elect to maximise the Cash Consideration component they will receive or maximise the New Wesfarmers Ordinary Share component they will receive, by participating in mix and match as described in Section 5.7 below.

Foreign Shareholders should refer to Section 5.18 for further details about the consideration they will receive.

Each Coles Group Shareholder at the Record Date will receive the Coles Fully Franked Final Dividend of \$0.25 cash for each Coles Group Share, regardless of whether or not the Scheme proceeds.

Coles Group Shareholders will not receive the Wesfarmers Final Dividend of \$1.40, which will be paid to Wesfarmers Shareholders on 29 November 2007.

5 Summary of the Scheme (continued)

5.7 Mix and match

(a) Mix and match elections

A Scheme Shareholder may, subject to the terms of the Scheme, elect one of the following consideration alternatives:

- (1) **Maximum Share Election:** maximise the New Wesfarmers Ordinary Share component of the Share Consideration they will receive under the Scheme; or
- (2) **Maximum Cash Election:** maximise the Cash Consideration component they will receive under the Scheme.

Mix and match does not apply to entitlements to Wesfarmers PPS. It only applies to the New Wesfarmers Ordinary Share component of the Share Consideration.

Elections under mix and match will not affect the entitlements of those Scheme Shareholders who do not make elections. You may make an election regardless of whether or not you intend to vote in favour of the Scheme.

To the extent that valid elections can be satisfied, Scheme Shareholders who make a Maximum Share Election will receive New Wesfarmers Ordinary Shares instead of cash and Scheme Shareholders who make a Maximum Cash Election will receive cash instead of New Wesfarmers Ordinary Shares. For this purpose, the New Wesfarmers Ordinary Shares will be valued based on the Wesfarmers VWAP over the 5 Trading Days after the Effective Date.

The outcome of mix and match elections will depend on the extent to which other Scheme Shareholders make offsetting elections. The total number of New Wesfarmers Ordinary Shares to be issued and the maximum amount of cash to be paid in aggregate by Wesfarmers under the Scheme does not change.

To the extent that elections cannot be satisfied in full, they will be scaled down on a pro rata basis. This may mean that Scheme Shareholders making an election will receive a mix and match outcome that is between the maximum of their election and what they would have received had they made no election.

If the number of New Wesfarmers Ordinary Shares made available as a result of valid Maximum Cash Elections is insufficient to satisfy in full all valid Maximum Share Elections, Scheme Shareholders who make a Maximum Share Election will receive:

- the New Wesfarmers Ordinary Shares released by shareholders who make Maximum Cash Elections, allocated to shareholders who make Maximum Share Elections pro rata to their holdings of Scheme Shares;
- 0.14215 Wesfarmers PPS; and
- the balance of their consideration in cash.

If the amount of cash made available as a result of valid Maximum Share Elections is insufficient to satisfy in full all valid Maximum Cash Elections, shareholders who make a Maximum Cash Election will receive:

- the cash released by Scheme Shareholders who make a Maximum Share Election, allocated to shareholders who make Maximum Cash Elections pro rata to their holdings of Scheme Shares;
- 0.14215 Wesfarmers PPS; and
- the balance of their consideration in New Wesfarmers Ordinary Shares.

(b) Factors to consider relating to the Maximum Share and Maximum Cash elections

When considering an election, Scheme Shareholders should consider their personal tax position and other circumstances and, if they are in any doubt, contact their broker, financial adviser or legal adviser immediately.

The following factors may be relevant when making an election:

Figure 5.1: Factors to consider in making a Maximum Share Election or Maximum Cash Election

	Advantages	Disadvantages
Maximum Share Election	<ul style="list-style-type: none"> • Increased opportunity to benefit from the growth prospects of the Wesfarmers Merged Group • Scheme Shareholders may obtain scrip for scrip CGT roll-over relief on a greater proportion of their shareholding 	<ul style="list-style-type: none"> • Increased exposure to the general risk factors associated with holding Wesfarmers Ordinary Shares
Maximum Cash Election	<ul style="list-style-type: none"> • Provides immediate liquidity on a greater proportion of the Scheme Shareholder's shareholding 	<ul style="list-style-type: none"> • Scheme Shareholders may realise a CGT liability on a greater proportion of their shareholding • Scheme Shareholders forego some of the opportunity to benefit from the growth prospects of the Wesfarmers Merged Group

(c) Small Shareholder election

Small Shareholders may elect to have all the New Wesfarmers Ordinary Shares and Wesfarmers PPS that they would receive under the Scheme sold on ASX on their behalf by the Sale Agent, free of any brokerage costs. Refer to Section 5.19 for further details about this process. A Small Shareholder who makes such an election is not able to participate in the mix and match.

(d) How to make an election

To participate in mix and match or to make the Small Shareholder election described in Section 5.7(c) above, you must complete the pink Election Form accompanying this Scheme Booklet. An Election Form will only be valid if it is completed in accordance with the instructions on the Election Form and returned so that it is received by the Coles Group Share Registry by 7:00pm (Melbourne time) on 16 November 2007. Alternatively you can make an election by logging on to Coles Group's website at www.colesgroup.com.au and following the relevant instructions.

If your Scheme Shares are in a CHESS Holding (being a holding that has a Holder Identification Number starting with X) and you wish to make an election you may lodge an election by instructing your Controlling Participant (usually your stockbroker) to lodge an election via CHESS on your behalf. The Controlling Participant must lodge the election by 7:00pm (Melbourne time) on 16 November 2007.

You do not need to return the Election Form or make an election via Coles Group's website if you wish to receive the standard Scheme Consideration.

If a valid election is not made by a Scheme Shareholder prior to the Election Time, or no election is made prior to the Election Time, then that Scheme Shareholder will receive the standard Scheme Consideration in respect of all of their Coles Group Shares.

(e) How to change an election

Scheme Shareholders may change an election by contacting the Coles Group Information Line on 1300 663 897 (within Australia) or +61 3 9415 4314 (outside Australia) and requesting a new Election Form. The last valid Election Form received by the Coles Group Share Registry by the Election Time will be used for the purposes of determining the election of each Scheme Shareholder.

(f) Outcome of the mix and match and Small Shareholder elections

Scheme Shareholders who make a mix and match election will not know the precise number of New Wesfarmers Ordinary Shares or amount of Cash Consideration to be provided to them until after the Scheme Meeting.

Coles Group will announce the outcome of mix and match elections as soon as possible following the Election Time. The announcement will be available from ASX's website at www.asx.com.au or from Coles Group's website at www.colesgroup.com.au.

See Section 5.19 for further information about the outcome of the Small Shareholder elections.

(g) Additional information

Any election made by a Scheme Shareholder will apply to all of their Coles Group Shares as at the Record Date. If a Scheme Shareholder elects to receive one alternative in respect of some of their Coles Group Shares and another alternative in respect of other Coles Group Shares, or makes no election in respect of the remainder of their Coles Group Shares, the Scheme Shareholder will receive the standard Scheme Consideration in respect of all of their Coles Group Shares.

A Scheme Shareholder who Coles Group accepts as holding one or more parcels of Scheme Shares as trustee or nominee for, or otherwise on account of, another person, may make separate elections in relation to each of those parcels of Scheme Shares, and an election made in respect of one such parcel shall not be taken to extend to the other parcels.

5.8 Executive Options and Performance Shares

Coles Group operates a number of employee incentive plans as part of its remuneration strategy for executives and employees. These plans include:

- Employee Share Plan (established in 1994), under which employees may purchase Coles Group Shares from the Plan Manager of the Employee Share Plan Trust using dividends on the shares, or voluntary payments, to pay the outstanding purchase price over time;
- Senior Executive Performance Share Plan (established in 2004), under which senior executives are allotted rights, called Performance Shares, to acquire Coles Group Shares for no consideration upon specified performance tests being satisfied;
- Executive Option Plan (established in 2002), under which executives are granted options to acquire unissued shares upon payment of the exercise price, which is based on the market price at the time of grant, and after satisfying time based performance tests; and

5 Summary of the Scheme (continued)

- Senior Executive Option Plan (established in 2002), under which executives are granted options to acquire unissued shares upon payment of the exercise price, which is based on the market price at the time of grant, and after satisfying time based and financial related performance tests.

Set out below is information regarding the implications of the Scheme for the participants in the plans.

(a) Shares held pursuant to the Employee Share Plan (ESP)

Until the outstanding purchase price of the relevant Coles Group Shares has been paid in full, the shares are held in the name of the Plan Manager as trustee of the Coles Group Employee Share Plan Trust. In accordance with the terms of the ESP, the Plan Manager is entitled to vote at the Scheme Meeting and participate in the Scheme on behalf of employees who hold Coles Group Shares the subject of the ESP.

Proceeds of the Cash Consideration will be initially used to pay any outstanding amount on the Coles Group Shares the subject of the ESP for each participant. The balance of the Cash Consideration will be paid to the employee and the New Wesfarmers Ordinary Shares and Wesfarmers PPS received will be registered in the employee's name.

(b) Executive Options and Performance Shares

Executive Options and Performance Shares that were due for final testing in September 2007 were tested according to their terms on 19 September 2007. As a result 427,720 Executive Options became exercisable and 766,261 Performance Shares vested.

In relation to Performance Shares and Executive Options which are not due for final testing until later years, the Coles Group Board having regard to various factors, including the time elapsed since the dates of grant, Coles Group's financial performance and the practice of other companies, will make an offer to executives to exercise its discretion under the relevant plans to allow a proportion of these Performance Shares to vest or (in the case of Executive Options) become exercisable, conditional on the Scheme becoming Effective.

If executives accept this offer, 76% of Performance Shares due for final testing in 2008 would vest and 33% of Performance Shares due for final testing in 2009 would vest. Any remaining unvested Performance Shares held by the executives will be cancelled for no consideration. Executive Options exercisable over the same period will be treated in a consistent manner, taking into account differences in the duration of their vesting and their performance hurdles.

The Board has acceded to the request of the CEO, John Fletcher, not to vest his Performance Shares due for testing in 2008 and 2009.

Upon the vesting of any Performance Shares, each executive will be issued with Coles Group Shares. These shares will be issued before the Scheme Record Date and, if the Scheme becomes Effective, will be acquired by Wesfarmers from the executive for the Scheme Consideration.

To the extent that any Executive Options are or become exercisable, Executive Optionholders are able to either:

- (1) Exercise the Executive Options by paying the relevant exercise price and be issued with Coles Group Shares – These shares will be issued before the Implementation Date and, if the Scheme becomes Effective, will be acquired by Wesfarmers from the executive for the Scheme Consideration.
- (2) Enter into arrangements (conditional on the Scheme becoming Effective) for the cancellation of the Executive Options – Under these arrangements, Wesfarmers will pay to the executive a cash amount for the cancellation of each Executive Option equivalent to:
 - \$4.00; plus
 - the value of 0.14215 of a Wesfarmers Ordinary Share and 0.14215 of a Wesfarmers PPS (to be determined by reference to the 5 day VWAP of Wesfarmers Ordinary Shares before the Record Date and the VWAP of Wesfarmers PPS over their first 5 Trading Days); plus
 - an amount equal to the final dividend of \$0.25 plus \$0.1071, representing an amount equal to the franking credit attached to that dividend,less
 - any amount payable on the exercise of the Executive Option.

This formula ensures that the holder should receive approximately the same value that other Scheme Shareholders receive under the Scheme.

Any Performance Shares or Executive Options which have not vested, been exercised or cancelled by the Implementation Date may become subject to compulsory acquisition if Wesfarmers exercises its powers under the Corporations Act. ASX has granted a waiver to permit the Executive Options to be cancelled without requiring shareholder approval. As at the date of this Scheme Booklet, Wesfarmers intends to compulsorily acquire any Performance Shares and Executive Options that remain outstanding following the Scheme.

5.9 Conditions of the Scheme and deemed warranty

The Scheme is subject to a number of Conditions Precedent. See Section 10 for information regarding the conditions to the Scheme.

Coles Group Shareholders' attention is drawn to the warranties that Scheme Shareholders will be deemed to have given, if the Scheme takes effect, in clause 9.3 of the Scheme (see page 92).

5.10 If the Scheme does not proceed

If the Scheme does not proceed, Coles Group Shareholders will continue to hold Coles Group Shares and will be exposed to the risks set out in Section 6.7. Coles Group Shareholders will be entitled to receive the Coles Fully Franked Final Dividend regardless of whether or not the Scheme proceeds.

Depending on the reasons why the Scheme does not proceed, Coles Group may be liable to pay a Break Fee of \$150 million to Wesfarmers. Further information in relation to the Break Fee is set out in Section 10.

If the Scheme does not proceed, and no superior proposal is received, the Coles Group Directors will consider a number of alternative strategies and restructuring alternatives for the operation and ownership of the Coles Group businesses. These alternatives, which are referred to in Section 5.3, would take time to implement.

The Coles Group Directors believe that the Scheme is likely to deliver benefits to Coles Group Shareholders greater than other alternatives which have been considered, including Coles Group continuing as a stand-alone entity or divesting certain businesses.

Coles Group Directors are of the opinion that, in the event that the Scheme does not proceed, and no alternative proposal emerges, the Coles Group Share price is likely to fall.

5.11 Scheme approval

The Scheme will only become Effective if it is:

- (1) agreed to by Coles Group Shareholders (other than Excluded Shareholders) at the Scheme Meeting to be held on Wednesday, 7 November 2007 at Hamer Hall, Victorian Arts Centre, Melbourne commencing at 11:00am (Melbourne time); and
- (2) approved by the Court on the Second Court Date (expected to be 9 November 2007).

Agreement by Coles Group Shareholders requires the Resolution to be passed by:

- a majority in number (more than 50 per cent) of Coles Group Shareholders (other than Excluded Shareholders) present and voting at the Scheme Meeting (either in person or by proxy); and
- at least 75 per cent of the total number of votes cast on the Resolution at the Scheme Meeting by Coles Group Shareholders (other than Excluded Shareholders) entitled to vote on the Resolution.

5.12 Entitlement to vote

All Coles Group Shareholders (other than Excluded Shareholders) who are registered on the Coles Group Register at 7:00pm (Melbourne time) on 5 November 2007 are entitled to vote at the Scheme Meeting. Further details on how to vote are provided in Section 4.

5.13 Payment of Scheme Consideration

Cash Consideration: If the Scheme becomes Effective, payment of the Cash Consideration to Scheme Shareholders under the Scheme will be paid on the Implementation Date, currently expected to be 23 November 2007.

The Cash Consideration will be paid by making a deposit into your nominated bank account with the Coles Group Share Registry as at the Record Date.

If you have not previously notified the Coles Group Share Registry of your nominated bank account or would like to change your existing nominated bank account, you should contact the Coles Group Share Registry on 1300 130 278 (within Australia) or +61 2 8280 7768 (outside Australia) prior to the Record Date.

If you do not have a nominated bank account with the Coles Group Share Registry as at the Record Date, you will be sent a cheque for the Cash Consideration. If the Scheme Shareholder's whereabouts are unknown as at the Record Date, the Cash Consideration will be paid into a separate bank account and held until claimed or applied under laws dealing with unclaimed moneys.

5 Summary of the Scheme (continued)

Share Consideration: New Wesfarmers Ordinary Shares and Wesfarmers PPS to be issued as Share Consideration to Scheme Shareholders (other than Ineligible Foreign Shareholders or Electing Small Shareholders) under the Scheme will also be issued on the Implementation Date. New Wesfarmers Ordinary Shares and Wesfarmers PPS are currently expected to trade on a deferred settlement basis at the commencement of trading on 12 November 2007. It is the responsibility of each New Wesfarmers Shareholder to confirm their holding before trading in New Wesfarmers Ordinary Shares or Wesfarmers PPS. New Wesfarmers Shareholders who sell New Wesfarmers Ordinary Shares or Wesfarmers PPS before they receive their holding statement or confirm their uncertificated holdings of New Wesfarmers Ordinary Shares or Wesfarmers PPS do so at their own risk.

Holding statements detailing your holding of New Wesfarmers Ordinary Shares and Wesfarmers PPS are expected to be despatched to you within five Business Days after the Implementation Date, being by 30 November 2007.

Trading on ASX of New Wesfarmers Ordinary Shares and Wesfarmers PPS on a normal settlement basis is expected to commence by 3 December 2007.

Ineligible Foreign Shareholders and Electing Small Shareholders will receive the Cash Consideration only. The Share Consideration that would otherwise be issued to an Ineligible Foreign Shareholder or an Electing Small Shareholder for their Scheme Shares will be issued to a nominee, who will sell the shares and remit the net proceeds to the relevant shareholder. Refer to Section 5.19 for further information.

5.14 Existing shareholder instructions to Coles Group

Except for a Coles Group Shareholder tax file number and any elections made in relation to participation in any dividend reinvestment plan, all binding instructions or notifications between a Coles Group Shareholder and Coles Group relating to Coles Group Shares or a Coles Group Shareholder's status as a Coles Group Shareholder (including, without limitation, any instructions relating to communications from Coles Group, whether dividends are to be paid by cheque or into a specific bank account, and direct credit instructions and bank account details) will, to the extent permitted by law, from the Record Date be deemed to be new binding instructions or notifications to, and accepted by Wesfarmers in respect of New Wesfarmers Ordinary Shares and Wesfarmers PPS.

5.15 Effects of rounding and warning against share splitting

All entitlements to New Wesfarmers Ordinary Shares and Wesfarmers PPS will be rounded up or down to the nearest whole number of New Wesfarmers Ordinary Shares or Wesfarmers PPS (as applicable) in order to avoid fractions of New Wesfarmers Ordinary Shares or Wesfarmers PPS (as applicable).

If either Coles Group or Wesfarmers reasonably believes that a Scheme Shareholder has been a party to the splitting or division of a shareholding in an attempt to obtain an advantage by reference to the rounding provided for in the calculation of each Scheme Shareholder's entitlement to the Scheme Consideration, then Coles Group and Wesfarmers reserve the right to round the entitlement of such holdings so as to provide only the number of New Wesfarmers Ordinary Shares or Wesfarmers PPS (as the case may be) that would have been received but for the splitting or division.

5.16 Entitlement to Coles Fully Franked Final Dividend

In addition to the Scheme Consideration, Coles Group Shareholders as at the Record Date will receive a Coles Fully Franked Final Dividend of \$0.25 cash for each Coles Group Share.

The expected date for payment of the Coles Fully Franked Final Dividend is the Implementation Date, expected to be 23 November 2007.

Coles Group Shareholders will be entitled to receive the Coles Fully Franked Final Dividend regardless of whether or not the Scheme proceeds.

5.17 Entitlement to the Wesfarmers Final Dividend

Wesfarmers declared a fully franked final dividend for FY2007 on 16 August 2007 of \$1.40 for each Wesfarmers Ordinary Share. Wesfarmers will pay the Wesfarmers Final Dividend to Wesfarmers Shareholders on 29 November 2007.

Coles Group Shareholders are not entitled to receive the Wesfarmers Final Dividend.

5.18 Foreign Shareholders

A Coles Group Shareholder whose address shown in the Coles Group Share Registry is a place outside Australia and its external territories or New Zealand is a Foreign Shareholder under the Scheme.

A Foreign Shareholder is not an Ineligible Foreign Shareholder if the Foreign Shareholder's address is a place in Canada, Singapore, the United Kingdom, Ireland or the United States (unless the shareholder resides in a U.S. state or other jurisdiction where it is not legally permitted to do so or registration or qualification is required to issue the New Wesfarmers Ordinary Shares and Wesfarmers PPS). Remaining Foreign Shareholders are Ineligible Foreign Shareholders unless Coles Group and Wesfarmers determine that:

- it is lawful and not unduly onerous or impracticable to issue that Coles Group Shareholder with New Wesfarmers Ordinary Shares and Wesfarmers PPS if the Scheme becomes Effective; or
- it is lawful for that Coles Group Shareholder to participate in the Scheme by the law of the relevant place outside Australia and its external territories or New Zealand.

Wesfarmers is not obliged to issue New Wesfarmers Ordinary Shares and Wesfarmers PPS as Scheme Consideration to an Ineligible Foreign Shareholder. The New Wesfarmers Ordinary Shares and Wesfarmers PPS that would otherwise have been issued to an Ineligible Foreign Shareholder will be issued to the Sale Agent (and/or to a nominee of the Sale Agent) on the Implementation Date and dealt with in the manner described in Section 5.19.

The New Wesfarmers Ordinary Shares and Wesfarmers PPS have not been, and will not be, registered under the U.S. Securities Act or under the securities laws of any state or jurisdiction of the United States. New Wesfarmers Ordinary Shares and Wesfarmers PPS are not being issued under the Scheme to any Coles Group Shareholders in any U.S. state or other jurisdiction where it is not legally permitted to do so or that require registration or qualification. Neither the SEC nor any U.S. state Securities Commission has approved or disapproved of the securities offered in connection with the Scheme, or determined if this Scheme Booklet is accurate or complete. Any representation to the contrary is a criminal offence.

The financial statements included in this Scheme Booklet have been prepared in accordance with A-IFRS and previously AGAAP, which may not be comparable to the financial statements of U.S. companies prepared in accordance with U.S. GAAP. U.S. Shareholders of Coles Group should note that there may be significant differences between A-IFRS / AGAAP and U.S. GAAP and these differences might be material. The financial information included in this Scheme Booklet has not been prepared with a view towards compliance with the rules and guidelines of the SEC.

5.19 Sale of New Wesfarmers Ordinary Shares and Wesfarmers PPS by the Sale Agent

Ineligible Foreign Shareholders and Electing Small Shareholders will not receive New Wesfarmers Ordinary Shares or Wesfarmers PPS. Instead, the New Wesfarmers Ordinary Shares and Wesfarmers PPS that would otherwise have been issued to Ineligible Foreign Shareholders and Electing Small Shareholders will be issued to the Sale Agent on the Implementation Date.

Wesfarmers will:

- procure that the Sale Agent sells all the New Wesfarmers Ordinary Shares and Wesfarmers PPS issued to the Sale Agent within 15 Business Days after the Implementation Date; and
- procure the remittance to the Ineligible Foreign Shareholders and Electing Small Shareholders their proportion of the net proceeds. Receipt of this amount will satisfy in full the rights of each Ineligible Foreign Shareholder and Electing Small Shareholder to the Share Consideration component of the Scheme Consideration.

For each New Wesfarmers Ordinary Share to which an Ineligible Foreign Shareholder or Electing Small Shareholder is entitled, the shareholder will receive an amount equivalent to the average price per New Wesfarmers Ordinary Share obtained by the Sale Agent. Likewise, for each Wesfarmers PPS to which an Ineligible Foreign Shareholder or Electing Small Shareholder is entitled, the shareholder will receive an amount equivalent to the average price per Wesfarmers PPS obtained by the Sale Agent.

Any broker fees paid by the Sale Agent in respect of the sale of the New Wesfarmers Ordinary Shares and the Wesfarmers PPS issued to the Sale Agent that would otherwise have been issued to Ineligible Foreign Shareholders will be deducted from the sale proceeds payable to Ineligible Foreign Shareholders.

Electing Small Shareholders and Ineligible Foreign Shareholders who are also Small Shareholders will receive the sale proceeds free from any broker fees. Fees, taxes and charges other than broker fees and stamp duty will be deducted from the proceeds payable to both Ineligible Foreign Shareholders and Electing Small Shareholders.

The New Wesfarmers Ordinary Shares and Wesfarmers PPS will be sold on ASX on behalf of the Ineligible Foreign Shareholders and Electing Small Shareholders in such manner and at such price and on such other terms as the Sale Agent determines in good faith (and at the risk of the Ineligible Foreign Shareholder and Electing Small Shareholder).

5 Summary of the Scheme (continued)

Coles Group, Wesfarmers and the Sale Agent give no assurance as to the price that will be achieved for the sale of New Wesfarmers Ordinary Shares and Wesfarmers PPS described above. The proceeds that Ineligible Foreign Shareholders and Electing Small Shareholders will receive may be more or less than the current market value of Wesfarmers Ordinary Shares.

Sale of the New Wesfarmers Ordinary Shares and Wesfarmers PPS by the Sale Agent may result in a significant number of New Wesfarmers Ordinary Shares and Wesfarmers PPS being offered for sale at the same time. This may have the effect of depressing the sale price of those shares.

The net proceeds of the sale of the New Wesfarmers Ordinary Shares and the Wesfarmers PPS will be paid to each relevant shareholder as soon as reasonably practicable following the sale of such shares by the Sale Agent, by making a deposit into an account with an Australian bank nominated by the shareholder with the Coles Group Share Registry as at the Record Date.

If the relevant shareholder does not have a nominated Australian bank account with the Coles Group Share Registry as at the Record Date, the shareholder will be sent a cheque drawn on an Australian bank in Australian currency for the net proceeds of the sale of the New Wesfarmers Ordinary Shares and the Wesfarmers PPS. If the relevant shareholder's whereabouts are unknown as at the Record Date, the Cash Consideration will be paid into a separate bank account and held until claimed or applied under laws dealing with unclaimed moneys.

Under the Scheme, each Ineligible Foreign Shareholder and Electing Small Shareholder appoints Coles Group as its agent to receive on its behalf any financial services guide or other notices which may be issued by the Sale Agent.

5.20 Scheme Booklet Supplement

The Scheme Booklet Supplement contains a copy of the complete Independent Expert's Report, Investigating Accountant's Report and the Scheme Implementation Agreement.

A copy of the Scheme Booklet Supplement may be obtained by calling the Coles Group Information Line on 1300 663 897 (within Australia) or +61 3 9415 4314 (outside Australia), or from Coles Group's website at www.colesgroup.com.au.

5.21 Obtaining further information

For further information, including to request a copy of the Scheme Booklet Supplement, you can call the Coles Group Information Line on 1300 663 897 (within Australia) or +61 3 9415 4314 (outside Australia). If you are in any doubt about anything in this Scheme Booklet, contact your financial, legal, taxation or other professional adviser.

6 Information about Coles Group

6.1 Background Information

Coles Group (ASX:CGJ) is one of Australia's largest retailers with approximately 3,000 stores, revenue of \$34.7 billion (FY2007) and market capitalisation of approximately \$18.0 billion as at 25 September 2007. Coles Group is headquartered in Melbourne, Australia and employs approximately 170,000 people nationally.

A brief history of Coles Group is set out below.

- The first Coles Group variety store was opened in Melbourne, Victoria in 1914 and the first Coles Group supermarket was opened in 1960. At the end of the 2007 financial year, 674 Coles and 71 Bi-Lo supermarkets were open.
- The first Kmart opened in Melbourne, Victoria in 1969, and as at the end of the 2007 financial year, there were 182 Kmart stores in Australia and New Zealand, making it Australia's largest discount department store operator.
- In 1985, Coles Group merged with The Myer Emporium Limited to create Coles Myer Limited.
- The merger with the Myer Emporium brought Target into the brand portfolio which, as at the end of the 2007 financial year, had 268 locations in metropolitan and country areas offering on-trend apparel and soft home-wares.
- Through the 1980s and 1990s Coles Group acquired a number of liquor businesses and over the past six years it has continued to expand its liquor business by acquiring hotels and rolling out superstores.
- In 1994 the first Officeworks store opened, with the chain having grown to 107 stores and nine Harris Technology Business Centres as at the end of the 2007 financial year.
- In 1994, the FlyBuys program was launched and has grown to be the largest customer loyalty scheme in Australia. This is complemented by the Coles Myer Source MasterCard with an attached loyalty offer.
- In 2003, Coles Group entered into a long term arrangement with Shell whereby Coles Group operates the Shell convenience outlets and a discount on fuel prices is provided to Coles Group Supermarket, Liquorland and Kmart customers.
- In 2006, Coles Group sold Myer to Newbridge Capital and The Myer Family Company for \$1.4 billion.

Recent strategic focus

In 2002, Coles Group announced a five year strategic plan to substantially improve Coles Group Shareholder value.

The key elements of achieving this goal focused on:

- turning around Coles Group's non-food businesses;
- growing the Food and Liquor business;
- replacing the shareholder discount card and improving the loyalty program; and
- transforming the culture, supply chain and systems within Coles Group.

In 2006, Coles Group was able to report to Coles Group Shareholders the successful delivery of key elements of this plan. Between FY2001 and FY2006 underlying net profit after tax had increased from \$333 million to \$787 million and significant additional Coles Group Shareholder value had been created.

Other key strategic goals were also achieved, including:

- underlying non-food profitability increasing in earnings before interest and tax from \$101 million in FY2001 to \$462 million in FY2006;
- compound profit growth of over 9 per cent per annum being achieved by the Food and Liquor business;
- the Coles Group Shareholder discount card being replaced with a more effective and sustainable customer loyalty program;
- significant progress being made around the transformation program since commencement in FY2003; and
- review of the broader business portfolio resulting in the Myer business being divested for \$1.4 billion in FY2006.

Having completed the turnaround phase of Coles Group's strategic plan, in July 2006 Coles Group outlined its new five year plan for FY2007 to FY2011.

The centrepiece of the new five year plan is the creation of an integrated Everyday Needs Business (ENB) comprising food, liquor, fuel and general merchandise to leverage the "Coles" brand. Integration of these businesses is intended to create a leaner, more innovative organisation that is closer to the customer and operating on a lower cost platform. In addition, Target and Officeworks intend to build on their current strategies, improving customers' in-store experience and increasing their Australian national footprint.

Under the new five year plan each Coles Group business has specific strategies to improve the customer in-store experience and product offering. Two further Coles Group-wide business initiatives support future growth:

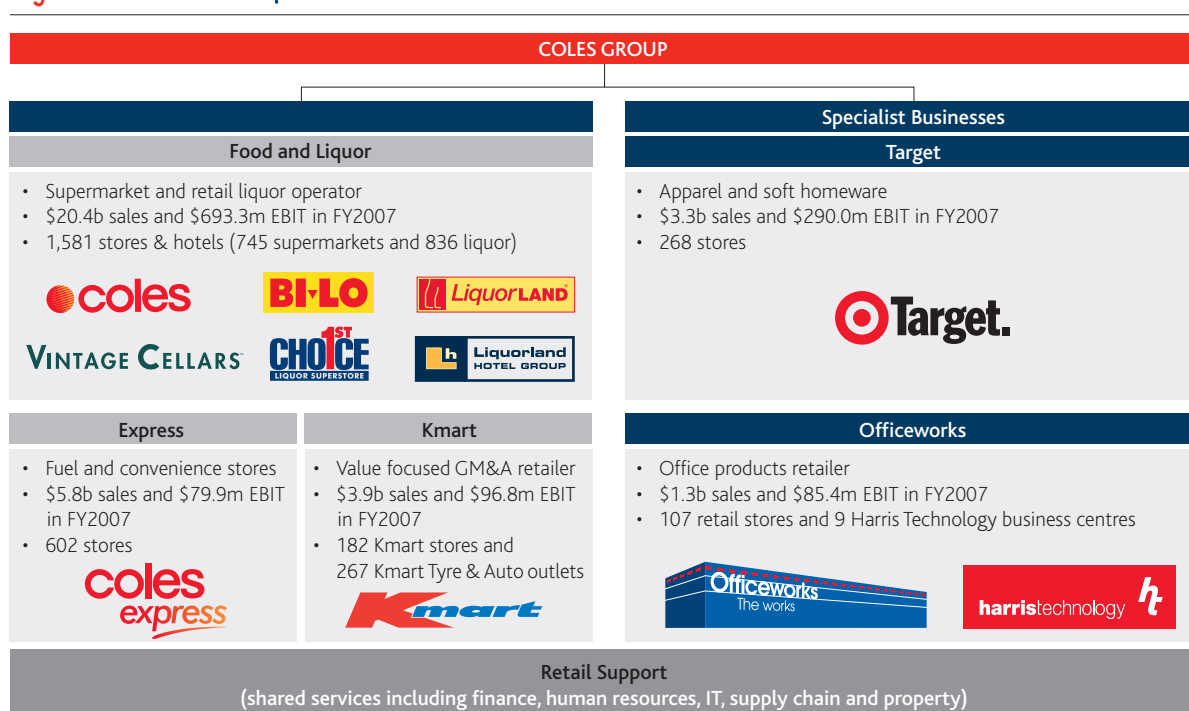
6 Information about Coles Group (continued)

- Business simplification: this initiative is focused on simplifying non-store operations to reduce both above-store roles and non-personnel expenses; and
- Transformation: this initiative is focused on improving the flexibility and efficiency of Coles Group's supply chain and information technology.

Further detail around these initiatives can be found in Sections 6.3 and 6.8.

6.2 Coles Group structure

Figure 6.1: Coles Group structure



6.3 Overview of operations

Coles Group consists of three key businesses: ENB, Target and Officeworks. The operations within the ENB include Supermarkets, Coles Express, Coles Liquor and Kmart.

Everyday Needs Business

(a) Supermarkets

The Supermarkets business comprises the Coles and Bi-Lo brands, supported by a single back office function incorporating centralised finance, administration, operations, marketing and buying functions.

As at July 2007, there were 674 Coles branded stores across Australia. The network ranges from small metropolitan stores to large flagship sites, with selling areas of approximately 160m² to 4,000m².

The average Bi-Lo store size is smaller than Coles, with the network focused on local neighbourhoods and regional areas. During FY2007, 129 Bi-Lo stores were converted to Coles Supermarkets in a strategy aimed at improving the consistency of the customer value proposition and reducing costs. Following lower than expected sales from converted stores, the Bi-Lo conversion was placed on hold in April 2007. As at July 2007, there were 71 Bi-Lo branded stores across Australia.

(b) Coles Liquor

Coles Liquor operates a range of liquor retailing formats encompassing three major brands, the 1st Choice liquor superstore, the Liquorland convenience offer and the specialist chain, Vintage Cellars. As at July 2007, 1st Choice operated 39 stores, Liquorland 621 stores and Vintage Cellars 89 stores. A further 2 stores traded under the Quaffers' banner.

Coles Liquor also operates a network of 85 hotels, predominantly located in Queensland. This business substantially increased in scale following the acquisition of the Hedley Group during 2006.

(c) Coles Express

Under an exclusive alliance agreement with Shell, Coles operates 602 Coles Express fuel and convenience stores across Australia as at July 2007. Coles Group supermarkets, Liquorland and Kmart customers who make purchases over a certain amount are entitled to receive a fuel discount.

(d) Kmart

Kmart is a discount department store retailer offering a wide range of low cost merchandise ranging from apparel to hardware and leisure goods.

As at July 2007, it operated 182 stores in Australia and New Zealand. Kmart stores typically range in size from 4,000m² to 7,000m² and are mostly located in suburban shopping centres in major cities and in larger regional shopping centres.

Kmart also operates Kmart Tyre & Auto, a leading auto services provider with an extensive network. As at July 2007, there were a total of 267 Kmart Tyre & Auto Service outlets.

Target

Target is a discount department store offering on-trend, fashionable apparel and soft homewares. Apparel is a key focus of the product range, with Target aiming to position itself as an alternative to specialty fashion stores.

As at July 2007, Target operated 268 stores in Australia with 152 Target stores and 116 Target Country stores. Stores range in size from Target branded 13,000m² stores to Target Country branded 400m² stores, enabling the business to access a wide range of customers in metropolitan and regional areas.

Officeworks

Officeworks is Australia's largest retailer of office products targeting home offices, students and small to medium size businesses. Officeworks operates a national network of 107 stores as at July 2007. Officeworks also operates Officeworks BusinessDirect selling office products direct to customers via phone, fax and online, and Harris Technology a specialist technology provider for small to medium size businesses.

Support services

Each of the Coles Group businesses utilises a common platform of support services. These support services cover a range of activities including supply chain, information technology, property, human resources, finance and other administrative head-office functions.

Currently Coles Group is in the process of implementing two business programmes aimed at improving the services and cost structure of these support services.

The transformation program, commenced in September 2003, centred on improving the flexibility and efficiency of Coles Group's supply chain and information technology along with cultural change throughout the organisation. Regular updates on progress against transformation programs have been provided to shareholders, most recently on 19 September 2007. There has been significant rationalisation of the distribution centre network and new systems for warehouse management, transport management and international supply chain management have been introduced. Further planned major transformation initiatives include the implementation of key Supermarkets and Coles Liquor systems, including automated store replenishment systems.⁴

The business simplification program, commenced in early FY2007, is focused on simplifying non-store operations to reduce both above-store roles and non-personnel expenses to allow additional investment in-store.

As stated in the most recent market update on 19 September 2007, over 350 initiatives have been implemented to date, with over \$100 million of savings achieved and with over \$363 million in annualised savings expected by the end of FY2008.

⁴ On 21 September 2006 Coles Group announced it expected to achieve supply chain net benefits of \$430m per annum by FY2010. At that time, Coles expressly noted that it did not assume any responsibility to update any forward looking statements made in its announcement. It has not done so in respect of supply chain cost savings due to the number, and sequencing of implementation, of the various supply chain projects. In the Coles Acquisition Update released to the market by Wesfarmers on 24 September 2007, reference was made to the 21 September 2006 Coles Group presentation. The Coles Group Board has nothing further to add to its earlier announcement of 21 September 2006.

6 Information about Coles Group (continued)

6.4 Coles Group Board of directors

The current Coles Group Board comprises the following persons:

(a) Mr Rick Allert, AM, Chairman and Non-Executive Director

FCA, age 64, (appointed Director 1995, Chairman from 2002)

Mr Allert has had a distinguished career as a chartered accountant. He is the Chairman of AXA Asia Pacific Holdings Limited (a Director from 1995). Mr Allert is a Director of the Australia Business Arts Foundation and Chairman of the Australia Council's Major Performing Arts Board. He has been a Director of a number of public companies over many years and has also held positions with a number of government instrumentalities and community organisations, and was recently appointed Chairman of Tourism Australia.

(b) Mr John Fletcher, Chief Executive Officer and Managing Director

FCPA, age 56, (appointed Director 2001)

Prior to Coles Group, Mr Fletcher spent the early part of his professional career with Brambles Industries, commencing in 1974, initially in an accounting role and then in a series of operating and senior management positions. He was appointed General Manager of the Transport Division in 1982, Commercial Director Europe in 1984, Managing Director CHEP Australia in 1986, Managing Director Brambles Australia in 1988 and CEO of Brambles Industries in 1993. Mr Fletcher retired as CEO of Brambles in 2001 and was appointed the CEO of Coles Group in the same year. Mr Fletcher was previously a Director of Telstra Corporation Limited (2001-2006).

(c) Ms Patricia Akopiantz, Non-Executive Director

BA (Wellesley), MBA (Harvard), age 43, (appointed Director 2001)

Ms Akopiantz has extensive senior management and consultancy experience in retail and consumer industries both in Australia and overseas. Ms Akopiantz is a Director of Wattyl Limited (from 2005), Energy Australia Limited (from 2006) and AXA Asia Pacific Holdings Limited (from 2006). She is a member of the Advisory Council of Chief Executive Women. She is also a Director of the YWCA-NSW. Ms Akopiantz's previous directorships include the Australian Graduate School of Management and the Foundation for Young Australians.

(d) Dr Keith Barton, Non-Executive Director

BSc, PhD (UNSW), FTSE, age 67, (appointed Director 2003)

Dr Barton is a former CEO and Managing Director of James Hardie Industries Limited, after holding a variety of executive positions at CSR Limited. Dr Barton's current Directorships include Tower Australia Group Limited (from 2006), Amcor Limited (from 1999), Air Liquide Australia Limited and Vision Australia Limited (from 2004). Dr Barton's previous board appointments include Goodman Fielder Ltd (Chairman), F H Faulding & Co Ltd, Colonial Limited, Australian Wealth Management Limited (2004-2005), Citicet Corporation Limited (2001-2006) and Tower Limited (2001-2006).

(e) Mr William Gurry, AO, Non-Executive Director

LLB, age 60, (appointed Director 2001)

Mr Gurry is a former Executive Chairman of one of Australia's foremost investment banks, UBS. He has had a career in the Australian finance sector, being a former Managing Director of Capel Court Corporation, National Mutual Royal Bank Limited and Executive Director of Australian Bank Limited. He is currently a Director of Rabobank Australia Limited, Rabo Australia Limited, Cheviot Bridge Limited (from 2004), The Financial Markets Foundation for Children, Australian Jesuit Foundation and the St Vincents and Mercy Private Hospital. Mr Gurry has previously held positions with a number of corporate, government and community entities.

(f) Mr Anthony Hodgson, AM, Non-Executive Director

FCA, FAICD, age 67, (appointed Director 2003)

Mr Hodgson was a co-founder of the specialist chartered accounting firm, Ferrier Hodgson, from which he retired in 2000 after 24 years. His role included the evaluation and implementation of marketing and business strategies to achieve major corporate restructures and turnarounds. Mr Hodgson's current board appointments include Deputy Chairman, Tabcorp Holdings Limited (Director from 1994) and a Director of Committed Securities Limited. He is a member of the Advisory Council at JP Morgan and of the Advisory Board at VISY Industrial Holdings Limited. Mr Hodgson's previous directorships include RMG Limited (Chairman), Melbourne Port Corporation (Chairman), Victorian TAB (Chairman), Presidents Club Limited and HSBC Bank Australia Limited.

(g) Ms Belinda Hutchinson, AM, Non-Executive Director

BEC, FCA, age 54, (appointed Director 2005)

Ms Hutchinson has broad experience as a Non-executive Director and as an executive within the banking and financial services sector. Ms Hutchinson is a Director of Telstra Corporation Limited (from 2001) and QBE Insurance Group Ltd (from 1997). She is

also a Director of St Vincents and Mater Health Sydney Limited. Ms Hutchinson's previous appointments include Director of Energy Australia Limited (1997-2005), TAB Limited (1997-2004), and Crane Group Limited (1997-2004).

(h) Ms Sandra McPhee, Non-Executive Director

DipEd, FAICD, age 61, (appointed Director 2003)

Ms McPhee has considerable experience as a Non-executive Director and as a senior executive in international consumer facing industries including aviation, retail and tourism, most recently with Qantas Airways Limited. Ms McPhee is a Director of Perpetual Limited (from 2004) and AGL Energy Limited (from 2006). She is also a Director of Australia Post, St Vincents and Mater Health Sydney Limited and Vice President of the Art Gallery of New South Wales. Ms McPhee's previous appointments include Deputy Chair South Australia Water and Director of Primelife Corporation Limited (2003-2005), CARE Australia and Tourism Council Australia.

(i) Mr Michael Wemms, Non-Executive Director

BA, MBA, age 67, (appointed Director 2003)

Mr Wemms has extensive retail and business experience in the United Kingdom. He worked at Tesco from 1972 to 2000 in a range of positions, including Store Manager, Personnel Director and Store Operations Director. He was a Director of Tesco plc from 1989-2000 and a part-time advisor to the company until June 2003. His current Non-executive Directorships include the international automotive group, Inchcape plc (from 2004), AaD Pharma Holdings NV (from 2006), Galiform plc (from 2006) and Moneysupermarket.com Group plc. Mr Wemms was also a Director and Chairman of House of Fraser plc (1996-2006) and Chairman of the British Retail Consortium (2004-2006).

6.5 Coles Group Securities

As at 25 September 2007, Coles Group has on issue:

- (1) 1,198,953,646 Coles Group Shares; and
- (2) 5,618,995 Executive Options; and
- (3) 3,942,821 Performance Shares.

Coles Group's substantial shareholders as disclosed to ASX as at 25 September 2007 are set out below.

Figure 6.2: Table of Coles Group substantial shareholders

Shareholder	Coles Group Shares	Percentage held of total Coles Group Shares
Wesfarmers Limited	144,581,288	12.1% ⁵
Commonwealth Bank of Australia	71,944,935	6.0%

As at 25 September 2007, the following table represents the distribution of Coles Group Shareholders owning Coles Group Shares.

Figure 6.3: Coles Group range of shareholders

Range	Total Coles Group Shareholders	Coles Group Shares	Percentage of Coles Group issued capital
1 – 1,000	238,005	139,330,484	11.62%
1,001 – 5,000	76,571	155,549,486	12.97%
5,001 – 10,000	8,377	58,644,289	4.89%
10,001 – 100,000	4,637	94,140,349	7.85%
100,001 +	208	751,289,038	62.67%
Total	327,798	1,198,953,646	100.00%

The number of Coles Group Shareholders holding less than a marketable parcel of 34 Coles Group Shares is 3,388, and these Coles Group Shareholders hold a total of 44,590 Coles Group Shares.

⁵ Although Wesfarmers and its subsidiaries hold 10.6 per cent of Coles Group Shares, power of attorneys executed prior to the date of this Scheme Booklet bring Wesfarmers' substantial shareholding to 12.1 per cent. In addition, Premier Investments Limited has also disclosed a Relevant Interest in 69,500,000 Coles Group Shares, which are included in the Wesfarmers holding.

6 Information about Coles Group (continued)

6.6 Coles Group Directors' intentions

If the Scheme proceeds, the Coles Group Board will be reconstituted. It is for the reconstituted Coles Group Board to determine its intentions as to:

- the continuation of the business of Coles Group;
- any major changes, if any, to be made to the business of Coles Group; and
- the future employment of the present employees of Coles Group.

The current intentions of Wesfarmers with respect to these matters are set out in Section 8.

If the Scheme does not proceed, and no superior proposal is received, the Coles Group Directors will consider a number of alternative strategies and restructuring alternatives for the operation and ownership of the Coles Group businesses. These alternatives would take time to implement.

The Coles Group Directors believe that the Scheme is likely to deliver benefits to Coles Group Shareholders greater than other alternatives which have been considered, including Coles Group continuing as a stand-alone entity or divesting certain businesses.

6.7 Risks relating to Coles Group's business

There are existing risks relating to Coles Group's business and an investment in Coles Group which will continue to be relevant to Coles Group Shareholders if the Scheme does not proceed. These risks, set out below, have the potential to impact the future price of Coles Group Shares and Coles Group's ability to pay dividends.

You should also refer to Section 2 which sets out some of the potential disadvantages of the Scheme.

(a) Changes in economic conditions

The financial performance of Coles Group could be affected by changes in economic conditions in Australia. Such changes include:

- (1) changes in levels of economic activity and resultant impact on various markets in which Coles Group operates;
- (2) changes in the rate of inflation, interest rates and foreign currency exchange rates;
- (3) changes in relation to general consumer sentiment;
- (4) changes in employment levels and labour costs, which may affect the cost structure of Coles Group;
- (5) changes in aggregate investment and economic output;
- (6) changes in relation to movements in the general level of share prices on local and international equity markets; and
- (7) other changes in economic conditions which may affect the future revenue or costs of Coles Group.

(b) Change in government and regulatory policy

Coles Group may be impacted by changes in government policy or legislation applicable to companies in the retail industry.

(c) Competition

Coles Group holds a leading position in the Australian retail market. While Coles Group believes it will be able to sustain this leading position, no assurances can be made that the actions of existing competitors, or entry of new competitors, will not have an adverse impact on Coles Group's future operating and financial performance.

(d) General business risks

Coles Group's financial and operating performance is exposed to a broad range of business risks, many typical of those faced by all companies operating in a dynamic environment. Some of these risks include:

- (1) The performance of Coles Group's business is highly dependent on its extensive infrastructure network, including information technology systems, distribution centres and its store portfolio. Events that impact the efficiency of this infrastructure (such as power loss, systems failure and other events) may adversely impact Coles Group.
- (2) Coles Group is currently undertaking a significant simplification program to reduce the cost structure of the business. There exists a risk that this program may not achieve the targeted financial savings, or that its implementation may adversely impact the performance of Coles Group.
- (3) Coles Group is currently undertaking a significant transformation program around its supply chain and information technology systems, aimed at improving the cost structure and efficiency of its operations. There exists a risk that this program may not achieve the targeted financial impact, or that its implementation may adversely impact the performance of Coles Group.
- (4) Part of Coles Group's growth strategy relies on new stores being opened across its various businesses. Coles Group's ability to open new stores is dependent on identifying and entering into leases on commercially reasonable terms for properties that are suitable for its needs. If Coles Group fails to identify and enter into leases at premium retail sites, it may adversely impact the performance of Coles Group.

- (5) There is a risk that the growth strategy of Coles Group may be affected if there are insufficient skills across the Coles Group to support its implementation. Loss of members of the senior management team may impede the implementation of the Coles Group's strategies. The loss of key staff as part of the Coles Group's simplification program may result in interruption or could reduce efficiency of operations in the short term.
- (6) There are no current litigation matters that are considered likely to have a material adverse effect on the Coles Group business. However, there remains a risk that Coles Group may be exposed to litigation which could have a material adverse effect on the Coles Group in the future.
- (7) Given Coles Group's large and diverse operating businesses there is a risk of a range of events occurring which could not be anticipated by management. It is possible that one or more of these events may negatively impact Coles Group.
- (8) If the Scheme does not proceed, and no superior proposal is received, the Coles Group Directors will consider a number of alternative strategies and restructuring alternatives for the operation and ownership of the Coles Group businesses. These alternatives would take time to implement. The Coles Group Directors believe that the Scheme is likely to deliver benefits to Coles Group Shareholders greater than other alternatives which have been considered, including Coles Group continuing as a stand-alone entity or divesting certain businesses.

6.8 Historical financial information

(a) Basis of presentation

The following section sets out summaries of certain historical financial information about the consolidated Coles Group for years ending 30 July 2006 and 29 July 2007.

The financial information is presented in a summary form and consequently does not contain all of the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act. Further financial information is available in the Coles Group 2006 Financial Report, and the Coles Group 2007 Financial Report, which is expected to be released in early October 2007. These reports set out Coles Group's significant accounting policies during these periods. These reports are or will be available from Coles Group's website at www.colesgroup.com.au.

The historical financial information has been extracted from the Coles Group audited financial statements, where PricewaterhouseCoopers have issued an unqualified audit opinion.

This Section 6.8 contains the following terms that are not defined in the Coles Group Financial Reports:

EBIT – Earnings before interest and tax expenses.

EBITDA – Earnings before interest, tax, depreciation and amortisation expenses.

(b) Consolidated Income Statement

\$m	FY2006	FY2007
Revenue from sale of goods and services	34,212.0	34,687.9
EBITDA from continuing operations	1,365.8	1,670.0
Depreciation and amortisation	(489.9)	(543.0)
EBIT from continuing operations	875.9	1,127.0
Finance costs	(123.9)	(136.1)
Profit before tax from continuing operations	752.0⁽¹⁾	990.9⁽¹⁾
Income tax	(215.6)	(270.8)
Profit after tax from continuing operations	536.4	720.1
Profit after tax from discontinued operations	627.2	27.7
Profit after tax	1,163.6⁽²⁾	747.8⁽³⁾

⁽¹⁾ Excludes discontinued operations Myer and Megamart.

⁽²⁾ Underlying profit for the year ended 30 July 2006 was \$787.3 million, after adjusting for gain on disposal of Myer of \$583.7 million and strategy costs of \$207.4 million.

⁽³⁾ Underlying profit for the year ended 29 July 2007 was \$792.4 million, after adjusting for the costs associated with the ownership review of \$44.6 million, pre-tax \$55.9 million.

6 Information about Coles Group (continued)

(c) Consolidated Balance Sheet

\$m	FY2006	FY2007
Current assets		
Cash and cash equivalents	485.6	546.1
Trade and other receivables	390.8	428.8
Inventories	2,851.8	2,946.5
Other current assets	153.1	27.8
Total current assets	3,881.3	3,949.2
Non-current assets		
Receivables	43.7	41.2
Investments in associates	125.0	7.4
Property, plant and equipment	3,140.9	3,467.6
Intangible assets and goodwill	1,412.2	1,670.2
Other non-current assets	532.2	585.5
Total non-current assets	5,254.0	5,771.9
Total assets	9,135.3	9,721.1
Current liabilities		
Trade and other payables	3,080.3	3,057.9
Interest-bearing loans and borrowings	30.2	200.0
Other current liabilities	852.3	723.2
Total current liabilities	3,962.8	3,981.1
Non-current liabilities		
Interest-bearing loans and borrowings	974.0	1,285.9
Other non-current liabilities	600.5	547.3
Total non-current liabilities	1,574.5	1,833.2
Total liabilities	5,537.3	5,814.3
Net assets	3,598.0	3,906.8
Total equity	3,598.0	3,906.8

(d) Consolidated Schedule of Cash Flows

\$m	FY2006	FY2007
EBITDA from continuing and discontinued operations	2,026.5	1,707.1
Operating cash inflows	1,300.6	942.5
Investing cash inflows/(outflows)	96.6	(857.0)
Free cash flow	1,397.2	85.5
Financing cash (outflows)	(1,356.5)	(21.0)
Net cash flow	40.7	64.5

(e) Management discussion and analysis***Financial Year Ended 30 July 2006***

The Coles Group 2006 Annual Financial Report contains commentary on the results of the Coles Group (including on a segmental basis) for FY2006. A copy of the report is available on Coles Group's website at www.colesgroup.com.au.

Financial Year Ended 29 July 2007**Group**

As foreshadowed at the launch of its growth strategy in July 2006, Coles Group recorded flat earnings on an underlying basis during this year of transition and investment.

Excluding the ownership review costs of \$44.6 million, underlying net profit after tax was \$792.4 million for the year ended 29 July 2007. This was an increase of \$5.1 million on the prior year of \$787.3 million, after adjusting for the gain on the disposal of Myer of \$583.7 million and the strategy costs of \$207.4 million.

The FY2007 underlying result includes the one-off benefits from the write-back of a Myer provision, and renegotiated Coles Express leases offset by additional consultancy and redundancy costs.

Net profit after tax was \$747.8 million, prior year was \$1,163.6 million.

While this result reflected a lower contribution from supermarkets, this was offset by the strong performance of all other businesses and additional savings identified in the business simplification program.

Sales from continuing operations increased 1.4 per cent to \$34,688 million.

Operating cash flow was impacted by the lower than anticipated earnings in Supermarkets as well as the Group's investment in strategic initiatives including cash payments of \$167 million related to the strategy provision taken in FY2006, the bulk of which were redundancies. Also included are the FY2007 ownership review cash payments of \$61 million of which \$23 million was incurred in the first half of the year.

Simplification programs resulted in a benefit in excess of \$100 million during FY2007.

Business transformation has brought six new distribution centres on-line and the roll out of the supermarkets' multi-buy and discounting program is underway in a group of pilot stores.

Subsequent to year-end a Fully Franked Final Dividend of \$0.25 cents per Coles Group Share was declared. The total dividend for FY2007 is \$0.445 cents per Coles Group Share.

Food and Liquor

Retail earnings before interest and tax was \$693.3 million, a decrease of 9.5 per cent from the prior year \$766.3 million.

Sales were \$20,437 million, an increase of 4.1 per cent from the prior year of \$19,626 million.

The Food and Liquor division's result was impacted by lower sales growth and planned transformation costs in the second half of FY2007.

The greatest impact on sales was the poor execution of the Bi-Lo rebranding.

Food and Liquor cost of doing business increased by 73 basis points primarily due to the lack of sales leverage in supermarkets and planned transformation costs.

The integration of the Hedley, Mr Corks and Talbot acquisitions took place during the year involving re-branding of 137 retail sites and 46 hotels in Queensland and transitioning to Coles Liquor systems and processes. Twenty new large format 1st Choice stores were opened and more than 50 Liquorland stores were refurbished.

Coles Express

Retail earnings before interest and tax was \$79.9 million, which was a 166.3 per cent increase from the prior year of \$30.0 million. The FY2007 result includes \$34.5 million from renegotiated leases previously expensed under AIFRS.

Sales for the year were \$5,793 million, a decrease of 6.4 per cent from the prior year of \$6,187 million due to lower fuel prices, competitor openings and disruption as the network was upgraded.

6 Information about Coles Group (continued)

Kmart

Retail earnings before interest and tax was \$96.8 million, a 27.4 per cent increase from the prior year of \$76.0 million as the brand's new strategy gained traction, on sales 2.8% lower at \$3,889 million than the prior year of \$4,001 million.

Sales were impacted as expected by Kmart's strategy of improving the quality of sales and product margins while reducing its reliance on promotional sales, and reducing costs.

The Tyremaster (Wholesale) business and three Garden Supercentres were divested during the year.

Target

Retail earnings before interest and tax was \$290.0 million, a 16.8 per cent increase from the prior year of \$248.3 million.

Target strengthened its position of being first to market with on-trend, differentiated affordable fashion with the introduction of the Designers for Target program. Sales increased to \$3,306 million, a 4.3 per cent increase on the prior year of \$3,170 million.

Officeworks

Retail earnings before interest and tax was \$85.4 million, a 14.0 per cent increase over the prior year of \$74.9 million.

Sales increased to \$1,262 million or a 2.7 per cent increase on the prior year of \$1,229 million.

Product range expansion and changes to in-store merchandising provided new experiences which flowed through to increased sales in core categories.

Property

Property transactions continue to be an integral part of developing the retail network. FY2007 property income increased to \$89.0 million from \$35.5 million in FY2006.

Further commentary

FY2006 retail earnings before interest and tax for Food and Liquor, Kmart, Target and Officeworks exclude the Significant Item "Strategic Initiative" costs. The Coles Group 2006 Annual Financial Report provides further information.

Further commentary on the results of Coles Group (including on a segmental basis) for the 2007 financial year are available in the Coles Group full year results presentation to 29 July 2007, which was announced on 19 September 2007. The Coles Group 2007 Financial Report is expected to be available in early October 2007.

These documents are or will be available as follows:

- from ASX's website at www.asx.com.au; or
- from Coles Group's website at www.colesgroup.com.au.

6.9 Forecast financial information

The Coles Group Directors have carefully considered whether they have a reasonable basis to produce reliable and meaningful forecast earnings and profit information for Coles Group.

Coles Group released earnings guidance for FY2008 on 23 February 2007, but announced on 19 September 2007 that it would be inappropriate to maintain this guidance.

The Coles Group Directors have concluded that it would be misleading to provide forecast earnings or profit information for Coles Group on a stand-alone basis, given the following considerations:

- If the Scheme is successful, the proposed change of ownership of Coles Group would create the Wesfarmers Merged Group, whose performance in any period will reflect a number of factors that cannot be predicted with a high level of confidence and are outside the control of the Coles Group Directors.
- If the Scheme is unsuccessful, Coles Group will not continue to operate in its current form. The Coles Group Directors will consider a number of alternative strategies and restructuring alternatives for the operation and ownership of the Coles Group businesses, such as some of those referred to in Section 5.3.

6.10 Material changes in Coles Group's financial position since last accounts published

Within the knowledge of the Coles Group Board, and other than as disclosed in this Scheme Booklet (in particular, in this Section 6), the financial position of Coles Group has not materially changed since 30 July 2006, being the date of the balance sheet for the full year accounts of Coles Group for FY2006.

Coles Group's full year results to 29 July 2007 were announced on 19 September 2007. The Coles Group 2007 Financial Report is expected to be available in early October 2007.

These documents are or will be available as follows:

- from ASX or on its website at www.asx.com.au; or
- from Coles Group's website at www.colesgroup.com.au.

6.11 Public information available for inspection

As a company listed on ASX and a "disclosing entity" under the Corporations Act, Coles Group is subject to regular reporting and disclosure obligations. Broadly, these require Coles Group to announce price sensitive information as soon as it becomes aware of the information, subject to exceptions for certain confidential information. Coles Group's recent announcements are available from ASX's website at www.asx.com.au. Further announcements concerning developments at Coles Group will continue to be made available on this website after the date of this Scheme Booklet.

Coles Group is required to prepare and lodge with ASIC and ASX both annual and half-yearly financial statements accompanied by a statement and report from the Coles Group Directors and an audit or review report. Additionally, Coles Group is currently required to prepare and lodge quarterly operations reports with ASX. Copies of these and other documents lodged with ASIC may be obtained from or inspected at an ASIC office and on Coles Group's website at www.colesgroup.com.au.

7 Information about Wesfarmers

In accordance with the responsibility statement on page 2 of this Scheme Booklet, Wesfarmers has been solely responsible for preparing the information in this Section 7.

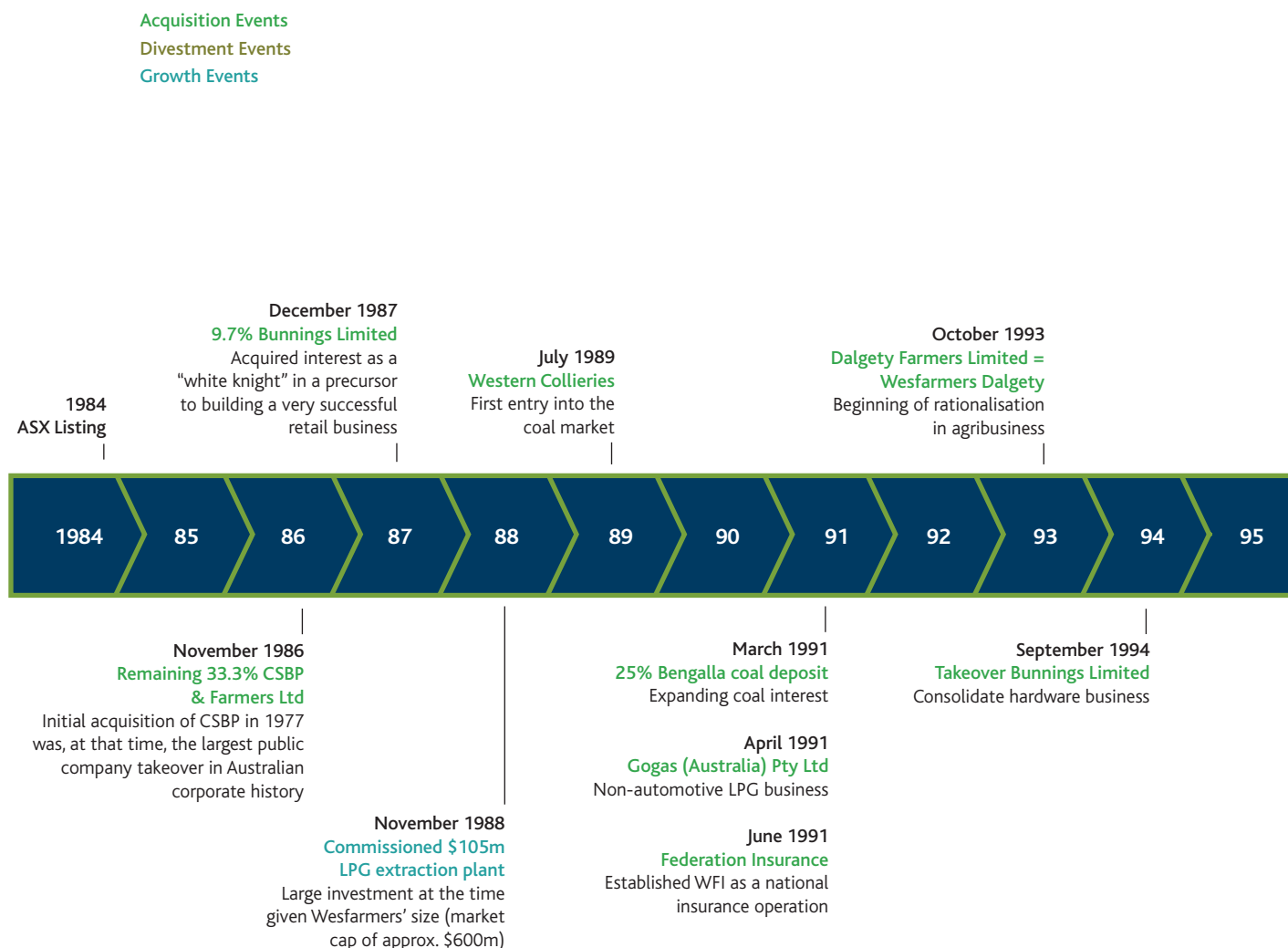
7.1 Background Information

(a) Overview of Wesfarmers

Wesfarmers (ASX:WES) is a major diversified Australian public company with a market capitalisation as at 25 September 2007 of over \$15.5 billion. This places Wesfarmers in the top 25 Australian listed companies by market capitalisation. Wesfarmers also ranks as a leading performer in terms of total shareholder return. The compound total shareholder return for a Wesfarmers Shareholder over the last ten financial years was 21 per cent per annum, compared with the All Ordinaries Accumulation Index which grew by 13 per cent per annum (as shown in Section 1).

From its origin in 1914 as a Western Australian farmers' co-operative, Wesfarmers has grown into one of Australia's largest and most successful public companies. It operates through a portfolio of diversified businesses each with a strong position in its

Figure 7.1: Wesfarmers timeline of significant events



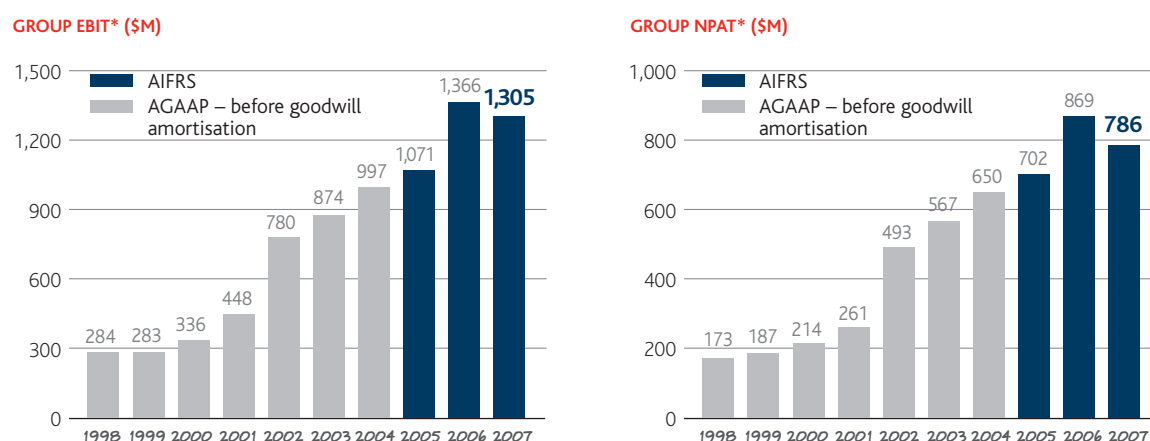
7 Information about Wesfarmers

(continued)

As a result of successful business integration and continued organic growth, Wesfarmers Shareholders have enjoyed excellent returns on a range of measures.

- Wesfarmers' EBIT and NPAT have grown by 18.5 per cent and 18.3 per cent per annum over the last ten financial years

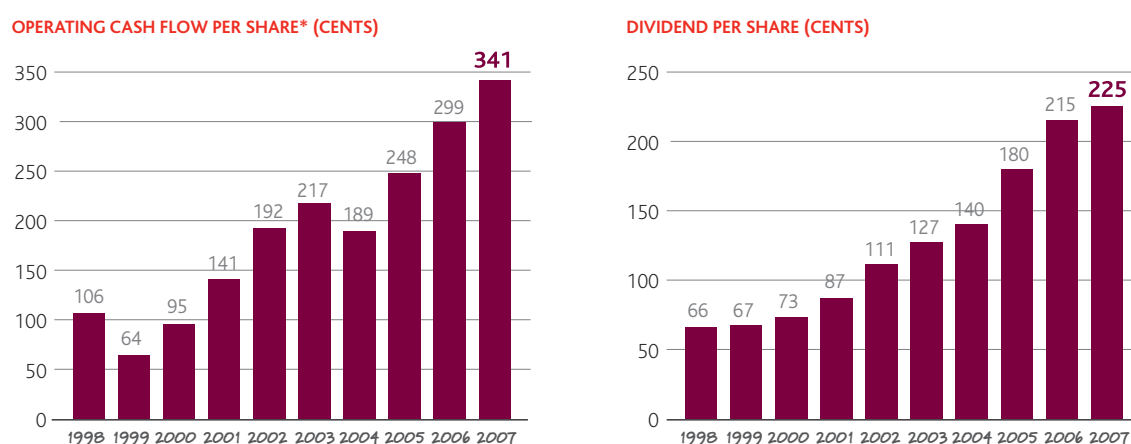
Figure 7.2: Group EBIT and NPAT for Wesfarmers over last ten financial years



* excludes earnings from the sale of Girrah (FY2003), Landmark (FY2004) and Australian Railroad Group (FY2006).

- Wesfarmers has also delivered attractive growth in returns for its shareholders

Figure 7.3: Operating cash flow per Wesfarmers Ordinary Share and dividend per Wesfarmers Ordinary Share over last ten financial years



* using weighted average number of ordinary shares in each period.

Wesfarmers' primary objective is to deliver satisfactory returns to its shareholders. Wesfarmers measures satisfactory returns by reference to the total shareholder returns it creates relative to other top 100 ASX listed companies. Wesfarmers' corporate plans have targeted returns that would place Wesfarmers in the top 20 per cent of these companies ranked by return on equity.

Consistent with its diversified business mix structure, Wesfarmers' broad based growth strategies are to continue 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 through responsible long-term management.








An integrated set of management systems throughout its operations that spans from objective setting and strategic planning to management information reporting, cash management and remuneration, all contribute to aligning management objectives and creating a consistent culture of improving performance. The strong performance culture and financial discipline of Wesfarmers have been instrumental in its success to date, and make it well positioned to deliver growth into the future.

(b) Overview of Wesfarmers Retail

Wesfarmers Retail is a wholly owned subsidiary of Wesfarmers. It was registered on 26 June 2007 specifically for the purpose of acquiring the Coles Group Shares pursuant to this Scheme. It has not engaged in any business other than in connection with the formation and implementation of the proposal to acquire the Coles Group Shares and participate in this Scheme. The directors of Wesfarmers Retail are Richard Goyder and Gene Tilbrook. The company secretary is Linda Kenyon.

7.2 Overview of operations

The following outlines the structure of Wesfarmers' operational divisions:

ACTIVITIES		FY2007 REVENUE (\$M)	FY2007* EBIT (\$M)	FY2007* EBIT CONTRIBUTION	FY2007 CAPITAL EMPLOYED
Home Improvement	Australia's leading retailer of home and garden improvement products, and a major supplier of building materials	4,939	528	 39%	1,879
Coal	Mining of metallurgical and steaming coal for supply to domestic and export markets	1,134	338	 25%	870
Insurance	Provider of general and specialist insurance products in Australia, New Zealand and United Kingdom	1,410	120	 9%	764
Industrial & Safety	Supplier and distributor of maintenance repair and operating (MRO) products and industrial safety products and services	1,208	115	 8%	734
Chemicals & Fertilisers	Manufacture and marketing of industrial chemicals and fertilisers	592	101	 7%	604
Energy	Production, marketing and distribution of LPG and LNG; manufacture and marketing of industrial gases; and power generation	463	75	 5%	422
Other Businesses	50 per cent interest in Gresham Partners and private equity investments through Gresham Private Equity; 50 per cent interest in Wespine; and 23 per cent interest in Bunnings Warehouse Property Trust	8	95	 7%	536
TOTAL		9,754	1,372		

* before corporate overheads and consolidation adjustments of \$66.8 million

Each of the main business streams operates with its own corporate plan supported by Wesfarmers' corporate head office which provides treasury, corporate secretarial, business development, risk management, insurance, legal, tax and group accounting and reporting functions.

7 Information about Wesfarmers

(continued)

Home Improvement

Bunnings is Australia and New Zealand's leading retailer of home and garden improvement products and a major supplier of building materials. Through an extensive network of warehouse and smaller format stores, trade distribution centres and frame and truss manufacturing sites, Bunnings caters predominantly for do-it-yourself customers, builders and contractors.

(a) Financial Performance

Key Financial Indicators	FY 2003 AGAAP	FY 2004 AGAAP	FY 2005 AIFRS	FY 2006 AIFRS	FY 2007 AIFRS
Revenue (\$m)	3,474.5	3,845.7	4,065.4	4,275.5	4,938.9
Earnings before interest and tax (\$m) *	342.8	384.8	415.7	420.5	528.4
Capital employed (\$m)	1,874.2	1,770.4	1,786.4	1,838.0	1,878.5
Return on capital employed (%)	18.3	21.7	23.3	22.9	28.1
Capital expenditure (\$m)	84.5	97.9	183.9	222.3	196.3

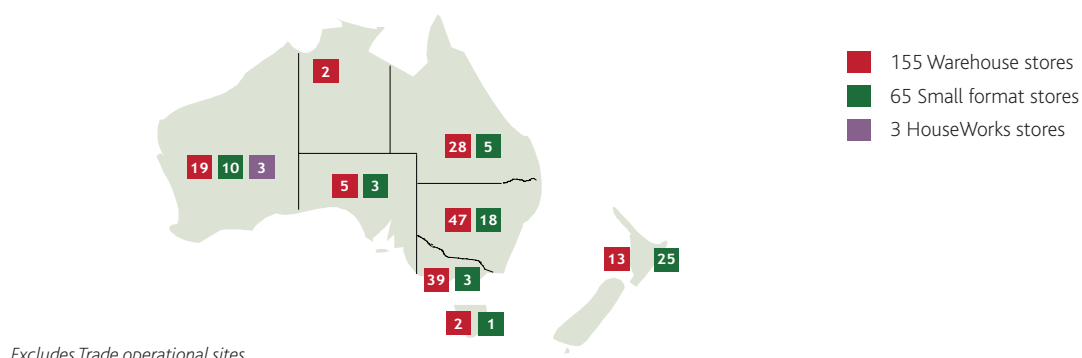
* FY2003 to FY2004 before goodwill amortisation

- Strong financial performance has been achieved by maintaining a focus on strategies that deliver value to customers and foster a positive workplace culture. Since FY2003, the division has achieved compound annual growth in revenue and earnings of 9.2 per cent and 11.4 per cent per annum respectively.
- The Bunnings Warehouse concept provides customers with the widest range of products and has established Bunnings as the leading retailer in home and garden improvement.
- The Howard Smith acquisition in August 2001 allowed Bunnings to take over the BBC/Hardwarehouse business and successfully integrate those operations into the warehouse format concept.
- Bunnings continues to expand its store network and has an ongoing program of reinvestment into its existing stores. These activities have seen \$785 million invested over the past five years in new stores, refits of existing stores and other capital improvements, which have primarily been funded by cash generation from the business.
- Concentration on driving sales growth, combined with effective working capital and the cost of doing business management, has seen significant growth in earnings for the division. Working capital efficiencies have been achieved in inventory management and through supply chain enhancements, including distribution centre network improvements. Overhead controls and operating efficiencies have helped manage the cost of doing business, which in turn supports lower overall prices for customers. As a result, since FY2003 the division has achieved an average return on capital employed of 22.9 per cent.

(b) Profile

- The Bunnings Warehouse model was introduced in 1994, and since 1996 the division has pursued a strong expansion program. Following Wesfarmers' acquisition of 100 per cent of Bunnings in FY1995, its revenue has grown from \$0.8 billion to \$4.9 billion in FY2007, with earnings having increased from \$57 million to \$528 million.
- In August 2001, Wesfarmers acquired Howard Smith which included the BBC Hardwarehouse, BBC and Benchmark chain of hardware stores in Australia and New Zealand. Other than several outlets which were closed, the 60 warehouse format and 134 smaller format stores acquired were integrated into the network, and re-branded as Bunnings.
- At 30 June 2007 Bunnings had 220 stores operating across all states and territories in Australia and both islands in New Zealand, of which 155 were warehouse format stores, as shown in the following diagram. There are also three HouseWorks branded stores operating in Western Australia.

Store Network at June 2007



- In addition, there were eight frame and truss manufacturing sites and eleven trade specific sites operating nationally, with growth in this area expected to continue.
- Bunnings manages its business with great emphasis on delivering its well-known promise to Bunnings customers: "lowest prices, widest range & best service". In-store cafés, free do-it-yourself workshops for adults and children, weekend sausage sizzles, children's play areas and a host of other services are designed to enhance the shopping experience.
- More than 24,000 people work for Bunnings, making it a major employer in all the regions in which it operates. Bunnings has developed a strong performance culture through its open approach and significant investment in product and skills training and team development. Bunnings sets out to attract high quality employees and to provide them with a safe and rewarding working environment. It has a low level of employee turnover by industry standards, which supports the provision of an excellent standard of customer service.
- Bunnings is committed to participating in the communities in which it operates by contributing to local, regional and national causes, charities and organisations throughout Australia and New Zealand. Bunnings supports activities that support the health, wellbeing and welfare of families, that enhance local communities, and that demonstrate its commitment to the environment and sustainability.

(c) Growth Opportunities & Objectives

- Between 10 and 14 new Warehouse stores are expected to be opened each year in the foreseeable future although the timing for store openings is dependent on a number of factors.
- Bunnings continues to develop and improve its store network through new store openings, refits of existing outlets and re-merchandising initiatives, seeking to widen and improve the range of products and services it offers to customers.
- The division is focused on making better use of working capital and lowering its cost of doing business through process and system enhancements, resulting in lower prices for customers and improved shareholder returns.

(d) Operating Metrics

- 24,000 employees
- 155 Warehouse stores
- 65 small format stores
- 3 HouseWorks stores
- 8 frame and truss manufacturing sites
- 11 trade specific sites
- 100,000+ product lines

(e) Brands



7 Information about Wesfarmers (continued)

Coal

The Coal division is involved in the mining, grading and sale of its product to a variety of international and domestic customers.

(a) Financial Performance

Key Financial Indicators	FY 2003 AGAAP	FY 2004 AGAAP	FY 2005 AIFRS	FY 2006 AIFRS	FY 2007 AIFRS
Revenue (\$m)	595.0	627.8	763.7	1,304.2	1,133.7
Earnings before interest and tax (\$m) *	196.7	185.7	251.2	577.8	338.0
Capital employed (\$m)	660.8	606.8	522.7	737.5	870.1
Return on capital employed (%)	29.8	30.6	48.1	78.3	38.8
Capital expenditure (\$m)	36.5	38.5	189.3	236.5	178.4

* FY2003 to FY2004 before goodwill amortisation

- The investment in increased production capacity, along with an increase in metallurgical coal prices, has resulted in significant financial growth over the period. The decrease in FY2007 earnings is largely due to a reduction in coal prices from the previous year, together with rail and port infrastructure constraints. Over the past five years, \$679 million has been invested in new mine development and other capital improvements. Since FY2003, revenue and earnings have grown by 17.5 per cent and 14.5 per cent per annum respectively.

(b) Profile

- The geographically diverse portfolio of operations includes Curragh mine in Queensland's Bowen Basin, the Premier mine at Collie in Western Australia's South-West and a 40 per cent interest in the Bengalla mine in the Hunter Valley of New South Wales.
- A range of high quality metallurgical coals are shipped to steel makers in North Asia, South-East Asia, Europe and Brazil; with steaming coal produced for export and for domestic power generation at Stanwell Power Station near Rockhampton and Verve Energy's power stations in the South-West of Western Australia.
- Curragh has an annual production capacity of approximately seven million tonnes of metallurgical coal and two and a half million tonnes of steaming coal.
- The Premier Coal mine has an annual production capacity of approximately four million tonnes of steaming coal. The consistent quality, low ash and sulphur coal is supplied under long-term contracts to major domestic customers, mainly for power generation and mineral sands production.
- Premier Coal has received state and national awards for environmental rehabilitation of previously mined areas, and for creating a valuable range of community assets such as a motorplex, recreational lakes and redeveloped natural forest habitat.
- The Bengalla coal mining joint venture produces approximately five and a half million tonnes per annum of steaming coal for both export and domestic customers.

(c) Growth Opportunities & Objectives

- The \$360 million⁶ Curragh North expansion project was completed in May 2007, and is expected to extend the life of mining operations until at least 2025.
- The investment in infrastructure and expansion projects will provide a platform for continued growth in metallurgical coal sales from the Curragh mine. A feasibility study on the potential expansion of Curragh to export between eight and eight and a half million tonnes per annum is expected to be completed by late 2008.
- Business improvement initiatives are underway in all mining operations to achieve operational excellence and continuous profitable growth.
- The potential expansion of the Bengalla mine would increase capacity to approximately seven and a half million tonnes per annum of steaming coal. The expansion timing will depend on ongoing infrastructure constraints.
- The investment in a char demonstration plant at Premier will allow the pursuit of new markets by the division in the future.
- As an ongoing process, the division will continue to evaluate potential acquisitions that offer economies of scale or downstream benefit.
- The division is active in the support of clean coal technologies by the coal industry to protect the future value of our shareholders and the communities in which we operate. Through the Coal21 Fund, the division continues the research and pursuit of low and zero net emission generation technologies.

(d) Operating Metrics

- 660 employees
- 3 coal mines
- 24 coal customers

(e) Brands

⁶ \$360 million was the capital cost of the expansion.

7 Information about Wesfarmers

(continued)

Insurance

The Insurance division is involved in underwriting, broking, premium funding, software development and financial services activities in Australia, New Zealand and the United Kingdom.

(a) Financial Performance

Key Financial Indicators	FY 2003 AGAAP	FY 2004 AGAAP	FY 2005 AIFRS	FY 2006 AIFRS	FY 2007 AIFRS
Revenue (\$m)	223.2	874.0	1,125.6	1,117.2	1,409.6
Earnings before interest and tax (\$m) *	25.2	95.8	134.9	124.8	120.3
Capital employed (\$m)	38.3	389.8	430.8	403.6	763.6
Return on capital employed (%)	65.8	24.6	31.3	30.9	15.8
Capital expenditure (\$m)	2.6	7.6	14.1	20.8	14.9

* FY2003 to FY2004 before goodwill amortisation

Note to table: FY2004 figures include part year contribution by Lumley, and FY2007 figures include part year contribution by OAMPS and Crombie Lockwood

- The Insurance division has achieved significant growth in revenue and earnings following the acquisitions of Lumley (FY2004), OAMPS (FY2007) and Crombie Lockwood (FY2007).

(b) Profile

- Wesfarmers Insurance division was formed in 2003 following the acquisition of the Lumley Group (Lumley General Australia and Lumley General New Zealand).
- Lumley General Australia and Lumley General New Zealand distribute through brokers and other intermediaries, and offer a broad range of commercial and personal insurance specialising in the commercial and fleet motor sectors. The network comprises 10 branches in Australia and 10 in New Zealand.
- Wesfarmers Federation Insurance has origins dating back to 1919, and provides insurance directly to clients in the rural and small business sectors. It operates through 85 locations across Australia.
- The acquisition of OAMPS in November 2006 and Crombie Lockwood in February 2007 has expanded the Insurance division in Australia, the United Kingdom and New Zealand.
- OAMPS and Crombie Lockwood provide a range of insurance broking and financial services. OAMPS superannuation and financial management provide superannuation and life insurance distribution services and Crombie Lockwood provides life insurance distribution services.
- Other activities include premium funding and insurance software development.

(c) Growth Opportunities & Objectives

- The division is continually looking to expand the range of products and services offered across the underwriting and broking businesses.
- Sales capabilities with broker intermediaries will be enhanced through the broadening use of electronic data interfaces.
- The division will continue extracting efficiency gains from the recent acquisitions of OAMPS and Crombie Lockwood, as well as pursue other selective opportunities for insurance broker integration in key markets.
- Improvements to business processes and systems across the division are expected to enhance profitability in the coming years.

(d) Operating Metrics

- 3,000 employees
- 147 branches and locations

(e) Brands

Underwriting	Broking	Software
 	 	 

Industrial and Safety

The Industrial & Safety division represents Australia and New Zealand's market leaders in the supply of maintenance, repair and operating products and safety products.

(a) Financial Performance

Key Financial Indicators	FY 2003 AGAAP	FY 2004 AGAAP	FY 2005 AIFRS	FY 2006 AIFRS	FY 2007 AIFRS
Revenue (\$m) [^]	1,083.0	1,132.5	1,165.2	1,163.5	1,208.0
Earnings before interest and tax (\$m) [*]	117.2	112.0	108.8	96.8	114.6
Capital employed (\$m)	797.3	814.1	797.9	769.1	734.4
Return on capital employed (%)	14.7	13.8	13.6	12.6	15.6
Capital expenditure (\$m)	25.4	23.1	16.6	16.3	25.8

[^] FY2003 to FY2006 revenue has been restated to improve comparability between reporting periods

^{*} FY2003 to FY2004 before goodwill amortisation

Note to table: FY2007 figures include part year contribution by Bullivants

- The Industrial and Safety division achieved improved revenue and earnings in FY2007. This trend is expected to be maintained as the division continues sales growth and implementation of various business improvement initiatives.

(b) Profile

- The variety of businesses within the Industrial and Safety division supply an extensive range of specialty industrial and safety merchandise including tools, welding products, fasteners, safety products, safety clothing and apparel, power transmission, bearings, mechanical services, electrical, janitorial, packaging and materials handling products.
- Blackwoods is the largest business in the division and it distributes industrial products throughout Australia, Southern Asia and the South Pacific. In addition, general industrial products are distributed through Bakers Construction + Industrial, with specialist products and services provided by Atkins (electrical and industrial products), Motion Industries (power transmission and bearings) and Mullings Fasteners (fasteners).
- In December 2006, the division acquired Bullivants, Australia's leading supplier of lifting, rigging and materials handling products and services.
- Protector Alsafe is Australia's leading safety specialist, providing safety products, specialised services and safety training courses throughout Australia. NZ Safety and Protector Safety Supply are also the leading suppliers of safety equipment and services in New Zealand.
- Packaging House is New Zealand's largest distributor of packaging, janitorial and food packaging products. Blackwoods Paykels is New Zealand's leading supplier of general industrial products and specialist hose and conveyor solutions.
- Collectively these businesses have over 235 outlets across Australia and New Zealand.

(c) Growth Opportunities & Objectives

- The division will seek to continue growing its share of existing customers' spending through sustained focus on customer service, delivery performance and value proposition.
- Strategies to expand sales include targeting higher growth sectors with selected extensions to the division's networks and ranges of products and services, as well as improved metropolitan sales penetration.
- Focusing on improving cost to serve and capital efficiency will assist in continuing the improved financial performance of the division.
- The division will continue to benefit from the integration of Bullivants, while complementing organic growth with other acquisitions where appropriate.

(d) Operating Metrics

- 3,200 employees
- 235+ locations
- 100,000+ customers
- 190,000 product lines

7 Information about Wesfarmers (continued)

(e) Brands

 <p>Australian market leader in distributon of Maintenance, Repair and Operating supplies (MRO)</p>	
National Specialist Business	
Australia	New Zealand
	
	
	
	

Chemicals and Fertilisers

The Chemicals and Fertilisers division is a manufacturer and supplier of ammonia, ammonium nitrate, sodium cyanide, fertilisers and a range of other industrial chemicals used in the mining, mineral processing, industrial and agricultural sectors.

(a) Financial Performance

Key Financial Indicators	FY 2003 AGAAP	FY 2004 AGAAP	FY 2005 AIFRS	FY 2006 AIFRS	FY 2007 AIFRS
Revenue (\$m)	473.6	518.5	586.9	595.2	592.1
Earnings before interest and tax (\$m) *	78.9	85.6	89.4	81.4	100.6
Capital employed (\$m)	491.1	482.6	493.9	540.4	604.2
Return on capital employed (%)	16.1	17.7	18.1	15.1	16.7
Capital expenditure (\$m)	19.2	34.6	31.4	72.5	198.7

* FY2003 to FY2004 before goodwill amortisation

- The Chemicals and Fertilisers division has maintained strong earnings over the period shown above. Capital expenditure has increased from FY2006 due to the construction of an ammonium nitrate plant at Kwinana in Western Australia, which is expected to further contribute to financial performance in the future.

(b) Profile

- The Chemicals and Fertilisers division operates an ammonia manufacturing plant at Kwinana with an operational capacity of 260,000 tonnes per annum. Ammonia is used by CSBP as a raw material to produce downstream chemicals and fertilisers and is used by customers in nickel refining. Ammonium nitrate is used primarily in the mining industry, as well as in the production of liquid fertilisers.
- CSBP is also a 50 per cent shareholder in the Queensland Nitrates Pty Ltd (QNP) integrated ammonia / ammonium nitrate manufacturing facility at Moura, in central Queensland.
- Sodium cyanide, a key ingredient for gold extraction, is manufactured and sold by CSBP for the 75 per cent owned Australian Gold Reagents (AGR).
- Through both its manufacturing and importing activities, CSBP provides a wide range of highly competitive fertiliser products and services for use in broadacre cropping, pasture and horticulture.
- CSBP offers comprehensive soil and plant testing services programs, and operates one of Australia's most modern soil and plant diagnostic laboratories.

(c) Growth Opportunities & Objectives

- In 2006, CSBP began an expansion of its ammonium nitrate plant at Kwinana which will double annual production to 470,000 tonnes. Commissioning of the new plant is expected to commence in October 2007.
- AGR has recently negotiated terms to supply sodium cyanide to the Boddington Gold Mine joint venture. This mine, South-East of Perth, has a current reserve estimate of 11 million ounces of gold and a quoted mine life of 15 years. The plant at Kwinana will be 'debottlenecked' to supply this new customer.
- In August 2007, CSBP announced the planned acquisition of the Australian Vinyls Corporation (AVC) business, Australia's sole manufacturer of polyvinylchloride (PVC), for \$137.7 million. Completion of the acquisition occurred in September 2007.

(d) Operating Metrics (excluding AVC)

- 618 employees
- 170 chemicals customers
- Over 5,000 farmers serviced by two major fertiliser distributors
- 16 operational manufacturing plants (including jointly owned operations)

(e) Brands (excluding AVC)



7 Information about Wesfarmers

(continued)

Energy

The Energy division comprises industrial gas companies Coregas and Air Liquide WA (40 per cent), Wesfarmers LPG, Kleenheat Gas and power generation company Energy Generation (enGen).

(a) Financial Performance

Key Financial Indicators	FY 2003 AGAAP	FY 2004 AGAAP	FY 2005 AIFRS	FY 2006 AIFRS	FY 2007 AIFRS
Revenue (\$m)	406.3	380.8	397.7	371.9	463.0
Earnings before interest and tax (\$m) *	63.1	54.4	65.9	49.4	75.4
Capital employed (\$m)	154.8	167.6	143.7	184.2	421.9
Return on capital employed (%)	40.8	32.5	45.8	26.8	17.9
Capital expenditure (\$m)	21.3	47.6	30.7	49.5	78.1

* FY2003 to FY2004 before goodwill amortisation

Note to table: FY2007 figures include part year contribution by Coregas

- The Energy division has achieved significant growth in revenue and earnings, including the acquisition of Coregas in FY2007. Over the past five years, \$227 million has been invested in capital projects, including the development of a liquefied natural gas (LNG) plant in Western Australia.

(b) Profile

Industrial gas

- In February 2007, Wesfarmers acquired Coregas Pty Ltd (formerly named Linde Gas Pty Ltd), a major participant in the Australian industrial gas market. Coregas produces oxygen, nitrogen, argon and hydrogen at its Port Kembla operations in New South Wales, and distributes these and a broad range of other gases for industrial, medical and specialty applications.
- Air Liquide WA is a 40 per cent owned company which produces and markets a range of industrial, medical, scientific and environmental gases, as well as welding products, within Western Australia and the Northern Territory.

LPG and LNG

- Wesfarmers LPG owns and operates a plant at Kwinana in Western Australia that extracts propane and butane from the natural gas stream flowing from Western Australia's North-West via the Dampier to Bunbury pipeline. The plant supplies much of Western Australia's domestic liquefied petroleum gas (LPG) market, with the balance exported to Japan. It has a design production capacity of approximately 350,000 tonnes per annum and produced 185,900 tonnes of LPG and condensate in FY2007. Production is largely determined by the LPG content in the domestic gas stream, which may change over the coming years.
- Kleenheat Gas is a major distributor of LPG and LNG to a range of domestic, commercial, autogas and industrial customers throughout Australia. Its east coast autogas business operates through the Unigas partnership.

Power generation

- enGen specialises in the supply of electricity to mining operations and regional centres in Western Australia and South Australia, and also constructs, operates and maintains power supply infrastructure on behalf of third party owners.

(c) Growth Opportunities & Objectives

- The division will continue gains from the integration of Coregas, and capitalise on the expected growth in industrial gas sales through expansion of supply capacity and securing of new business.
- The development and promotion of LNG as a sustainable alternative fuel for the transportation and remote power generation markets is a continued focus of the division in terms of expanding market opportunities.
- The division will continue to explore investment opportunities in existing as well as new industry segments, and seek to maximise LPG production efficiency.

(d) Operating Metrics

- 900 employees
- 274,000 gas customers
- 20 remote power stations
- 3 air separation units
- 1 LPG extraction plant
- 1 hydrogen plant

(e) Brands

WESFARMERS LPG

**Other Businesses****Gresham Partners**

Wesfarmers has a 50 per cent interest in Gresham Partners Group Limited, the holding company for the Australian investment banking activities of Gresham Partners. Gresham's main activities are corporate finance, private equity and property investment businesses.

Gresham Private Equity

Gresham Private Equity was established in 1999, targeting management buyout opportunities in Australia and New Zealand. Wesfarmers is an investor in its two funds.

The \$200 million Fund 1, in which Wesfarmers committed \$100 million, holds an interest in Riviera (Australia's leading producer of luxury motor yachts and cruisers).

Fund 2 has commitments of \$325 million, of which Wesfarmers has committed \$150 million. This fund is seeking investment opportunities, with its current portfolio comprising Noel Leeming (New Zealand's largest electrical appliance retailer), Witchery (women's fashion apparel), GEON (Australian and New Zealand commercial printing) and Australian Pacific Paper Products (nappies manufacturer and distributor). It recently announced the acquisition of Barminto (underground mining specialist) and Mimco (a fashion accessories retailer).

Wesfarmers expects that, in the normal course, there will be realisation of these assets over the next two to six years.

Wespine Industries

Wesfarmers has a 50 per cent interest in Wespine Industries, which operates a plantation softwood sawmill at Dardanup, in Western Australia. The mill's main product is machine-graded pine used in roof frames and other building construction.

Bunnings Warehouse Property Trust

Wesfarmers has an interest in approximately 23 per cent of the Bunnings Warehouse Property Trust, a top 200 ASX listed property trust which owns predominantly warehouse retailing properties and, in particular, Bunnings Warehouses leased to Bunnings Group Limited. At the end of FY2007, the trust had a portfolio of 57 properties across Australia valued in excess of \$950 million, and a market capitalisation of approximately \$680 million.

7 Information about Wesfarmers (continued)

7.3 Wesfarmers Board of directors and executive management team

Wesfarmers Board of directors

The current Wesfarmers Board comprises the following persons:

(a) Mr Trevor Eastwood, AM, Chairman and Non-Executive Director

Age 65, (appointed Director 1994, Chairman 2002)

Mr Eastwood holds a Bachelor of Engineering degree from the University of Western Australia and completed the Advanced Management Program at the Harvard Business School in 1982. He commenced his career with the group as an employee of Westralian Farmers Co-operative Limited in 1963 and held a number of management positions in the group up to his retirement in 1992, including his final eight years as Managing Director of Wesfarmers Limited. Mr Eastwood was previously Chairman of West Australian Newspapers Holdings Ltd and a director of Qantas Airways Limited. Mr Eastwood is also a director of the WCM Group Limited.

(b) Mr Richard Goyder, Chief Executive Officer and Managing Director

Age 47, (appointed Director 2002)

Mr Goyder has a Bachelor of Commerce degree from the University of Western Australia and completed the Advanced Management Program at the Harvard Business School in 1998. He joined Wesfarmers in 1993 after working in various commercial roles at Tubemakers of Australia Limited. He has held a number of commercial positions in Wesfarmers' Business Development Department including General Manager. In 1999 Mr Goyder was Managing Director of Wesfarmers Dalgety Limited, which subsequently became Wesfarmers Landmark Limited, a position he retained until his appointment as Finance Director of Wesfarmers Limited in 2002. He was appointed Deputy Managing Director and Chief Financial Officer of Wesfarmers Limited in 2004 and assumed the role of Managing Director and CEO in July 2005. Mr Goyder is a director of Gresham Partners Holdings Ltd, Wespine Industries Pty Ltd, Australian Business and Community Network, the Fremantle Football Club Limited and a number of Wesfarmers group subsidiaries. He is also a member of the Federal Government's Business Roundtable on Sustainable Development, the Business Council of Australia and the University of Western Australia Business School Advisory Board.

(c) Mr Colin Carter, OAM, Non-Executive Director

Age 64, (appointed Director 2002)

Mr Carter holds a Bachelor of Commerce degree from Melbourne University and a Master of Business Administration from Harvard Business School. He has had extensive experience advising on corporate strategy and corporate governance and his consultancy career has included major projects in Australia and overseas. Mr Carter's current board appointments include SEEK Limited (from 2005) and Foster's Group Limited (from 2007). Mr Carter was previously a director of Origin Energy Limited. He is also Chairman of Indigenous Enterprise Partnerships, a member of the board of The Cape York Institute, a Commissioner of the Australian Football League, and an adviser to, and former director of, The Boston Consulting Group.

(d) Mrs Patricia Cross, Non-Executive Director

Age 48, (appointed Director 2003)

Mrs Cross holds a Bachelor of Science (Econ) with Honours from Georgetown University. Mrs Cross' current board appointments include Qantas Airways Limited (from 2004) and National Australia Bank Limited (from 2005). Mrs Cross has 25 years' experience in international banking and finance, having served two years with the U.S. government, over 15 years in management and executive roles with Chase Manhattan Bank, Banque Nationale de Paris, National Australia Bank and 11 years as a non-executive director with organisations including the Transport Accident Commission (Deputy Chairman) and Suncorp-Metway Limited. She was previously a director of AMP Limited and Chairman of Qantas Superannuation Limited. Mrs Cross also serves on a variety of not-for-profit and government advisory boards including as a director of the Murdoch Children's Research Institute.

(e) Dr Bob Every, Non-Executive Director

Age 62, (appointed Director 2006)

Dr Every holds a Bachelor of Science degree and a Doctorate of Philosophy (Metallurgy) from the University of New South Wales and is a Fellow of the Australian Academy of Technological Sciences and Engineering. Dr Every's current board appointments include Iluka Resources Limited (from March 2004), Sims Group Limited (from October 2005) and Boral Limited (from September 2007). He is also a director of E2 Consultancy Pty Ltd, O'Connell Street Associates Pty Limited, OCA Services Pty Ltd, a member of the Advisory Board of Gresham Private Equity Limited and an advisor to Proudfoot Consulting. His previous board appointments include OneSteel Limited and he was also the Chairman of the New Zealand based listed company Steel & Tube Holdings Limited. Other positions previously held by Dr Every include Managing Director of Tubemakers of Australia Limited, President of BHP Steel and Managing Director and CEO of OneSteel Limited, a position from which he retired in May 2005. He was also a director of CARE Australia.

(f) Mr James Graham, Non-Executive Director

Age 59, (appointed Director 1998)

Mr Graham holds a Bachelor of Engineering in Chemical Engineering with Honours from the University of Sydney, a Master of Business Administration from the University of New South Wales and is a Fellow of the Australian Academy of Technological Sciences and Engineering. He has had an active involvement in the growth of Wesfarmers since 1976 in his roles as Managing Director of Gresham Partners Limited and previously as a director of Hill Samuel Australia Limited and Managing Director of Rothschild Australia Limited. In addition to his investment banking activities, Mr Graham is Chairman of Rabobank Australia Limited, Rabo Australia Limited, Rabobank New Zealand Limited, the Advisory Council of The Institute for Neuromuscular Research and Gresham Technology Management Limited, which was the responsible entity of the Technology Investment Fund until August 2005. He is also a director of Wesfarmers Federation Insurance Limited, Lumley General Insurance Limited, Australian International Insurance Limited and Riviera Group Pty Ltd. Mr Graham is also a member of the Fundraising Committee for the Australian Olympic Committee (NSW) for Beijing 2008 and a Trustee of the Gowrie Scholarship Trust Fund. In the period from 1989 to 1995 he was Chairman of the Darling Harbour Authority in New South Wales.

(g) Mr Anthony (Tony) Howarth, AO, Non-Executive Director

Age 55, (appointed Director 2007)

Mr Howarth is a Senior Fellow of the Financial Services Institute of Australia and has over 30 years' experience in the banking and finance industry. He has held several senior management positions during his career, including Managing Director of Challenge Bank Limited and CEO of Hartleys Limited. Mr Howarth's current board appointments include Chairman of Home Building Society Ltd (Director from 2003), Mermaid Marine Australia Limited (Director from 2003) and a director of AWB Limited (from 2005). He is also Chairman of St John of God Health Care Inc. He was previously a director of Alinta Limited. Mr Howarth is also involved in a number of community and business organisations including the Senate of the University of Western Australia, Chairman of the Committee for Perth Limited, a member of the Rio Tinto WA Future Fund and a director of Western Australian Community Foundation Limited, the Australian Chamber of Commerce and Industry and the Chamber of Commerce and Industry of Western Australia (Inc).

(h) Mr Dick Lester, Non-Executive Director

Age 68, (appointed Director 1995)

Mr Lester is a graduate with Honours from Dookie Agricultural College, Victoria. He was Principal and CEO of Growth Equities Mutual Limited until he sold his interest in that organisation in 1994. He was an inaugural member of the Companies and Securities Advisory Committee established by the Federal Attorney General to advise the Australian Government on securities industries laws. Mr Lester is actively involved in real estate investment and development in the Perth metropolitan area and regional Western Australia. He is a director of a number of unlisted companies and is Chairman of the Western Australian Institute for Medical Research Inc.

(i) Mr Charles Macek, Non-Executive Director

Age 60, (appointed Director 2001)

Mr Macek holds a Bachelor of Economics degree and a Master of Administration from Monash University. Mr Macek's current board appointments include Telstra Corporation Limited (from 2001). He was previously Chairman of IOOF Holdings Ltd. Mr Macek is Chairman of the Financial Reporting Council, Sustainable Investment Research Institute Pty Ltd and the Racing Information Services Australia Pty Ltd and was formerly the Chairman of the Centre for Eye Research Australia Limited and a director of Living Cell Technologies Ltd. He is also a member of the New Zealand Accounting Standards Review Board.

(j) Mr Gene Tilbrook, Finance Director

Age 56, (appointed Director 2002)

Mr Tilbrook holds Bachelor of Science and Master of Business Administration degrees and a Diploma in Computing Science from the University of Western Australia. He completed the Advanced Management Program at the Harvard Business School in 1998. Mr Tilbrook joined Wesfarmers in 1985 and has held a number of commercial positions in its Business Development Department and at Wesfarmers Energy. He previously worked in corporate finance and in systems engineering.

Mr Tilbrook was Executive Director, Business Development before being appointed Finance Director in July 2005. He is a director of a number of Wesfarmers' subsidiaries, as well as Gresham Partners Holdings Ltd, Wespine Industries Pty Ltd and Air Liquide WA Pty Ltd. He was previously a director of Bunnings Property Management Limited, the responsible entity for the listed Bunnings Warehouse Property Trust.

Mr Tilbrook is a councillor of the Australian Institute of Company Directors (WA Division) and also a member of the boards of The UWA Perth International Arts Festival and St George's College Foundation Inc.

7 Information about Wesfarmers

(continued)

(k) Mr David White, Non-Executive Director

Age 59, (appointed Director 1990)

Mr White holds a Bachelor of Business degree from Curtin University and is a fellow of CPA Australia. He is Chairman of the Wheatbelt Area Consultative Committee, a member and Treasurer of Parkerville Children and Youth Care (Inc) and a member of the Australian Institute of Company Directors. He was formerly the Treasurer of The Royal Agricultural Society of Western Australia (Inc).

Executive management team

Wesfarmers' executive team comprises:

(a) Mr Richard Goyder, Managing Director, Wesfarmers Limited

Mr Goyder's profile is set out above under the heading "Wesfarmers Board".

(b) Mr Gene Tilbrook, Finance Director

Mr Tilbrook's profile is set out above under the heading "Wesfarmers Board".

(c) Mr John Gillam, Managing Director, Bunnings Group Limited

BCom, Age 41, (appointed Managing Director, Bunnings Group Limited 2004)

Mr Gillam commenced at Wesfarmers in 1997 in a commercial role within Business Development and then became Chief Financial Officer at Bunnings. He was appointed Company Secretary of Wesfarmers Limited in July 2001 and subsequently became the Managing Director of CSBP Limited in July 2002.

Prior to joining Wesfarmers he was the General Manager of Medical Corporation of Australia, and worked previously in corporate finance and corporate recovery at KPMG.

Mr Gillam is also a Fellow of the Australian Institute of Management and qualified as a chartered accountant.

(d) Mr Stewart Butel, Managing Director, Wesfarmers Coal Division

BSc, Grad Dip Bus, Dip Mining, Age 51, (appointed Managing Director, Wesfarmers Coal Division 2006)

Mr Butel has worked in the coal mining industry in New South Wales, Queensland and Western Australia. He joined Wesfarmers in 2000 following Wesfarmers' acquisition of the Curragh mine. In June 2002 he was appointed Managing Director of Wesfarmers Premier Coal and in April 2005 became Director Coal Operations for Wesfarmers Energy.

Mr Butel is also on the board of the Queensland Resources Council. He was previously on the Executive Council of the WA Chamber of Mines and Energy and served on the South West Development Commission in Western Australia, and holds both NSW and QLD Mine Managers Certificates.

(e) Mr Robert Scott, Managing Director, Wesfarmers Insurance Division

MAppFin, BCom, CA, F Fin, Age 38, (appointed Managing Director, Wesfarmers Insurance Division 2007)

Mr Scott worked for Wesfarmers in 1993/94. He also worked with Ernst & Young in corporate finance and business services roles. Before rejoining Wesfarmers in Business Development in 2004 he spent eight years in various investment banking roles with Deutsche Bank AG in Hong Kong and Sydney. These roles involved cross border mergers and acquisitions, equity and debt capital markets, financing and restructuring. Mr Scott represented Australia in two Olympic Games in the sport of rowing and won an Olympic silver medal in the coxless pairs.

(f) Mr Terry Bowen, Managing Director, Wesfarmers Industrial and Safety Division

BAcc, CPA, Age 40, (appointed Managing Director, Wesfarmers Industrial and Safety Division 2005)

Mr Bowen held a number of finance positions with Tubemakers of Australia, culminating in his appointment as General Manager Finance. He joined Wesfarmers in 1996 and undertook various roles with Wesfarmers Landmark where he was appointed Chief Financial Officer until its acquisition by AWB Limited in 2003. He then joined Jetstar Airways as Chief Financial Officer prior to rejoining Wesfarmers in 2005.

(g) Mr Ian Hansen, Managing Director, CSBP Limited

BSc(Chemistry), Advanced Management Programme – INSEAD, Age 45, (appointed Managing Director, CSBP Limited from 1 October 2007)

Mr Hansen joined CSBP in 1983 and has held a variety of positions in both the Chemicals and Fertilisers businesses, including both operational and commercial. Prior to his appointment as Managing Director, Mr Hansen was General Manager of CSBP's Chemicals Business.

(h) Mr Tim Bult, Managing Director, Wesfarmers Energy Division

BE(Mech) Hons, MBA, FAIM, Age 41, (appointed Managing Director, Wesfarmers Energy Division 2006)

Mr Bult joined Wesfarmers in 1999 in commercial and business development roles within Wesfarmers Energy division and became General Manager of Wesfarmers Kleenheat Gas in July 2005.

Mr Bult is also a member of the Australian Institute of Management (WA) Board and a member of the AIM•UWA Business School Alliance Board.

7.4 Wesfarmers Ordinary Shares and Wesfarmers PPS

(a) Rights and liabilities attaching to New Wesfarmers Ordinary Shares offered

New Wesfarmers Ordinary Shares issued as consideration under the Scheme will be fully paid and rank equally with existing Wesfarmers Ordinary Shares.

The rights and restrictions attaching to the New Wesfarmers Ordinary Shares are set out in Wesfarmers' Constitution and in the Corporations Act and are subject to statutory, common law and ASX Listing Rules requirements. A summary of the main rights and liabilities attaching to ownership of New Wesfarmers Ordinary Shares is set out below.

- **Share Capital:** Subject to the Wesfarmers' Constitution, the ASX Listing Rules and the Corporations Act, the Wesfarmers Directors may issue, allot, grant options over or otherwise deal with or dispose of shares in Wesfarmers to such persons, on such terms and conditions and at such times and with such preferred, deferred or other special rights or privileges or such restrictions whether in regard to dividend, voting, return of capital or otherwise as the Wesfarmers Directors think fit.
- **General meetings:** All Wesfarmers Shareholders are entitled to receive notification of the general meetings of Wesfarmers. Each shareholder entitled to vote at a general meeting may appoint an attorney, representative or proxy to attend and vote for the shareholder. No business may be transacted at any general meeting unless a quorum of shareholders is present at the time when the meeting proceeds to business. A quorum is at least three shareholders being present in person, or by attorney, representative or proxy.
- **Voting:** Subject to the restrictions attaching to shares issued or acquired under Wesfarmers share plans, at a general meeting of Wesfarmers, each Wesfarmers Shareholder (as at the record time) has one vote on a show of hands irrespective of the number of Wesfarmers Ordinary Shares held and, on a poll, one vote for each Wesfarmers Ordinary Share held at the record time. If the Wesfarmers Shareholder attends the meeting in person and in the capacity as a proxy, attorney or representative, the Wesfarmers Shareholder is only entitled to one vote on a show of hands even though he / she represents more than one shareholder.
- **Dividends:** The Wesfarmers Board may, subject to the terms of Wesfarmers PPS, pay any interim and final dividends that, in the judgement of the Wesfarmers Directors, the financial position of Wesfarmers justifies and in accordance with the terms of issue of Wesfarmers Ordinary Shares. Paying a dividend does not require confirmation at a general meeting of shareholders. Subject to any rights or restrictions attached to any Wesfarmers Ordinary Shares or class of Wesfarmers Ordinary Shares, all dividends must be paid equally on all shares. Interest is not payable by Wesfarmers on any dividend. Wesfarmers currently offers a dividend investment plan.
- **Transfer of Wesfarmers Ordinary Shares:** Subject to the Corporations Act, the ASX Listing Rules and the Wesfarmers Constitution, a Wesfarmers Shareholder may transfer all or any of their Wesfarmers Ordinary Shares:
 - by a proper ASTC transfer; or
 - by an instrument in writing in any usual form or in any other form approved by the Wesfarmers Board.

The Wesfarmers' Constitution allows the Wesfarmers Board (subject to the Corporations Act and the ASX Listing Rules) to invoke provisions relating to holdings of less than a marketable parcel of Wesfarmers Ordinary Shares.

- **Variation of class rights:** Unless otherwise provided by the Wesfarmers Constitution or by the terms of issue of a class of shares, the rights attaching to any class may be varied:
 - with the consent in writing of the holders of three-quarters of the issued shares of that class; or
 - with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class.

The quorum for a separate general meeting is two shareholders who hold at least 10 per cent of the issued shares of the relevant class.

- **Winding up:** Subject to the Wesfarmers' Constitution and the rights and restrictions attached to any Wesfarmers Ordinary Shares or class of shares on a winding up of Wesfarmers, Wesfarmers Shareholders will be entitled to participate in any surplus assets of Wesfarmers in proportion to the number of shares held by them.

7 Information about Wesfarmers (continued)

(b) Rights and liabilities attaching to Wesfarmers PPS

The Wesfarmers PPS are a new class of Wesfarmers Ordinary Shares. The rights and restrictions attaching to Wesfarmers PPS are identical to the rights and restrictions attaching to Wesfarmers Ordinary Shares with the exception of certain terms which provide for a level of downside price protection in certain circumstances. These terms are described on pages 10 to 11 and set out in full in Annexure A.

(c) Wesfarmers Capital Structure

There are 388,069,969 Wesfarmers Ordinary Shares on issue as at 25 September 2007. There are no partly paid Wesfarmers Ordinary Shares on issue. Upon issue of the New Wesfarmers Ordinary Shares, the total number of Wesfarmers Ordinary Shares on issue will be approximately 541.9 million, regardless of the outcome of mix and match elections.⁷

There are no Wesfarmers PPS on issue as at 26 September 2007. Upon issue of Wesfarmers PPS, the total number of Wesfarmers PPS on issue will be approximately 153.8 million.⁸

(d) Substantial Shareholders

So far as Wesfarmers is aware, no person holds a "substantial holding" in Wesfarmers for the purposes of Part 6C.1 of the Corporations Act.

(e) Share plans

Wesfarmers has previously provided long term incentive awards to employees of the Wesfarmers Group (including executive directors of Wesfarmers) under the following employee share plans:

- the Wesfarmers Employee Share Ownership Plan;
- the Wesfarmers Long-Term Incentive Plan; and
- the Wesfarmers Employee Share Plan (this was closed to new members in 2005).

Allocation of shares under the employee share plans are subject to Wesfarmers performance hurdles and the discretion of the Wesfarmers Board.

Non-executive directors of Wesfarmers may also elect to participate in the Wesfarmers Non-Executive Director Share Plan.

7.5 Wesfarmers Ordinary Share price performance

The following diagram shows the daily Wesfarmers Ordinary Share price performance relative to the All Ordinaries Index over the ten years ending 25 September 2007.

Figure 7.4: Wesfarmers ten year daily share price to 25 September 2007



Source: IRESS

The last recorded sale price of Wesfarmers Ordinary Shares on ASX before the date on which the Supreme Court of Victoria made orders convening the Scheme Meeting (being 27 September 2007) was \$40.54.

⁷ The number of Wesfarmers Ordinary Shares is stated to be approximate because of the unknown (but immaterial) impact of rounding to determine the precise number of New Wesfarmers Ordinary Shares to be issued.

⁸ The number of Wesfarmers PPS is stated to be approximate because of the unknown (but immaterial) impact of rounding to determine the precise number of Wesfarmers PPS to be issued.

The last recorded sale price of Wesfarmers Ordinary Shares on ASX the date before the public announcement of the Scheme was \$45.73 on 29 June 2007.

The volume weighted average share price⁹ of Wesfarmers Ordinary Shares:

- over the six months to 25 September 2007 was \$39.94;
- over the three months to 25 September 2007 was \$40.20;
- over the month to 25 September 2007 was \$39.18; and
- over the last 10 Business Days to 25 September 2007 was \$39.77.

The highest and lowest recorded sale prices for Wesfarmers Ordinary Shares on ASX during the three months immediately before the date on which the Supreme Court of Victoria made orders convening the Scheme Meeting (being 27 September 2007) was:

- \$45.90 on 29 June 2007; and
- \$37.15 on 16 August 2007.

7.6 Risks relating to Wesfarmers' business

Wesfarmers has a diverse mix of business activities which exposes the company to a broad range of industry sectors. The diversity of this portfolio may have the effect of mitigating some risks such as the adverse effect that cyclical downturns in the economic conditions of industry sectors, commodity prices and seasonal conditions can have on revenue and earnings. The key risks affecting the operations of Wesfarmers are as follows:

(a) General economic conditions

Wesfarmers' operations are conducted almost entirely in Australia and New Zealand and, as such, are dependent on general economic conditions in these markets. As an example, the Home Improvement division's performance is dependent on general economic activity affecting retail merchandising, including interest rates, housing values and turnover rates, housing starts and other drivers of consumer sentiment such as petrol prices.

The Insurance division may be affected by variations in interest rates, particularly in respect of the division's investment earnings. The Coal division is dependent on global supply and demand for coal products. The Chemicals and Fertilisers division is dependent on the activity of the global mining industry and the demand for agriculture inputs in Western Australia.

A general decline in economic activity in Australia and New Zealand may have an adverse impact on the earnings and profitability of Wesfarmers.

The Coal division, Energy division and Chemicals and Fertilisers division may be affected by the impact of future carbon trading or carbon tax regimes or future regulation of carbon emissions, including in respect of potential future requirements to fund clean coal research and development, together with any other legislative requirements relating to climate change or associated issues.

(b) Commodity prices

With operations in gas, coal, chemicals and fertilisers, all of which produce or utilise commodities which are traded on international markets or are impacted by international commodity pricing, including the price of diesel fuel and the Saudi Contract Price for LPG, Wesfarmers' profitability is dependent in part on world commodity prices in a variety of industries. Commodity prices can be affected by a range of factors outside the control of Wesfarmers, such as currency exchange rates, regional demand, competition and economic conditions.

(c) Export coal prices

The majority of prices for coal from the Curragh and Bengalla mines are determined in or about April each year and apply until the end of March in the following year. The current export prices (all in US\$) are set until 30 March 2008 and will be renegotiated with effect from 1 April 2008. Wesfarmers cannot predict the outcome of the price negotiations which will impact on the results of the Coal division beyond April 2008. Undelivered tonnage in the current contract year (carry over tonnage) may impact the actual start date of the next year's prices. There are projections from various banks and other commodity price forecasters of significant increases in prices (US\$/tonne) for metallurgical coals for contract years commencing in 2008.

(d) Foreign exchange

Through its various businesses, Wesfarmers is exposed to fluctuations in the A\$:US\$ exchange rate. Wesfarmers' objective in this regard is to protect the group from adverse currency fluctuations, maintain the integrity of business decisions and protect the competitive position of the group's activities. It is Wesfarmers policy to hedge foreign exchange exposures promptly. However, it is also recognised that uniform application of this policy may not meet its objective.

⁹ Source: IRESS.

7 Information about Wesfarmers

(continued)

Wesfarmers hedges approximately 45-55 per cent, on average over a five year period, of the highly probable forecast exposure arising from export coal sales. The group separately hedges its exposure relating to imports and other exports. The degree to which prices may change due to market forces is taken into account when determining an appropriate level of hedging. However, actual levels of exposure may vary from time to time in line with coal prices, imported and exported products and other operating and market variables and may impact the financial results of Wesfarmers.

(e) Rural seasonal conditions

Wesfarmers produces and sells fertilisers and provides insurance products to the rural market. Consequently, the performance of the fertilisers and insurance businesses depends, in part, on seasonal conditions in their respective markets.

(f) Insurance rates and market conditions

The Insurance division may be affected by a significant change in market insurance rates, which may vary as a result of competition and other market conditions. In particular, variations in insurance rates could adversely affect the Insurance division's underwriting and broking businesses. Also, the Insurance division may be adversely affected by the impact of current and future mergers and other consolidation in the insurance market.

The business sector in which the Insurance division operates is subject to claims and policy benefits arising from catastrophes caused by natural and man-made disasters. These events are inherently unpredictable in terms of their incidence and severity; the effects are mitigated to some extent through reinsurance arrangements.

(g) General operating risks

Like many companies, Wesfarmers faces commercial risks such as brand/reputation damage, competition, litigation and industrial disputes, operational risks, such as plant breakdown, inventory shrinkage, information technology system failures and environmental issues and liabilities. In particular, Wesfarmers Coal, Chemicals and Fertilisers and Energy divisions are dependent on the continuing operation of major plant and equipment. Failure in that plant and equipment may have a significant impact on the performance of those businesses.

Wesfarmers requires significant information technology support, which involves material capital expenditure from time to time.

Wesfarmers also operates in a number of highly regulated industries which can be affected by changes in laws or policy. Further, as a distributor of products, Wesfarmers faces risks associated with faulty or defective products. Breaches of its obligations can give rise to claims for damages and can adversely affect profitability or trading reputation, or cause damage to life or property.

Kleenheat Autogas Pty Ltd, a subsidiary of Wesfarmers, has a 50% interest in the Unigas autogas distribution business, which is conducted in partnership with Elgas Autogas Pty Limited. A dispute has arisen with Elgas Ltd (owner of Elgas Autogas) and BOC Ltd (shareholder in Elgas) arising from the Unigas partnership arrangements. The dispute relates to the consequences which Elgas and BOC allege may follow from Wesfarmers being the ultimate holding entity of both Kleenheat Autogas and the Coles Group subsidiary entity which conducts the Coles Express autogas business following successful completion of the scheme of arrangement, and may result in Kleenheat Autogas selling its participation in the Unigas partnership arrangements. Wesfarmers considers the commercial and financial consequences of the dispute are not material.

(h) Infrastructure

The coal operations may be affected by infrastructure limitations or major plant breakdowns. In particular, constraints of rail and port capacity can adversely affect the export capacity of the Curragh and Bengalla coal operations.

(i) Industrial relations risks

Wesfarmers' success is dependent on its ability to retain and attract a skilled workforce throughout its operating divisions and its corporate office functions.

Interruptions at Wesfarmers' workplaces, arising from industrial disputes, work stoppages and accidents, may result in production losses and delays, which may adversely affect the financial position and performance of Wesfarmers. From time to time Wesfarmers has major Enterprise Bargaining Agreement renegotiations, and these can result in changes in cost structures, and in some circumstances, temporary interruption to operations.

(j) Interest rate risk

As a borrower in various debt markets Wesfarmers is exposed to adverse fluctuations in interest rates. Wesfarmers' objective is to limit the group's exposure to adverse fluctuations which could erode group profit and shareholder value. It manages this risk by transacting interest rate hedges (derivatives) and by utilising natural hedges within Wesfarmers.

(k) Credit risk

Wesfarmers currently has an A- credit rating with Standard & Poor's. This rating is currently on negative watch. A change in the rating (including as a result of changes in operating performance, capital structure or refinancing) would have an impact on interest costs.

(l) ACCC Investigation

The ACCC is continuing an investigation into the pricing and other practices of Kleenheat Gas with respect to its bulk LPG customers including possible overcharging. Kleenheat Gas is currently in discussions with the ACCC with a view to resolving these matters. If a resolution cannot be reached, the ACCC may decide to commence court proceedings against Kleenheat Gas. These matters may result in orders being entered and compensation/penalties being paid by Kleenheat Gas.

(m) Acquisitions and divestments

Wesfarmers is a conglomerate. It regularly examines new acquisition opportunities which may relate to existing businesses or to completely new areas of operation for Wesfarmers. This may lead to a change in the source of Wesfarmers' earnings and variability in earnings over time. From time to time, Wesfarmers may receive unsolicited approaches from interested buyers for its existing operations. These approaches are evaluated on their merits. There are no discussions presently being undertaken in relation to acquisitions or divestments that are sufficiently advanced or sufficiently material to Wesfarmers' earnings that Wesfarmers consider warrants disclosure.

(n) ATO review

Wesfarmers is undergoing a review by the Australian Taxation Office of the implementation of the taxation consolidation rules in relation to the generation of capital losses of approximately \$500 million in relation to the 2001 restructure of Wesfarmers. Since 2004, Wesfarmers has utilised for accounting purposes approximately \$370 million of these losses against taxable gains, resulting in an increase in the restructure tax reserve of \$110 million and a reduction in tax payable of an equivalent amount. Based on independent expert legal advice management believes that Wesfarmers' treatment is correct and will prevail. Should this not be the case, some of the capital losses previously recognised would be reversed resulting in the payment of income tax and a decrease in the restructure tax reserve. Such an amount could only be determined once the matter is resolved. The only impact on profit and loss of such an outcome would be the expensing of any interest or penalties which may arise.

7.7 Risk retention

Wesfarmers manages risk by a variety of approaches across the group and within business operations. As part of Wesfarmers' approach to risk, expected usual operational risks are retained by the group and these risks are financed within the group's self insurance fund. Significant risks that are considered outside the group's risk appetite are transferred via external insurance arrangements. Transfer of risk is effected when it is evaluated as being a prudently commercial method of financing the risk. The level of risk retentions are monitored and reviewed annually, and following any significant acquisitions.

7.8 Wesfarmers historical financial information**(a) Overview**

This Section 7.8 sets out selected information derived from:

- (i) Wesfarmers' audited consolidated income statements, balance sheets and cash flow statements for the financial years ended 30 June 2003 to 30 June 2007; and
- (ii) Wesfarmers' underlying financial books and records and other information for the financial years ended 30 June 2003 to 30 June 2007.

Further financial information is available in the Wesfarmers Annual Reports from 2003 to 2007, which set out Wesfarmers' significant accounting policies during these periods. The Wesfarmers 2006 Annual Report details the effect on the financial statements of the transition to AIFRS. All Annual Reports are available on the Wesfarmers' website at www.wesfarmers.com.au.

(b) Pro-forma Adjustments

The financial information for FY2007 has also been presented excluding the balances related to Wesfarmers' initial 10.6 per cent shareholding in Coles Group to improve comparability with prior years. The pro-forma adjustments in relation to this exclusion are outlined below each financial statement. The pro-forma adjustments result in a \$2,042.7 million reduction in FY2007 total assets with a corresponding reduction in total liabilities and equity, a small increase to FY2007 profit after tax and a reduction in FY2007 investing cash outflows and financing cash inflows.

7 Information about Wesfarmers

(continued)

(c) Wesfarmers' Consolidated Income Statement

The table below sets out a summary of Wesfarmers' financial performance for the last five financial years and is a summary only.

Five Year Summary – Income Statement (\$m)							
	FY 2003 AGAAP Reported	FY 2004 AGAAP Reported	FY 2005 AIFRS Reported	FY 2006 AIFRS Reported	FY 2007 AIFRS Reported	FY 2007 AIFRS Pro- Forma	Average Annual Growth c(iii)
Revenue from sale of goods and rendering of services	7,425.8	7,441.5	8,101.1	8,818.3	9,666.4	9,666.4	6.9%
EBITDA (excluding significant items)	1,080.6	1,191.3	1,259.7	1,649.5	1,650.0	1,650.0	
Depreciation and amortisation (excluding goodwill)	(206.2)	(193.8)	(188.9)	(283.5)	(344.7)	(344.7)	
EBIT	874.4	997.5	1,070.8	1,366.0	1,305.3	1,305.3	11.1%
Finance costs c(i)	(80.2)	(80.3)	(104.2)	(133.8)	(200.3)	(167.0)	
Profit before tax	794.2	917.2	966.6	1,232.2	1,105.0	1,138.3	
Income tax c(i)	(226.6)	(267.1)	(264.8)	(362.8)	(318.5)	(328.5)	
Profit after tax	567.6	650.1	701.8	869.4	786.5	809.8	9.9%
Goodwill amortisation	(85.7)	(85.5)	–	–	–	–	
Profit from significant items and pro-forma adjustments net of tax c(i) & c(ii)	56.0	304.0	–	178.7	–	(23.3)	
Reported profit after tax	537.9	868.6	701.8	1,048.1	786.5	786.5	
EPS before significant items, pro-forma adjustments and goodwill amortisation (cents)	150.7	174.2	192.0	235.6	210.5	216.8	10.1%
EPS after significant items, pro-forma adjustments and goodwill amortisation (cents)	142.9	232.4	192.0	284.0	210.5	210.5	
Dividend per share (paid or declared)	127.0	140.0	180.0	215.0	225.0	225.0	
EPS growth before significant items	9.0%	15.6%	10.2%	22.7%	-10.7%	-8.0%	
EPS growth after significant items	23.2%	62.6%	-17.4%	47.9%	-25.9%	-25.9%	
Dividend per share growth	14.4%	10.2%	28.6%	19.4%	4.7%	4.7%	

c(i) Pro-forma adjustment is made up of the following:
2007 – Finance costs associated with acquisition of initial 10.6% shareholding in Coles Group

c(ii) Profit from significant items is made up of the following:
2006 – Profit on disposal of interest in Australian Railroad Group
2004 – Profit on disposal of the Rural Division (Landmark)
2003 – Profit on disposal of the Girrah coal deposit

c(iii) Growth rates have been calculated comparing the 2007 pro-forma column to prior years

Revenue and EBIT have shown significant growth over the past five financial years with revenue growth averaging 6.9 per cent per annum and EBIT growth averaging 11.1 per cent per annum.

This growth is due largely to strong store-on-store sales growth in the Home Improvement division, strengthening coal prices and increased coal volumes in the Coal division and the inclusion of Lumley operations in the Insurance division after its acquisition in October 2003. The marginal decrease in FY2007 EBIT is largely due to a lower Coal division result arising from a reduction in coal prices from the previous year, together with rail and port infrastructure constraints.

Profit after tax before significant items and goodwill amortisation has shown positive growth over the corresponding periods, averaging 9.9 per cent growth over the past five years. This has led to a positive growth in EPS before significant items and goodwill amortisation averaging 10.1 per cent per annum over the period.

(d) Wesfarmers' Consolidated Balance Sheet

The table below sets out a summary of Wesfarmers' financial position for the last five financial years and is a summary only.

Five Year Summary – Balance Sheet (\$m)						
	FY 2003 AGAAP Reported	FY 2004 AGAAP Reported	FY 2005 AIFRS Reported	FY 2006 AIFRS Reported	FY 2007 AIFRS Reported	FY 2007 AIFRS Pro-Forma
Current assets						
Cash and cash equivalents	170.2	103.4	83.8	90.0	218.5	218.5
Trade and other receivables	895.5	1,306.2	1,150.2	1,140.6	1,512.5	1,512.5
Inventories	1,345.6	1,260.1	1,149.6	1,146.4	1,235.0	1,235.0
Insurance and other assets	19.7	721.0	688.8	756.6	1,057.9	1,057.9
Total current assets	2,431.0	3,390.7	3,072.4	3,133.6	4,023.9	4,023.9
Non-current assets						
Receivables	314.8	330.8	70.3	113.6	112.5	112.5
Investments in associates	375.2	395.4	439.5	279.2	389.2	389.2
Property, plant and equipment	1,688.6	1,600.1	1,988.2	2,396.2	2,715.9	2,715.9
Intangible assets and goodwill	1,519.9	1,472.7	1,466.3	1,470.2	2,698.1	2,698.1
Other assets ^{d(i)}	88.6	81.7	11.1	37.4	2,136.6	93.9
Total non-current assets	3,987.1	3,880.7	3,975.4	4,296.6	8,052.3	6,009.6
Total assets	6,418.1	7,271.4	7,047.8	7,430.2	12,076.2	10,033.5
Current liabilities						
Trade and other payables	853.0	840.7	777.0	752.9	1,254.2	1,254.2
Interest-bearing loans and borrowings ^{d(i)}	384.3	309.8	574.9	468.0	4,436.0	2,358.9
Other current liabilities	474.2	1,083.2	1,189.5	1,357.5	1,491.5	1,491.5
Total current liabilities	1,711.5	2,233.7	2,541.4	2,578.4	7,181.7	5,104.6
Non-current liabilities						
Interest-bearing loans and borrowings	671.8	1,302.1	1,225.1	1,074.9	686.6	686.6
Other non-current liabilities	269.7	405.1	539.1	610.9	704.8	704.8
Total non-current liabilities	941.5	1,707.2	1,764.2	1,685.8	1,391.4	1,391.4
Total liabilities	2,653.0	3,940.9	4,305.6	4,264.2	8,573.1	6,496.0
Net assets	3,765.1	3,330.5	2,742.2	3,166.0	3,503.1	3,537.5
Total equity ^{d(i)}	3,765.1	3,330.5	2,742.2	3,166.0	3,503.1	3,537.5

^{d(i)} Pro-forma adjustment – 2007 balances are presented before the impact of acquisition of an initial 10.6% shareholding in Coles Group.
The impact of the acquisition of the initial shareholding in the Coles Group on net assets and equity is as follows:

	FY 2007
Increase in Other assets	2,042.7
Increase in Interest-bearing loans and borrowings	(2,077.1)
Total decrease in Net Assets	(34.4)
Decrease in Reserves	(34.4)
Total decrease in Equity	(34.4)

Total assets have increased 56.3 per cent since FY2003. The small decrease in FY2005 total assets was largely due to the AIFRS reclassification of the employee share plan loans from receivables to equity. The increase in intangible assets and goodwill in FY2007 is due to the acquisitions of OAMPS, Coregas and other businesses at a total cost of \$1,445 million.

Interest bearing loans and borrowings have increased in FY2007 to fund the acquisitions of OAMPS, Coregas and other businesses.

Wesfarmers' net assets have increased since FY2005. The net asset decrease over FY2004 and FY2005 was largely due to returns of capital from proceeds of asset and subsidiary disposals.

7 Information about Wesfarmers

(continued)

(e) Wesfarmers' Consolidated Schedule of Cash Flows

The table below sets out a summary of Wesfarmers' cash flows for the last five financial years and is a summary only.

Five Year Summary – Schedule of Cash Flows (\$m)						
	FY 2003 AGAAP Reported	FY 2004 AGAAP Reported	FY 2005 AIFRS Reported	FY 2006 AIFRS Reported	FY 2007 AIFRS Reported	FY 2007 AIFRS Pro- Forma
EBITDA	1,080.3	1,191.3	1,259.7	1,649.5	1,650.0	1,650.0
Interest paid ^{e(i)}	(77.0)	(79.1)	(104.1)	(122.3)	(191.8)	(158.5)
Tax paid ^{e(i)}	(142.9)	(243.1)	(296.3)	(307.2)	(411.3)	(421.3)
Non cash items in EBITDA	(12.1)	(49.8)	(8.5)	18.2	(42.8)	(42.8)
Operating cash flows before working capital	848.3	819.3	850.8	1,238.2	1,004.1	1,027.4
Movements in working capital	(29.6)	(108.8)	84.2	(109.1)	296.5	296.5
Operating cash flows	818.7	710.5	935.0	1,129.1	1,300.6	1,323.9
Payments for property, plant and equipment	(218.3)	(258.2)	(465.3)	(614.8)	(679.9)	(679.9)
Proceeds on disposal of property, plant and equipment	255.6	157.6	35.8	16.4	48.3	48.3
Acquisition of subsidiaries, net of cash acquired	–	(303.8)	–	(1.5)	(1,339.0)	(1,339.0)
Proceeds from sale of subsidiaries and associates	–	703.4	–	430.7	10.7	10.7
Other investing cash flows ^{e(i)}	(37.5)	(318.7)	86.9	(31.8)	(2,234.2)	(157.1)
Investing cash flows	(0.2)	(19.7)	(342.6)	(201.0)	(4,194.1)	(2,117.0)
Free cash flow	818.5	690.8	592.4	928.1	(2,893.5)	(793.1)
Movements in gross debt ^{e(i)}	(432.5)	597.3	225.6	(250.8)	3,544.3	1,467.2
Dividends payable	(428.7)	(479.6)	(528.2)	(707.7)	(764.9)	(764.9)
Dividends reinvested	95.3	–	–	–	214.4	214.4
Proceeds from employee share plan	37.2	51.9	98.0	36.5	32.2	32.2
Payment for share buyback	(91.5)	(78.9)	–	–	–	–
Payment of return of capital	–	(896.0)	(366.5)	–	–	–
Financing cash flows	(820.2)	(805.3)	(571.1)	(922.0)	3,026.0	948.9
Net cash flow	(1.7)	(114.5)	21.3	6.1	132.5	155.8

^{e(i)} Pro-forma adjustment – 2007 amounts are presented before the impact of acquisition of an initial 10.6% shareholding in Coles Group. The impact of the acquisition of the initial shareholding in the Coles Group on net cash flow is as follows:

	FY 2007
Increase in Interest paid	(33.3)
Decrease in Tax paid	10.0
Decrease in Operating cash flows	(23.3)
Increase in investing outflow	(2,077.1)
Decrease in Free cash flow	(2,100.4)
Increase in Gross debt	2,077.1
Decrease in Net cash flow	(23.3)

Wesfarmers has strong operating cash flows underpinned by operations across the divisions. The FY2007 pro-forma operating cash flows before working capital have increased 21.1 per cent since FY2003. The decrease in FY2007 is largely a result of increases in tax and interest paid. Tax paid increased due to the timing of tax payments and interest paid increased due to an increase in the average outstanding debt.

Wesfarmers capital expenditure has grown steadily throughout the period, increasing over 200 per cent since FY2003.

Since FY2003, Wesfarmers has undertaken several significant acquisitions and disposals of controlled entities and associates, being:

- In FY2007, acquisitions of OAMPS, Coregas and other businesses were completed at a total cost of \$1,445 million.
- In FY2006 Wesfarmers' interest in Australian Railroad Group was divested.
- In FY2004 Wesfarmers acquired the Lumley Group and the Rural Services division was divested.

The debt funding of OAMPS, Coregas and other acquisitions led to the large inflow of funds in the "movement in gross debt" line in FY2007.

Over the past five years Wesfarmers has returned \$4,032.2 million to Wesfarmers Shareholders, by way of dividends net of dividends reinvested, share buybacks and capital returns.

(f) **Subsequent Events**

Refer to the Wesfarmers 2007 Annual Report (available on ASX's website at www.asx.com.au and Wesfarmers' website at www.wesfarmers.com.au) for details of events subsequent to 30 June 2007 in addition to the dividend discussed immediately below.

Wesfarmers Final Dividend

A fully franked dividend of \$1.40 per Wesfarmers Ordinary Share resulting in a dividend payment of \$543.3 million was declared on 16 August 2007 for payment on 29 November 2007. The dividend has not been provided for in the 30 June 2007 full-year financial statements. The net amount of dividend paid will depend upon the level of participation in the Wesfarmers Dividend Investment Plan. Coles Group Shareholders will not receive the Wesfarmers Final Dividend under the Scheme.

7.9 Public information available for inspection

As a company listed on ASX and a "disclosing entity" under the Corporations Act, Wesfarmers is subject to regular reporting and disclosure obligations. Broadly, these require Wesfarmers to announce price sensitive information as soon as it becomes aware of the information, subject to exceptions for certain confidential information. Wesfarmers' recent announcements are available from ASX's website at www.asx.com.au. Further announcements concerning developments at Wesfarmers will continue to be made available on this website after the date of this Scheme Booklet.

Wesfarmers is required to prepare and lodge with ASIC and ASX both annual and half-yearly financial statements accompanied by a statement and report from the Wesfarmers Directors and an audit or review report. Additionally, Wesfarmers currently lodges quarterly reports with ASX in relation to its coal operations. Copies of these and other documents lodged with ASIC and ASX may be obtained from or inspected at an ASIC office or on ASX's website at www.asx.com.au.

8 Profile of the Wesfarmers Merged Group

In accordance with the responsibility statement on page 2 of this Scheme Booklet, Wesfarmers has sole responsibility for preparing the information contained in this Section 8 subject to Coles Group taking responsibility for the information which it has provided to Wesfarmers for the purposes of preparing information on the Wesfarmers Merged Group.

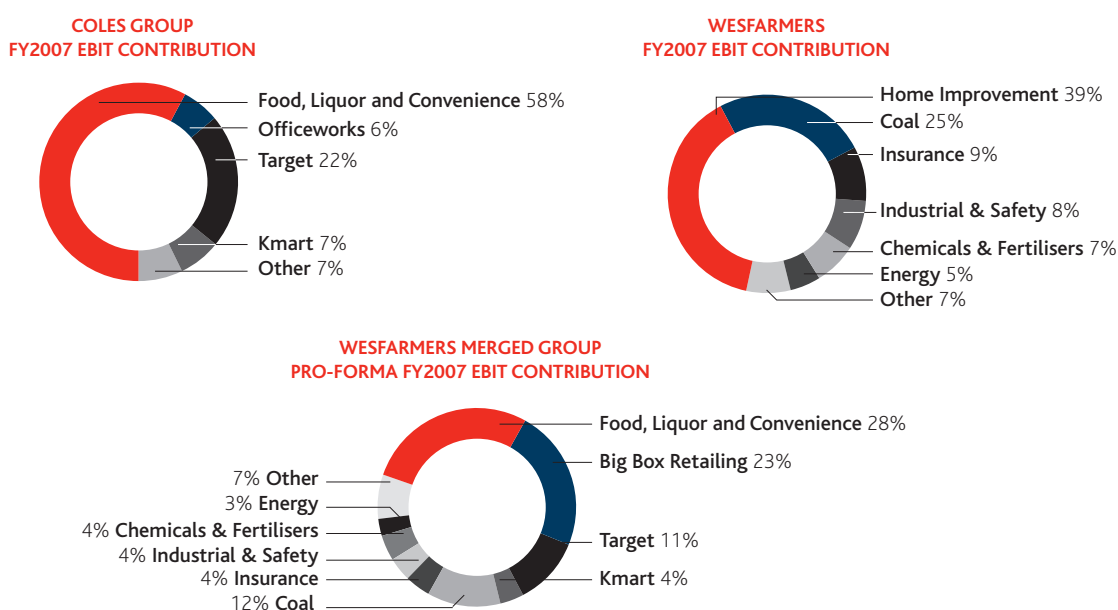
8.1 Overview of the Wesfarmers Merged Group

The Scheme will combine Coles Group's quality retail assets with Wesfarmers' diversified businesses and provide the platform for Wesfarmers to use its business model to create a merged group with leading retail and other operations, including coal mining, insurance, industrial and safety product distribution, chemicals and fertiliser manufacture, gas processing and energy related activities, across Australia and New Zealand.

The Wesfarmers Merged Group will be one of Australia's largest companies by market capitalisation, with:

- pro-forma combined revenue of \$44.4 billion for FY2007;
- pro-forma combined EBIT of \$2.5 billion for FY2007;
- approximately 200,000 employees across Australia and New Zealand;
- all divisions structured under Wesfarmers' decentralised business model; and
- a diversified earnings mix, as illustrated in Figure 8.1 below.

Figure 8.1: Comparison of Wesfarmers, Coles Group and Wesfarmers Merged Group EBIT (excluding corporate overheads, consolidation adjustments and discontinued operations)



8.2 Rationale for the Scheme

Wesfarmers expects the Scheme to be net present value (NPV) positive, which is its key investment criterion. Under this criterion, NPV is calculated as the difference between the present value (i.e. value today) of the projected cash inflows and outflows of the business being acquired before taking into account the funding structure of the acquisition. The present value of the cash flows is determined by applying a discount rate appropriate to the particular business. An acquisition is NPV positive if the present value of the net cash flows is greater than the purchase consideration.

Wesfarmers believes that shareholders in the Wesfarmers Merged Group will benefit from the value to be created by combining Coles Group's significant retail brand platform and store network with Wesfarmers' decentralised business model, financial discipline and execution capabilities and the continuing growth of Wesfarmers' existing businesses.

8.3 Dividend guidance

Wesfarmers' current dividend policy is to pay out all available franking credits to Wesfarmers Shareholders in the form of fully franked dividends and following the Scheme expects to pay fully franked dividends in excess of \$2.00 per Wesfarmers Ordinary Share and Wesfarmers PPS for the 2008 and 2009 financial years, subject to the availability of retained earnings and franking credits. Wesfarmers believes that the acquisition of unused franking credits held by Coles Group following implementation of the Scheme and the level of retained earnings currently held by Wesfarmers will provide sufficient flexibility to make dividend payments at this level in a wide range of earnings outcomes in FY2008 and FY2009, without relying on an improvement in the performance of Coles Group's businesses in this timeframe.

8.4 Structure of the Wesfarmers Merged Group

It is proposed that Coles Group's existing business units will be integrated into Wesfarmers' corporate structure with each key business unit reporting directly to the Managing Director of Wesfarmers and supported by Wesfarmers' corporate head office.

Figure 8.2: Wesfarmers Merged Group proposed corporate structure



8 Profile of the Wesfarmers Merged Group (continued)

As illustrated in Figure 8.2 above, Food, Liquor and Convenience (comprising Coles, Bi-Lo, 1st Choice, Vintage Cellars, Liquorland, Liquorland Hotel Group and Coles Express) will report as a division, as will Target. Officeworks and Bunnings will become one division, under a management team reporting to the Managing Director of Wesfarmers.

A strategic review will be undertaken to determine how best to optimise the value of Kmart (see Section 8.6(i)). For the duration of this strategic review, Kmart will report to the Managing Director of Wesfarmers as a separate division.

Other business interests of Wesfarmers will remain as outlined in section 7.2 of this Scheme Booklet.

8.5 Sources of Scheme Consideration

To satisfy the Share Consideration component of the Scheme Consideration, Wesfarmers will issue a total of approximately 153.8 million New Wesfarmers Ordinary Shares and approximately 153.8 million Wesfarmers PPS to Scheme Shareholders. The Wesfarmers Merged Group will have approximately 541.9 million Wesfarmers Ordinary Shares and 153.8 million Wesfarmers PPS on issue following the Scheme.

In addition, Wesfarmers will draw down on a committed debt facility to:

- fund the total Cash Consideration of \$4.33 billion;
- refinance the existing facilities of the Coles Group; and
- pay certain costs and expenses incurred in connection with the Scheme.

Following implementation of the Scheme, all Coles Group Shares will be owned by Wesfarmers Retail. Wesfarmers will arrange for Coles Group Shares to be removed from the official list of ASX.

Refer to Section 13.11 for further detail in relation to these funding arrangements.

8.6 Wesfarmers' intentions

(a) General

This section sets out Wesfarmers' current intentions concerning Coles Group in relation to the following:

- the continuation of the Coles Group businesses;
- any major changes to Coles Group businesses, including any redeployment of the fixed assets of the Coles Group businesses; and
- the future employment of the present employees of the Coles Group businesses.

These intentions have been formed on the basis of information relating to Coles Group provided by Coles Group and relating to Wesfarmers known by Wesfarmers, in each case as at the date of this Scheme Booklet. Final decisions will be made by Wesfarmers in light of the material information and circumstances at the relevant time and as Wesfarmers conducts a complete review of the operations of the Coles Group businesses. Accordingly, the statements set out in this section are statements of current intentions only, and in this respect are "forward looking statements". These statements may change as new information becomes available or as circumstances change.

Wesfarmers intends to apply its diversified business model, which combines divisional autonomy and accountability with an integrated set of management systems, to align management objectives and create a consistent performance-oriented culture across the Coles Group businesses. This strong performance culture will be instrumental in delivering growth and improved financial performance in the Wesfarmers Merged Group.

Specific intentions for the Coles Group businesses are set out below.

(b) Directors

As noted in Section 8.1, it is Wesfarmers' intention to restructure the Coles Group to conform with Wesfarmers' existing corporate structure. Following successful implementation of the Scheme, it is intended that the existing Coles Group Board will be replaced by a board nominated by Wesfarmers. Each division will have its own operating board, with Wesfarmers corporate and divisional executive management represented on those boards, and will report to Wesfarmers' Managing Director.

If the Scheme proceeds, the current members of the Wesfarmers Board will continue to form the board of the Wesfarmers Merged Group.

(c) Management

Wesfarmers intends to strengthen existing management teams in the Coles Group businesses through the addition of specialist local and international retailing personnel. It is also anticipated that senior Wesfarmers commercial executives will join the leadership teams of each division.

As with other business units in Wesfarmers' portfolio, Coles Group businesses will be managed in line with Wesfarmers' decentralised business model. Each division will be run as a stand-alone operation, reporting directly to the Managing Director of Wesfarmers and supported by Wesfarmers' corporate head office.

A senior Wesfarmers executive will be responsible for integration of the Coles Group businesses, including co-ordination of the reallocation of current Coles Group head office support functions to each division in line with their operating requirements.

(d) Coles Group corporate head office and retail support group

The Coles Group currently provides a number of central support functions to its retail businesses including human resources, information technology, marketing, merchandising, supply chain management, legal and property services. It is intended that these shared support functions will be restructured to replicate Wesfarmers' model of divisional autonomy. Under this model, key support functions report to divisional management and are sized and structured by divisional management to optimise the success of that division. This structure is designed to ensure that the management teams within each business unit are accountable for and rewarded by direct reference to, their division's performance.

As part of this divisional support function allocation, it is intended Coles Group staff based at the current head office in Tooronga will, in time, be relocated to divisional sites, subject to the commercial ramifications of doing so. However, some divisional support staff may remain at Tooronga if it is commercially appropriate to do so.

While it is intended the Coles Group businesses will be managed autonomously, Wesfarmers will seek to centralise the remaining non-divisional common corporate head office functions along similar lines as Wesfarmers' other businesses, including treasury, risk management, business development, public affairs, taxation, legal and group accounting and reporting functions.

Coles Group has been undertaking a number of significant centralised initiatives in the last few years in an effort to reduce the cost of doing business. Wesfarmers intends to review and progress each of these initiatives:

Overhead Reduction

The business simplification programme commenced by Coles Group in early FY2007 is focused on simplifying non-store operations to reduce above-store roles in head office and retail support functions as well as non-personnel expenses. Head office and retail support functions include corporate office roles, human resources, finance and administration, marketing and merchandising and information technology. Savings targets include personnel, on-costs and other benefits from improved efficiency and simplification of processes. See Section 6.3 for further details of the Coles Group programme. Wesfarmers intends to continue to remove complexity by broadening the programme's coverage to the extent that this complements the plans proposed by each division.

Wesfarmers and its consultants have reviewed detailed information provided by Coles Group on the initiatives comprising the simplification programme, and on the progress achieved to date. Cost reductions were assessed on the basis of their scale, timing and the likely impact on performance. In assessing these targets, retail support requirements were compared with Australian and international retailing benchmarks as appropriate. As a result of this review, adjustments to targeted savings were made as appropriate, with Wesfarmers targeting corporate overhead reductions of \$385 million per annum by late FY2009. Wesfarmers expects that these targeted savings are achievable. These benefits include over \$100 million of savings achieved under Coles Group's simplification programme to date and will be derived largely through the reduction in retail support roles and associated staff and processes in line with Coles Group's current programme. Wesfarmers believes an additional \$10 million in costs will be incurred in this period, over the amount already provided for, to deliver these benefits.

Supply chain

In September 2003 the Coles Group announced the transformation programme. As described in Section 6.3, the transformation programme is focused on improving the flexibility and efficiency of the Coles Group supply chain and incorporates significant changes to procurement, information technology and supply chain infrastructure and processes. The key objectives of the programme are to:

- reduce supply chain cost as a percentage of sales;
- improve the efficiency of distribution centres (through reduction in the total number of distribution centres, building newly designed distribution centres and implementing new warehouse management systems);
- provide for growth in volumes through the distribution centres;
- consolidate and streamline transport costs;
- reduce handling time in stores;

8 Profile of the Wesfarmers Merged Group (continued)

- implement automated store ordering and reduce direct-to-store deliveries;
- improve on-shelf availability; and
- reduce in-store labour costs.

Following a review of the transformation programme by Wesfarmers and external supply chain consultants, Wesfarmers intends to continue this initiative and will extend its review to determine the extent to which the expected benefits can be increased and, where possible, accelerated, by expanding the breadth of the programme to address the specific needs of each business. This initiative will become the responsibility of senior management in the Food, Liquor and Convenience division.

In due diligence undertaken with respect to the Coles Group, Wesfarmers and its external supply chain consultants reviewed the steps taken, and to be taken, to achieve the benefits of each objective; as well as the quantum and time to realisation of those benefits. In forming its views on these benefits, Wesfarmers did not rely on the 21 September 2006 guidance given by Coles Group on the savings from its transformation programme. Wesfarmers believes that the full benefits of the transformation programme will be delayed and the capital investment required to achieve these benefits will be higher than those outlined by Coles Group in September 2006. Some business interruption from this initiative is likely to continue in the short term.

Wesfarmers is targeting savings benefits of the Supply Chain programme of approximately \$540 million per annum by late FY2013. Wesfarmers expects that these targeted savings benefits are achievable. These benefits are after additional one-off operating costs of approximately \$250 million which Wesfarmers expects to incur prior to FY2013 to achieve these benefits and includes approximately \$90 million of savings which have accrued to Coles Group at the end of FY2007. In developing these targeted savings, Wesfarmers relied on external supply chain consultants, including Logistics Bureau,¹⁰ who verified both the appropriateness of each objective and the scale of the net benefits targeted in terms of handling time, wastage, transportation cost, supplier costs and maintenance costs. It is intended that some of the benefits achieved will be reinvested in the business and the offer to customers.

Over 55 per cent of the total estimated capital investment required for the programme has already been spent by Coles Group. Wesfarmers expects that the remaining capital investments required to achieve these benefits from 2008 to 2012 will be approximately \$320 million, plus unspent forecast capital investment for the period to the end of FY2007 of approximately \$40 million. Wesfarmers expects over 75 per cent of the additional one-off costs and capital investments required to achieve these benefits will be spent by the end of FY2009. These costs and capital investments relate in part to the enabling projects for distribution centre design and development, the warehouse management system, and the store auto replenishment. The costs and capital investments for these projects precede the timing for the realisation of savings benefits which should arise from the later phased supplier centralisation project, and gradual roll out of the store auto replenishment project over all the stores and inventory lines.

(e) Employees

Other than as set out elsewhere in this Scheme Booklet, Wesfarmers does not have any specific intentions with regard to employees of Coles Group if the Scheme proceeds.

(f) Food, liquor and convenience

Restoring sales momentum in the Food, Liquor and Convenience businesses will be a key factor in accelerating profitable growth. Additional sales revenue can contribute to EBIT at a margin greater than the average EBIT margin as a result of increasing leverage on the fixed cost base. This leverage effect results in an increased average EBIT margin across the entire revenue base.

Wesfarmers has a number of specific strategies for each of these businesses as follows.

Food

Wesfarmers intends to pursue the following three key strategies with respect to the Food businesses:

- (1) develop the customer experience, by focusing on value, choice, ambience, and availability;
- (2) reduce the cost of doing business by:
 - continuing, and expanding where appropriate, the current initiatives to modernise the supply chain and remove unnecessary complexity; and
 - optimising the investment in working capital;
- (3) engage all employees of the division to increase accountability and enable greater focus on the customer.

These strategies are aimed at restoring sales momentum and accelerating profitable growth.

Wesfarmers intends to implement these strategies through a phased programme of renewal.

¹⁰ Logistics Bureau Pty Ltd are supply chain specific consultants with offices across Australia and South-East Asia; and have experience across a wide range of industries including retail, fast moving consumer goods and food/grocery businesses. Logistics Bureau Pty Ltd have consented to be named in this context.

The initial phase is intended to re-focus employees on retail basics such as pricing and value, on-shelf availability, fresh food offer and in-store environment. The Bi-Lo conversion program will be reviewed, along with the refurbishment options for store layout and the effectiveness of the current marketing spend.

The second phase is intended to broaden the customer offering in terms of products and store presentation through an increased focus on space and category management and strategy execution.

The third phase is intended to focus on being more innovative in terms of the shopping experience.

Liquor

Following implementation of the Scheme, Wesfarmers intends to review the following areas of the Liquor business:

- site locations for 1st Choice outlets;
- customer value proposition in each Liquor format; and
- supplier and product arrangements.

It is anticipated this review will result in the development of operational strategies focused on maximising the businesses' brand potential through:

- reinvigorating Liquorland's convenience and Vintage Cellar's specialist credentials;
- optimisation of product mix and in-store costs;
- focus in 1st Choice on its roll-out and performance; and
- refurbishment of the existing network.

Convenience

In relation to the Convenience business, Wesfarmers intends to focus on operational strategies with the aim of enhancing the performance of, and expanding, the business. As part of this process, Wesfarmers will identify and review:

- network expansion opportunities;
- store refurbishment proposals;
- opportunities to optimise the Convenience offer;
- supply chain enhancement potential; and
- opportunities to refine the loyalty offer.

(g) Officeworks (including Harris Technology)

Officeworks (including Harris Technology) will combine with Bunnings to form a single Big Box Retailing division. Senior management of the two businesses will be integrated to facilitate the transfer of ideas and to ensure best practice is in place for both formats. At the same time, the separation between the teams responsible for operations and execution will be retained to ensure clear focus on the development of each brand.

Wesfarmers will also conduct a review of key areas within Officeworks and Harris Technology, with immediate focus on:

- the potential to extract synergies from the combination of the businesses;
- categories on offer and in-store execution;
- optimising store format;
- store roll-out plans; and
- business expansion opportunities.

(h) Target

Target is performing strongly under the existing management team and Coles Group's strategies for Target. However, following implementation of the Scheme, Wesfarmers will focus on opportunities to enhance the performance of, and expand, the business. As part of this review, Wesfarmers will:

- review categories targeted for expansion and reduction;
- establish optimal store layout;
- review network expansion plans;
- review advertising and marketing plans; and
- implement a consistent store refurbishment plan.

8 Profile of the Wesfarmers Merged Group (continued)

(i) Kmart

Wesfarmers intends to conduct a detailed strategic review of the Kmart business focused on identifying opportunities to deliver increased value from this business.

Options to be considered as part of this strategic review include:

- improving the trading performance of the business;
- converting certain Kmart stores to the Target format; and
- the potential sale of all or part of the business.

Subject to the outcome of this review, currently Wesfarmers' preferred option is to improve the trading performance of, and retain, the Kmart business. Wesfarmers will not seek to obtain short term benefits to the detriment of longer term strategic objectives.

During the course of this strategic review, Kmart will be managed as a separate operating business within Wesfarmers with operational independence from Wesfarmers' other business units.

(j) Capital Investment

Wesfarmers has reviewed the anticipated capital requirements of the Coles Group businesses and estimates that an annual capital investment of approximately \$1 billion to \$1.2 billion will be required in FY2008 and FY2009 to support the planned network growth, store refurbishment program and continuation of the supply chain initiative. The level of capital investment is expected to stabilise at between approximately \$900 million and \$1 billion per annum in subsequent years.

These estimates include the aggregate supply chain capital investments of approximately \$360 million which are outlined in Section 8.6(d).

(k) Working Capital

Wesfarmers believes there is an opportunity to reduce the level of working capital in the Coles Group businesses. Wesfarmers is targeting the release of more than \$300 million of working capital in the five years following the Scheme through implementation of the following proposed initiatives: centrally co-ordinating range and stock keeping unit (SKU) reduction, factory gate pricing, auto-replenishment, and in-store and promotional process efficiencies.

(l) Leverage of and interest cost of the Wesfarmers Merged Group

If the Scheme proceeds, the net debt of the Wesfarmers Merged Group will be approximately \$11.0 billion. This will result in a significant increase in the net debt/equity ratio of the Wesfarmers Merged Group as compared to the ratio of Coles Group on a stand alone basis. As set out in the pro-forma balance sheet contained in Section 8.8(c), the ratio for Wesfarmers excluding the debt to fund the acquisition of a strategic stake in Coles Group was 83.5 per cent at 30 June 2007, and the Coles Group ratio was 33.6 per cent at 29 July 2007. The net debt/equity ratio for the Wesfarmers Merged Group cannot be precisely forecast, however, by way of illustration, based on the pro-forma financial information in Section 8.8(c) the net debt/equity ratio of the Wesfarmers Merged Group would indicatively have been 70.7 per cent at the end of the Illustrative Period.

Similarly, as set out in the pro-forma income statement in Section 8.8(b), the finance costs cover for the Wesfarmers Merged Group would have been 4.2 times, which compares to Wesfarmers finance costs cover prior to the acquisition of a strategic stake in Coles Group of 9.9 times and Coles Group cover of 12.7 times.

This will result in a general increase in interest margins paid by the Wesfarmers Merged Group.

(m) Potential synergies

Although Wesfarmers has identified areas where it believes potential synergies may be available and has prepared estimates of these benefits for internal planning purposes, the estimated collective impact is not sufficiently reliable for presentation in this Scheme Booklet. Consequently Wesfarmers has outlined the following areas in which it believes benefits may arise from the acquisition of the Coles Group:

- head office synergies arising from the removal of duplicate board and CEO functions; the elimination of listing and other public company costs incurred by the Coles Group; as well as the move to restructure support functions under divisional autonomy;
- economies of scale in Wesfarmers' corporate head office;
- global sourcing – through the leveraging of global sourcing capabilities;
- transactional banking efficiencies – through the utilisation of consistent merchant acquiring arrangements;
- improvements in supplier arrangements – through the relationship approach adopted by Wesfarmers; and
- property efficiencies – through the optimisation of brand utilisation of properties across Wesfarmers.

In addition, each of the newly established divisions may decide to discontinue utilisation of some or all of the retail support group functions currently provided within the Coles Group which may lead to a further reduction in overhead costs.

Wesfarmers considers there may be increases in costs, both operating and capital investment, incurred in the shorter term to capture the potential benefit of each opportunity.

8.7 Risk Factors Relating to the Wesfarmers Merged Group

The following risk factors are in addition to those specific to the Coles Group, as set out in Section 6.7, and Wesfarmers, set out in Section 7.6.

(a) Culture and management team capability

Wesfarmers considers that a successful and timely improvement in the Coles Group business performance will depend on the ability to change the culture to one which is performance focused and provides greater empowerment and accountability, particularly by stores.

Effective cultural change in the business will depend on the ability to place management talent with both retail competence and change management capability at the most senior levels. This will require a thorough assessment of the existing management pool and where necessary supplementing it with external recruits. An extensive search process is underway to identify potential candidates. A further risk is the high turnover at the store manager level and the perceived state of the talent pipeline. This will require a process of working to engage this group of key employees and ensuring that appropriate internal succession and development programs are implemented.

Wesfarmers has a strong track record of successfully integrating significant acquisitions, including Howard Smith. However, Wesfarmers has limited management experience in supermarket, clothing or fashion retailing. Further, it has not made an acquisition of the size of the Coles Group.

Consequently, there are risks associated with the execution of the intentions outlined in this Section 8.

Wesfarmers' intentions with respect to strengthening management expertise are described at Section 8.6(c).

(b) Key personnel

The success and growth strategy for Wesfarmers depends on its ability to attract and retain key management and operating personnel. Both Wesfarmers and Coles Group have qualified and experienced management teams. The loss of any key members of these teams, or Wesfarmers' inability to attract the requisite personnel with suitable experience in supermarkets, could have an adverse effect on Wesfarmers and the performance of the Wesfarmers Merged Group. There is no assurance as to the continued availability of any such key personnel.

Following implementation of the Scheme, there are likely to be a number of changes to the senior management team within Coles Group. It may take time to recruit key staff and additional managers and could lead to a period of instability which may impact on the short term performance of the Coles Group businesses, the Wesfarmers Merged Group and execution of the strategies outlined in Section 8.

(c) Integration

There are integration risks associated with a merger of this size and complexity.

Wesfarmers expects that value can be added for shareholders of the Wesfarmers Merged Group by combining Coles Group's significant retail brand platform and store network with Wesfarmers' decentralised business model, financial discipline and execution capabilities.

The risk exists that any integration or strategy implementation may take longer than expected or that the extraction of efficiencies and potential synergies does not occur or may incur additional costs, which would impact the Wesfarmers Merged Group's financial performance.

Wesfarmers expects to manage this risk by careful planning and the use of internal staff and external experts and consultants as required.

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Profile of the Wesfarmers Merged Group (continued)

(d) Quotation and trading of New Wesfarmers Ordinary Shares and Wesfarmers PPS

Wesfarmers will issue a significant number of New Wesfarmers Ordinary Shares and Wesfarmers PPS under the Scheme. Should Coles Group Shareholders, who are recipients of these New Wesfarmers Ordinary Shares and Wesfarmers PPS, or existing Wesfarmers Shareholders holding Wesfarmers Ordinary Shares, sell significant quantities of them on-market soon after the Scheme, there may be an adverse effect on the market price of Wesfarmers Ordinary Shares and/or Wesfarmers PPS in the short term.

An application will be made prior to 25 October 2007 to the ASX for official quotation of the New Wesfarmers Ordinary Shares and Wesfarmers PPS. Whilst Wesfarmers has no basis for expecting quotation will not be granted, it is not guaranteed nor automatic on such applications.

(e) Change of control restrictions in Coles Group contracts and licences

A number of contracts to which Coles Group and its subsidiaries are party contain "change of control" or similar clauses which may be triggered by the transfer of Coles Group Shares to Wesfarmers Retail on implementation of the Scheme. Clauses of this type generally give the counterparty the ability to terminate the agreement if the counterparty's consent to the Scheme is not obtained.

These types of clauses are contained in a variety of types of documents including:

- leases of real property;
- some of the contracts which underpin Coles Group's information technology systems; and
- certain of Coles Group's financing arrangements.

In addition, liquor and gaming licences in a number of States include restrictions or require approval in respect of change of control.

In relation to the leases, in most cases where consent is required, the owner is not entitled to unreasonably withhold its consent. Coles Group and Wesfarmers are jointly implementing a process to contact the owners of affected properties to seek their consent, but the obtaining of such consents is not a condition to implementation of the Scheme.

There is a risk that counterparties to relevant contracts (including leases) who do not consent may seek to terminate their contracts with the Coles Group (or its subsidiaries), on the grounds that implementation of the Scheme breaches the contract. There is also a risk that such counterparties may use the threat of termination as a means of attempting to extract financial or other concessions from the Coles Group.

There is a risk that the relevant liquor or gaming authority may not approve the change in control of Coles Group. In this case, the relevant licences may be revoked or the conditions attached to them varied.

Whilst individual properties, contracts or licences may be affected, Wesfarmers does not anticipate any material detriment to the Wesfarmers Merged Group as a result of action by property owners or contract or licence counterparties, taking into account, among other things:

- the number of leases affected as against the size of the Wesfarmers Merged Group's overall portfolio;
- the proportion of affected leases that do not permit the owner to unreasonably withhold its consent;
- the number and type of contracts and licences affected as against the number of contracts and licences to which Coles Group and its subsidiaries are party; and
- the fact that Wesfarmers has its own financing arrangements to which Coles Group and its subsidiaries will likely become party following the Scheme.

(f) Credit risk

Wesfarmers currently has an A- credit rating with Standard & Poor's. This rating is currently on negative watch. The reduction in debt cover ratios referred to in section 8.6(l), together with various operational considerations, could result in a reduction in rating. This may affect the extent of the increase in interest margins referred to in Section 8.6(l).

(g) Workers' compensation self-insurance

Coles Group is a licensed workers' compensation self-insurer in each jurisdiction of Australia. This means that Coles Group is responsible for the cost of all Coles Group employees' statutory and common law workers' compensation entitlements from the time workers' compensation self insurance commenced in each jurisdiction. Coles Group has in place external insurance arrangements to cover significant losses arising from any one single event.

The acquisition of Coles Group by Wesfarmers will most likely trigger a formal review by the relevant WorkCover Authority in each jurisdiction to determine whether Coles Group is able to retain its self-insurance authorisation.

If, following a review, one or more of the WorkCover Authorities determines that the Coles Group no longer qualifies as a workers' compensation self-insurer as determined by legislation in that jurisdiction, they have the power to revoke Coles Group's workers' compensation self-insurance authorisation or impose additional conditions to the licence.

Following reviews of the legislation in each jurisdiction and liaison with a number of the WorkCover Authorities, Wesfarmers believes that workers' compensation self insurance authorisation for Coles Group will continue in each jurisdiction.

(h) Brand Reputation

Brands are key assets of the Wesfarmers Merged Group. Successful maintenance of the reputation and value associated with these brand names will be critical to the Wesfarmers Merged Group's businesses and the strategy for it going forward. It is possible that, post merger, the strategy is not achieved, resulting in the erosion of the reputation or value associated with the brand names which, in turn, could have an adverse effect on the performance and operations of the Wesfarmers Merged Group.

(i) ACCC Inquiry into Unleaded Petrol Prices

On the direction of the Commonwealth Treasurer, the ACCC commenced an inquiry into the price of unleaded petrol on 15 June 2007. The inquiry was prompted by alleged divergences, at specific times during January and June 2007, between the movements in domestic petrol prices and movements in international benchmark prices. The terms of reference of the inquiry include determining the impact of the entry of supermarkets into the retail petrol industry. Submissions were received by the ACCC in July 2007 and included a submission from Coles Express. The ACCC is currently holding hearings in the major capital cities and is expected to produce its report by 15 October 2007. Depending on the findings of the inquiry, there may be an impact on the Wesfarmers Merged Group.

(j) Wesfarmers PPS risks

The following risk factors are in addition to the risks associated with an investment in Wesfarmers which are outlined in Sections 2 and 7.6.

Market price and liquidity

Wesfarmers is not able to predict the market price or liquidity of Wesfarmers PPS when they are quoted on ASX. The market on ASX for Wesfarmers PPS may be less liquid than the market on ASX for Wesfarmers Ordinary Shares, which may impact the market price of Wesfarmers PPS.

Reclassification at election of Wesfarmers

Wesfarmers is entitled to elect to reclassify the Wesfarmers PPS into Wesfarmers Ordinary Shares at any time. This may happen before you wish for your Wesfarmers PPS to be reclassified as Wesfarmers Ordinary Shares, and this may have negative consequences for you as an individual Wesfarmers PPS Holder.

Taxation considerations

A summary of the potential tax consequences for Wesfarmers PPS Holders is set out in Section 12. This information is in general terms and is not intended to provide specific advice in relation to the circumstances of any particular investor. Accordingly, you should seek independent advice in relation to your own individual taxation circumstances.

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Profile of the Wesfarmers Merged Group (continued)

8.8 Wesfarmers Merged Group Unaudited Pro-forma Financial Information

Wesfarmers Merged Group Unaudited Pro-Forma Financial Information is set out below in Sections 8.8(b), 8.8(c) and 8.8(d) and includes the following:

- an unaudited pro-forma combined income statement for Wesfarmers and Coles Group (Wesfarmers Merged Group Unaudited Pro-Forma Income Statement);
- an unaudited pro-forma combined balance sheet for Wesfarmers and the Coles Group (Wesfarmers Merged Group Unaudited Pro-Forma Balance Sheet); and
- an unaudited pro-forma combined schedule of cash flows for Wesfarmers and the Coles Group (Wesfarmers Merged Group Unaudited Pro-Forma Schedule of Cash Flows).

The Wesfarmers Merged Group Unaudited Pro-Forma Financial Information has been prepared in accordance with the recognition and measurement requirements of Australian Accounting Standards and other mandatory professional reporting requirements in Australia and which have been derived from:

- (i) the Wesfarmers pro-forma financial information for the year ended 30 June 2007 contained in Sections 7.8(c), 7.8(d) and 7.8(e) of this Scheme Booklet;
- (ii) the Coles Group financial information for the year ended 29 July 2007 contained in Sections 6.8(b), 6.8(c) and 6.8(d) of this Scheme Booklet; and
- (iii) the pro-forma adjustments set out in the notes to the Wesfarmers Merged Group Unaudited Pro-Forma Financial Information and the assumptions set out in Section 8.8(a) of this Scheme Booklet.

Information in relation to Wesfarmers and the Coles Group is derived from differing financial periods. However, for the purposes of the Wesfarmers Merged Group Unaudited Pro-Forma Financial Information, it has been assumed that these periods are identical. This period is referred to as the **Illustrative Period** and relates to the notional year beginning 1 July 2006 and ended 30 June 2007.

The Wesfarmers Merged Group Unaudited Pro-Forma Financial Information has been prepared to illustrate:

- the unaudited pro-forma combined financial performance and cash flows of Wesfarmers and Coles Group as if the Scheme had been implemented on the first day of the Illustrative Period defined above; and
- the unaudited pro-forma combined financial position of Wesfarmers and Coles Group as if the Scheme had been implemented on the last day of the Illustrative Period defined above.

(a) Key Assumptions

(i) Acquisition Accounting

The Wesfarmers Merged Group Unaudited Pro-Forma Financial Information has been prepared assuming control is obtained through a single purchase of Coles Group Shares rather than as a stepped acquisition. Stepped acquisition accounting is required by Australian Accounting Standards where an initial stake is held before control is obtained through a business combination, however, this stepped acquisition accounting would not have a material impact on the Wesfarmers Merged Group Unaudited Pro-Forma Financial Information.

(ii) Other Intangibles

For the purposes of preparing the Wesfarmers Merged Group Unaudited Pro-Forma Financial Information, it has been assumed that there are no separately identifiable intangibles. In the event that separately identified intangibles are subsequently identified, this will have the effect of reducing goodwill arising on the acquisition of the Coles Group. If any separately identifiable intangibles are considered to have finite lives, net profit after tax will decrease as a result of the requirement to amortise these intangibles over their estimated useful life. This will not have an impact on cash flows.

(iii) Variation in Accounting Policies

The Wesfarmers Merged Group Unaudited Pro-Forma Financial Information applies the individual accounting policies of Wesfarmers and Coles Group respectively to the financial information of each entity. No allowance for variations in accounting policies between Wesfarmers and Coles Group has been made in the Wesfarmers Merged Group Unaudited Pro-Forma Financial Information.

Wesfarmers has not had sufficient access to Coles Group financial records to determine the consequences that may arise as a result of differences in accounting policies or in the application of accounting policies between Wesfarmers and Coles Group and, therefore, there is some uncertainty associated with the extent or the amount of the impact of these differences. Wesfarmers does not make any representation or warranty, express or implied, in relation to the extent or the amount of the impact caused by any accounting policy differences referred to above.

However, based on a review of the accounting policies set out in the Coles Group 2006 Financial Report and information obtained in the due diligence process, the following differences in accounting policies between Wesfarmers and Coles Group have been identified:

- Depreciation of property, plant and equipment – Wesfarmers and Coles Group apply different rates of depreciation for some classes of property, plant and equipment.
- Defined benefit pension plan – Wesfarmers recognises actuarial gains and losses related to defined benefit pension plans in the income statement. The Coles Group recognises actuarial gains and losses related to defined benefit pension plans directly in equity.

(iv) Strategic Initiatives

No allowances for restructuring, additional capital investment, or synergistic benefits have been included in the Wesfarmers Merged Group Unaudited Pro-Forma Financial Information.

(v) Financial forecasts for the Wesfarmers Merged Group

The presentation of pro-forma financial information for the Illustrative Period provides Coles Group Shareholders with a meaningful and reliable indication of the profile of the Wesfarmers Merged Group over that time period. However, the pro-forma financial information cannot be relied upon as indicative of Wesfarmers' expectations as to the future performance of the Wesfarmers Merged Group. The future performance of the Wesfarmers Merged Group will inevitably be materially different from the information set out in the pro-forma financial information as it will reflect performance in FY2008 and later years, rather than the Illustrative Period.

Further details on the intentions and risks of the Wesfarmers Merged Group are also detailed in Sections 8.6 and 8.7, respectively.

Wesfarmers has given careful consideration to whether forecast financial statements (including any internally created valuation models) can and should be included in the Scheme Booklet in respect of the Wesfarmers Merged Group. In particular, Wesfarmers has considered whether there is a reasonable basis for the preparation and disclosure in the Scheme Booklet of reliable and useful forecast financial statements in this regard. Wesfarmers has concluded that forecast financial statements for the Wesfarmers Merged Group cannot be provided in the Scheme Booklet as it does not have a reasonable basis for such forecasts as required by applicable law and practice, and therefore the forecasts would not be meaningful or material to Coles Group Shareholders. The considerations which have resulted in this conclusion include:

- Coles Group formally commenced its ownership review in February 2007. In Wesfarmers' view, this process has caused distraction within the Coles Group businesses and is likely to continue to impact the business into the first half of 2008. The financial impact of this process on the Wesfarmers Merged Group cannot be reliably forecast.
- The management decisions and operational influence during seasonal periods make it particularly difficult to reliably forecast outcomes at this stage. Seasonal influences in Coles Group sales, earnings and cash flow around December and January have a significant impact on Coles Group's annual results.
- Information is not available to calculate potential fair value adjustments in relation to the assets of the Coles Group following acquisition. Consequently depreciation, amortisation and tax expenses cannot be calculated accurately and may be materially different when finalised.
- The 2008 financial year will be a transition year for the Wesfarmers Merged Group as a result of integration of the two businesses and changes in management structure. Further, the management direction and operational strategies historically employed by Coles Group are expected to alter under the Wesfarmers Merged Group, such that forecasts can no longer be reliably based on previous historical performance. Wesfarmers is not currently in a position to determine in a reliable manner the impact which these changes may have on financial performance of the Wesfarmers Merged Group in the short term.
- Changes in variables which are beyond the control of Wesfarmers, such as general economic conditions, exchange rates and commodity prices, can have a material impact on the reliability of any forecasts produced. Each of these elements has demonstrated considerable volatility and unpredictability over time, and would require presentation of a matrix of estimates representing hypothetical combinations of outcomes. Such combinations would be inherently unreliable and accordingly of little use or meaning to Coles Group Shareholders.
- Wesfarmers' sales, earnings and cash flows have specific exposure to variables such as insurance claim levels, and general weather conditions, which are exogenous in nature. The ability to control changes in such variables is often limited, and hence there is difficulty in creating reliable forecasts over any extended period.
- Given the timing of preparation and issue of this document early in financial year 2008, forecasts for the full financial year 2008 would involve estimation over the remainder of the twelve month period, thereby increasing the risk that such forecasts would be unreliable.

8 Profile of the Wesfarmers Merged Group (continued)

(b) Wesfarmers Merged Group Unaudited Pro-Forma Income Statement

The table below sets out the Wesfarmers Merged Group Unaudited Pro-Forma Income Statement for the Illustrative Period ended 30 June 2007.

Wesfarmers Merged Group Unaudited Pro-Forma Income Statement (\$m)					
	Wesfarmers Pro-Forma	Coles Group ⁽ⁱ⁾	Pro-Forma Adjustments	Notes	Pro-Forma
Revenue from sale of goods and rendering of services	9,666.4	34,687.9	–		44,354.3
EBITDA	1,650.0	1,725.9	–		3,375.9
Depreciation and amortisation	(344.7)	(543.0)	–		(887.7)
EBIT	1,305.3	1,182.9	–		2,488.2
Finance costs	(167.0)	(136.1)	(503.5)	1	(806.6)
Profit before tax	1,138.3	1,046.8	(503.5)		1,681.6
Income tax	(328.5)	(282.1)	151.1	2	(459.5)
Profit after tax from continuing operations	809.8	764.7	(352.4)		1,222.1
Profit from discontinued operations	–	27.7	–		27.7
Profit after tax from continuing and discontinuing operations	809.8	792.4	(352.4)		1,249.8
Pro-forma adjustments and significant items	(23.3)	(44.6)	23.3	1	(44.6)
Reported profit after tax	786.5	747.8	(329.1)		1,205.2
Basic EPS on profit after tax from continuing operations	216.8	60.2			179.4
Basic EPS on reported profit after tax	210.5	62.5			176.9
Weighted average shares on issue	373.6	1,196.6	307.6	3	681.2
Year-end shares on issue	388.1	1,198.8	307.6	3	695.7
Finance costs cover (EBITDA/Finance costs)	9.9	12.7			4.2

⁽ⁱ⁾ The Coles Group Income Statement presented above has been adjusted to show pre-tax ownership review costs of \$55.9 million (post-tax \$44.6 million) as a significant item, and as such the presentation differs from the historic information contained in Section 6.8(b).

Notes:

1. Finance costs

As set out in Note 1 of Section 8.8(c) of this Scheme Booklet, if the Scheme is implemented, Wesfarmers will draw down on debt to partially fund the acquisition. For the purpose of preparing the Wesfarmers Merged Group Unaudited Pro-Forma Financial Information total debt is estimated to increase by \$6,758.4 million. The interest cost in respect of the debt has been calculated based on an interest rate of 7.45 per cent.

2. Income tax expense

Tax has been calculated at 30 per cent. This represents the tax benefit (at 30 per cent) associated with the finance costs discussed in Note 1 above.

3. Share Issue

Wesfarmers will issue 153.8 million New Wesfarmers Ordinary Shares and 153.8 million Wesfarmers PPS following the implementation of the Scheme as set out in Note 1 of Section 8.8(c) of this Scheme Booklet.

(c) Wesfarmers Merged Group Unaudited Pro-Forma Balance Sheet

The table below sets out the Wesfarmers Merged Group Unaudited Pro-Forma Balance Sheet as at the end of the Illustrative Period to 30 June 2007.

Wesfarmers Merged Group Unaudited Pro-Forma Balance Sheet (\$m)					
	Wesfarmers Pro-Forma	Coles Group	Pro-Forma Adjustments	Notes	Pro-Forma
Current assets					
Cash and cash equivalents ^(a)	218.5	546.1	—		764.6
Trade and other receivables	1,512.5	428.8	—		1,941.3
Inventories	1,235.0	2,946.5	—		4,181.5
Insurance and other assets	1,057.9	27.8	—		1,085.7
Total current assets	4,023.9	3,949.2	—		7,973.1
Non-current assets					
Receivables	112.5	41.2	—		153.7
Investments in associates	389.2	7.4	—		396.6
Property, plant and equipment	2,715.9	3,467.6	—		6,183.5
Intangible assets and goodwill	2,698.1	1,670.2	(982.5)	2	19,020.8
			15,635.0	2	
Other assets	93.9	585.5	—		679.4
Total non-current assets	6,009.6	5,771.9	14,652.5		26,434.0
Total assets	10,033.5	9,721.1	14,652.5		34,407.1
Current liabilities					
Trade and other payables	1,254.2	3,057.9	—		4,312.1
Interest-bearing loans and borrowings	2,358.9	200.0	—		2,558.9
Other current liabilities	1,491.5	723.2	—		2,214.7
Total current liabilities	5,104.6	3,981.1	—		9,085.7
Non-current liabilities					
Interest-bearing loans and borrowings	686.6	1,285.9	6,758.4	1	8,730.9
Other non-current liabilities	704.8	547.3	—	3	1,252.1
Total non-current liabilities	1,391.4	1,833.2	6,758.4		9,983.0
Total liabilities	6,496.0	5,814.3	6,758.4		19,068.7
Net assets	3,537.5	3,906.8	7,894.1		15,338.4
Total equity	3,537.5	3,906.8	11,800.9	1	15,338.4
			(3,906.8)	(c)	
Net debt / equity ratio ^(b)	83.5%	33.6%			71.9%

(a) Cash and Cash Equivalents includes Wesfarmers cash on deposit of \$90.6 million and Coles Group cash on deposit of \$173.3 million.

(b) For the purposes of the ratio net debt is calculated as total interest bearing liabilities less cash on deposit.

(c) Represents elimination of equity in Coles Group on consolidation.

8 Profile of the Wesfarmers Merged Group (continued)

Notes:

1. Transaction Pricing and Funding

As outlined in Section 5.6, if the Scheme is implemented, Wesfarmers will provide Scheme Shareholders with a combination of cash, New Wesfarmers Ordinary Shares and Wesfarmers PPS. Coles Group Shareholders (other than Excluded Shareholders and Ineligible Foreign Shareholders) as at the Record Date will receive \$4.00 cash, 0.14215 New Wesfarmers Ordinary Shares and 0.14215 Wesfarmers PPS for each Coles Group Share held.

To satisfy the Scheme Consideration, Wesfarmers will pay a total of \$6,405.1 million in cash, taking into account the debt funding associated with the initial shareholding acquisition, and issue 153.8 million New Wesfarmers Ordinary Shares and 153.8 million Wesfarmers PPS. The Coles Group Shares on issue used to calculate the Scheme Consideration are taken from Section 6.5 including an assumption that all of the Executive Options and Performance Shares are converted to Coles Group Shares on a one for one basis. It has been assumed the Cash Consideration and transaction fees will be funded via a draw down in debt facilities resulting in an increase in total debt of \$6,758.4 million as shown below.

	\$million
Total debt related to acquisition	8,058.4
Coles Group estimated net debt at acquisition	(1,300.0)
Debt to fund 100% acquisition	6,758.4
Estimated transaction fees	(353.3)
Cash paid to acquire Coles Group Shares	6,405.1
Cash paid for initial shareholding acquired	(2,077.1)
Cash to be paid to Coles Group Shareholders	4,328.0

For further information regarding the financing facility available to Wesfarmers, refer to Section 13.11.

Wesfarmers' estimate of the net debt in the books of Coles Group at Implementation Date has been based on information obtained during due diligence and includes the benefit of the cash in tills recorded across Coles Group. This estimate could fluctuate from the figure above if any of the assumptions in the forecast are different from the actual result. In particular, the movements in working capital and derivative balances are based on subjective assessments and could vary significantly at acquisition.

The transaction fees are an estimate of the costs incurred that are directly related to the business combination including fees payable by Coles Group and Wesfarmers to advisors. The estimate of transaction fees is calculated after reducing total estimated transaction fees by ownership review costs already incurred by Coles Group. The transaction fees also include estimated payments that could be payable for redundancies, retentions and other entitlements.

The value of each New Wesfarmers Ordinary Share issued has been calculated based on a Wesfarmers 10 day VWAP to 25 September 2007 of \$39.77 adjusted for the Wesfarmers Final Dividend of \$1.40 per Wesfarmers Ordinary Share. The same value has been ascribed to the Wesfarmers PPS. Based on this assumption total equity issued is \$11,800.9 million. The Independent Expert has valued the Wesfarmers PPS at a premium to the Wesfarmers Ordinary Shares of \$1.00 – \$1.50 per share (for a Wesfarmers Ordinary Share price of \$40.00) and at \$1.50 – \$2.00 per share (for a Wesfarmers Ordinary Share price of \$38.00). If the Scheme becomes Effective, the value of the equity recognised will be based on the Wesfarmers Ordinary Share and Wesfarmers PPS prices on the day control is obtained. Any adjustment to the value of equity recognised will result in a corresponding adjustment to goodwill.

2. Goodwill and Intangible Assets

The initial determination of goodwill and other assets and liabilities (including intangible assets) related to the acquisition of the Coles Group will be reported as “provisional” values with adjustments made to finalise these values within twelve months of the implementation of the Scheme. At the date of this Scheme Booklet it is not possible to determine the fair values of the assets acquired and the liabilities and contingent liabilities assumed. As a result the actual determination of goodwill may change. The goodwill balance recognised will be subject to annual impairment testing. Should an impairment be identified the resulting impact on earnings could be significant.

For the purpose of the Wesfarmers Merged Group Unaudited Pro-Forma Financial Information, goodwill and intangible assets has been calculated as the excess of Scheme Consideration over the book value of the net assets to be acquired if the Scheme is implemented, calculated as follows:

	\$million
Purchase price is made up of:	
Equity issued	11,800.9
Cash paid	6,405.1
Transaction fees	353.3
	18,559.3
Less: Coles Group net assets	(3,906.8)
Add: Goodwill recognised by the Coles Group	982.5
Goodwill and intangible assets on acquisition	15,635.0

(d) Wesfarmers Merged Group Unaudited Pro-Forma Schedule of Cash Flows

The table below sets out the Wesfarmers Merged Group Unaudited Pro-Forma Schedule of Cash Flows for the Illustrative Period ended 30 June 2007.

Wesfarmers Merged Group Unaudited Pro-Forma Schedule of Cash Flows (\$m)					
	Wesfarmers Pro-Forma	Coles Group	Pro-Forma Adjustments	Notes	Pro-Forma
EBITDA	1,650.0	1,707.1	–		3,357.1
Operating cash flows	1,323.9	942.5	(352.4)	1, 2	1,914.0
Investing cash flows	(2,117.0)	(857.0)	(6,758.4)	3	(9,732.4)
Free cash flow	(793.1)	85.5	(7,110.8)		(7,818.4)
Financing cash flows	948.9	(21.0)	6,758.4	3	7,686.3
Net cash flow	155.8	64.5	(352.4)		(132.1)

Notes:

1. Interest Paid

As discussed in Note 1 of Section 8.8(b) additional finance costs will be incurred on debt issued to fund the acquisition. It has been assumed that these costs will be paid in the period incurred, resulting in an additional cash outflow for the Wesfarmers Merged Group.

2. Tax Paid

As discussed in Note 2 of Section 8.8(b) the tax expense will be reduced as a result of a decrease in profit before tax from the additional finance costs. It has been assumed that the cash benefit of these tax savings will be realised in the same period, resulting in an additional cash inflow for the Wesfarmers Merged Group.

3. Purchase of subsidiary and movement in debt

As discussed in Note 1 Section 8.8(c) the cash outflows for the purchase of the Coles Group will be \$6,405.1 million to Coles Group Shareholders and \$353.3 million in transaction fees, which will be entirely funded by debt.

9 Implementation of the Scheme

9.1 Scheme Implementation Agreement

On 2 July 2007, Coles Group, Wesfarmers Retail and Wesfarmers entered into a Scheme Implementation Agreement in relation to the Scheme under which Coles Group agreed to propose the Scheme. The Wesfarmers proposal was revised on 5 September 2007.

A summary of the Scheme Implementation Agreement is set out in Section 10 and a full copy is available in the Scheme Booklet Supplement.

9.2 Deed Poll

On 27 September 2007, Wesfarmers Retail and Wesfarmers executed the Deed Poll, pursuant to which Wesfarmers Retail and Wesfarmers agreed, subject to the Scheme becoming Effective, to provide each Scheme Shareholder with the relevant Scheme Consideration to which it is entitled under the Scheme.

A copy of the Deed Poll is attached as Annexure C to this Scheme Booklet.

9.3 Scheme Meeting

On or about the date of this Scheme Booklet, the Court ordered that the Scheme Meeting be convened in accordance with the Notice of Meeting and appointed Mr Rick Allert to chair the Scheme Meeting. The Notice of Meeting is set out as Annexure D to this Scheme Booklet.

Each Coles Group Shareholder (other than Excluded Shareholders) who is registered on the Register at 7:00pm on 5 November 2007 is entitled to attend and vote at the Scheme Meeting, either in person or by proxy or attorney or, in the case of a body corporate, by its corporate representative appointed in accordance with section 250D of the Corporations Act. Voting at the Scheme Meeting will be by poll.

To be approved under paragraph 411(4)(a) of the Corporations Act, the resolution in favour of the Scheme must be passed at the Scheme Meeting by:

- (1) a majority in number of Coles Group Shareholders (other than Excluded Shareholders) present and voting (in person or by proxy); and
- (2) votes representing at least 75 per cent of the total votes cast at the Scheme Meeting.

Instructions on how to attend and vote at the Scheme Meeting (in person or by proxy), are set out in Section 4 of this Scheme Booklet and in the notes for the Notice of Meeting in Annexure D to this Scheme Booklet.

9.4 Court approval of the Scheme

In the event that:

- (1) the Scheme is agreed to by the requisite majorities of Coles Group Shareholders (other than Excluded Shareholders) at the Scheme Meeting; and
- (2) all Conditions Precedent have been satisfied or waived (if they are capable of being waived) (see Section 10),

then Coles Group will apply to the Court for orders approving the Scheme.

Each Coles Group Shareholder (other than Excluded Shareholders) has the right to appear at the Second Court Date.

9.5 Effective Date

The Scheme will become Effective on the Effective Date, being the date an office copy of the Court order from the Second Court Hearing approving the Scheme is lodged with ASIC. Coles Group will, on the Scheme becoming Effective, give notice of that event to ASX.

Coles Group intends to apply to ASX for Coles Group Shares to be suspended from official quotation on ASX from close of trading on the Effective Date.

9.6 Record Date

Those Coles Group Shareholders (other than Excluded Shareholders) on the Register on the Record Date (ie at 7:00pm on the fifth Business Day after the Effective Date, expected to be 16 November 2007) will become entitled to the Scheme Consideration in respect of the Coles Group Shares they hold at that time (in this Scheme Booklet, those Coles Group Shareholders and the Coles Group Shares that they hold are referred to as 'Scheme Shareholders' and 'Scheme Shares' respectively).

9.7 Determination of persons entitled to Scheme Consideration

(a) Dealings on or prior to the Record Date

For the purposes of calculating entitlements under the Scheme, any dealing in Coles Group Shares will only be recognised if:

- (1) in the case of dealings of the type to be effected by CHESS, the transferee is registered in the Register as the holder of the relevant Coles Group Shares on the Record Date; and
- (2) in all other cases, registrable transmission applications or transfers in respect of those dealings are received on or before the Record Date at the Coles Group Share Registry.

Subject to the Corporations Act, ASX Listing Rules and the Coles Group Constitution, Coles Group must register transmission applications or transfers which it receives by the Record Date. Coles Group will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Coles Group Shares received after the Record Date.

(b) Dealings after the Record Date

For the purposes of determining the entitlement to Scheme Consideration, Coles Group will, until the Scheme Consideration has been provided, maintain the Register, subject to the comments in Section 9.7(a), in its form as at the Record Date. The Register in this form will solely determine entitlements to Scheme Consideration.

From the Record Date:

- (1) all statements of holding in respect of Coles Group Shares cease to have effect as documents of title in respect of such Coles Group Shares; and
- (2) each entry on the Register will cease to be of any effect except as evidence of entitlement to Scheme Consideration in respect of the Coles Group Shares relating to that entry.

9.8 Implementation Date

The Implementation Date is proposed to be the fifth Business Day after the Record Date.

(a) Payment of Cash Consideration

Before 11am on the Implementation Date, Wesfarmers (through its wholly-owned subsidiary, Wesfarmers Retail) will pay an amount equal to the aggregate Cash Consideration payable to each Scheme Shareholder to Coles Group as trustee for the Scheme Shareholders.

On the Implementation Date, Coles Group, on behalf of Wesfarmers, will despatch the relevant Cash Consideration payable to each Scheme Shareholder in respect of their Scheme Shares by making a deposit into the nominated bank account of each Scheme Shareholder with the Coles Group Share Registry as at the Record Date or by cheque.

(b) Payment of Share Consideration

New Wesfarmers Ordinary Shares and Wesfarmers PPS will be issued as Share Consideration under the Scheme to Scheme Shareholders (other than Ineligible Foreign Shareholders) on the Implementation Date.

Ineligible Foreign Shareholders should refer to Section 5.18 for further details about the consideration they will receive.

New Wesfarmers Ordinary Shares and Wesfarmers PPS are currently expected to trade on a deferred settlement basis at the commencement of trading on 12 November 2007. It is the responsibility of each New Wesfarmers Shareholder to confirm their holding before trading in New Wesfarmers Ordinary Shares. New Wesfarmers Shareholders who sell New Wesfarmers Ordinary Shares before they receive their holding statement or confirm their uncertificated holdings of New Wesfarmers Ordinary Shares or Wesfarmers PPS (as applicable) do so at their own risk.

Holding statements for New Wesfarmers Ordinary Shares and Wesfarmers PPS are expected to be despatched to Scheme Shareholders on or as soon as practicable after the Implementation Date, currently expected to be 23 November 2007, and in any event, within five Business Days after the Implementation Date.

Trading on ASX of New Wesfarmers Ordinary Shares and Wesfarmers PPS on a normal settlement basis is expected to commence by 3 December 2007.

9 Implementation of the Scheme (continued)

(c) Other considerations

Once the Cash Consideration has been paid and the Scheme Consideration issued, the Scheme Shares will be transferred to Wesfarmers Retail without need for further acts by Scheme Shareholders.

In the case of Scheme Shares held in joint names, the Scheme Consideration shall be paid to the holder whose name appears first in the Register as at the Record Date and the Share Consideration will be issued to, and registered in the name of, the joint holders.

9.9 Delisting Coles Group

On a date after the Implementation Date to be determined by Wesfarmers, Coles Group will apply:

- (1) for termination of the official quotation of Coles Group Shares on ASX; and
- (2) to have itself removed from the official list of ASX.

10 Key terms of the Scheme Implementation Agreement

10.1 Overview

Coles Group, Wesfarmers Retail and Wesfarmers entered into the Scheme Implementation Agreement on 2 July 2007. The parties entered into a replacement Scheme Implementation Agreement on 5 September 2007 to incorporate agreed changes to the terms of the original agreement.

A full copy of the Scheme Implementation Agreement is available in the Scheme Booklet Supplement.

10.2 Conditions Precedent

Implementation of the Scheme is subject to the Conditions Precedent which must be satisfied or waived. The Conditions Precedent are as follows:

- (1) Coles Group Shareholders approving the Scheme at the Scheme Meeting by the requisite majorities (refer to Section 9.3);
- (2) the Court approving the Scheme;
- (3) consent of the New Zealand Overseas Investment Office being obtained before 6pm on the day before the Second Court Date (refer to Section 13.6 for the status of this consent);
- (4) there being no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or Governmental Agency or other legal restraint or prohibition preventing the implementation of the Scheme in effect at 6pm on the day before the Second Court Date;
- (5) there being no Coles Prescribed Occurrence before 6pm on the day before the Second Court Date. Coles Prescribed Occurrences include Coles Group (and in some circumstances any subsidiary of Coles Group) altering its share capital in any way (other than pursuant to the exercise of an Executive Option or vesting of a Performance Share), creating encumbrances over the whole or a substantial part of its business or property (other than in the ordinary course of business) and the occurrence of certain insolvency events;
- (6) there being no Wesfarmers Prescribed Occurrence before 6pm on the day before the Second Court Date;
- (7) the representations and warranties of Coles Group, Wesfarmers Retail and Wesfarmers being materially true and correct as of the date of the Scheme Implementation Agreement and as at 6pm on the day before the Second Court Date; and
- (8) the New Wesfarmers Shares to be issued to Coles Group Shareholders under the Scheme being approved, before 6pm on the day before the Second Court Date, for official quotation on ASX.

The terms 'Coles Prescribed Occurrence' and 'Wesfarmers Prescribed Occurrence' are defined in clause 1.1 of the Scheme Implementation Agreement.

Full details of the Conditions Precedent, the ability of Coles Group, Wesfarmers Retail and Wesfarmers to rely on the various Conditions Precedent and the provisions relating to satisfaction or waiver of these Conditions Precedent are set out in clause 3 of the Scheme Implementation Agreement.

As at the date of this Scheme Booklet, Coles Group is not aware of any reason why the Conditions Precedent will not be satisfied by 6pm on the day before the Second Court Date.

10.3 Business Engagement and Integration Committee

A committee comprising Coles Group and Wesfarmers representatives has been established to act as a forum for consultation between the parties in relation to matters such as the trading and financial performance of the Coles Group businesses and to facilitate implementation of Wesfarmers' plans for the business following implementation of the Scheme.

10.4 No-talk and no-shop obligations

(a) No-talk

Coles Group has agreed that during the Restricted Period it must ensure that neither it nor any of its Related Bodies Corporate nor any of their respective officers, employees, agents, contractors, advisers or financiers (**Coles Group Representatives**):

- directly or indirectly participate in any negotiations or discussions with, or provide any information to, any other person in response to or for the purposes of obtaining any expression of interest, offer or proposal from any person in relation to a Competing Transaction; or
- disclose any information about the business or affairs of the Coles Group to any other person (other than a Governmental Agency) other than in the ordinary course of business or as required under Coles Group's existing contractual obligations.

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Key terms of the Scheme Implementation Agreement (continued)

However, Coles Group and Coles Group Representatives may undertake any act, which would otherwise be prohibited under the no-talk obligation, in relation to a bona fide Competing Transaction which:

- was not solicited by Coles Group;
- was not brought about as a result of a breach by Coles Group of its no-talk and no-shop obligations;
- is, or is reasonably likely to constitute, a Superior Transaction; and
- where failure to undertake such act in response to a Competing Transaction may constitute a breach of the Coles Group Directors' fiduciary or statutory obligations.

Coles Group may also continue to make normal presentations to brokers, investors and analysts in the ordinary course of business or to promote the merits of the Transaction.

(b) No-shop

Coles Group has agreed that during the Restricted Period it must ensure that neither it nor any Coles Group Representatives directly or indirectly solicit or encourage any Competing Transaction or initiate steps or discussions with any other person which may reasonably be expected to lead to an offer or proposal by any other person in relation to a Competing Transaction.

(c) Notification of third party approaches

During the Restricted Period, Coles Group must promptly notify Wesfarmers Retail of any approach made or attempt to negotiate with Coles Group with respect to a Competing Transaction or any request for information or access which may lead to a Competing Transaction.

(d) Right of Wesfarmers Retail to match Competing Transaction

Coles Group may only enter into a legally binding agreement regarding, or publicly recommend, a Competing Transaction, if it has:

- notified Wesfarmers Retail of the material terms of the Competing Transaction; and
- provided Wesfarmers Retail at least three Business Days to match the terms of the Competing Transaction, and Wesfarmers Retail has failed to do so.

10.5 Break Fee

(a) Payment of Break Fee

Coles Group has agreed to pay a Break Fee of \$150 million to Wesfarmers Retail if any of the following occur:

- a Competing Transaction is announced or made prior to the earlier of termination of the Scheme Implementation Agreement and the Second Court Date, and within 12 months after the date of the Scheme Implementation Agreement, the person engaging or making the Competing Transaction acquires:
 - all or a substantial part of the business of Coles Group;
 - all or a substantial part of the Coles Everyday Needs Business or the K-mart, Target or Officeworks businesses, or acquires management rights over, or any other right to participate in the profits of (other than as a shareholder), any of those businesses; or
 - control of or otherwise acquires or merges with Coles Group;
- prior to the termination of the Scheme Implementation Agreement, a majority of Coles Group Directors withdraw their recommendation for the Scheme (other than where the Independent Expert concludes that the Scheme is no longer in the best interests of the Coles Group Shareholders due to the occurrence of a Wesfarmers Material Adverse Change), adversely modify an earlier recommendation or publicly recommend a Competing Transaction; or
- Wesfarmers Retail terminates the Scheme Implementation Agreement for a material breach by Coles Group.

Coles Group and Wesfarmers Retail both consider it is reasonable and appropriate to agree to the payment of the Break Fee to secure the significant benefits available to each of them from participation in the Transaction.

(b) Qualifications to Coles Group's obligation to pay Break Fee

Coles Group will not be liable to pay the Break Fee, and will be entitled to a refund if the Break Fee has already been paid, if:

- the Scheme becomes Effective; or
- a court or the Takeovers Panel determines that the agreement to pay, or the payment of, the Break Fee:
 - constitutes or would constitute a breach of fiduciary or statutory duties owed by the Coles Group Board;
 - constitutes or would constitute unacceptable circumstances within the meaning of the Corporations Act; or
 - is or would be unlawful for any other reason.

(c) Sole remedy

If the Break Fee becomes payable, the Break Fee is Wesfarmers Retail's and Wesfarmers' sole remedy in connection with the event triggering the requirement to pay the Break Fee. Coles Group is only liable to pay the Break Fee once.

10.6 Termination

Either Coles Group or Wesfarmers Retail may terminate the Scheme Implementation Agreement:

- at any time before 6pm on the day before the Second Court Date if there is a material breach by the other party which is not remedied within five Business Days;
- at any time before 6pm on the day before the Second Court Date if a court or Governmental Agency has taken any action permanently restraining or otherwise prohibiting the Transaction, or has refused to do any thing necessary to permit the Transaction, and the action or refusal has become final and cannot be appealed;
- if there is a failure to satisfy a Condition Precedent and the parties cannot resolve that failure after consultation between them; or
- if the Effective Date has not occurred by the End Date (subject to any extensions of the End Date).

Wesfarmers Retail may also terminate the Scheme Implementation Agreement if at any time before 6pm on the day before the Second Court Date the majority of the Coles Group Board:

- withdraws its recommendation that Coles Group Shareholders vote in favour of the Scheme;
- makes a public statement indicating that it no longer supports the Transaction; or
- makes a public statement indicating that it supports a Competing Transaction.

Coles Group may also terminate the Scheme Implementation Agreement if at any time before 6pm on the day before the Second Court Date:

- the Coles Group Board recommends a Superior Transaction and does not reinstate its recommendation of the Transaction within five Business Days; or
- Wesfarmers Retail or Wesfarmers enters into any arrangement, agreement or understanding with any other party without the prior written consent of Coles Group, pursuant to which the other party may acquire ownership interests or management rights in Wesfarmers Retail, Coles Group or any business operated by the Coles Group for a consideration of \$100 million or more.

10.7 Stamp Duty

Coles Group does not expect that any stamp duty will be payable on the transfer of the Scheme Shares to Wesfarmers Retail. However, if stamp duty is payable in connection with the Transaction, Wesfarmers Retail has an obligation under the Scheme Implementation Agreement to pay the stamp duty.

10.8 End Date

Coles Group, Wesfarmers Retail and Wesfarmers have committed to implement the Scheme by the End Date, being 31 December 2007. If the Scheme is not Effective by the End Date, Coles Group, Wesfarmers Retail and Wesfarmers must consult in good faith to determine whether the Transaction can proceed by way of alternative means or method or whether the End Date should be extended. If the parties are unable to reach agreement within ten Business Days, either party may terminate the Scheme Implementation Agreement and the Transaction will not proceed.

11 Summary of Independent Expert's Report

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21 September 2007

The Directors
Coles Group Limited
800 Toorak Road
Tooronga VIC 3146

Dear Directors

Wesfarmers Proposal

1 Introduction

Coles Group Limited ("Coles Group") is one of Australia's leading retail companies, with approximately 170,000 employees and operations in every State of Australia. Its major businesses are:

- the Coles and Bi-Lo supermarket chains ("Supermarkets");
- the Coles Express convenience store and fuel retailing chain;
- a liquor business ("Coles Liquor") consisting of retail liquor outlets and hotel operations (including gaming). The retail liquor outlets trade under the 1st Choice, Liquorland and Vintage Cellars brands;
- the Kmart discount department store chain;
- the Target department store chain; and
- the Officeworks office products chain.

Coles Group shares are listed on the Australian Securities Exchange ("ASX"). As at 21 September 2007, Coles Group had a market capitalisation of around \$18.0 billion.

In August 2006, Coles Group announced that it had been approached by a consortium of private equity funds with a conditional proposal for the acquisition of all the shares in Coles Group, at an indicative price of \$14.50 per Coles Group share. The conditional proposal was subsequently increased to \$15.25. The Directors of Coles Group did not proceed with the conditional proposal as they determined that the offer price significantly undervalued the company. In February 2007, following the results for the period ended 31 January 2007, Coles Group announced that it was initiating a review of ownership options for Coles Group. Coles Group undertook an extensive sales process, including discussions with a number of potential buyers of part or all of Coles Group. On 2 July 2007, Coles Group announced that it had reached an agreement for Wesfarmers Limited ("Wesfarmers") to acquire all the shares in Coles Group. A revised proposal ("the Wesfarmers Proposal") was announced on 5 September 2007.

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Wesfarmers is a diversified Australian conglomerate. Its major business operations are:

- the Bunnings chain of hardware stores;
- coal mining operations in Queensland, New South Wales and Western Australia;
- a general insurance and insurance broking business;
- a chemicals and fertilisers business;
- an industrial products distribution business; and
- an energy business, including gas refining and distribution and the design, ownership and operation of regional power generation facilities.

Wesfarmers is also listed on the ASX, with a market capitalisation of around \$15.6 billion as at 21 September 2007.

Under the Wesfarmers Proposal, which is to be effected by a scheme of arrangement ("Scheme"), the consideration ("Base Offer Consideration") consists of \$4.00 cash, 0.14215 ordinary Wesfarmers shares and 0.14215 Wesfarmers Partially Protected Shares ("PPS") for each Coles Group share. The PPS:

- afford holders of PPS the same rights as ordinary shares in relation to dividends, returns of capital, voting and other matters;
- will be reclassified on a one for one basis as ordinary shares after a period of between four years (the "Lapse Date") and four years and six months. To the extent the Wesfarmers share price at that time is below \$45.00, Wesfarmers will make a bonus issue of ordinary shares so as to provide value to PPS holders of \$45.00, up to a maximum of 0.25 bonus shares per PPS (i.e. holders will receive less than \$45.00 if the Wesfarmers share price is below \$36.00); and
- will be automatically reclassified as ordinary shares prior to the end of the four year and six month period if the Wesfarmers share price exceeds \$45.00 for a 20 day period. The Lapse Date can also be extended by Wesfarmers by an additional year (for up to a further three years) if the S&P/ASX 200 Industrials Index averages below 6,500 for the two months before the Lapse Date (and each anniversary thereof).

Coles Group shareholders can also participate in a mix and match facility. Shareholders can elect to receive additional cash (in lieu of ordinary shares) or ordinary shares (in lieu of cash). The extent to which such elections are satisfied will depend on the extent of offsetting elections by other Coles Group shareholders. For the purpose of the transfer of interests between Coles Group shareholders participating in the mix and match facility, Wesfarmers shares will be valued at a volume weighted average price ("VWAP") over the five trading days from the date on which the Scheme becomes effective.

All Coles Group shareholders will be entitled to the fully franked final dividend of \$0.25 per share in relation to the year ended 29 July 2007. However, Coles Group shareholders will not participate in the final Wesfarmers dividend.

The Scheme is subject to the approval of the Supreme Court of Victoria and Coles Group shareholders.

The Directors of Coles Group have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in Grant Samuel's opinion, the Wesfarmers Proposal is in the best interests of Coles Group shareholders. A summary of this report will accompany the Notice of Meeting and Scheme Booklet to be sent to Coles Group shareholders. The full report is included in the Supplementary Booklet. This letter contains a summary of Grant Samuel's opinion and main conclusions.

Summary of Independent Expert's Report (continued)

GRANT SAMUEL

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2 Summary of Opinion

In Grant Samuel's view the Wesfarmers Proposal is in the best interests of Coles Group shareholders. The Wesfarmers Proposal does not deliver a full premium for control. However, unless a superior alternative proposal emerges before the Scheme meeting, Coles Group shareholders are likely to be better off voting in favour of the Wesfarmers Proposal.

Assessment of the Wesfarmers Proposal is not straightforward. Valuation of Coles Group is subject to uncertainty and a wide range of valuation conclusions could credibly be reached. This uncertainty has been exacerbated by the recent volatility in financial markets. Similarly, there is uncertainty regarding the value of the consideration (which largely consists of equity in the expanded Wesfarmers). Accordingly, valuation analysis can provide no more than partial guidance as to whether the Wesfarmers Proposal is in the best interests of Coles Group shareholders. Other considerations include the circumstances that led to the Wesfarmers Proposal, the recent trading performance of Coles Group and the alternatives available to Coles Group should the Wesfarmers Proposal be rejected. The assessment of the Wesfarmers Proposal is an overall conclusion having regard to all these considerations.

Grant Samuel has valued Coles Group in the range \$19.6-22.0 billion, or \$16.21-18.23 per share. The valuation reflects the estimated full underlying value of Coles Group's businesses. The valuation range exceeds the price at which Grant Samuel would expect Coles Group shares to trade in the absence of the Wesfarmers Proposal or of speculation regarding some alternative corporate transaction.

The Supermarkets, Coles Express and Coles Liquor business represents around 65% of the total enterprise value of Coles Group. The Supermarkets business has traded poorly during the year to 29 July 2007, particularly in the second half of the year. While the current performance is a factor, the valuation of the Supermarkets business also takes into account the strategic attractions of the business, its extensive and non replicable store network and the potential for a turnaround in performance over the medium term. Based on international and local comparisons, the turnaround potential is substantial and this needs to be reflected in the valuation. However, assessment of the fair value today must be tempered by the extent of the restructuring steps yet to be taken and the associated execution risks. The future performance of the Supermarkets business is also likely to be influenced, perhaps materially, by competitor behaviour. Widely differing views could reasonably be adopted in relation to the timing and magnitude of a future turnaround in the business and the capital costs and other investment required to achieve that turnaround. The valuation of Target and Officeworks reflects their ongoing strong performance.

Grant Samuel has attributed a value of \$14.87-15.44 per Coles Group share to the Base Offer Consideration. This value range is based on a Wesfarmers ordinary share price in the range \$38.00-40.00, adjusted for the final Wesfarmers dividend of \$1.40. The PPS have been valued at a premium of \$1.00-1.50 per share (for a \$40.00 share price) and \$1.50-2.00 (for a \$38.00 share price) over the value of a Wesfarmers ordinary share. The Wesfarmers share price has fluctuated significantly since the announcement of the Wesfarmers Proposal, falling from a high of \$45.73 immediately prior to the announcement of the Wesfarmers Proposal to lows in mid-August 2007 of \$37.15. In these circumstances judgements about the value of the consideration are inevitably imprecise. The value of the consideration will fluctuate with movements in the Wesfarmers share price such that the value of the Base Offer Consideration may ultimately be greater or less than the range of values adopted by Grant Samuel of \$14.87-15.44. For some shareholders (to the extent that they receive Wesfarmers shares and PPS under the Wesfarmers Proposal), roll-over relief may increase the effective after tax value of the consideration.

The value attributed to the Base Offer Consideration of \$14.87-15.44 per Coles Group share is less than Grant Samuel's estimate of the full underlying value of Coles Group of \$16.21-18.23. Accordingly, the Wesfarmers Proposal is not currently in the fair value range and this suggests that Coles Group shareholders are not receiving a full premium for control under the Wesfarmers Proposal.

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It can be argued that Coles Group shareholders need not accept an offer that is not “fair”:

- alternative proposals could emerge. The value of the consideration has fallen significantly since the announcement of the Wesfarmers Proposal and this may encourage other parties, particularly those that previously participated in the Coles Group sale process, to re-enter the process (notwithstanding the current difficult credit market conditions). There is ample time for an alternative proposal to be made before the Scheme meeting. Wesfarmers’ 12.1% voting power in Coles Group would not be an insurmountable impediment to an alternative offer;
- if the Wesfarmers Proposal is rejected, Wesfarmers might improve its offer; and
- while a return to the “status quo” is not realistic, Coles Group could ultimately deliver value above \$16.21-18.23 per share through a successful turnaround of the Supermarkets business (possibly in conjunction with an equity partner), albeit over the medium term. Such a strategy could be undertaken in conjunction with a sale or spin off of businesses such as Target and Officeworks. The organisation does require a major revamp, including substantial management revitalisation across the Supermarkets business and other structural changes, but a turnaround under Coles Group ownership cannot be ruled out. Wesfarmers’ plans for the Supermarkets business are not dramatically different to those of Coles Group and Wesfarmers will also need to recruit new management. It should be recognised that there are substantial risks associated with the turnaround of the Supermarkets business, whether under Coles Group or Wesfarmers ownership.

The offer process has coincided with a low point in the performance of the Supermarkets business, a period of negative market sentiment towards the company and adverse external market conditions. It may therefore not be a propitious time for shareholders to sell.

On the other hand:

- given the inherent uncertainty regarding valuation judgements for Coles Group, the conclusion that the Wesfarmers Proposal is not “fair” needs to be treated with some caution. The Wesfarmers Proposal was the outcome of an extensive worldwide sale process and was the only firm offer for all of Coles Group. On one view, the highest price secured through a comprehensive sale process by definition represents full underlying value. Notwithstanding the subsequent fall in the Wesfarmers share price (and consequent reduction in the value of the consideration), the Wesfarmers Proposal remains the only proposal available to Coles Group shareholders. If no superior proposal is received prior to the Scheme meeting it could be argued that the Wesfarmers Proposal still represents full value;
- having enhanced its offer through the introduction of PPS, the prospects of Wesfarmers increasing its offer are not high. In addition, the prospects of an alternative offer may be diminished because of the provisions of the (amended) Scheme Implementation Agreement;
- the Wesfarmers share price has fallen sharply from more than \$45.00 on the announcement date to its current levels of \$38.00-40.00. In part, this fall may be attributable to overall weakness in equity markets during this period but it is likely that the fall also reflected specific factors such as hedge fund and arbitrage activity, some adverse reaction to the proposal and Wesfarmers’ results announcement. There is an argument (but no certainty) that the price has been temporarily depressed and that Wesfarmers shares would trade higher once the market settles and if the Wesfarmers Proposal is successfully implemented;
- continued ownership uncertainty is likely to be damaging for the Supermarkets business. There is an urgent need to strengthen Supermarkets’ management team, but it is difficult to attract high quality candidates in the current circumstances. Further, the achievement of the full turnaround in the Supermarkets business may require such profound changes in the organisation that new ownership may be more effective than continuation of the current structure (even with management changes). Ownership changes (whether involving Wesfarmers or some other party) may provide the opportunity for a decisive break from the past and an accelerated transformation of the Coles Group culture; and

Summary of Independent Expert's Report (continued)

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- Coles Group shareholders (excluding Wesfarmers) would collectively have a 44%¹ economic interest in the combined business after implementation. This gives them a substantial ongoing exposure to any upside from the Coles Group businesses if Wesfarmers successfully achieves the turnaround (but equally provides exposure to 44% of any downside).

While control clearly passes at a Board and management level, Coles Group shareholders will have a significant ongoing participation in Wesfarmers. In view of the similar sizes of the two entities and the continued involvement of Coles Group shareholders in the merged company, the transaction could be analysed as a merger. Although this analysis is also not clear cut, it suggests that, as a merger, the terms of the Wesfarmers Proposal strike a reasonable balance between the interests of Coles Group and Wesfarmers shareholders, and arguably are favourable to Coles Group shareholders (i.e. they receive some premium). However, where an acquirer is seeking Board and management control, it is usual for a control premium to be paid.

Choosing between these two perspectives is a finely balanced judgement and shareholders could validly form either view.

The Scheme process could be a catalyst for a superior offer, by establishing a clear value benchmark and a defined timetable within which any interested third party would have to act. A counterbidder does face some hurdles but it would nevertheless be sensible for shareholders to defer any voting decision until close to the Scheme meeting. Similarly, the current volatility in financial markets (and in the Wesfarmers share price) would also suggest that decisions should be left as late as practically possible.

If a superior proposal does not emerge prior to the Scheme meeting the choice is essentially between the Wesfarmers Proposal and a standalone turnaround strategy. While the Supermarkets turnaround strategy has the potential to deliver attractive returns over the medium term, it is subject to considerable execution and competitive risk. It is likely that ongoing ownership uncertainty would continue to hamper Coles Group, which would be reliant on achieving major organisational change from within. The Coles Group share price is likely to be relatively weak for a sustained period until credibility is restored through demonstration of a material improvement in performance. While the Wesfarmers Proposal is less than the fair value range, the effect of the discount is mitigated by the fact that Coles Group shareholders will have a 44% economic interest in the combined entity.

Accordingly, if no superior proposal emerges prior to the Scheme meeting, Grant Samuel's judgement is that the Wesfarmers Proposal would be in the best interests of shareholders.

¹ The interest is potentially higher if Wesfarmers is required to issue bonus shares when the PPS are reclassified as ordinary shares. However, this would probably be in circumstances where little upside has been realised.

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3 Key Conclusions

- **Coles Group has been valued in the range \$19.6-22.0 billion, representing \$16.21-18.23 per share.**

Coles Group has been valued in the range of \$16.21-18.23 per share. The valuation represents the full underlying value of Coles Group. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Coles Group shares to trade on the ASX in the absence of the Wesfarmers Proposal or similar change of control transaction. The valuation is summarised below:

Coles Group - Valuation Summary (\$ millions)		
	Value Range	
	Low	High
Supermarkets, Coles Express and Coles Liquor	13,500	15,200
Kmart	1,550	1,750
Target	4,000	4,300
Officeworks	1,400	1,600
Other assets and liabilities	687	707
Corporate overheads	(275)	(250)
Enterprise Value	20,862	23,307
Net debt at 29 July 2007	(1,269)	(1,269)
Equity value	19,593	22,038
Fully diluted shares on issue (millions) ²	1,209	1,209
Value per share	\$16.21	\$18.23

Grant Samuel has valued Coles Group by aggregating the estimated market values of each of its operating businesses, adjusting for other assets and liabilities and the capitalised value of corporate costs, and subtracting net debt as at 29 July 2007. The operating businesses have been valued having regard to capitalisation of earnings and discounted cash flow analysis. The value does not represent a "break up" value as it does not take account of transaction costs (which could be significant).

- **The earnings multiples implied by the valuation reflect the varying performances and growth prospects of Coles Group's businesses.**

The valuation of Coles Group in the range \$16.21-18.23 per share implies the following multiples of overall group earnings:

Coles Group – Implied Valuation Parameters		
	Low	High
Multiple of EBITDA		
Year ended 30 July 2006	12.7	14.2
Year ended 29 July 2007	12.3	13.8
Multiple of EBIT		
Year ended 30 July 2006	18.2	20.3
Year ended 29 July 2007	18.1	20.3
Price earnings multiples (before significant items)		
Year ended 30 July 2006	24.9	28.0
Year ended 29 July 2007	25.7	28.9

² Assumes that all options vest and are exercised, and that all performance shares vest. The Coles Group Board is able to exercise its discretion in relation to some of the options and performance shares to allow them to vest. To the extent that some options and performance shares do not vest, there may be a small increase in Grant Samuel's valuation range.

Summary of Independent Expert's Report (continued)

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In Grant Samuel's view the multiples are reasonable. They reflect:

- the strong market positions, leading brands and extensive store networks of Coles Group's various retail chains;
 - the disappointing results of the Supermarkets business during 2007, balanced against the prospects for an earnings recovery in the short to medium term;
 - the steady progress and potential of Coles Express and Coles Liquor;
 - early signs of an improvement in the performance of the Kmart business; and
 - the strong performance and prospects for continued growth of the Target and Officeworks businesses.
- **The valuation of Coles Group's businesses has been prepared having regard to discounted cash flow and capitalisation of earnings methodologies.**

Valuations are generally based on one or both of the discounted cash flow ("DCF") and capitalisation of earnings approaches and Grant Samuel has had regard to both methodologies in the valuation of Coles Group.

The capitalisation of earnings methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. The multiples can be applied to a number of different earnings or cash flow measure including EBITDA, EBIT or net profit after tax. In determining a value for Coles Group's businesses, Grant Samuel has placed particular reliance on the EBITDA and EBIT multiples implied by the valuation range compared to the EBITDA and EBIT multiples derived from an analysis of comparable listed companies and transactions involving comparable businesses.

The valuation of Coles Group's businesses implies the following multiples of 2007 financial year earnings:

Coles Group Businesses – Implied Earnings Multiples (\$ millions)		
	Low	High
Supermarkets, Coles Express and Coles Liquor		
Multiple of EBITDA	12.3	13.9
Multiple of EBIT	17.5	19.7
Kmart		
Multiple of EBITDA	9.9	11.2
Multiple of EBIT	16.0	18.1
Target		
Multiple of EBITDA	11.7	12.5
Multiple of EBIT	13.8	14.8
Officeworks		
Multiple of EBITDA	13.4	15.3
Multiple of EBIT	16.4	18.7

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Grant Samuel has also cross-referenced its valuation against budgeted 2008 earnings. At Coles Group's request, Grant Samuel has not disclosed the multiples of 2008 earnings.

The DCF methodology involves discounting the cash flows to a net present value ("NPV") using a discount rate which reflects the risk associated with the cash flow stream. This methodology is able to explicitly capture the potential for a substantial turnaround in the performance of a number of businesses of Coles Group, in particular, Supermarkets and Kmart. For the purpose of the DCF analysis, Grant Samuel has prepared financial models for the operating businesses of Coles Group. The models allow the analysis of alternative scenarios for the future financial performance of the Coles Group businesses. The scenarios were developed by Grant Samuel with reference to the Coles Group 2008 budget and five year management projections prepared by Coles Group management. The projections were prepared by Coles Group management for the purpose of the sale process, and on the basis of actual results of Coles Group to 28 January 2007. They have not been updated by Coles Group management to reflect the actual trading of Coles Group for the second half of the 2007 financial year or to reflect the 2008 budget.

The financial models for Coles Liquor and Kmart run from 30 July 2007 for five years to 31 July 2012, with a terminal value as at 31 July 2012. The models for Supermarkets, Coles Express, Target and Officeworks have been extended for an additional five years to 31 July 2017 with a terminal value calculated as at 31 July 2017. The models are relatively short term, and are designed to capture the value of the turnaround potential of Supermarkets and Kmart, and the short term growth prospects of the other businesses.

Grant Samuel adopted assumptions for the scenarios to reflect its judgement on certain matters. The assumptions adopted by Grant Samuel and the associated calculations of future performance in the financial models are not, and are not necessarily consistent with, the assumptions and forecasts of Coles Group. The scenarios are based on a large number of assumptions and are subject to significant uncertainty and contingencies, many of which are outside the control of Coles Group. The scenarios allow an assessment of the impact on value of various key assumptions relating to sales growth, EBITDA margin, capital expenditure and other factors. It should be recognised that the scenarios focus on assumptions regarding key value drivers, rather than detailed "bottom up" parameters. The scenarios do not represent Grant Samuel's forecasts of the future financial performance of Coles Group and its businesses. Grant Samuel gives no undertaking and makes no warranty regarding the future financial performance of Coles Group and its businesses. Such future performance is subject to fundamental uncertainty. Rather, the scenarios have been developed purely to allow Grant Samuel to assess the impact of calculated NPVs of alternative assumptions regarding the future financial performance of Coles Group and its businesses.

Summary of Independent Expert's Report (continued)

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The assumptions generate the following key measures of financial performance:

Coles Group - Key Measures of Financial Performance (\$ millions)					
	Financial Year				
	2008	2009	2010	2011	2012
Supermarkets, Coles Express and Coles Liquor					
Scenario A					
Revenue growth	5.5%	6.2%	6.1%	5.7%	5.2%
EBIT margin	3.3%	3.5%	3.7%	4.0%	4.0%
Scenario B					
Revenue growth	5.5%	7.4%	6.2%	5.9%	5.4%
EBIT margin	3.3%	4.1%	4.1%	4.5%	4.5%
Kmart					
Scenario A					
Revenue growth	3.2%	3.6%	3.8%	4.0%	4.0%
EBIT margin	3.0%	3.0%	3.0%	3.1%	3.1%
Scenario B					
Revenue growth	3.2%	4.3%	3.9%	4.7%	4.1%
EBIT margin	3.0%	3.4%	3.4%	3.4%	3.4%
Target					
Scenario A					
Revenue growth	7.7%	8.0%	8.0%	8.0%	7.0%
EBIT margin	8.6%	8.5%	8.5%	8.3%	8.2%
Scenario B					
Revenue growth	7.7%	8.3%	8.5%	9.9%	6.9%
EBIT margin	8.6%	8.5%	8.5%	8.6%	8.5%
Officeworks					
Scenario A					
Revenue growth	12.8%	11.1%	10.5%	8.9%	7.6%
EBIT margin	6.8%	6.9%	6.9%	7.2%	7.2%
Scenario B					
Revenue growth	12.8%	11.1%	10.5%	8.9%	7.6%
EBIT margin	6.8%	7.0%	7.4%	7.8%	8.1%

Other parameters used in the DCF analysis include:

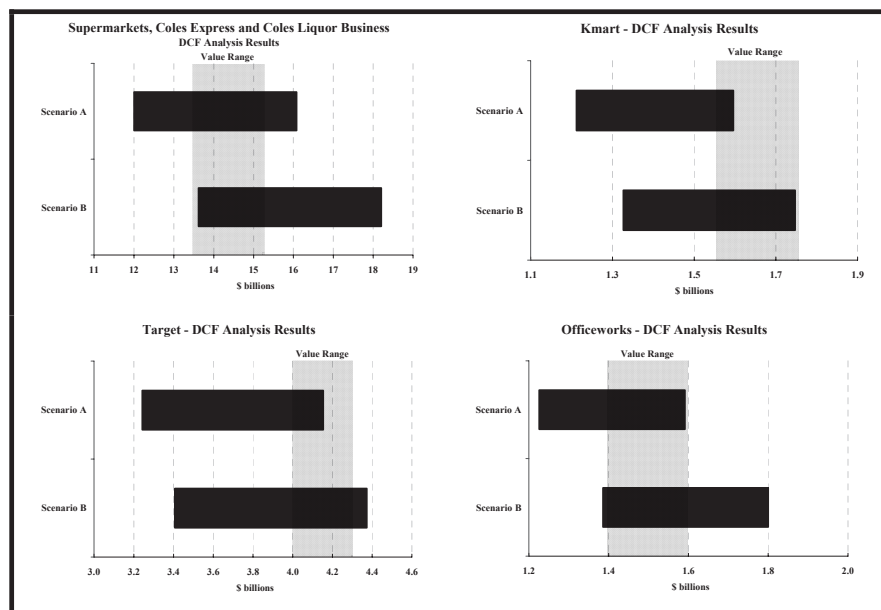
Coles Group – Other Valuation Parameters (\$ millions)				
	Discount Rates		Terminal Value Growth Rates	
	Low	High	Low	High
Supermarkets, Coles Express and Coles Liquor	10.0%	9.0%	3.0%	4.0%
Kmart	10.5%	9.5%	3.0%	4.0%
Target	10.5%	9.5%	3.0%	4.0%
Officeworks	10.5%	9.5%	3.0%	4.0%

The financial models project cash flows from 30 July 2007 and assume cash flows occur in the middle of each period. The corporate tax rate is assumed to be 29.2% in the 2008 financial year (consistent with management forecasts), and reverts to 30% from 2009 onwards.

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The DCF outcomes compared to Grant Samuel's value range for the Coles Group businesses is summarised below:



Grant Samuel's valuation of Kmart and Target are relatively high having regard to the results of the DCF analysis, although consistent with valuation evidence based on EBITDA multiple analysis. In Grant Samuel's view this is reasonable given the strategic value of the Kmart and Target store networks and the synergy benefits potentially available to a trade buyer, which are not fully reflected in the financial assumptions upon which the DCF analysis is based.

■ **Valuation of the Supermarkets business is key to the overall assessment.**

The Supermarkets, Coles Express and Coles Liquor businesses represent around 65% of Coles Group's enterprise value. Most of this value is contributed by the Supermarkets business. Grant Samuel's valuation of the Supermarkets, Coles Express and Coles Liquor business reflects the following factors:

- following a disappointing 2006 financial year, in which the Supermarkets business recorded only modest earnings growth, Supermarkets' earnings have fallen significantly in the 2007 financial year. The decline in earnings is the result of a variety of factors, including a general deterioration in the customer offer, continued competitive pressure and various management issues. More specifically, the poorly executed conversion of the Bi-Lo chain to the Coles brand and the problematic implementation of a new centrally managed range system across the supermarket network have resulted in a loss of sales and margin. In addition, it appears that the lengthy sale process for Coles Group has been disruptive at a management level and these effects will continue in the short term;
- strong growth in earnings is expected for 2008. Coles Group management has put in place various initiatives to remedy the consequences of the Bi-Lo conversion and the implementation of centrally managed range, and to address the broader business deficiencies that have become apparent. Management expects that earnings will rebound in 2008, largely as a result of the full year effect of benefits from Coles Group's cost reduction ("Simplification") program, non-recurrence of one-off Bi-Lo store conversion costs incurred in 2007 and some initial benefits from the supply chain re-engineering ("Transformation") program. In addition, the budgeted increase in earnings also reflects an expectation that comparable store sales growth will

Summary of Independent Expert's Report (continued)

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accelerate and various other business initiatives will increase margins. Trading towards the end of the 2007 financial year and over the first few weeks of the 2008 financial year has shown some preliminary evidence of a sales turnaround;

- there is potential for substantial earnings growth over the medium to longer term. In particular, the Transformation program is anticipated to generate large savings in supply chain costs by 2012, with the bulk of the savings to be delivered towards the back end of the program. Management expects that supply chain cost efficiencies will be complemented by improved in-store execution, with improved range, an expanded house brand offer, a focus on fresh, a consistent value proposition, and a more aggressive store refurbishment program all contributing to sales and margin growth. The Simplification program is expected to yield ongoing incremental benefits through to the 2009 financial year. Performance benchmarks (both from local and international supermarket operators) suggest that a significant improvement in overall performance is realistic;
- while management's plans for longer term earnings growth are broadly credible, the reality is that they are subject to significant execution risk. The Supermarkets business will need to concurrently complete a complex supply chain program and substantially improve in-store execution, while also completing a business and management restructuring, including the recruiting of a number of senior executives;
- the business is exposed to the effects of competitive behaviour, principally from Woolworths Limited ("Woolworths"). The Woolworths business is highly profitable. Its lead in supply chain and lower cost structure means that it can afford to trade off margin for market share. Competition from Woolworths (or from other participants such as Aldi or IGA) in terms of price, in-store execution or otherwise could have a significant effect on the earnings of the Supermarkets business;
- synergies available to potential acquirers of the Supermarkets business would be modest at best; and
- notwithstanding the uncertainty regarding future earnings improvement, the Supermarkets business has attractive characteristics. The Coles brand is long established and the store network, one of only two such networks in Australia, could not be replicated by a new entrant to the market and is protected by significant barriers to entry.

While there is clearly considerable upside in the Supermarkets business, it is not appropriate to take this upside into account without risking it. A buyer of the Supermarkets business would not pay for all the potential upside, given the risks that the buyer would assume. A wide range of views could reasonably be taken on the likely timing, costs and extent of the expected business turnaround. Accordingly, a range of credible conclusions regarding the value of the Supermarkets business could be reached.

- **Grant Samuel has attributed a value of \$14.87-15.44 to the Base Offer Consideration to be received by Coles Group shareholders.**

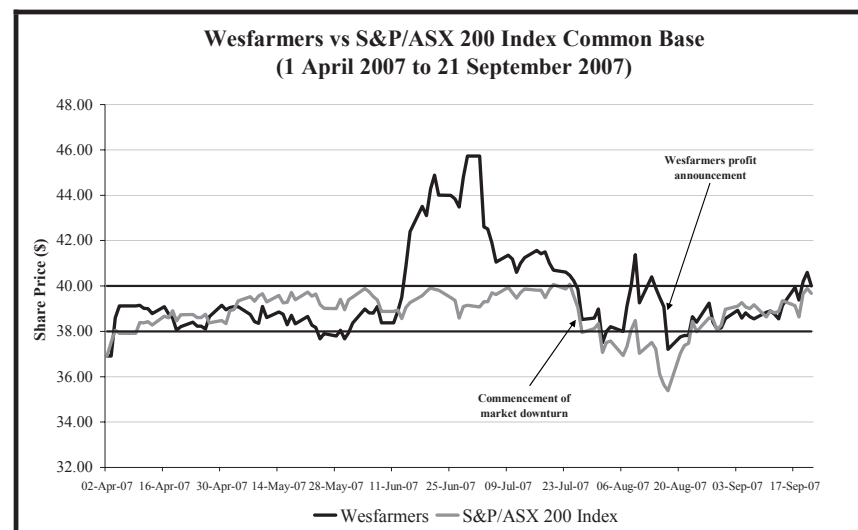
Shareholders who accept the Base Offer Consideration will receive 0.14215 of a Wesfarmers ordinary share, 0.14215 of a Wesfarmers PPS and \$4.00 in cash for every Coles Group share. In addition, shareholders will be entitled to retain the \$0.25 fully franked final dividend to be paid by Coles Group. Coles Group shareholders who receive Wesfarmers shares will not be entitled to participate in the Wesfarmers fully franked final dividend of \$1.40 per share.

Assessment of the value of the Base Offer Consideration requires an estimate of the likely trading price of Wesfarmers ordinary shares and PPS at the time that the Wesfarmers Proposal becomes effective. It is normal practice to use the current market price as the starting point for estimating the value of the offer, particularly for large companies such as Wesfarmers that enjoy reasonable share liquidity and are followed by a number of analysts and other commentators (adjusted for any likely effects of the transaction not already reflected in market trading).

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However, judgements regarding the likely trading price of Wesfarmers shares (or even a range of likely trading prices) are difficult. The Wesfarmers share price has fluctuated significantly in recent times (and its volatility is well above historical norms). During April, May and the first two weeks of June 2007, Wesfarmers shares traded reasonably consistently in the range \$38.00-40.00 (with a VWAP of \$38.82). During the last two weeks of June 2007, the Wesfarmers share price strengthened considerably, reaching an all time closing high of \$45.73 immediately before the announcement of the initial Wesfarmers proposal on 2 July 2007. The increase appears to have coincided with a general re-rating of stocks with exposure to coal that occurred at around this time.



Source: IRESS

Following the announcement of the initial Wesfarmers proposal on 2 July 2007, the Wesfarmers share price fell significantly. Wesfarmers shares generally traded in the range \$40.00-42.00 for most of July 2007, before falling further as the overall market weakened at the end of July 2007. During August 2007, Wesfarmers shares generally traded in the range \$38.0-40.00, with a volume weighted average price of \$38.77. The Wesfarmers share price strengthened following the announcement of the revised Wesfarmers Proposal on 5 September 2007. Since then the Wesfarmers share price has traded in the range \$38.00-40.00, with a volume weighted average price of \$39.39 up to 21 September 2007.

There are a number of factors that suggest that the recent Wesfarmers share price may not be representative of the price at which Wesfarmers shares would trade at the time of implementation of the Wesfarmers Proposal:

- the recent Coles Group share price (which has generally been less than the “see-through” value implied by the Wesfarmers share price) indicates that the market has been pricing in some risk that the Wesfarmers Proposal will not proceed. It is possible (although not certain) that the Wesfarmers share price will strengthen as the market becomes more confident that the Wesfarmers Proposal will complete;
- Coles Group’s 2007 results were not released until 19 September 2007;
- the market has limited visibility on 2008 earnings for either Wesfarmers or Coles Group as no forecasts have been released by either company; and
- there have been suggestions that hedge fund and arbitrage trading in Coles Group and Wesfarmers may have depressed the Wesfarmers share price following the announcement of the Wesfarmers Proposal.

Summary of Independent Expert's Report (continued)

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The Wesfarmers share price will also continue to be exposed to the risk of overall share market volatility during the period up to implementation.

Notwithstanding these issues, in Grant Samuel's view the recent Wesfarmers share price range of \$38.00-40.00 is the best current estimate of the likely Wesfarmers ordinary share price at the time of implementation of the Wesfarmers Proposal. Grant Samuel is not aware of any basis for attributing any different range of values to Wesfarmers ordinary shares.

Grant Samuel has estimated a premium for the PPS relative to Wesfarmers ordinary shares in the order of \$1.00-1.50 per share (for a \$40.00 share price) and \$1.50-2.00 (for a \$38.00 share price). The basis for this premium is discussed in the following section.

On the basis of a Wesfarmers ordinary share price in the range \$38.00-40.00, the premium for PPS and a dividend "drop-off" of \$1.40, Grant Samuel has attributed a value in the range \$14.87-15.44 to the Base Offer Consideration (including the final Coles Group dividend of \$0.25 per share to be received by Coles Group shareholders).

The after tax value of the Base Offer Consideration will vary depending upon the particular taxation position of individual shareholders. For some shareholders, the ability to defer taxation through roll-over relief in relation to the scrip component of the consideration (including the PPS) will be attractive. The Coles Group final dividend of \$0.25 per share will be fully franked and the franking credits have additional value of up to 10.7 cents per share (not included in the range \$14.87-15.44) for shareholders who can make full use of them.

The mix and match facility will allow shareholders to elect to receive more ordinary scrip or more cash, subject to a capped total cash payment to Coles Group shareholders and the elections of cash and ordinary scrip by other shareholders. The basis by which the proportions of scrip and cash will be determined will result in these alternatives having face values comparable to the value of the Base Offer Consideration (although there may be differences in tax consequences for some shareholders).

The value of the consideration will change with movements in the Wesfarmers share price, and the value of the Base Offer Consideration could ultimately be greater or less than the range of \$14.87-15.44 adopted by Grant Samuel. Significant movements in the Wesfarmers share price (and therefore in the value of the consideration) could change the overall evaluation of the Wesfarmers Proposal.

- **The PPS, which represent 50% of the scrip consideration, are essentially ordinary shares with the added benefit of some downside protection.**

The valuation of the PPS is subject to considerable uncertainty as their features compound the uncertainty attached to the value of Wesfarmers ordinary shares. There is no existing market for PPS and they are relatively complex instruments to value requiring the use of sophisticated mathematical models.

The PPS can be characterised as an ordinary Wesfarmers share but:

- with a right to receive value of \$45.00 (in ordinary shares) if Wesfarmers shares are worth less than \$45.00 at reclassification date or Wesfarmers choose to reclassify the PPS ahead of this date. This is akin to having a 4 ½ year put option exercisable at \$45.00;
- below a Wesfarmers share price of \$36.00 the value protection is incomplete, because the maximum bonus share issue per PPS remains at 0.25 of an ordinary share. Effectively, a holder of PPS is short 1.25 puts at \$36.00. Notionally, a shareholder would need to acquire 1.25 put options exercisable at \$36.00 for the same period in order to ensure that the main put option was fully effective; and
- with the risk that, if the Wesfarmers share price trades above \$45.00 for more than 20 days, the PPS will automatically be reclassified as ordinary shares and the downside protection will be

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lost. This feature means that the options described above are “barrier options” where the puts are “knocked out” when the share price breaches the \$45.00 limit.

Accordingly, the PPS can be valued as an ordinary Wesfarmers share plus the net value of the price protection features. Grant Samuel has calculated the incremental value of the PPS using this approach and valuing the implicit options using a Black-Scholes formula modified for the “up and out” knock out barrier features, in order to take into account the risk of an early reclassification of the PPS as ordinary shares.

The models calculate values in the range \$1.61-2.22 (for a \$38.00 Wesfarmers price) and \$1.13-1.72 (for a \$40.00 Wesfarmers share price) depending on assumptions about dividend franking and the treatment of the Wesfarmers dividend.

These values do not take into account some detailed features of the PPS that would affect theoretical value such as the 20 day test for the barrier price and the extendibility feature (if the S&P/ASX 200 Industrials Index is below 6,500). It is difficult to put a precise value on these features.

In any event, it is necessary to take a broader view of the likely market trading price. It is important not to overemphasise the outputs of the financial models which are subject to significant limitations and involve simplifying assumptions. The aggregate market value of the PPS will be approximately \$7 billion. Normal turnover will see a significant supply of stock over time. It is unclear how much natural demand there will be from investors prepared to pay such a premium over the price of Wesfarmers ordinary shares. There will of course be trading opportunities for professional investors (hedge funds etc.) but it is also unclear to what extent they will be able to undertake effective arbitrage strategies (complicated by the 4 ½ year term, early conversion and extendibility features) in sufficient volume to match the supply.

In these circumstances a cautious approach to valuing the PPS is warranted. Grant Samuel has assessed value as a premium to the ordinary share price for the purposes of valuing the Base Offer Consideration:

- a premium of \$1.50–2.00 at an ordinary share price of \$38.00; and
- a premium of \$1.00–1.50 at an ordinary share price of \$40.00.

This is, to a degree, an arbitrary judgement but it is considered reasonable. The width of the range reflects the inherent uncertainty.

The actual premium at which the PPS may trade could be higher or lower than Grant Samuel's estimate.

■ **Coles Group shareholders will not realise a full premium for control under the Wesfarmers Proposal.**

The value attributed to the Base Offer Consideration of \$14.87-15.44 is less than Grant Samuel's valuation of Coles Group which is in the range \$16.21-18.23. Accordingly, in Grant Samuel's view, the Wesfarmers Proposal is not “fair”. Coles Group shareholders will not receive a full premium for control under the Wesfarmers Proposal.

However, it must be recognised that valuation analysis should be treated with some caution. The valuation of Coles Group is subject to significant uncertainty, given that (at least in respect of the Supermarkets business) the valuation depends on judgements regarding the timing, cost and ultimate success of a future business turnaround. Moreover, changes in external market conditions (including share market prices and the availability of debt funding in credit markets) also affect underlying value. Market conditions have recently been volatile. Shareholders with different views on the future prospects for Coles Group's businesses could reasonably reach different conclusions on the value of Coles Group.

Summary of Independent Expert's Report (continued)

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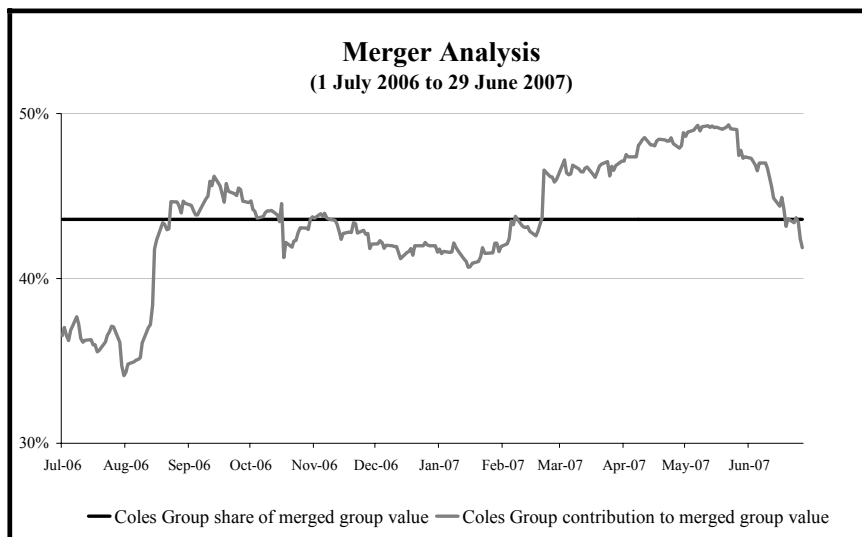
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- **If analysed as a merger, the Wesfarmers Proposal strikes a reasonable balance between the interests of Coles Group and Wesfarmers shareholders.**

While, in Grant Samuel's view, Coles Group shareholders will not realise a full premium for control under the Wesfarmers Proposal, they are not losing control in an absolute sense (at least not in the same way as in a 100% cash bid). At a Board and management level, control will clearly pass to Wesfarmers. However, the issue of control is less clear at a shareholder level. Coles Group shareholders (excluding Wesfarmers) will collectively hold a 44% economic interest in the merged Wesfarmers/Coles Group and will continue to have significant economic exposure to the upside in the Coles Group businesses. The combined company will have no controlling shareholder and a widely dispersed share register.

Given that Coles Group and Wesfarmers are of similar size and that Coles Group shareholders will collectively hold a major economic interest in the merged Wesfarmers/Coles Group, it is arguable that merger analysis is also relevant to assessment of the Wesfarmers Proposal.

The following chart compares the contribution of market values made by Coles Group shareholders, based on relative Coles Group and Wesfarmers share prices since July 2006, with the share of overall market value that Coles Group shareholders will enjoy (including the \$4.00 cash per share). The analysis does not adjust for dividend payments over the period and the final Coles Group and Wesfarmers dividends still to be paid and (for this purpose only) treats the PPS as equivalent to a Wesfarmers ordinary share:



Source: IRESS and Grant Samuel analysis

The chart shows that for share prices prior to August 2006, the terms of the Wesfarmers Proposal are such that Coles Group shareholders hold a significantly larger share of the value of the merged company than their contribution of value to the merger. Effectively, this suggests that the Wesfarmers Proposal delivers at least a partial premium for control. For share prices from 17 August 2006 to around the end of February 2007, the share of value held by Coles Group shareholders in the merged company is generally consistent with their value contribution (notwithstanding that Coles Group shares were trading on the basis of an expectation of some corporate transaction during this period). Coles Group shares traded at substantially higher prices during the period March to June 2007, as Coles Group undertook its formal sale process and market expectations of a competitive bidding process supported more optimistic views on value. For share prices during this period, the share of value held by Coles Group shareholders in the merged

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company is somewhat less than their value contribution (suggesting that the Wesfarmers Proposal does not deliver a full premium for control).

Although the analysis is not clear cut, given the impact of takeover speculation on the Coles Group share price, in Grant Samuel's view the analysis suggests that, if analysed as a merger, the terms of the Wesfarmers Proposal strike a reasonable balance between the interests of Coles Group and Wesfarmers shareholders, and arguably are favourable to Coles Group shareholders. The analysis suggests that Coles Group shareholders are realising at least a partial premium for control. Nevertheless, it is generally accepted that when an acquirer seeks Board and management control, a full control premium should be paid (notwithstanding the share of the merged group owned by the target shareholders).

■ **There is potential for a superior alternative proposal to emerge.**

The Wesfarmers Proposal is the outcome of events that commenced more than twelve months ago. From February 2007, Coles Group and its advisers actively sought potential buyers for the company and its businesses. Given the high profile of the Coles Group and its businesses, it is reasonable to assume that every credible potential buyer of Coles Group (including international buyers) would have been aware of the opportunity. The Wesfarmers Proposal is the only firm offer put forward to acquire the whole company. While a private equity consortium led by Kohlberg Kravis Roberts & Co ("KKR") made indicative offers of \$14.50 and \$15.25 cash per Coles Group share during August and October 2006, these were subject to due diligence. During the first half of 2007, KKR and the other members of its consortium withdrew from the sale process.

It is possible that Coles Group could receive some alternative superior proposal. Given the fall in the value of the Wesfarmers Proposal since the announcement on 2 July 2007, one of the parties that have already examined a transaction with Coles Group could be encouraged to re-enter the process as they would now be more competitive.

The commitment of Coles Group to the Wesfarmers Proposal should help to establish whether there are any superior alternatives for Coles Group shareholders. The Scheme process should act as a catalyst to any genuinely interested party with a superior proposal, by establishing benchmarks for value and defining a time frame within which parties would have to act and which, while limited, should be sufficient to put together such a proposal. At the same time it is necessary to recognise that:

- current conditions in financial markets (particularly credit markets) make it more difficult for financial buyers to put together competitive and fully financed proposals (at least until such time as markets settle down); and
- the terms of the (amended) Scheme Implementation Agreement create some, but not insurmountable, impediments to a counterproposal. For example, the break fee has been increased to around \$150 million (although this equates to only around \$0.125 per share), there are tighter controls on information flows and engagement with counterbidders, and Wesfarmers now has a right to match a competing offer.

■ **A turnaround of the Supermarkets business under Coles Group ownership could ultimately deliver more value to shareholders.**

A turnaround of the Supermarkets business under Coles Group ownership could conceivably deliver more value to Coles Group shareholders than the Wesfarmers Proposal (although there can be no certainty regarding the timing and extent of a successful turnaround and, at best, it would only occur over the medium term). A return to the "status quo" is probably not realistic but a viable strategy could involve:

- changes to the company's leadership; and
- the sale or spin off of some businesses outside the Supermarkets, Coles Express and Coles Liquor business, either individually or as a package. In particular, the Target and Officeworks businesses could be attractive to a number of buyers (including Wesfarmers and Woolworths)

Summary of Independent Expert's Report (continued)

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or could form the basis of a meaningful separate listed company. The effect would be some value realisation for shareholders (through a sale) or at least greater clarity of value (through a spin off).

The potential in the Supermarkets business is clear. Comparisons with international and local benchmarks demonstrate the scope for substantial profit improvement in terms of both sales and margins.

The company has already begun a major re-engineering of the business (including supply chain transformation and overhead reduction). The problems in 2007 are being rectified and trading in the last few weeks shows some sign of improved performance.

Much remains to be done to achieve a turnaround of the Supermarkets business. The organisation requires a major revamp with changes in structure and strengthening of the management team. The Transformation program requires considerable further capital expenditure and the implementation of major programs such as automated stock replenishment, with the bulk of the benefits only realised in the medium term. The Supermarkets business needs to maintain an improved customer offer (including through an aggressive program of store refurbishments) while dealing with the disruptions of supply chain transformation.

Notwithstanding the challenges, the turnaround of the Supermarkets business could be achieved under Coles Group ownership. Wesfarmers' plans for the Supermarkets business are not dramatically different to those of Coles Group and Wesfarmers will also need to recruit new management.

On the other hand:

- there are significant risks associated with the turnaround of the Supermarkets business. While there is a reasonably clear program that needs to be achieved, the turnaround is inevitably subject to execution risk. Moreover, the turnaround will need to be achieved in the context of what may be vigorous competition. Woolworths has a substantial cost advantage and business momentum. Competitive activity may limit the extent to which Coles Group shareholders benefit from improvements in the Supermarkets business, if the business is forced to pass on a major part of the benefits to customers (these turnaround risks will apply whether the Supermarkets business is in Coles Group or Wesfarmers ownership);
- continued ownership uncertainty is likely to be damaging for the Supermarkets business. There is an urgent need to strengthen the Supermarkets management team, but it is difficult to attract high quality candidates in the current circumstances and this problem may continue under a standalone model (at least to some extent) as ownership of the business is not really resolved;
- new leadership has to be identified and attracted to Coles Group. This may take some time and the outcome is uncertain. Selection of the right people will be a critically important judgement;
- the culture of the organisation (in particular the Supermarkets business) needs significant change. Profound organisational changes of this nature are often difficult to achieve "from within" (even with new management). In contrast, ownership changes (whether Wesfarmers or some other party) may provide the opportunity for a decisive break from the past and an accelerated transformation of the Coles Group culture; and
- the turnaround will only be achieved over time (say 3 years). The Coles Group share price is likely to be relatively weak for a sustained period until credibility is restored through demonstration of a material improvement in performance.

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- **Overall evaluation of the Wesfarmers Proposal is finely balanced. In Grant Samuel's judgement the Wesfarmers Proposal is in the best interests of shareholders, if no superior proposal emerges before the Scheme meeting.**

There are credible arguments both for and against the Wesfarmers Proposal. Coles Group shareholders could reasonably take the view that the Wesfarmers Proposal is not in their best interests:

- Coles Group shareholders will not receive a full premium for control under the Wesfarmers Proposal. Based on Grant Samuel's analysis, the value of the Base Offer Consideration is less than the full underlying value of Coles Group;
- if the Wesfarmers Proposal is rejected, Wesfarmers might improve its offer. However, given Wesfarmers' enhancement of its offer through the PPS any further increase is probably unlikely and, in any event, any material increase in the offer terms could adversely affect the value of its scrip;
- it is possible that a superior alternative proposal for all the company could be made within a reasonable period; and
- a standalone strategy (possibly combined with some asset sales or spin offs) could deliver more value to Coles Group shareholders over time.

The process has coincided with a period of poor performance of some key business units, negative market sentiment towards Coles Group and unfavourable external market conditions. There is an argument that shareholders would be better off deferring a sale of the company until more propitious circumstances emerge.

The most persuasive arguments against the Wesfarmers Proposal are based on the possibility that in view of the fall in the value of the Wesfarmers Proposal and the gap to full underlying value, some superior alternative proposal could emerge. The parties most likely to make some alternative proposal have had ample opportunity during the Coles Group sales process to develop an understanding of the business. The Scheme process provides considerable time for these parties to consider their position and, if they choose to do so, make some alternative proposal. Some caution is appropriate in assessing the likelihood of such a counterproposal, but, nevertheless in these circumstances, it would be sensible for shareholders to defer any voting decision until close to the Scheme meeting. Similarly, the current volatility in financial markets (and in the Wesfarmers share price) would also suggest that decisions should be left as late as practically possible.

While the Wesfarmers Proposal is not within the fair value range:

- the discount from the bottom end of Grant Samuel's estimate of full underlying value is in the order of 5-9%. While this is not insignificant, the impact on Coles Group shareholders is substantially mitigated by the fact they will have a 44% economic interest in the enlarged group;
- it provides an opportunity to move quickly to put an end to the uncertainty about ownership of the Coles Group, which appears to have undermined management morale and business performance (although Wesfarmers does not currently have supermarket retailing expertise and will need to recruit senior management);
- shareholders need to recognise the inherent uncertainty about valuation judgements, particularly in the case of Coles Group. The Wesfarmers Proposal was the outcome of an extensive worldwide sale process and was the only firm offer for all of Coles Group. On one view, the highest price secured through a comprehensive sale process by definition represents full underlying value. The subsequent fall in the Wesfarmers share price (and consequent reduction in the value of the Base Offer Consideration) detracts from this argument but if no superior proposal is received prior to the Scheme meeting it is arguable that the Wesfarmers Proposal still represents full value. Accordingly, theoretical valuation analysis on its own cannot be determinative; and

Summary of Independent Expert's Report (continued)

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- in the absence of the Wesfarmers Proposal or speculation regarding some alternative transaction, it is likely that Coles Group shares would trade at prices below the range of values of \$14.87-15.44 attributed to the Wesfarmers Base Offer Consideration.

Weighing up these competing arguments is not straightforward. The issues are finely balanced and shareholders could reasonably form differing views on the merits of the Wesfarmers Proposal.

Grant Samuel's judgement is that if no superior proposal emerges before the Scheme meeting, the Wesfarmers Proposal is in the best interests of Coles Group shareholders.

4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual shareholders in Coles Group. Because of that, 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 Coles Group in relation to the Wesfarmers Proposal.

Voting for or against the Wesfarmers Proposal is a matter for individual shareholders, based on their own views as to value and future market conditions and their particular circumstances including risk profile, liquidity preference, portfolio strategy and tax position. Shareholders who are in doubt as to the action they should take should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to continue to hold Wesfarmers shares or PPS received under the Wesfarmers Proposal (or, if the Wesfarmers Proposal does not proceed, whether to continue to hold Coles Group shares). This is an investment decision independent of a decision on whether to vote in favour of the Wesfarmers Proposal, and Grant Samuel offers no advice to Coles Group shareholders in relation to their decision as to whether to continue holding Wesfarmers shares or PPS received under the Wesfarmers Proposal (or Coles Group shares if the Wesfarmers Proposal does not proceed).

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is included in the Supplementary Booklet.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully

GRANT SAMUEL & ASSOCIATES PTY LIMITED

Grant Samuel & Associates

12 Taxation implications

12.1 General

This outline contains a **general** overview of the Australian income tax implications of the Scheme for Coles Group Shareholders who are Australian residents and hold their Coles Group Shares on capital account only. It does not address the tax implications of the Scheme for Coles Group Shareholders such as banks and share traders.

Each Coles Group Shareholder should seek independent professional advice regarding the tax consequences of the Scheme, in light of that shareholder's particular circumstances.

Has the ATO made a ruling about the Scheme?

Coles Group has requested an Australian Tax Office (ATO) ruling in relation to the tax implications of the Scheme. This outline accords with what Coles Group expects the class ruling will say.

A link to the class ruling will be posted on Coles Group's website at www.colesgroup.com.au, once it is obtained.

12.2 CGT on exchanging Coles Group Shares for Scheme Consideration

Will there be any CGT consequences for Coles Group Shares I acquired before 20 September 1985?

No. However, there will be CGT consequences on the subsequent disposal of your New Wesfarmers Ordinary Shares and Wesfarmers PPS (refer to Section 12.6 below). Note that a shareholder that is a company or a trust can be treated as acquiring shares on or after 20 September 1985 if its majority ownership has changed.

Will there be any CGT consequences for Coles Group Shares I acquired on or after 20 September 1985?

Yes, as set out below.

How do I calculate my capital gain or loss?

You will make a capital gain if the "capital proceeds" you receive are greater than the cost base of your Coles Group Shares, subject to scrip for scrip CGT roll-over relief (refer to Section 12.3 below). You will make a capital loss if, broadly, the capital proceeds you receive are less than the cost base of your Coles Group Shares.

Your capital proceeds will be:

- the market value of the New Wesfarmers Ordinary Shares and Wesfarmers PPS you receive; plus
- any Cash Consideration you receive.

The market value of the New Wesfarmers Ordinary Shares and Wesfarmers PPS should be worked out at the Implementation Date.

Your cost base will include your cost of acquiring your Coles Group Shares, plus any incidental costs incurred in relation to their acquisition (for example, brokerage and stamp duty).

A capital loss may be used to offset capital gains derived in the same or subsequent years of income, but cannot be offset against ordinary income.

Will I be able to discount my capital gain?

If you are an individual, trust or complying superannuation entity and have held your Coles Group Shares for at least 12 months, you may be eligible to treat the gain as a "discount" capital gain. This means that:

- if you are an individual or trustee – you will only be required to include one-half of any capital gain in your assessable income, after taking into account any capital losses that you have; and
- if you are the trustee of a complying superannuation entity – you will only be required to include two-thirds of any capital gain in your assessable income, after taking into account any capital losses that you have.

If you are a company but not a trustee – you will not be able to discount your capital gain (subject to a limited exception for some life insurance companies).

Can my cost base be indexed?

If you acquired your Coles Group Shares before July 1999 you may index their cost base for inflation up to 30 September 1999.

If you index your cost base you may not also discount your capital gain. Any capital losses that you have would be offset against the indexed gain.

12 Taxation implications (continued)

12.3 Roll-over relief

Will scrip for scrip CGT roll-over relief be available to shelter my capital gain?

Scrip for scrip CGT roll-over relief is **available for the whole of your capital gain** if you exchange your Coles Group Shares for New Wesfarmers Ordinary Shares and Wesfarmers PPS only.

Scrip for scrip CGT roll-over relief is **available for part of your capital gain** if you exchange your Coles Group Shares for New Wesfarmers Ordinary Shares, Wesfarmers PPS and Cash Consideration.

What are the consequences of choosing roll-over relief?

If you choose scrip for scrip CGT roll-over relief the capital gain that you would otherwise realise will be deferred to the extent that the consideration you receive is New Wesfarmers Ordinary Shares and Wesfarmers PPS. The capital gain will be deferred until you dispose of those shares.

Relief is not available to the extent that you receive Cash Consideration.

How do I choose roll-over relief?

You choose scrip for scrip CGT roll-over relief upon lodging your income tax return for the income year in which the CGT event happens – normally your return for the year ending 30 June 2008 if you are an individual. You choose roll-over relief by simply excluding from your tax return the amount of the capital gain eligible for relief. It would be prudent to keep a written record of your decision.

How do I calculate a capital gain if I exchange my Coles Group Shares for Cash Consideration, New Wesfarmers Ordinary Shares and Wesfarmers PPS, and I choose roll-over relief?

If you choose scrip for scrip CGT roll-over relief you will make a capital gain to the extent that the Cash Consideration that you receive exceeds a proportionate part of the cost base for your Coles Group Shares. You may also be entitled to discount the capital gain (as discussed in Section 12.2).

Your capital gain would be calculated as follows:

$$\text{Capital gain on exchanging Coles Group Shares} = \left(\text{Cash Consideration} - \left(\frac{\text{Cash Consideration}}{\text{Cash Consideration} + \text{market value of New Wesfarmers Ordinary Shares and Wesfarmers PPS at the Implementation Date}} \times \text{Cost base of your Coles Group Shares} \right) \right) \times 50\%^*$$

** This calculation assumes that you are an individual eligible to discount your gain.*

How do I calculate a capital gain if I choose roll-over relief and some of my shares were acquired before 20 September 1985?

If you choose scrip for scrip CGT roll-over relief in respect of the shares that you acquired on or after 20 September 1985 you will make a capital gain to the extent that the Cash Consideration that you receive for exchanging those particular shares exceeds a proportionate part of your cost base for those shares.

The gain would be calculated using the formula above.

Example A

You hold 500 Coles Group Shares with a cost base of \$13.00 each (giving a total cost base of \$6,500). You receive consideration of \$4.00 cash, 0.14215 New Wesfarmers Ordinary Shares and 0.14215 Wesfarmers PPS in return for each of your Coles Group Shares. You receive \$2,000 cash (500 x \$4.00), 71 New Wesfarmers Ordinary Shares (500 x 0.14215) and 71 Wesfarmers PPS (500 x 0.14215) in total for your 500 Coles Group Shares. Assume that the market value of a New Wesfarmers Ordinary Share is \$42.00, that the market value of a Wesfarmers PPS is \$43.00, and that you are an individual eligible for the CGT discount. Assume that 100 of the 500 Coles Group Shares you held were acquired before 20 September 1985.

CGT will not be payable on the consideration received for the shares you acquired before 20 September 1985 (i.e. \$400 cash (100 x \$4.00), 14 New Wesfarmers Ordinary Shares (100 x 0.14215) and 14 Wesfarmers PPS (100 x 0.14215)). You can only make a capital gain on the consideration received for shares acquired on or after 20 September 1985 (i.e. \$1,600 cash (400 x \$4.00), 57 New Wesfarmers Ordinary Shares (400 x 0.14215) and 57 Wesfarmers PPS (400 x 0.14215)). If you choose roll-over relief for the shares acquired on or after 20 September 1985 your total capital gain for the Coles Group Shares acquired after 20 September 1985 that you exchange will be worked out as follows:

$$\text{Capital gain on exchanging Coles Group Shares} = \left(\begin{array}{c} 1,600 \\ \text{(i.e. } 4.00 \times 400) \end{array} - \left(\begin{array}{c} 1,600 \\ \text{(i.e. } 42.00 \times 57) + \\ \text{(43.00} \times 57) \end{array} \right) \times \begin{array}{c} 5,200 \\ \text{(i.e. } 400 \times 13.00) \end{array} \right) \times 50\%$$

Capital gain on exchanging Coles Group Shares = \$154.54 (i.e. 309.08 x 0.5)

This example assumes you do not have any capital losses to shelter your gains.

12.4 Roll-over relief not chosen**How do I calculate a capital gain if I receive Cash Consideration, New Wesfarmers Ordinary Shares and Wesfarmers PPS, and do not choose roll-over relief?**

If you do not choose scrip for scrip CGT roll-over relief you will make a capital gain equal to the sum of the market value of the New Wesfarmers Ordinary Shares and Wesfarmers PPS, and the amount of Cash Consideration that you receive for exchanging your Coles Group Shares, less your cost base for your Coles Group Shares.

Your capital gain would be calculated as follows:

$$\text{Capital gain on exchanging Coles Group Shares} = \left(\begin{array}{c} \text{Cash} \\ \text{Consideration} \end{array} + \begin{array}{c} \text{Market value of} \\ \text{New Wesfarmers} \\ \text{Ordinary Shares} \\ \text{and Wesfarmers} \\ \text{PPS received} \end{array} - \begin{array}{c} \text{Cost base} \\ \text{of your} \\ \text{Coles} \\ \text{Group} \\ \text{Shares} \end{array} \right) \times 50\%$$

** This calculation assumes that you are an individual eligible to discount your gain.*

How do I calculate a capital gain if I only receive New Wesfarmers Ordinary Shares and Wesfarmers PPS, and do not choose roll-over relief?

If you do not choose scrip for scrip CGT roll-over relief you will make a capital gain equal to the market value of the New Wesfarmers Ordinary Shares and Wesfarmers PPS that you receive for exchanging your Coles Group Shares, less their cost base.

Your capital gain would be calculated as follows:

$$\text{Capital gain on exchanging Coles Group Shares} = \left(\begin{array}{c} \text{Market value of New} \\ \text{Wesfarmers Ordinary Shares} \\ \text{and Wesfarmers PPS received} \end{array} - \begin{array}{c} \text{Cost base} \\ \text{of your Coles} \\ \text{Group Shares} \end{array} \right) \times 50\%$$

** This calculation assumes that you are an individual eligible to discount your gain.*

12 Taxation implications (continued)

12.5 CGT on subsequent sale of New Wesfarmers Ordinary Shares and Wesfarmers PPS

A sale of New Wesfarmers Ordinary Shares and Wesfarmers PPS (received in exchange for your Coles Group Shares and held on capital account) will generally result in Australian CGT implications similar to those described in Section 12.2 above (or you may make a capital loss). However, the cost base of your New Wesfarmers Ordinary Shares and Wesfarmers PPS will differ, depending upon whether or not you chose scrip for scrip CGT roll-over relief for exchanging your Coles Group Shares pursuant to the Scheme.

(a) **If you do not choose scrip for scrip CGT roll-over relief** for exchanging your Coles Group Shares, the cost base for your New Wesfarmers Ordinary Shares and Wesfarmers PPS will be equal to:

- the market value of your Coles Group Shares at the Implementation Date less any Cash Consideration; plus
- any incidental costs you incur to sell your New Wesfarmers Ordinary Shares and Wesfarmers PPS.

You will not be able to index the cost base of your New Wesfarmers Ordinary Shares and Wesfarmers PPS. The time of acquisition of your New Wesfarmers Ordinary Shares and Wesfarmers PPS will be the Implementation Date.

(b) **If you do choose scrip for scrip CGT roll-over relief** for exchanging your Coles Group Shares the cost base of your individual New Wesfarmers Ordinary Shares and Wesfarmers PPS will depend on whether you also receive any in exchange for Coles Group Shares that you acquired before 20 September 1985.

(i) **Your cost base for the New Wesfarmers Ordinary Shares and Wesfarmers PPS that you receive in exchange for Coles Group Shares that you acquired on or after 20 September 1985** will be equal to the cost base (including indexation, where applicable) of those Coles Group Shares, reduced by the proportion of those shares exchanged for the Cash Consideration you receive under the Scheme (if any). The cost base will also include any incidental costs you incur to sell your New Wesfarmers Ordinary Shares and Wesfarmers PPS.

Your cost base for your New Wesfarmers Ordinary Shares and Wesfarmers PPS, if you also receive Cash Consideration, will be calculated as follows:

Cost base of your New Wesfarmers Ordinary Shares and Wesfarmers PPS	=	Cost base of your Coles Group Shares	X	$\frac{\text{Market value of New WesfarmersOrdinary Shares and Wesfarmers PPS}}{\text{Cash Consideration + Market valueof New Wesfarmers Ordinary Sharesand Wesfarmers PPS}}$
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You will be taken to have acquired your New Wesfarmers Ordinary Shares and Wesfarmers PPS at the time you originally acquired the corresponding Coles Group Shares for the purpose of determining whether you can discount a capital gain on sale of your New Wesfarmers Ordinary Shares and Wesfarmers PPS.

(ii) **Your cost base for the New Wesfarmers Ordinary Shares and Wesfarmers PPS that you receive for your Coles Group Shares that you acquired before 20 September 1985** will be equal to:

- the market value just after the Implementation Date of the New Wesfarmers Ordinary Shares and Wesfarmers PPS you receive for Coles Group Shares that you acquired before 20 September 1985; plus
- any incidental costs you incur to sell your New Wesfarmers Ordinary Shares and Wesfarmers PPS.

12.6 Reclassification of Wesfarmers PPS

Will there be any tax consequences when my Wesfarmers PPS are reclassified as Wesfarmers Ordinary Shares?

No, except that an adjustment will be made to the cost base of your reclassified Wesfarmers PPS and if you receive any additional Wesfarmers Ordinary Shares (refer below).

What will be the cost base of my reclassified Wesfarmers PPS if I receive additional Wesfarmers Ordinary Shares at the time of the reclassification?

The cost base for your original Wesfarmers PPS (calculated when you receive the Wesfarmers PPS at the Implementation Date) will be apportioned over both the reclassified Wesfarmers PPS and any additional Wesfarmers Ordinary Shares you receive at the time of the reclassification.

You will be taken to have acquired the additional Wesfarmers Ordinary Shares at the time you originally acquired your Wesfarmers PPS, i.e. at the Implementation Date.

12.7 Dividend – taxable income

Will I be subject to income tax on the Coles Fully Franked Final Dividend?

Yes. If you satisfy the holding period rules (see below) you must include in your assessable income for each Coles Group Share:

- Coles Fully Franked Final Dividend; plus
- the attached franking credit,

but you will be entitled to a tax offset equal to the amount of the franking credit. A tax offset reduces the tax payable on your taxable income. Individuals and complying superannuation entities will be entitled to a tax refund if a tax offset for a franked distribution dividend exceeds their tax liabilities.

To qualify for the franking credits attaching to the Coles Fully Franked Final Dividend, the holding period rules require you to hold your Coles Group Shares:

- at risk; and
- free of any related payment obligations,

for 45 clear days (i.e. not including the date of acquisition or the date of disposal).

Examples of risk reduction arrangements would be sale options or hedging arrangements. An example of a related payment obligation would be a dividend swap agreement.

An exemption from the risk reduction rule, but not the related payment obligation rule, will be available to you if you are an individual and you have a total franking credit entitlement of \$5,000 or less (aggregating all dividends) for the 2008 income year. An exemption from the risk reduction rules will be available to you if you are a complying superannuation entity or widely held trust and you comply with certain "benchmark portfolio" rules.

13 Additional information

13.1 Interests of Coles Group Directors

(a) Coles Group Directors' interests in Coles Group Shares, Executive Options and Performance Shares

As at 25 September 2007, the Coles Group Directors had the following Relevant Interests in Coles Group Shares:

Figure 13.1: Coles Group Directors' interests in Coles Group Shares

Coles Group Director	Number of Coles Group Shares
Mr Rick Allert	25,569
Mr John Fletcher	1,204,458
Ms Patricia Akopiantz	3,253
Dr Keith Barton	10,200
Mr William Gurry	140,000
Mr Anthony Hodgson	6,000
Ms Belinda Hutchinson	42,000
Ms Sandra McPhee	7,539
Mr Michael Wemms	208
Total	1,439,227

In addition, Mr John Fletcher holds 1,704,500 Executive Options and 374,000 Performance Shares.

(b) Dealings in Coles Group Shares

No director of Coles Group has acquired or disposed of a Relevant Interest in any Coles Group Shares in the four month period ending on the date immediately before the date of this Scheme Booklet.

13.2 Executive Options and Performance Shares

As at 25 September 2007 there were 5,618,995 Executive Options and 3,942,821 Performance Shares on issue.

13.3 Interests and dealings in Wesfarmers Ordinary Shares

(a) Interests in Wesfarmers Ordinary Shares

As at 25 September 2007:

- Mr John Fletcher has a Relevant Interest in 5,000 Wesfarmers Ordinary Shares held by Kannatex Pty Ltd and 1,000 Wesfarmers Ordinary Shares held by JEF Special Pty Ltd.
- Dr Keith Barton has a Relevant Interest in 2,530 Wesfarmers Ordinary Shares held by L & K Investment Corp. Pty. Ltd. and 3,220 Wesfarmers Ordinary Shares held by L & K Super Pty Ltd. 200 of the 3,220 Wesfarmers Ordinary Shares held by L & K Super were acquired on 4 June 2007.
- Ms Patricia Akopiantz has a Relevant Interest in 3,000 Wesfarmers Ordinary Shares held by Blurvest Pty Ltd (as trustee for the Punch Family Trust).

No other Coles Group Director has a Relevant Interest in any Wesfarmers Ordinary Shares.

(b) Dealings in Wesfarmers Ordinary Shares

Other than as disclosed in paragraph (a) above, no Coles Group Director acquired or disposed of a Relevant Interest in any Wesfarmers Ordinary Shares in the four month period ending on the date immediately before the date of this Scheme Booklet.

13.4 Wesfarmers' interests in Coles Group Securities

(a) Wesfarmers' interests

As at 25 September 2007, Wesfarmers Retail holds 126,717,949 Coles Group Shares, representing approximately 10.57 per cent of the issued Coles Group Shares and, together with its associates, has a Relevant Interest in 144,581,288 Coles Group Shares (representing approximately 12.06 per cent of the total voting power).

Except as disclosed elsewhere in this Scheme Booklet, none of Wesfarmers Retail, Wesfarmers, a Wesfarmers Director or any associate of Wesfarmers Retail has provided, or agreed to provide, consideration for Coles Group Shares under a purchase or agreement during the four months before the date of this Scheme Booklet.

Except as disclosed elsewhere in this Scheme Booklet, from four months before the date of this Scheme Booklet, neither Wesfarmers Retail, Wesfarmers, a Wesfarmers Director or any associate of Wesfarmers Retail gave, or offered to give or agreed to give a benefit to another person which was likely to induce the other person or an associate of the other person to:

- (1) vote in favour of the Scheme; or
- (2) dispose of any Coles Group Shares,

which benefit was not offered to all Coles Group Shareholders.

Wesfarmers, through a subsidiary, purchased 69,500,000 Coles Group Shares from Premier Investments Ltd under an agreement dated 2 April 2007 for \$16.47 per share. Premier has a right to an additional amount if Wesfarmers acquires further Coles Group Shares at a higher price during the 15 month period after the date of the agreement and other rights if a rival bid for Coles Group Shares is made during that period. None of those rights have been triggered. The terms of the agreement were disclosed in full to ASX in a notice dated 4 April 2007.

Details of Wesfarmers' voting power (including associates) at 25 September 2007 are set out in the following table:

Figure 13.2: Wesfarmers' voting power in Coles Group

Registered Holder	Relationship to Wesfarmers	Holding of Coles Group Shares	Percentage of Coles Group Shares
Wesfarmers Retail Holdings Pty Ltd	Wholly-owned subsidiary of Wesfarmers	126,717,949	10.57%
TW Hedley (Investments) Pty Ltd	TW Hedley (Investments) Pty Ltd has entered into a power of attorney giving ConsortiumCo Pty Ltd (a wholly-owned subsidiary of Wesfarmers) voting power over these shares	5,231,978	0.44%
TWH (Qld) Pty Ltd	TWH (Qld) Pty Ltd has entered into a power of attorney giving ConsortiumCo Pty Ltd (a wholly-owned subsidiary of Wesfarmers) voting power over these shares	12,631,361	1.05%
Total		144,581,288	12.06%

(b) Interests of Wesfarmers Directors in Coles Group Shares

As at 25 September 2007, Wesfarmers Directors had a Relevant Interest in Coles Group Shares as follows:

Figure 13.3: Interests of Wesfarmers Directors in Coles Group

Wesfarmers Director	Number of Coles Group Shares
Gene Tilbrook (Finance Director)	2,000 (held by GT Tilbrook Family Trust)
Patricia Cross	1,350 (held by Crossakiel Superannuation Fund (Patricia Cross is the sole member of this fund))
Bob Every	1,000 (held by RBC Dexia Investor Services Australia Nominees Pty Limited (Bob Every is beneficial holder))
James Graham	705
	53,871 (held by Menteith Pty Ltd (James Graham is a director and shareholder of Menteith))
Anthony (Tony) Howarth	3,610 (held by Howarth Superannuation Fund)
Total	62,536

13 Additional information (continued)

13.5 Benefits and agreements

(a) Payments in connection with retirement from office

Set out below are the termination payment entitlements (in addition to any statutory entitlements) of relevant directors, secretaries or executive officers of Coles Group.

Figure 13.4: Payments in connection with retirement from office

Executive	Termination payment entitlement*
Rick Allert (Chairman) ⁽¹⁾	\$1,140,436
Patricia Akopiantz (Non-Executive Director) ⁽¹⁾	\$324,196
William Gurry (Non-Executive Director) ⁽¹⁾	\$319,769

* Further details of the employment arrangements for the above executives are set out in the 2006 Coles Group Annual Report.

⁽¹⁾ These benefits are net of superannuation benefits payable.

Except as set out above or elsewhere in this Scheme Booklet, there is no payment or other benefit that is proposed to be made or given to any director, secretary or executive officer of Coles Group (or any of its Related Bodies Corporate) as compensation for the loss of, or as consideration for or in connection with his or her retirement from, office in Coles Group or any of its related bodies corporate.

(b) Agreements or arrangements connected with or conditional on the Scheme

Except as set out below, in Section 5.8 in relation to the holding of Executive Options or Performance Shares or as set out elsewhere in this Scheme Booklet, there are no agreements or arrangements made between any Coles Group Director and another person in connection with, or conditional on, the outcome of the Scheme other than in their capacity as a Coles Group Shareholder.

Wesfarmers Retail has indemnified each Coles Group Director from any claim, action, damage, loss, liability, cost, expense or payment which any Coles Group Director may suffer, incur or be liable for arising out of any breach of any of the representations and warranties given by Wesfarmers Retail in clause 8.1 of the Scheme Implementation Agreement.

(c) Benefits under the Scheme

Except as set out set out in Section 5.8 in relation to the holding of Executive Options or Performance Shares or as set out elsewhere in this Scheme Booklet, no director, secretary or executive officer of Coles Group (or any of its Related Bodies Corporate) has agreed to receive, or is entitled to receive, any payment or benefit from Wesfarmers which is conditional on, or is related to, the Scheme, other than in their capacity as a Coles Group Shareholder.

(d) Interests of Coles Group Directors in contracts with Wesfarmers

None of the Coles Group Directors has any interest in any contract entered into by Wesfarmers.

13.6 Status of regulatory conditions

Implementation of the Scheme was conditional upon the receipt of approval from certain regulatory bodies, as set out in paragraphs (a) and (b). These approvals have now been received.

(a) New Zealand Overseas Investment Office

The New Zealand Overseas Investment Office on 12 September 2007 officially approved the application made pursuant to the provisions of the *Overseas Investment Act 2005*.

(b) Monetary Authority of Singapore

The Monetary Authority of Singapore on 3 August 2007 officially approved the application made pursuant to the provisions of the *Insurance Act (Cap. 142) 2002*.

(c) ACCC

On 22 August 2007, the ACCC announced that it will not intervene in the Scheme. After conducting a comprehensive review of the Scheme, including extensive market inquiries with interested parties, the ACCC concluded that there was not likely to be a substantial lessening of competition in any market.

13.7 ASIC and ASX relief

(a) Sale of New Wesfarmers Ordinary Shares and Wesfarmers PPS by the Sale Agent

Wesfarmers intends to apply to ASIC for the following exemptions from and modifications to the Corporations Act to facilitate the sale of New Wesfarmers Ordinary Shares and Wesfarmers PPS by the Sale Agent:

- (1) Section 1019F to the extent that providing Small Shareholders with the opportunity to use the facility described in Section 5.19 may constitute an invitation to offer to sell the relevant shares that is unsolicited and is not made on a licensed market; and
- (2) Chapter 5C and Parts 7.6 and 7.9 to the extent that the facility described in Section 5.20 may constitute a managed investment scheme.

(b) Cancellation of Executive Options by Coles Group

ASX has granted a waiver to Coles Group to permit the Executive Options to be cancelled without requiring shareholder approval.

(c) ASX Listing Rule 7.40 waiver

Coles Group has requested a waiver of Listing Rule 7.40 to allow the timetable for the Scheme not to comply with Appendix 7A of the Listing Rules. As at the date of this Scheme Booklet, neither Coles Group nor Wesfarmers has any reason to believe that this waiver will not be granted before 6pm on the day before the Second Court Date.

13.8 Other information material to the making of a decision in relation to the Scheme

Except as set out in this Scheme Booklet, there is no other information material to the making of a decision in relation to the Scheme, being information that is within the knowledge of any Coles Group Director or director of any of its Related Bodies Corporate, at the time of lodging this Scheme Booklet with ASIC for registration, which has not previously been disclosed to Coles Group Shareholders.

If, between the date of lodgement of this Scheme Booklet for registration by ASIC and the Effective Date, Coles Group becomes aware that:

- (1) a material statement in this Scheme Booklet is false or misleading;
- (2) there is a material omission from this Scheme Booklet;
- (3) a significant change affecting a matter included in this Scheme Booklet has occurred; or
- (4) a significant new matter has arisen which 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,

Coles Group will prepare a supplementary document to this Scheme Booklet. The form which the supplementary document may take, and whether a copy will be sent to each shareholder, will depend on the nature and timing of the new or changed circumstances.

In all cases, the supplementary document will be available from Coles Group's website at www.colesgroup.com or from the ASX's website at www.asx.com.au.

13 Additional information (continued)

13.9 Formal disclosures and consents

(a) Consents

This Scheme Booklet contains statements made by, or statements said to be based on statements made by:

- (1) Wesfarmers in respect of the Wesfarmers Information only;
- (2) Grant Samuel as the Independent Expert; and
- (3) Ernst & Young as the Investigating Accountant.

Each of those persons named above has consented to the inclusion of each statement it has made in the form and context in which the statements appear and has not withdrawn that consent at the date of this Scheme Booklet.

The following parties have given and have not, before the time of registration of this Scheme Booklet with ASIC, withdrawn their consent to be named in this Scheme Booklet in the form and context in which they are named:

- (4) Lazard Carnegie Wylie as financial adviser to Coles Group;
- (5) Deutsche Bank as financial adviser to Coles Group;
- (6) Freehills as legal adviser to Coles Group;
- (7) Link Market Services Limited as the Coles Group Share Registry;
- (8) Computershare Investor Services Pty Limited as the Wesfarmers Share Registry; and
- (9) Ernst & Young as the Investigating Accountant.

(b) Disclosures and responsibility

Further, each person named in Section 13.9(a)(1) – 13.9(a)(9):

- (1) has not authorised or caused the issue of this Scheme Booklet;
- (2) does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than:
 - Wesfarmers in respect of the Wesfarmers Information;
 - Grant Samuel, in relation to its Independent Expert's Report; and
 - Ernst & Young, in relation to its Investigating Accountant's Report.
- (3) to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Scheme Booklet other than a reference to its name and the statement (if any) included in this Scheme Booklet with the consent of that party as specified in this Section 13.9(b).

13.10 Fees

Each of the persons named in Section 13.9(a)(2) – 13.9(a)(9) of this Scheme Booklet as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Scheme Booklet, will be entitled to receive professional fees charged in accordance with their normal basis of charging.

13.11 Funding arrangements

Wesfarmers has executed a legally binding commitment letter dated 10 July 2007 with BNP Paribas, Australia and New Zealand Banking Group Limited and National Australia Bank Limited (each, together with their successors and assigns, a **Finance Party**) to provide debt finance to Wesfarmers for a maximum aggregate amount of \$10 billion (the **Facility**). The Facility is available for the purpose of, among other things:

- funding the Cash Consideration;
- refinancing existing debt facilities of Coles Group and of Wesfarmers; and
- paying certain costs and expenses incurred in connection with the Scheme and associated transactions.

The Facility is sufficient to pay the Cash Consideration. The first drawdown under the Facility is required to be made on or before 30 January 2008.

Documentation

The Facility has been documented in a Facility Agreement which is, at the date of this Scheme Booklet, in agreed form but is yet to take formal effect. Wesfarmers anticipates that the Facility Agreement will be in place on or about 2 October 2007 and, in any event, before the Scheme Meeting.

The amounts owing under the Facility will be guaranteed by certain other companies in Wesfarmers. Wesfarmers must ensure that all its material subsidiaries give guarantees and that the EBITDA and Total Assets (as defined in the Facility) of the guarantors represent not less than:

- 85% of the EBITDA of Wesfarmers (and within two months following the Acquisition, 85% of the Wesfarmers Merged Group);
- 70% of the Total Assets of Wesfarmers (and within two months following the Acquisition, 85% of the Wesfarmers Merged Group),

in each case, subject to certain waivers, exceptions and grace periods.

Conditions Precedent and Certain Funds

To ensure that Wesfarmers has sufficient funds available to complete the Acquisition, the Finance Parties agree that, during the period from the date of the Scheme Implementation Agreement to and including the Implementation Date, there will be certainty as to the availability of funds under the Facility, subject only to:

- receipt by the Finance Parties of executed financing documentation in a form reasonably satisfactory to them having regard to the terms sheet attached to the commitment letter and relevant market practice;
- satisfaction of other conditions which are procedural in nature and customary for a facility of this kind;
- receipt by the Finance Parties of documentation confirming the solvency and ownership of Wesfarmers;
- receipt by the Finance Parties of a legal opinion in a form reasonably satisfactory to them confirming the legality of Wesfarmers to borrow under the Facility, complete the Acquisition or implement the Scheme;
- there being no banking moratorium declared by the relevant Regulatory Authority or general suspension of payments in respect of banks that would prevent a Finance Party from funding the Facility; and
- the first drawdown under the Facility occurs within the periods specified above.

It is expected that these conditions will be satisfied before the Second Court Hearing Date (other than Court approval and certain other conditions which are intended to be satisfied concurrently with the first drawdown on the Implementation Date including the payment of fees and expenses and the repayment of indebtedness).

If all the conditions precedent are satisfied, then the Finance Parties must provide the funds for their portion of the commitment under the Facility. As at the date of this Scheme Booklet, Wesfarmers is not aware of any reason why any of these conditions precedent will not be satisfied in time to allow payment in full of the Cash Consideration as and when it is due under the terms of the Scheme.

Conditions Subsequent

Wesfarmers is required to procure that Coles and a number of its subsidiaries give guarantees to satisfy the requirements referred to above after first drawdown and the Implementation Date. As those guarantees may constitute financial assistance for the acquisition of shares in Coles it is proposed that they be approved under section 260B of the Corporations Act by a special resolution of Wesfarmers shareholders at the next Annual General Meeting of Wesfarmers, and after the Implementation Date, when Wesfarmers Retail is sole shareholder of Coles, by a special resolution of each of Coles and the subsidiaries giving guarantees. Wesfarmers has no reason to believe the shareholder approval will not be obtained, however, if approval is not obtained Wesfarmers would need to refinance or renegotiate the Facility on potentially less favourable terms.

Representations and Warranties

The representations and warranties to be given by Wesfarmers in relation to the Facility are customary for facilities of this kind. As at the date of this Scheme Booklet, Wesfarmers is not aware of any breach of a representation or warranty nor any circumstances that would lead to a breach of a representation or warranty.

Undertakings and Events of Default

The undertakings to be given by Wesfarmers in relation to the Facility including financial ratios and other undertakings are customary for facilities of this kind. As at the date of this Scheme Booklet, Wesfarmers is not aware of any breach of an undertaking nor any circumstances that would lead to a breach of an undertaking.

The Facility is subject to events of default and termination rights, including breaches of undertakings and the condition subsequent referred to above, allowing termination of the Facility and the Finance Parties to require immediate repayment. As at the date of this Scheme Booklet, Wesfarmers is not aware of the occurrence of any event of default or any circumstances that would lead to an event of default or which would give rise to a right to the Finance Parties to terminate the applicable facilities.

14 Glossary and interpretation

14.1 Glossary

The meanings of the terms used in this Scheme Booklet are set out below.

Term	Meaning
\$, A\$ or AUD	Australian dollar.
\$m	million Australian dollars.
Acquisition	the acquisition of Coles Group by Wesfarmers (through its wholly-owned subsidiary, Wesfarmers Retail) through implementation of the Scheme in accordance with the Scheme Implementation Agreement.
ACCC	the Australian Competition and Consumer Commission.
AGAAP	Australian Generally Accepted Accounting Principles.
AIFRS	Australian equivalents to International Financial Reporting Standards effective 1 July 2005.
All Ordinaries Accumulation Index	the All Ordinaries Accumulation Index published by ASX.
ASIC	the Australian Securities and Investments Commission.
ASTC	ASX Settlement and Transfer Corporation Pty Ltd (ABN 49 008 504 532).
ASTC Settlement Rules	the operating rules of ASTC which govern the administration of the Clearing House Electronic Sub-register System (CHES).
ASX	ASX Limited.
ASX Listing Rules	the Listing Rules of ASX.
ATO	the Australian Taxation Office.
Break Fee	an amount of \$150 million which may become payable by Coles Group to Wesfarmers pursuant to the Scheme Implementation Agreement.
Business Day	a business day as defined in the ASX Listing Rules.
Cash Consideration	the Cash Consideration component of the Scheme Consideration, as described in Section 5.6.
CGT	Australian capital gains tax.
CHES Holding	a holding of shares on the CHES Sub-register of Coles Group.
CHES Sub-register	the meaning in the ASTC Settlement Rules.
Coles Fully Franked Final Dividend	a fully franked final dividend of \$0.25 per Coles Group Share.
Coles Group	Coles Group Limited (ABN 11 004 089 936).
Coles Group Board	the board of directors of Coles Group.
Coles Group Constitution	the constitution of Coles Group.
Coles Group Directors	each member of the Coles Group Board.
Coles Group Information	the information contained in this Scheme Booklet except for the: <ol style="list-style-type: none"> 1 Wesfarmers Information; 2 Independent Expert's Report; 3 Investigating Accountant's Report.
Coles Group Prescribed Occurrence	the meaning given to that term in Section 1.1 of the Scheme Implementation Agreement.
Coles Group Securities	Coles Group Shares, Executive Options or Performance Shares.
Coles Group Share	an ordinary fully paid share in the capital of Coles Group.
Coles Group Shareholder	each person registered in the Register as a holder of Coles Group Shares.
Coles Group Share Registry	Link Market Services Limited (ABN 54 083 214 537).

Term	Meaning
Competing Transaction	a transaction or arrangement pursuant to which a person (other than Wesfarmers Retail, Wesfarmers and their Related Bodies Corporate) will, if the transaction or arrangement is entered into or completed: <ol style="list-style-type: none"> 1 acquire (whether directly or indirectly) or become the holder of all or a substantial part of the business of the Coles Group; 2 acquire (whether directly or indirectly) all or a substantial part of the Coles Everyday Needs Business or the K-mart, Target or Officeworks businesses, or acquire management rights over any of those businesses (or any part of them) or any other right to participate in the profits of any of those businesses (other than as a shareholder of Coles Group); 3 acquire control (as determined in accordance with section 50AA of the Corporations Act) of Coles Group; or 4 otherwise acquire or merge with Coles Group.
Conditions Precedent	the meaning given to that term in Section 10.2.
Controlling Participant	in relation to your Coles Group Shares, has the same meaning as in the ASTC Settlement Rules.
Corporations Act	the Corporations Act 2001 (Cth).
Corporations Regulations	the Corporations Regulations 2001 (Cth).
Court	the Supreme Court of Victoria or such other Court of competent jurisdiction under the Corporations Act agreed in writing by Coles Group, Wesfarmers Retail and Wesfarmers.
Deed Poll	a deed poll substantially in the form of Annexure C to this Scheme Booklet.
EBIT	in the Coles Group Information, means earnings before interest and tax expenses; and in the Wesfarmers Information, means earnings before interest and tax expenses and significant non recurring items that are not considered part of ongoing business operations.
EBITDA	in the Coles Group Information, means earnings before interest, tax, depreciation and amortisation expenses; and in the Wesfarmers Information means earnings before interest, tax, depreciation and amortisation expenses and significant non recurring items that are not considered part of the relevant entities' ongoing business operations.
Effective	when used in relation to the Scheme, means 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) in relation to the Scheme, but in any event at no time before an office copy of the order of the Court is lodged with ASIC.
Effective Date	the date on which the Scheme becomes Effective.
Electing Small Shareholder	a Small Shareholder who elects to have the: <ol style="list-style-type: none"> 1 New Wesfarmers Ordinary Shares; and 2 Wesfarmers PPS, to which he or she is entitled under the Scheme, sold by the Sale Agent on his or her behalf.
Election Form	the pink election form by which Coles Group Shareholders may elect to receive Maximum Cash or Maximum Shares or to become an Electing Small Shareholder.
Election Time	the latest time and date by which Election Forms or elections made via Coles Group's website must be received by the Coles Group Share Registry, namely 7:00pm (Melbourne time) on 16 November 2007 unless advised otherwise by Coles Group by ASX announcement.
End Date	31 December 2007.
EPS	earnings per security.
Excluded Shareholder	any Coles Group Shareholder who is Wesfarmers Retail, Wesfarmers, a Related Body Corporate of Wesfarmers Retail or a Related Body Corporate of Wesfarmers.
Executive Option	an option to acquire a Coles Group Share issued under an Executive Plan.
Executive Optionholders	each person who is registered in the register of Executive Optionholders as a holder of an Executive Option.

14 Glossary and interpretation

(continued)

Term	Meaning
Executive Plan	the Coles Group Senior Executive Option Plan and the Coles Group Executive Option Plan.
finance cost cover	EBITDA divided by finance costs.
First Court Date	the first day on which an application made to the Court, in accordance with the Scheme Implementation Agreement, for orders under section 411(1) of the Corporations Act convening the Scheme Meeting to consider the Scheme is heard.
Foreign Shareholder	a Coles Group Shareholder in a jurisdiction outside Australia and its external territories or New Zealand, whose address is shown in the Coles Group Share Registry at the Record Date.
Free Cash Flow	operating cash flow less investing cash flow.
FY	financial year.
Governmental Agency	any foreign or Australian government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any state.
Grant Samuel	Grant Samuel & Associates Pty Limited (ABN 28 050 036 372).
GST	a goods and services or similar tax imposed in Australia.
GST Act	A New Tax System (Goods and Services Tax) Act 1999 (Cth).
Holder Identification Number	the meaning in the ASTC Settlement Rules.
Illustrative Period	the meaning given in Section 8.8.
Implementation Date	the fifth Business Day following the Record Date or such other day as the parties agree.
Independent Expert	Grant Samuel.
Independent Expert's Report	the report prepared by the Independent Expert dated 21 September 2007. A summary is set out in Section 11, and a copy of the complete report is set out in the Scheme Booklet Supplement.
Ineligible Foreign Shareholder	<p>a Foreign Shareholder is not an Ineligible Foreign Shareholder if the Foreign Shareholder's address is a place in Canada, Singapore, the United Kingdom, Ireland or the United States (unless the shareholder resides in a US state or other jurisdiction where it is not legally permitted to do so or registration or qualification is required to issue the New Wesfarmers Ordinary Shares and Wesfarmers PPS). Remaining Foreign Shareholders are Ineligible Foreign Shareholders unless Coles Group and Wesfarmers determine that:</p> <ol style="list-style-type: none"> 1 it is lawful and not unduly onerous or impracticable to issue that Coles Group Shareholder with New Wesfarmers Ordinary Shares and Wesfarmers PPS when the Scheme becomes Effective; or 2 it is lawful for that Coles Group Shareholder to participate in the Scheme by the law of the relevant place outside Australia and its external territories or New Zealand.
Investigating Accountant	Ernst & Young.
Investigating Accountant's Report	the Investigating Accountant's Report on the Wesfarmers historical and Wesfarmers Merged Group unaudited pro-forma financial information included in the Scheme Booklet Supplement.
Lapse Date	the date which is four years from the Implementation Date, unless extended in certain circumstances under the terms of issue of Wesfarmers PPS up to a maximum of eight years.
Maximum Cash	an election alternative under the mix and match facility to increase the Cash Consideration component of the Scheme Consideration, as described in Section 5.7(a).
Maximum Shares	an election alternative under the mix and match facility to increase the Share Consideration component of the Scheme Consideration, as described in Section 5.7(a).
Melbourne time	the local time in Melbourne, Victoria.
net debt	total interest bearing liabilities less cash on deposit.
New Wesfarmers Ordinary Shares	Wesfarmers Ordinary Shares to be issued to Scheme Shareholders as Scheme Consideration.
New Wesfarmers Shareholders	holders of New Wesfarmers Ordinary Shares and Wesfarmers PPS.

Term	Meaning
Notice of Meeting	the notice of meeting relating to the Scheme Meeting which is contained in Annexure D.
Performance Shares	an entitlement to receive a Coles Group Share under the Coles Group Senior Executive Performance Share Plan.
Record Date	7:00pm on the fifth Business Day after the Effective Date or such other date as Coles Group and Wesfarmers agree.
Register	the share register of Coles Group.
Regulatory Approval	an approval from a Regulatory Authority which is a Condition Precedent in clause 3.1 of the Scheme Implementation Agreement.
Regulatory Authority	includes ASX or ASIC, a government or governmental, semi-governmental or judicial entity or authority, a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government and any regulatory organisation established under statute.
Related Body Corporate	the meaning given in the Corporations Act.
Relevant Interest	the meaning given in sections 608 and 609 of the Corporations Act.
Representative	an employee, agent, officer, director, auditor or adviser of a party.
Resolution	the resolution to agree to the terms of the Scheme.
Restricted Period	the period from the date of the Scheme Implementation Agreement to the earlier of: <ol style="list-style-type: none"> 1 the termination of the Scheme Implementation Agreement; and 2 the Implementation Date.
Risk Factors	those risk factors set out in Sections 2, 6.7, 7.6 and 8.7.
Sale Agent	a nominee holding an Australian Financial Services Licence appointed by Wesfarmers, and agreed to by Coles Group.
Scheme	the scheme of arrangement under which all Scheme Shares will be transferred to Wesfarmers Retail (a wholly-owned subsidiary of Wesfarmers) in accordance with Part 5.1 of the Corporations Act, substantially in the form of Annexure B together with any amendment or modification made pursuant to section 411(6) of the Corporations Act.
Scheme Booklet Supplement	the supplementary document to this Scheme Booklet which contains a full copy of the Independent Expert's Report, Investigating Accountant's Report and the Scheme Implementation Agreement. Details on how to obtain a copy of the Scheme Booklet Supplement are set out in Section 5.20.
Scheme Consideration	the consideration described in Section 5.6.
Scheme Implementation Agreement	the Scheme Implementation Agreement between Coles Group, Wesfarmers Retail and Wesfarmers dated 2 July 2007. A summary is set out in Section 10, and a complete copy is set out in the Scheme Booklet Supplement.
Scheme Meeting	the meeting of Coles Group Shareholders (other than Excluded Shareholders) to be convened by the Court under section 411(1) of the Corporations Act.
Scheme Share	a Coles Group Share held by a Scheme Shareholder as at the Record Date.
Scheme Shareholder	each person who is a Coles Group Shareholder (other than an Excluded Shareholder) at the Record Date.
SEC	the U.S. Securities Exchange Commission.
Second Court Date	the first day on which an application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme is heard.
Share Consideration	the Share Consideration component of the Scheme Consideration, as described in Section 5.6.
Small Shareholder	a Scheme Shareholder who is shown in the Coles Group Register on the Record Date to hold 100 Coles Group Shares or less.
Subsidiaries	the meaning given to it in the Corporations Act.

14 Glossary and interpretation (continued)

Term	Meaning
Superior Transaction	<p>a Competing Transaction which in the determination of the Coles Group Board, acting in good faith, and in accordance with its fiduciary and statutory duties, is more favourable to Coles Group Shareholders than the Acquisition, taking into account, among other things:</p> <ol style="list-style-type: none"> 1 the terms and conditions of the Competing Transaction, including the anticipated completion date, the certainty of obtaining finance, execution risk, tax leakage (both at the corporate and shareholder level), required regulatory approvals and the impact of the time value of money; and 2 all aspects of the Acquisition, including the value of scrip for scrip CGT roll-over relief for Coles Group Shareholders and the implied value of the Scrip Consideration at the relevant time, <p>with this determination being supported by written advice from the Coles Board's financial and legal advisers.</p>
total shareholder return	the change in share value over a period of time, assuming that all dividends are reinvested as received.
Trading Day	the meaning given in the ASX Listing Rules.
Transaction	the acquisition of Coles Group by Wesfarmers Retail through the implementation of the Scheme and the cancellation of Executive Options and Performance Shares in accordance with the terms of the Scheme Implementation Agreement.
United States or U.S.	United States of America, its territories and possessions, any state of the United States of America and the District of Columbia.
VWAP	the average of the volume weighted average share prices traded on ASX (excluding any and all special crossings, crossings made prior to the commencement of normal trading, crossings during the closing phase or the after hours adjust phase, overseas trades and overnight crossings or trades pursuant to the exercise of options) over the VWAP period.
Wesfarmers	Wesfarmers Limited (ABN 28 008 984 049).
Wesfarmers Board	the board of directors of Wesfarmers.
Wesfarmers Constitution	the constitution of Wesfarmers.
Wesfarmers Directors	each member of the Wesfarmers Board.
Wesfarmers Final Dividend	the fully franked final dividend for FY2007 of \$1.40 for each Wesfarmers Ordinary Share to be paid by Wesfarmers to Wesfarmers Shareholders on 29 November 2007. Coles Group Shareholders will not receive the Wesfarmers Final Dividend.
Wesfarmers Group	Wesfarmers and each of its subsidiaries.
Wesfarmers Information	<p>the information contained in:</p> <ul style="list-style-type: none"> • the sub-sections of the Important Notices with the headings: "Foreign Shareholders" and "Important Notice to U.S. Shareholders", "Important Notice to Hong Kong Shareholders" and Sections 5.18 and 5.19; • the letter from Wesfarmers' Chairman; • "What are Wesfarmers PPS?"; • the sub-sections of Section 1 with the headings: "The Scheme entitles you to retain exposure to potential operational upside in the Coles Group businesses, with Scheme Shareholders owning 44 per cent of the Wesfarmers Merged Group"; "As a Wesfarmers PPS Holder you will receive a level of downside partial protection on your shareholding in Wesfarmers", "You will become a shareholder in Wesfarmers, a company that has a track record of strong financial and operational performance" and "As a New Wesfarmers Shareholder you will potentially receive a significant dividend uplift"; • the sub-sections in Section 2 with the headings: "Leverage of and interest cost of the Wesfarmers Merged Group" and "Credit risk"; • the final sentence in Section 5.8; and • Sections 5.17, 7, 8, 13.4 (not including the paragraph commencing "Wesfarmers, through a subsidiary..."), 13.6, 13.7(a) and 13.11, <p>but does not include any information provided by Coles Group to Wesfarmers for the purposes of Wesfarmers preparing information on the Wesfarmers Merged Group.</p>

Term	Meaning
Wesfarmers Material Adverse Change	any event which, individually or when aggregated with all such events, has or is likely to have a material adverse effect on the business, assets, liabilities, financial or operating or profitability of Wesfarmers (taken as a whole and after taking into account any matters which offset the impact of the event or events giving rise to the adverse effect), other than an event: <ol style="list-style-type: none"> 1 resulting from changes in general economic or political conditions or the securities markets in general; 2 resulting from changes in generally accepted accounting principles or the interpretation of them; or 3 fully and fairly disclosed in an ASX filing by Wesfarmers prior to the date of the Scheme Implementation Agreement.
Wesfarmers Merged Group	Wesfarmers following the acquisition of all of the Coles Group Shares as a result of the Scheme.
Wesfarmers Ordinary Shares	an ordinary fully paid share in the capital of Wesfarmers, other than Wesfarmers PPS.
Wesfarmers PPS or PPS	a fully paid ordinary share in the capital of Wesfarmers which provides a level of downside price protection in certain circumstances.
Wesfarmers PPS Holder	holders of Wesfarmers PPS from time to time.
Wesfarmers Prescribed Occurrence	the meaning given to that term in Section 1.1 of the Scheme Implementation Agreement.
Wesfarmers Retail	Wesfarmers Retail Holdings Pty Ltd (ACN 126 199 022).
Wesfarmers Share Registry	Computershare Investor Services Pty Limited (ABN 48 078 279 277).
Wesfarmers Shareholders	holders of Wesfarmers Shares from time to time.
Working Capital	trade and other receivables plus inventories less trade creditors and other payables.

14.2 Interpretation

In this Scheme Booklet:

- (1) other words and phrases have the same meaning (if any) given to them in the Corporations Act;
- (2) words of any gender include all genders;
- (3) words importing the singular include the plural and vice versa;
- (4) an expression importing a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;
- (5) a reference to a section or annexure, is a reference to a section of or annexure of, this Scheme Booklet as relevant;
- (6) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them;
- (7) headings and bold type are for convenience only and do not affect the interpretation of this Scheme Booklet;
- (8) a reference to time is a reference to Melbourne time;
- (9) a reference to dollars, \$, A\$, AUD, cents, ¢ and currency is a reference to the lawful currency of the Commonwealth of Australia;
- (10) an accounting term is a reference to that term as it is used in accounting standards under the Corporations Act, or, if not inconsistent with those standards, in accounting principles and practices generally accepted in Australia; and
- (11) the words "include", "including", "for example" or "such as" when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind.

Annexure A: Terms of Wesfarmers PPS

1. General

- (a) Each Partially Protected Share is a share in the capital of Wesfarmers and is issued on the terms set out in these Terms of Issue. Partially Protected Shares constitute a class of ordinary shares in the share capital of Wesfarmers.
- (b) Each Partially Protected Share will be issued by Wesfarmers fully paid as part of the consideration for the acquisition of shares in Coles Group Limited (ABN 11 004 089 936) (**Coles**) pursuant to a scheme of arrangement between Coles and its shareholders.
- (c) Subject to these Terms of Issue, each Partially Protected Share confers rights on a Partially Protected Shareholder that are the same in all respects to those conferred by an Ordinary Share on an Ordinary Shareholder on an equal basis, including but not limited to, any right:
 - (i) to vote at a general meeting of Wesfarmers (both on a show of hands and on a poll);
 - (ii) to receive dividends;
 - (iii) to participate in surplus assets and profits on a winding up;
 - (iv) to repayment of capital; and
 - (v) to receive accounts, reports and notice of meetings of the company and to attend any general meetings of Wesfarmers.
- (d) Each Partially Protected Share ranks equally with each other Partially Protected Share and each Ordinary Share.

2. Reclassification and Bonus Issue following the Lapse Date

- (a) Within six months after the Lapse Date, Wesfarmers must issue a Lapse Notice to all Partially Protected Shareholders. If Wesfarmers does not issue a Lapse Notice during that time, then for the purposes of this clause 2, Wesfarmers will be taken to have issued a Lapse Notice to all Partially Protected Shareholders on the date that is six months after the Lapse Date and the date of the Lapse Notice will be taken to be six months after the Lapse Date.
- (b) A Lapse Notice given by Wesfarmers under paragraph (a) above may include any information that Wesfarmers considers necessary to effect the Reclassification and the Bonus Issue in an orderly manner and may be given to the Partially Protected Shareholders by Wesfarmers publishing the notice on its website and announcing the publication of the notice to ASX.
- (c) On a date determined by Wesfarmers (which will be within 20 Business Days of issuing the Lapse Notice):
 - (i) each Partially Protected Share will be reclassified into one Ordinary Share; and
 - (ii) subject to clause 8, each Partially Protected Shareholder will be issued an additional number of Ordinary Shares for each Partially Protected Share held on that date, in accordance with the following:
 - (A) if the MVWAP is equal to or more than the Cap Price, no additional Ordinary Shares;
 - (B) if the MVWAP is equal to or less than the Floor Price, 0.25 Ordinary Shares; and
 - (C) if the MVWAP is between the Floor Price and the Cap Price, the number of Ordinary Shares calculated (to four decimal places) using the following formula:

$$\frac{\text{Cap Price}}{\text{MVWAP}} - 1$$

where:

MVWAP means the VWAP for the period of two months immediately preceding, but not including, the date of the Lapse Notice.

- (d) Where the total number of Ordinary Shares that a Partially Protected Shareholder is entitled to be issued under paragraph (c) above includes a fraction, that fraction will be disregarded.
- (e) This clause 2 applies only to the extent the Partially Protected Shares have not been Reclassified into Ordinary Shares in accordance with clauses 4, 5 or 6.

3. Extension of Lapse Date

- (a) If the average of the ASX/S&P 200 Industrial Index at the close of trading for each trading day during the two month period before the Lapse Date is less than 6500, then Wesfarmers may, by giving notice to the Partially Protected Shareholders in accordance with paragraph (b) below, extend the Lapse Date for a further period of 12 calendar months. For the avoidance of doubt, once such a notice is given, no further notice may be given under this clause 3 unless this clause becomes operative as at the new Lapse Date.
- (b) Partially Protected Shareholders acknowledge that any notice given by Wesfarmers under paragraph (a) may be given to them by Wesfarmers publishing the notice on its website and announcing the publication of the notice to ASX.
- (c) Wesfarmers may exercise the right to extend the Lapse Date under this clause 3 no more than four times.

4. Reclassification at Election of Holder

- (a) A Partially Protected Shareholder may at any time provide written notice (a **Holder Election Notice**) to Wesfarmers under which the Partially Protected Shareholder elects to have all or part of the Partially Protected Shares that they hold Reclassified into an equal number of Ordinary Shares in accordance with this clause 4.
- (b) On the Holder Reclassification Date, the Partially Protected Share which the Partially Protected Shareholder who provided the notice has elected to Reclassify (as determined by reference to the Register) shall be Reclassified into Ordinary Shares on a one-for-one basis, and the Partially Protected Shareholder shall be removed from the Register in respect of that number of Partially Protected Shares and entered into the register of Ordinary Shareholders in respect of an equal number of Ordinary Shares. The Partially Protected Shareholder will not be entitled to be issued with any additional Ordinary Shares in respect of the Partially Protected Share.
- (c) Subject to paragraph (d) below, the Partially Protected Shareholder Reclassification Date will be the last Business Day of the calendar month in which a valid Holder Election Notice is received by Wesfarmers unless the Holder Election Notice is received within the last 10 Business Days of the calendar month, in which case, it will be the last Business Day of the following calendar month.
- (d) If the Holder Reclassification Date would, but for this paragraph, occur during a Block-out Period, then the Holder Reclassification Date will be deferred to the last Business Day of the calendar month following the month in which the Block-out Period ends.
- (e) In order to be valid, a Holder Election Notice must:
 - (i) be signed by the Partially Protected Shareholder, or where Partially Protected Shares are held jointly, by each joint Partially Protected Shareholder in respect of that Partially Protected Share;
 - (ii) clearly state the number of their Partially Protected Shares the Partially Protected Shareholder wishes to have Reclassified into Ordinary Shares. If the Partially Protected Shareholder does not clearly state the number of their Partially Protected Shares the Partially Protected Shareholder wishes to Reclassify, the Partially Protected Shareholder will be taken to have elected to have all their Partially Protected Shares Reclassified; and
 - (iii) be received by Wesfarmers at its registered office (or other office nominated by Wesfarmers) or at the office of the registrar of Partially Protected Shareholders.

Wesfarmers will make a form of Holder Election Notice available to Partially Protected Shareholders.

- (f) A valid Holder Election Notice, once received by Wesfarmers, is irrevocable.

5. Reclassification and Bonus Issue at Election of Wesfarmers

- (a) Wesfarmers may at any time issue a notice (**Wesfarmers Election Notice**) to all Partially Protected Shareholders under which Wesfarmers can elect to Reclassify all (but not some only) Partially Protected Shares.
- (b) A Wesfarmers Election Notice given by Wesfarmers under paragraph (a) above may include any information that Wesfarmers considers necessary to effect Reclassification in an orderly manner and may be given to them by Wesfarmers publishing the notice on its website and announcing the publication of the notice to ASX.
- (c) On a date determined by Wesfarmers (which will be within 20 Business Days of issuing the Wesfarmers Election Notice):
 - (i) each Partially Protected Share will be reclassified into one Ordinary Share; and
 - (ii) subject to clause 8, each Partially Protected Shareholder will be issued an additional number of Ordinary Shares for each Partially Protected Share held on that date, in accordance with the following formula:

$\frac{\text{Cap Price}}{\text{MVWAP}} - 1$
<p>where: WVWAP means the VWAP for the period of two months immediately preceding, but not including, the date of the Wesfarmers Election Notice.</p>

- (d) Where the total number of Ordinary Shares that a Partially Protected Shareholder is entitled to be issued under paragraph (c) above includes a fraction, that fraction will be disregarded.
- (e) This clause 5 applies only to the extent the Partially Protected Shares have not been Reclassified into Ordinary Shares in accordance with clauses 2, 4 or 6.

Annexure A: Terms of Wesfarmers PPS (continued)

6. Early Lapse

- (a) If the VWAP over any consecutive period of 20 Business Days exceeds the Cap Price at any time prior to the Lapse Date (the **Early Lapse Event**), then on the Early Lapse Reclassification Date each Partially Protected Share then on issue shall be Reclassified into one Ordinary Share, and Partially Protected Shareholders shall be removed from the Register in respect of that number of Partially Protected Shares and entered into the register of Ordinary Shareholders in respect of an equal number of Ordinary Shares. The Partially Protected Shareholder will not be entitled to be issued with any additional Ordinary Shares in respect of the Partially Protected Share.
- (b) Subject to paragraph (c) below, the Early Lapse Reclassification Date will be on the last Business Day of the calendar month in which Wesfarmers gives notice to Partially Protected Shareholders that Partially Protected Shares will be Reclassified under this clause 6 by Wesfarmers publishing the notice on its website and announcing the publication of the notice to ASX. Wesfarmers will issue this notice as soon as practicable after it becomes aware of an Early Lapse Event.
- (c) If the Early Lapse Reclassification Date would, but for this paragraph, occur during a Block-out Period, then the Early Lapse Reclassification Date will be deferred to the last Business Day of the calendar month following the month in which the Block-out Period ends.

7. Adjustment to VWAP

The calculation of VWAP will be subject to the following adjustments:

- (a) where, on some or all of the Business Days in respect of the period to which the VWAP relates (the **Reference Period**), Ordinary Shares have been quoted on ASX as cum dividend or cum any other distribution or entitlement and the Partially Protected Shares will Reclassify after the date those Ordinary Shares no longer carry that entitlement (**Ex Date**), then the VWAP on the Business Days on which those shares have been quoted cum dividend or cum entitlement shall be reduced by an amount (**Cum Value**) equal to:
 - (i) (in case of a dividend or other distribution), the amount of that dividend or distribution;
 - (ii) (in the case of an entitlement which is traded on ASX on any of those Business Days), the volume weighted average price of all such entitlements sold on ASX during the Reference Period on the Business Days on which those entitlements were traded; or
 - (iii) (in the case of an entitlement not traded on ASX during the Reference Period), the value of the entitlement as reasonably determined by the Directors; and
- (b) where, on some or all of the Business Days in the Reference Period, Ordinary Shares have been quoted ex dividend, ex distribution or ex entitlement, and the Partially Protected Shares will Reclassify into Ordinary Shares which would be entitled to receive the relevant dividend, distribution or entitlement, the VWAP on the Business Days on which those Ordinary Shares have been quoted ex dividend, ex distribution or ex entitlement shall be increased by the Cum Value.

8. Discretion with respect to Bonus Issues

- (a) Wesfarmers is required to effect a Bonus Issue when required under these Terms of Issue, unless the Directors, at their sole discretion, decide not to effect the issue.
- (b) If the Directors exercise their discretion not to effect a Bonus Issue if otherwise due under clause 2(c)(ii) or clause 5(c)(ii) (as the case may be), Wesfarmers must not:
 - (i) determine or pay interest, dividends or other distributions on any Equal Ranking Capital Securities or Junior Ranking Capital Securities; or
 - (ii) redeem, reduce capital on, cancel or acquire for any consideration any Equal Ranking Capital Securities or Junior Ranking Capital Securities,

until the Bonus Issue is made to the holder of the Reclassified Ordinary Share to which the Bonus Issue relates.

9. Reclassification and Bonus Issue Generally

- (a) On Reclassification of a Partially Protected Share:
 - (i) all rights and restrictions conferred on the share pursuant to these Terms of Issue will no longer have any effect (except for any rights relating to any dividend, distribution or other entitlement accrued on or before the Reclassification Date, including under clause 8, which will subsist);
 - (ii) the terms on which such share will be on issue will be the terms of issue of an Ordinary Share; and
 - (iii) thenceforth such share will be an Ordinary Share, and the holder of such share will be an Ordinary Shareholder who will be conferred all the rights and obligations in respect of an Ordinary Share (other than in respect of any dividend, distribution or other entitlement that has accrued before the Reclassification Date in respect of other Ordinary Shares).

- (b) The variation of the status of, and the rights attaching to, a Partially Protected Share by way of Reclassification does not constitute redemption, cancellation or buy-back of a Partially Protected Share or an issue, allotment or creation of a new share.
- (c) Each Ordinary Share resulting from Reclassification and issued pursuant to a Bonus Issue will rank equally with all other Ordinary Shares then on issue and Wesfarmers will issue a statement that the holder of those shares holds a share so ranking.

10. Takeovers and schemes of arrangement

If a takeover bid is made for Ordinary Shares, acceptance of which is recommended by the Directors, or the Directors recommend a member's scheme of arrangement, the Directors will use reasonable endeavours to procure that equivalent takeover offers are made to Partially Protected Shareholders or that they participate in the scheme of arrangement.

11. Discretion to adjust terms in certain events

Where:

- (a) Ordinary Shares are reconstructed, consolidated, divided or reclassified into a lesser or greater number of securities;
- (b) Wesfarmers undertakes a bonus issue or rights issue in respect of Ordinary Shares, conducts a buy-back, cancellation or return of capital affecting Ordinary Shares, makes a distribution other than by the way of dividend in accordance with its usual policy or makes a pro rata offer to Ordinary Shareholders to subscribe for, or purchase, securities in any entity other than Wesfarmers; or
- (c) any other corporate action is undertaken by Wesfarmers that may have a diluting or concentrative effect on the value of the Ordinary Shares,

and the Directors determine that any such occurrence would, in the reasonable opinion of the Directors, affect the relative values of Partially Protected Shares and Ordinary Shares, the Directors may:

- (i) make such alterations to the Cap Price, Floor Price and/or any other term of these Terms of Issue as the Directors reasonably consider appropriate or necessary to maintain that relativity; and/or
- (ii) extend an entitlement to the Partially Protected Shareholders to participate in such distribution or pro rata offer based upon the number of Ordinary Shares to which those Partially Protected Shareholders would have been entitled if their Partially Protected Shares had been Reclassified on a date nominated by the Directors and adapting the formula in clause 2(c) as the Directors reasonably consider appropriate to maintain the relativity.

12. Quotation

Wesfarmers must use all reasonable endeavours to furnish all such documents as are reasonably necessary to apply, at its own expense, for quotation of Partially Protected Shares on ASX and of all Ordinary Shares which are on issue as a result of Reclassification or Bonus Issue on any stock exchange on which the other Ordinary Shares are quoted on the date of Reclassification or Bonus Issue.

13. Amendments to these Terms of Issue

13.1 Amendment without consent

Subject to complying with all applicable laws, Wesfarmers may, without the authority, assent or approval of Partially Protected Shareholders, amend these Terms of Issue:

- (a) if Wesfarmers is of the opinion that the amendment is:
 - (i) of a formal, minor or technical nature;
 - (ii) made to cure any ambiguity;
 - (iii) made to correct any manifest error;
 - (iv) expedient for the purpose of enabling the Partially Protected Shares to be listed for quotation or to retain quotation on any stock exchange and it is otherwise not considered by Wesfarmers to be materially prejudicial to the interests of Partially Protected Shareholders as a whole;
 - (v) necessary to comply with the provisions of any statute, the requirements of any statutory authority, the ASX Listing Rules or the listing or quotation requirements of any stock exchange on which the Partially Protected Shares are quoted; or
 - (vi) contemplated under clause 11;
- (b) generally, in any case where such amendment is considered by Wesfarmers not to be materially prejudicial to the interests of Partially Protected Shareholders as a whole.

13.2 Amendment with consent

Without limiting clause 13.1, Wesfarmers may amend these Terms of Issue if the amendment has been approved in accordance with article 5 of the Constitution.

Annexure A: Terms of Wesfarmers PPS (continued)

14. Interpretation

- (a) Unless the context otherwise requires, if there is any inconsistency between the provisions of these Terms of Issue, and the Constitution, then, to the maximum extent permitted by law, the provisions of these Terms of Issue will prevail.
- (b) Unless otherwise specified, the Directors may exercise all powers of Wesfarmers under these Terms of Issue that are not, by the Corporations Act or by the Constitution, required to be exercised by Wesfarmers in general meeting.
- (c) A reference to \$, dollars or cents in these Terms of Issue is a reference to Australian currency. A reference to time in these Terms of Issue is a reference to Perth, Western Australia, Australian time.
- (d) Unless otherwise specified, notices may be given by Wesfarmers to a Partially Protected Shareholder in the manner prescribed by the Constitution for the giving of notices to members of Wesfarmers and the relevant provisions of the Constitution apply with all necessary modification to notices to Partially Protected Shareholders.
- (e) Unless otherwise specified, a reference to a clause is a reference to a clause of these Terms of Issue.
- (f) If a calculation is required under these Terms of Issue, unless the contrary intention is expressed, the calculation will be rounded to four decimal places.
- (g) Calculations, elections and determinations made by Wesfarmers under these Terms of Issue are binding on Partially Protected Shareholders in the absence of manifest error.
- (h) Definitions and interpretation under the Constitution will also apply to these Terms of Issue subject to paragraph (a).
- (i) A reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- (j) If an event under these Terms of Issue must occur on a stipulated day which is not a Business Day, then the stipulated day for that event will be taken to be the next Business Day.
- (k) A reference to the ASX/S&P200 Industrials Index includes, where that index ceases to exist, a reference to another index or successor index which Wesfarmers believes in good faith best replicates the parameters of the ASX/S&P200 Industrials Index.
- (l) The following words and expressions shall have the following meanings:

ASX	means ASX Limited (ABN 98 008 624 691).
ASX Listing Rules	means the listing rules of ASX from time to time with any modification or waivers in their application to Wesfarmers, which ASX may grant.
ASX Market Rules	means the operating rules of ASX from time to time.
Block-out Period	means the period commencing on the date that the Directors determine a dividend is payable on Ordinary Shares and ending on the date that the dividend is paid.
Bonus Issue	means an issue of Ordinary Shares pursuant to clause 2(c)(ii) or 5(c)(ii).
Business Day	means a business day as defined in ASX Listing Rules.
Cap Price	means \$45.00, subject to adjustment in accordance with these Terms of Issue.
Capital Securities	means shares or any equity, hybrid or subordinated debt capital security (whether comprised of one or more instruments) issued by Wesfarmers or a member of the Group. Capital Security has the corresponding meaning.
Constitution	means the constitution of Wesfarmers as amended from time to time.
Corporations Act	means Corporations Act 2001 (Cth).
Directors	means some or all of the directors of Wesfarmers.
Early Lapse Event	has the meaning given in clause 6(a).
Early Lapse Reclassification Date	means the date on which a Partially Protected Share is Reclassified under clause 6.
Equal Ranking Capital Securities	means: (a) in the case of interest, dividend or other distribution, a Partially Protected Share, an Ordinary Share and any other Capital Security which ranks for payment of the interest, dividend or other distribution equally with Partially Protected Shares or Ordinary Shares; and (b) in the case of redemption, reduction of capital on, cancellation or acquisition, a Partially Protected Share, an Ordinary Share and any other Capital Security which ranks equally with Partially Protected Shares or Ordinary Shares for a return of capital if Wesfarmers is wound up.
Floor Price	means \$36.00, subject to adjustment in accordance with these Terms of Issue.
Group	means Wesfarmers and its controlled entities.
Holder Reclassification Date	means the date on which a Partially Protected Share is Reclassified at the election of the Partially Protected Shareholder under clause 4.
Holder Election Notice	means a notice given by a Partially Protected Shareholder to Wesfarmers under clause 4.
Issue Date	means the date on which Partially Protected Shares are issued in accordance with the Coles Scheme.
Junior Ranking Capital Securities	means: (a) in the case of interest, dividend or other distribution, a Capital Security which ranks for payment of the interest, dividend or other distribution behind Partially Protected Shares or Ordinary Shares; and (b) in the case of redemption, reduction of capital on, cancellation or acquisition, a Capital Security which ranks behind Partially Protected Shares or Ordinary Shares for a return of capital if Wesfarmers is wound up.
Lapse Date	means the date four years from the Issue Date unless extended in accordance with clause 3.
Lapse Notice	means the notice to be provided by Wesfarmers pursuant to clause 2(a).
Ordinary Share	means an ordinary share in the capital of Wesfarmers other than a Partially Protected Share.
Ordinary Shareholder	means a person whose name is for the time being registered as the holder of an Ordinary Share.
Partially Protected Shareholder	means a person entered on the Register as the holder of a Partially Protected Share.
Partially Protected Shares	means a share in the capital of Wesfarmers issued under these Terms of Issue.
Reclassification	has the meaning given in clauses 9(a) and 9(b), and Reclassify and Reclassified have a corresponding meaning.

Annexure A: Terms of Wesfarmers PPS (continued)

Reclassification Date	in respect of particular Partially Protected Shares, means the date on which those Partially Protected Shares are Reclassified in accordance with these Terms of Issue.
Register	means the register of Partially Protected Shares maintained by Wesfarmers or its agent and includes any subregister established and maintained under the Clearing House Electronic Subregister System operated by ASX Settlement and Transfer Corporation Pty Limited (ABN 49 008 504 532).
Special Resolution	means a resolution passed at a separate meeting of Partially Protected Shareholders by at least 75% of the votes validly cast by Partially Protected Shareholders in person or by proxy and entitled to vote on the resolution.
Terms of Issue	means these terms of issue for Partially Protected Shares.
VWAP	means, subject to adjustment under clause 7, the volume weighted average sale price of Ordinary Shares sold on the ASX during normal trading in the relevant period or on the relevant days, but does not include any and all 'special' crossings, crossings prior to the commencement of normal trading, crossings during the after hours adjust phase, any other off-market trades, the exercise of options over the relevant securities or any trades which Wesfarmers decides (in its absolute discretion) to exclude on the basis that they are not representative of the general price at which Ordinary Shares traded on ASX on the Trading Day (as defined in the ASX Listing Rules) on which the trades took place.
Wesfarmers	means Wesfarmers Limited (ABN 28 008 984 049).
Wesfarmers Reclassification Date	means the date on which a Partially Protected Share is Reclassified at the election of Wesfarmers under clause 5.
Wesfarmers Election Notice	means a notice given by Wesfarmers under clause 5.

Annexure B: Scheme of Arrangement

Scheme

Scheme of Arrangement

Pursuant to section 411 of the Corporations Act.

BETWEEN **Coles Group Limited**

ABN 11 004 089 936

800 Toorak Road TOORONGA VIC 3146

(Coles)

AND Scheme Shareholders

1 Definitions and interpretation

1.1 Definitions

The meanings of the terms used in this scheme of arrangement are set out below.

Term	Meaning
ASIC	Australian Securities and Investments Commission.
ASTC	the ASX Settlement and Transfer Corporation Pty Limited (ABN 49 008 504 532).
ASTC Settlement Rules	the operating rules of the settlement facility of the ASTC for the purposes of the Corporations Act.
ASX	ASX Limited (ABN 98 008 624 691).
Bidder	Wesfarmers Retail Holdings Pty Ltd (formerly known as Cobico Pty Limited) (ACN 126 199 022) of Level 11, Wesfarmers House, 40 The Esplanade, Perth WA 6000.
Business Day	a weekday on which trading banks are open for business in Melbourne, Australia.
Cash Consideration	A\$4.00 cash for each Scheme Share held by a Scheme Shareholder.
CHESS	the clearing house electronic sub-register system of share transfers operated by ASX Settlement and Transfer Corporation Pty Ltd (ABN 49 008 504 532).
Coles Board	the board of directors of Coles.
Coles Option	an option to subscribe for, or acquire, a Coles Share granted by Coles.
Coles Registry	Link Market Services Pty Limited.
Coles Share	a fully paid ordinary share of Coles.
Coles Shareholder	each person entered in the Register as a holder of Coles Shares.
Corporations Act	Corporations Act 2001 (Cth).
Court	the Supreme Court of Victoria or such other court of competent jurisdiction under the Corporations Act agreed to in writing by Coles and Bidder.
Deed Poll	the deed poll dated 27 September 2007 executed by Bidder and Wesfarmers in favour of Scheme Shareholders.
Effective	when used in relation to the Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Scheme.
Effective Date	the date on which the Scheme becomes Effective.
Electing Small Shareholder	a Small Shareholder who validly elects to have the New Wesfarmers Shares to which he or she is otherwise entitled sold in accordance with clause 5.5.
End Date	31 December 2007.
Excluded Shareholder	any Coles Shareholder who is the Bidder, Wesfarmers, a Related Body Corporate of the Bidder or a Related Body Corporate of Wesfarmers.
Implementation Date	the fifth Business Day after the Scheme Record Date.

Annexure B: Scheme of Arrangement

(continued)

Term	Meaning
Ineligible Foreign Shareholder	a Scheme Shareholder whose address shown in the Register is a place outside Australia and its external territories or New Zealand unless Coles and Bidder agree in writing that: <ol style="list-style-type: none"> 1 it is lawful and not unduly onerous or impracticable to issue that Scheme Shareholder with New Wesfarmers Shares when the Scheme becomes Effective; or 2 it is lawful for that Scheme Shareholder to participate in the Scheme by the law of the relevant place outside Australia and its external territories or New Zealand.
Listing Rules	the official Listing Rules of the ASX.
Marketable Parcel	a marketable parcel as defined by the Market Rules of the ASX.
New Wesfarmers Ordinary Shares	a fully paid ordinary share in Wesfarmers to be issued under the Scheme, which is not a partially protected share.
New Wesfarmers Shares	a fully paid ordinary share or a fully paid partially protected share in Wesfarmers to be issued under the Scheme on the terms set out in the Scheme Implementation Agreement and in the case of a fully paid partially protected share, on the terms set out in Attachment 4 of that agreement.
Performance Share	an arrangement under which a Coles Share may be provided to the holder by Coles under the Senior Executive Performance Share Plan.
Register	the register of members of Coles.
Registered Address	in relation to a Coles Shareholder, the address shown in the Register.
Scheme Booklet	an information memorandum to be approved by the Court and despatched to the Coles Shareholders and which must include the Scheme, an explanatory statement complying with the requirements of the Corporations Act, an independent expert's report, notices of meeting and proxy forms.
Scheme Consideration	the consideration to be provided by Bidder to each Scheme Shareholder for the transfer to Bidder of each Coles Share, as set out in the Scheme Implementation Agreement.
Scheme Implementation Agreement	the Scheme Implementation Agreement dated on or about 5 September 2007 between Coles, Bidder and Wesfarmers.
Scheme Meeting	the meeting of Scheme Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act.
Scheme Record Date	7 pm on the fifth Business Day after the Effective Date or such other date as Bidder and Coles agree in writing.
Scheme Share	a Coles Share held by a Scheme Shareholder as at the Scheme Record Date.
Scheme Shareholder	Coles Shareholders (other than an Excluded Shareholder) as at the Scheme Record Date.
Scheme Transfer	for each Scheme Shareholder, a duly completed and executed proper instrument of transfer of the Scheme Shares for the purposes of section 1071B of the Corporations Act, which may be a master transfer of all Scheme Shares.
Scheme	this scheme of arrangement under Part 5.1 of the Corporations Act between Coles and Scheme Shareholders, subject to any alterations or conditions made or required by the court under subsection 411(6) of the Corporations Act.
Scrip Consideration	the combination of: <ol style="list-style-type: none"> (a) 0.14215 of a New Wesfarmers Share which is an ordinary share in Wesfarmers; plus (b) 0.14215 of a New Wesfarmers Share which is a partially protected share in Wesfarmers, for each Scheme Share held by a Scheme Shareholder.
Second Court Date	the first day on which the application made to the Court for an order under paragraph 411(4)(b) of the Corporations Act approving the Scheme is heard by the Court.
Small Shareholder	a Scheme Shareholder who is shown on the Register on the Record Date as holding 100 Scheme Shares or less.
Trading Day	has the meaning given in the ASX Listing Rules.
Trustee	Coles as trustee for the Scheme Shareholders.
Wesfarmers	Wesfarmers Limited (ABN 28 008 984 049) of Level 11, Wesfarmers House, 40 The Esplanade, Perth WA 6000.
Wesfarmers Shares	a fully paid ordinary share in Wesfarmers.

Term	Meaning
Wesfarmers VWAP	<p>the volume weighted average price of Wesfarmers Shares (calculated to 2 decimal places of one cent) traded on ASX "On market" (as that term is defined in the ASX Market Rules) on the relevant day or period, excluding:</p> <ol style="list-style-type: none"> 1 special crossings, overseas trades, trades pursuant to the exercise of options or overnight trades; and 2 any trade which Wesfarmers and Coles reasonably agree to exclude on the basis that they are not representative of the general price at which Wesfarmers Shares traded on ASX on the Trading Day on which the trades took place, <p>as determined by the ASX Limited in accordance with its customary practice.</p>

1.2 Interpretation

In this Scheme, headings and bold type are for convenience only and do not affect interpretation and, unless the context requires otherwise:

- words importing the singular include the plural and vice versa;
- words importing a gender include any gender;
- other parts of speech and grammatical forms of a word or phrase defined in this Scheme have a corresponding meaning;
- a reference to a person includes an individual, the estate of an individual, a corporation, an authority, an association or a joint venture, a partnership, a trust and any government agency;
- a reference to a clause, party, attachment or schedule is a reference to a clause of, and a party, attachment and schedule to this Scheme, and a reference to this Scheme includes any attachment and schedule;
- a reference to a statute, regulation, proclamation, ordinance or by law includes all statutes, regulations, proclamations ordinances or by laws amending, consolidating or replacing it, whether passed by the same or another government agency with legal power to do so, and a reference to a statute includes all regulations, proclamations, ordinances and by laws issued under that statute;
- a reference to any document (including this Scheme) is to be that document as varied, novated, ratified or replaced from time to time;
- the word "includes" in any form is not a word of limitation;
- a reference to "\$" or "dollar" is to Australian currency;
- a reference to any time, unless otherwise indicated, is a reference to that time in Melbourne, Australia; and
- a term defined in or for the purposes of Chapter 6 of the Corporations Act has the same meaning when used in this Scheme.

1.2 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.

2 Preliminary

- Coles is a public company registered in Victoria and is a company limited by shares. Coles is admitted to the official list of the ASX and Coles Shares are officially quoted on the ASX.
- As at 5 September 2007:
 - 1,198,780,888 Coles Shares were on issue;
 - 5,841,946 Coles Options were on issue; and
 - 4,297,590 Performance Shares were on issue.
- Bidder is a company registered in Victoria and is a company limited by shares.
- If the Scheme becomes Effective:
 - Bidder (and Wesfarmers) will provide or procure the provision of the Scheme Consideration to Scheme Shareholders in accordance with the Scheme and the Deed Poll; and
 - all the Scheme Shares held by Scheme Shareholders will be transferred to Bidder and Coles will enter the name of Bidder in the Register in respect of the Scheme Shares held by Scheme Shareholders.
- Bidder, Wesfarmers and Coles have agreed by executing the Scheme Implementation Agreement to implement this Scheme.
- Bidder and Wesfarmers have agreed by executing the Deed Poll to procure that Bidder will provide the Scheme Consideration (or procure that the Scheme Consideration is provided) to Scheme Shareholders in accordance with the terms of the Deed Poll.

Annexure B: Scheme of Arrangement

(continued)

3 Conditions

- (a) The Scheme is conditional on all the conditions in clause 3.1 of the Scheme Implementation Agreement having been satisfied or waived in accordance with the terms of the Scheme Implementation Agreement.
- (b) The satisfaction of clause 3(a) is a condition precedent to the operation of clauses 4.2 and 5.
- (c) The Scheme will lapse and be of no further force or effect if the Effective Date does not occur on or before the End Date or any later date Coles and Bidder agree in writing.
- (d) Bidder and Coles will provide to the Court at the Second Court Date a certificate confirming (in respect of matters within their knowledge) whether or not the conditions precedent in the Scheme Implementation Agreement (other than the condition relating to court approval) and this Scheme have been satisfied or waived. The certificate constitutes conclusive evidence that such conditions precedent are satisfied, waived or taken to be waived.

4 Implementation

4.1 Lodgement of Court orders

Coles will lodge with ASIC an office copy of the Court order under section 411 of the Corporations Act approving the Scheme as approved by Coles Shareholders (other than the Excluded Shareholders) at the Scheme Meeting on the day such office copy is received (or such later date as agreed in writing by Bidder).

4.2 Transfer of Scheme Shares

On the Implementation Date:

- (a) subject to clause 5.2(a), the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, will be transferred to Bidder without the need for any further act by any Scheme Shareholder (other than acts performed by Coles as attorney and agent for the Scheme Shareholders under clause 9.5) and the transfer will be deemed to be effective on the Implementation Date;
- (b) to the extent permitted by law, all the Scheme Shares (including any rights and entitlements attaching to the Scheme Shares) which are transferred to Bidder under this Scheme will, at the date of transfer of them to Bidder, vest in Bidder free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise, and free from any restrictions on transfer of any kind not referred to in this Scheme;
- (c) Bidder will deliver to Coles a duly completed and executed Scheme Transfer for registration;
- (d) Bidder and Wesfarmers will provide the Scheme Consideration (or procure that the Scheme Consideration is provided) to each Scheme Shareholder for their Scheme Shares in accordance with the Scheme; and
- (e) after the duly completed and executed Scheme Transfer is received by Coles, Coles will, subject to Bidder and Wesfarmers complying with their obligations under clause 4.2(c), enter the name of Bidder in the Register in respect of all Scheme Shares the subject of the Scheme Transfer.

5 Scheme Consideration

5.1 Amount of Scheme Consideration

The Scheme Consideration in respect of each Scheme Share is:

- (a) Cash Consideration; and
- (b) Scrip Consideration.

5.2 Cash Consideration under the Scheme

- (a) Before 11am on the Implementation Date, Coles must procure Bidder or Wesfarmers to deposit an amount equal to the aggregate amount of the Cash Consideration payable to all Scheme Shareholders, in cleared funds in a trust account operated by the Trustee, to be held on trust for the Scheme Shareholders, except that any interest on the amount deposited (less bank fees and other charges) shall be to Bidder's account.
- (b) On the Implementation Date subject to Coles having complied with clause 5.2(a), the Trustee must pay from the account referred to in clause 5.2(a) to each Scheme Shareholder such amount of cash as is due to that Scheme Shareholder under clauses 5.1 and 5.4 as Cash Consideration in respect of all that Scheme Shareholder's Scheme Shares.
- (c) Unless clause 5.2(d) applies, the amount referred to in clause (b) may be paid by the Trustee doing any of the following at its election:
 - (1) sending the consideration to the Scheme Shareholders' Registered Address by cheque in Australian currency drawn out of the trust account established in accordance with clause 5.2(a); or
 - (2) depositing or procuring the Coles Registry to deposit it into an account with any Australian ADI (as defined in the Corporations Act) notified to Coles (or Coles' agent who manages the Register) by an appropriate authority from the Scheme Shareholders.

(d) In the event that:

- (1) a Scheme Shareholder does not have a Registered Address; or
- (2) the Trustee believes that a Scheme Shareholder is not known at the Scheme Shareholder's Registered Address,

and no account has been notified in accordance with clause 5.2(c)(2) or a deposit into such an account is rejected or refunded, the Trustee may credit the amount payable to the relevant Scheme Shareholder to a separate bank account of Coles to be held until the Scheme Shareholder claims the amount or the amount is dealt with in accordance with unclaimed money legislation. Coles must hold the amount on trust, but any benefit accruing from the amount will be to the benefit of Coles. An amount credited to the account is to be treated as having been paid to the Scheme Shareholder when credited to the account. Coles must maintain records of the amounts paid, the people who are entitled to the amounts and any transfers of the amounts.

- (e) To the extent that there is a surplus in the amount held by the Trustee in the trust account, that surplus may be paid by the Trustee to Bidder following the satisfaction of the Trustee's obligations under clause 5.2.

5.3 Scrip Consideration under the Scheme

- (a) Subject to clauses 5.5, 5.6 and 5.7, on or before the Implementation Date, in consideration of the transfer of the Scheme Shares to Bidder Coles must procure Bidder and Wesfarmers to issue to each Scheme Shareholder such number of New Wesfarmers Shares to which that Scheme Shareholder is entitled under clauses 5.1 and 5.4;
- (b) The obligations of Coles under clause 5.3(a) will be satisfied by Wesfarmers:
 - (1) on the Implementation Date, issuing the requisite number of New Wesfarmers Shares (as determined under this clause 5) to each Scheme Shareholder;
 - (2) on the Implementation Date, entering the name of each Scheme Shareholder on the Wesfarmers share register in respect of the New Wesfarmers Shares they are entitled to receive as Scrip Consideration; and
 - (3) subject to clause 5.3(c), on, or as soon as practicable after, the Implementation Date, sending or procuring the dispatch to each Scheme Shareholder, by pre-paid post to its Registered Address at the Scheme Record Date, holding statements or notices confirming the issue of the Scrip Consideration to that Scheme Shareholder representing the total number of New Wesfarmers Shares to be issued to that Scheme Shareholder in accordance with the terms of this Scheme.
- (c) Clause 5.3(b)(3) does not apply to a Scheme Shareholder who does not have a Registered Address, or where Coles believes that a Scheme Shareholder is not known at the Scheme Shareholder's Registered Address.

5.4 Mix and match facility

- (a) A Scheme Shareholder (other than Electing Small Shareholders) may, subject to the terms of this Scheme, elect to:
 - (1) increase the New Wesfarmers Ordinary Share component of the consideration that they will receive under the Scheme (Maximum Shares); or
 - (2) increase the cash component of the consideration that they will receive under the Scheme (Maximum Cash).
- (b) Valid elections for Maximum Shares will be satisfied in full where sufficient New Wesfarmers Ordinary Shares are available as a result of other Scheme Shareholders validly making elections for Maximum Cash, thereby releasing New Wesfarmers Ordinary Shares to which they would otherwise be entitled under the Scheme. If the number of New Wesfarmers Ordinary Shares made available as a result of valid elections for Maximum Cash is insufficient to satisfy in full all valid elections for Maximum Shares:
 - (1) the New Wesfarmers Ordinary Shares released by Scheme Shareholders electing Maximum Cash will be allocated to Scheme Shareholders who elected for Maximum Shares pro rata to their holdings of Scheme Shares; and
 - (2) the balance of their consideration will be satisfied as if no election had been made.
- (c) Valid elections for Maximum Cash will be satisfied in full where sufficient cash is available as a result of other Scheme Shareholders validly making elections for Maximum Shares, thereby releasing cash to which they would otherwise be entitled under the Scheme. If the amount of cash made available as a result of valid elections for Maximum Shares is insufficient to satisfy in full all valid elections for Maximum Cash:
 - (1) the cash released by Scheme Shareholders electing for Maximum Shares will be allocated to Scheme Shareholders who elected Maximum Cash pro rata to their holdings of Scheme Shares; and
 - (2) the balance of their consideration will be satisfied as if no election had been made.
- (d) To the extent that valid elections can be satisfied in accordance with clauses 5.4(b) and 5.4(c), Scheme Shareholders will receive New Wesfarmers Ordinary Shares instead of cash due under the Scheme on the basis of the Wesfarmers VWAP over the five Trading Days after the Effective Date for each New Wesfarmers Ordinary Share (and vice versa).

Annexure B: Scheme of Arrangement

(continued)

- (e) Coles may, after consultation with Wesfarmers, settle as it thinks fit any difficulty, matter of interpretation or dispute which may arise in connection with any election, whether arising generally or in relation to any particular election of a shareholder, and any decision is conclusive and binding on all relevant shareholders and other persons to whom the decision relates.
- (f) A Scheme Shareholder who is accepted by Coles as holding one or more parcels of Scheme Shares as trustee or nominee for, or otherwise on account of, another person, may make separate elections in accordance with this clause 5.4 in relation to each of those parcels of Scheme Shares, and an election made in respect of one such parcel shall not be taken to extend to the other parcels.

5.5 Small Shareholder facility

- (a) A Small Shareholder may, subject to the terms of this Scheme, elect to have the New Wesfarmers Shares that they would receive under the Scheme sold in accordance with the provisions of this clause 5.5.
- (b) The New Wesfarmers Shares to which an Electing Small Shareholder would otherwise have become entitled will be issued to a nominee appointed by Bidder (with the approval of Coles, acting reasonably) and Coles will procure that the nominee sells those New Wesfarmers Shares for the benefit of the Electing Small Shareholders and pay to the Electing Small Shareholder as soon as reasonably practicable the net proceeds received after:
 - (1) deducting any applicable fees, taxes and charges (other than stamp duty and brokerage);
 - (2) averaging the total amount payable so that all Electing Small Shareholders receive the same price per New Wesfarmers Share which is an ordinary share and the same price per New Wesfarmers Share which is a partially protected share; and
 - (3) rounding down to the nearest whole cent.
- (c) Electing Small Shareholders agree that the amount referred to in clause 5.5(a) must be paid by the nominee doing any of the following at the nominee's election:
 - (1) sending by pre-paid post (or pre-paid airmail if the address is outside Australia) the proceeds to the Scheme Shareholders' Registered Address by cheque drawn on an Australian Bank in Australian currency; or
 - (2) depositing or procuring the Coles Registry to deposit it into an account with any Australian ADI (as defined in the Corporations Act) notified to Coles (or Coles' agent who manages the Register) by an appropriate authority from the Scheme Shareholder,in either case, in full satisfaction of the Electing Small Shareholders' right to the Scrip Consideration.
- (d) Each Electing Small Shareholder appoints Coles as its agent to receive on its behalf any financial services guide or other notices which may be given by the nominee appointed by Bidder to that Electing Small Shareholder.

5.6 Ineligible Foreign Shareholders

- (a) The New Wesfarmers Shares to which an Ineligible Foreign Shareholder would otherwise have become entitled will be issued to a nominee appointed by Bidder (with the approval of Coles, acting reasonably) and Coles will procure that the nominee sells those New Wesfarmers Shares for the benefit of the Ineligible Foreign Shareholders and pay to the Ineligible Foreign Shareholder as soon as reasonably practicable the net proceeds received after:
 - (1) deducting any applicable brokerage, stamp duty and other taxes and charges (except, in the case of an Ineligible Foreign Shareholder who is also a Small Shareholder, any brokerage or stamp duty);
 - (2) averaging the total amount payable so that all Ineligible Foreign Shareholders receive the same price per New Wesfarmers Share which is an ordinary share and the same price per New Wesfarmers Share which is a partially protected share; and
 - (3) rounding down to the nearest whole cent.
- (b) Ineligible Foreign Shareholders agree that the amount referred to in clause 5.6(a) may be paid by the nominee doing any of the following at the nominee's election:
 - (1) sending by pre-paid post (or pre-paid airmail if the address is outside Australia) the proceeds to the Scheme Shareholders' Registered Address by cheque drawn on an Australian Bank in Australian currency;
 - (2) depositing or procuring the Coles Registry to deposit it into an account with any Australian ADI (as defined in the Corporations Act) notified to Coles (or Coles' agent who manages the Register) by an appropriate authority from the Scheme Shareholder; or
 - (3) in the event that an Ineligible Foreign Shareholder does not have a registered Address or the nominee believes an Ineligible Foreign Shareholder is not known at the Ineligible Foreign Shareholder's Registered Address, and no account has been notified in accordance with clause 5.6(b)(2) or a deposit into such an account is rejected or refunded, dealing with the amount as if clause 5.2(d) applied,in each case, in full satisfaction of the Ineligible Foreign Shareholders' right to the Scrip Consideration.

- (c) Each Ineligible Foreign Shareholder appoints Coles as its agent to receive on its behalf any financial services guide or other notices which may be given by the nominee appointed by Bidder to that Ineligible Foreign Shareholder.

5.7 Fractional Entitlements

- (a) Subject to clause 5.7(b), if the number of Scheme Shares held by a Scheme Shareholder is such that an entitlement of that Scheme Shareholder to New Wesfarmers Shares is not a whole number, then:
- (1) any fractional entitlement to New Wesfarmers Shares which is 0.5 or greater will be rounded up to the nearest whole number of New Wesfarmers Shares; and
 - (2) any fractional entitlement to New Wesfarmers Shares which is less than 0.5 will be rounded down to the nearest whole number of New Wesfarmers Shares.
- (b) If Bidder and Coles are of the opinion that several Scheme Shareholders, each of which holds a holding of Coles Shares which results in a fractional entitlement to New Wesfarmers Shares, have, on or before the Scheme Record Date, been party to a shareholding splitting or division in an attempt to obtain an advantage by reference to the rounding provided for in the calculation of each Scheme Shareholders' entitlement to the Scheme Consideration, Bidder and Coles may give notice to those Scheme Shareholders:
- (1) setting out the names and registered addresses of all of them;
 - (2) stating that opinion; and
 - (3) attributing to one of them specifically identified in the notice the Coles Shares held by all of them,

and, after the notice has been so given, the Scheme Shareholder specifically identified in the notice shall, for the purposes of the Scheme, be taken to hold all those Coles Shares and each of the other Scheme Shareholders whose names are set out in the notice shall, for the purposes of the Scheme, be taken to hold no Coles Shares.

5.8 Joint holders

In the case of Scheme Shares held in joint names:

- (a) any Cash Consideration or proceeds of sale of New Wesfarmers Shares under clauses 5.5 or 5.6 shall be payable to and be forwarded to the holder whose name appears first in the Register as at the Scheme Record Date; and
- (b) any New Wesfarmers Shares must be issued to, and registered in the name of, the joint holders.

6 Issue and Trading

6.1 Issue

- (a) The New Wesfarmers Shares will be duly and validly issued in accordance with all applicable laws and Wesfarmers' Constitution, will be issued fully paid and free from any mortgage, charge, lien, encumbrance or other security interest and the New Wesfarmers Shares which are ordinary shares will rank equally in all respects with all other Wesfarmers Shares then issued and outstanding.
- (b) The Scheme Shareholders who receive Scrip Consideration agree to be bound by Wesfarmers' Constitution.
- (c) Except for a Scheme Shareholder's tax file number, any binding instruction or notification between a Scheme Shareholder and Coles relating to the Scheme Shares (including, without limitation, any instructions relating to the payment of dividends, provision of annual reports, notices of meeting or to communications from Coles) will from the Implementation Date be deemed (except to the extent determined otherwise by Wesfarmers in its sole discretion), by reason of the Scheme, to be a similarly binding instruction or notification to and accepted by Wesfarmers in respect of the New Wesfarmers Shares issued to Scheme Shareholders until that instruction or notification is revoked or amended in writing addressed to Wesfarmers at its share registry.

6.2 Trading

- (a) Coles will procure that Wesfarmers will, before the Second Court Date, seek confirmation from ASX that, as from the Business Day following the Effective Date (or such later date as ASX requires), the New Wesfarmers Shares comprising the Scrip Consideration will be listed for quotation on the official list of ASX, initially on a deferred settlement basis and thereafter on an ordinary settlement basis.
- (b) Coles will procure that Wesfarmers takes all steps necessary or expedient to ensure the New Wesfarmers Shares comprising the Scrip Consideration will be listed for quotation on the official list of ASX as from the Business Day following the Effective Date (or such later date as ASX requires).

Annexure B: Scheme of Arrangement

(continued)

7 Dealings in Coles Shares

- (a) To establish the identity of the Scheme Shareholders, dealings in Coles Shares will only be recognised if:
- (1) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Register as the holder of the relevant Coles Shares on or before the Scheme Record Date; and
 - (2) in all other cases, registrable transmission applications or transfers in respect of those dealings are received on or before the Scheme Record Date at the place where the Register is kept.
- (b) Coles must register registrable transmission applications or transfers of the kind referred to in clause 7(a)(2) on the Scheme Record Date (provided that for the avoidance of doubt nothing in this clause 7(b) requires Coles to register a transfer that would result in a Coles Shareholder holding a parcel of Coles Shares that is less than a Marketable Parcel).
- (c) Coles will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Coles Shares received after the Scheme Record Date (except a transfer to Bidder pursuant to the Scheme and any subsequent transfer by Bidder).
- (d) For the purpose of determining entitlements to the Scheme Consideration, Coles must maintain the Register in accordance with the provisions of this clause 7 until the Scheme Consideration has been paid to the Scheme Shareholders. The Register in this form will solely determine entitlements to the Scheme Consideration.
- (e) All statements of holding for Coles Shares will cease to have effect from the Scheme Record Date as documents of title in respect of those shares (other than statements of holdings in favour of Bidder). As from that date, each entry current at that date on the Register (other than entries in respect of Bidder) will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the Coles Shares relating to that entry.
- (f) As soon as practicable after the Scheme Record Date and in any event at least two Business Days before the Implementation Date, Coles will ensure that details of the names, Registered Addresses and holdings of Coles Shares for each Coles Shareholder as shown in the Register on the Scheme Record Date are available to Bidder in the form Bidder reasonably requires.

8 Quotation of Coles Shares

- (a) It is expected that suspension of trading on the ASX in Coles Shares will occur from the close of trading on the Effective Date.
- (b) On a date after the Implementation Date to be determined by Bidder, Coles will apply:
- (1) for termination of the official quotation of Coles Shares on the ASX; and
 - (2) to have itself removed from the official list of the ASX.

9 General Scheme provisions

9.1 Consent

If the Court proposes to approve the Scheme subject to any alterations or conditions, Coles may by its counsel consent on behalf of all persons concerned to those alterations or conditions to which Bidder has consented in writing (which consent by Bidder cannot be unreasonably withheld).

9.2 Agreement of Scheme Shareholders

Each Scheme Shareholder:

- (a) agrees to the transfer of their Coles Shares in accordance with the Scheme and agrees to the variation, cancellation or modification of the rights attached to their Coles Shares constituted by or resulting from the Scheme; and
- (b) acknowledges that the Scheme binds Coles and all Scheme Shareholders (including those who do not attend the Scheme Meeting or do not vote at that meeting or vote against the Scheme at that meeting).

9.3 Warranties by Scheme Shareholders

Each Scheme Shareholder is deemed to have warranted to Coles, in its own right and for the benefit of Bidder that all of their Coles Shares which are transferred to Bidder under the Scheme will, at the date of transfer of them to Bidder, be fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, and that they have full power and capacity to sell and to transfer their Coles Shares to Bidder.

9.4 Beneficial entitlement to Coles Shares

Bidder will be beneficially entitled to the Coles Shares transferred to it under the Scheme pending registration by Coles of Bidder in the Register as the holder of the Coles Shares.

9.5 Authority given to Coles

- (a) Scheme Shareholders will be deemed to have authorised Coles to do and execute all acts, matters, things and documents on the part of each Scheme Shareholder necessary to implement the Scheme, including (without limitation) executing, as agent and attorney of each Scheme Shareholder, a share transfer or transfers in relation to Scheme Shares as contemplated by clause 9.5(b).
- (b) Each Scheme Shareholder, without the need for any further act, irrevocably appoints Coles and all of its directors, secretaries and officers (jointly and severally) as its attorney and agent for the purpose of:
 - (1) enforcing the Deed Poll against Bidder and Wesfarmers; and
 - (2) doing any act and executing any document necessary to give effect to the Scheme including without limitation:
 - in the case of Scheme Shares in a CHESS Holding, to cause a message to be transmitted to ASTC in accordance with ASTC Settlement Rules so as to transfer to Bidder the Scheme Shares held by the Scheme Shareholders from the CHESS sub-register of Coles to the issuer sponsored sub-register operated by Coles notwithstanding that, at the time of such transfer, the Scheme Consideration which is due under this Scheme has not been provided to the Scheme Shareholders, or to complete and sign on behalf of Scheme Shareholders the Scheme Transfer; and
 - in the case of Scheme Shares that are registered in the issuer sponsored sub-register of the Coles Register, to complete and sign on behalf of Scheme Shareholders the Scheme Transfer.

9.6 Appointment of sole proxy

Upon the Scheme becoming Effective and until Coles registers Bidder as the holder of all Coles Shares in the Register, each Scheme Shareholder:

- (a) is deemed to have irrevocably appointed Bidder as attorney and agent (and directed Bidder in such capacity) to appoint an officer or agent nominated by Bidder as its sole proxy and, where applicable, corporate representatives to attend shareholders' meetings, exercise the votes attaching to the Scheme Shares registered in their name and sign any shareholders' resolutions, whether in person, by proxy or by corporate representative (other than as pursuant to this clause 9.6(a));
- (b) undertakes not to otherwise attend shareholders' meetings, exercise the votes attaching to the Scheme Shares registered in their name and sign any shareholders' resolutions, whether in person, by proxy or by corporate representative;
- (c) must take all other actions in the capacity of a registered holder of Scheme Shares as Bidder reasonably directs; and
- (d) acknowledges and agrees that in exercising the powers referred to in clause 9.6(a), Bidder and any officer or agent nominated by Bidder under clause 9.6(a) may act in the best interests of Bidder as the intended registered holder of the Scheme Shares.

10 General

10.1 Stamp duty

Bidder will pay all stamp duties and any related fines and penalties in respect of the Scheme (including, without limitation, in connection with the transfer of the Scheme Shares to Bidder in accordance with the terms of the Scheme).

10.2 Definition of "sending"

For the purposes of clauses 5.2(c), 5.3(b) and 5.5(b) the expression "sending" means:

- (a) sending by ordinary pre-paid post or courier to the Registered Address of the Scheme Shareholder at the Scheme Record Date; or
- (b) delivery to the address by any other means at no cost to the recipient.

10.3 Inconsistencies

To the extent of inconsistency between this Scheme and Coles' Constitution, and to the extent permitted by law, this Scheme overrides Coles' Constitution and binds Coles and all Coles Shareholders.

10.4 Notices

If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to Coles 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 the address of the Coles Registry.

10.5 Governing law

This Scheme is governed by the laws of Victoria. The parties irrevocably submit to the non-exclusive jurisdiction of the courts in Victoria and the courts competent to determine appeals from those courts.

10.6 Further action

Coles will execute all documents and do all things necessary to implement and perform its obligations under this Scheme.

Annexure C: Deed Poll

This deed poll

Is made on

by	Wesfarmers Retail Holdings Pty Ltd (formerly known as Cobico Pty Limited) ACN 126 199 022 of Level 11, Wesfarmers House, 40 The Esplanade, Perth WA 6000 (Bidder) and Wesfarmers Limited ABN 28 008 984 049 of Level 11, Wesfarmers House, 40 The Esplanade, Perth WA 6000 (Wesfarmers)
in favour of	Each holder of ordinary shares from time to time in Coles Group Limited ABN 11 004 089 936 (Coles) as at the Scheme Record Date (Scheme Shareholders)

Background

- A. On 5 September 2007, Coles, Bidder and Wesfarmers entered into the Scheme Implementation Agreement.
- B. Bidder and Wesfarmers are entering into this deed poll for the purpose of covenanting in favour of Scheme Shareholders to perform certain of their obligations under the Scheme Implementation Agreement and to ensure that the Scheme Consideration is provided to Scheme Shareholders.

This deed poll provides

1 Definitions and interpretation

1.1 Definitions

- (a) The meanings of the terms used in this deed poll are set out below.

Term	Meaning
Scheme Implementation Agreement	the Scheme Implementation Agreement dated 5 September 2007 between Coles, Bidder and Wesfarmers.
Scheme	the scheme of arrangement under Part 5.1 of the Corporations Act between Coles and Coles Shareholders, the form of which is attached as Attachment 1 to the Scheme Implementation Agreement.

- (b) Words and phrases used in this deed poll have the same meaning given to them in the Scheme Implementation Agreement and the Scheme.

1.2 Interpretation

Clause 1.2 of the Scheme Implementation Agreement applies to the interpretation of this deed poll, except that references to "Scheme Implementation Agreement" are to be read as references to "deed poll".

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

Each party acknowledges that:

- (a) this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not party to it; and
- (b) under the Scheme, each Scheme Shareholder irrevocably appoints Coles and all of its directors, secretaries and officers (joint and severally) as its agent and attorney for the purpose of, among other things, enforcing this deed poll against each party.

1.5 Multiple parties

If a party to this deed poll is made up of more than one person, or a term is used in this deed poll to refer to more than one party then:

- (a) an obligation of those persons is several;
- (b) a right of those persons is held by each of them severally; and
- (c) any other reference to that party or term is a reference to each of those persons separately, so that (for example) a representation, warranty or undertaking is given by each of them separately.

2 Conditions

2.1 Conditions

The parties' obligations under clause 4 are subject to the Scheme becoming Effective.

2.2 Termination

The parties' obligations under this deed poll to Scheme Shareholders will terminate:

- (a) automatically if the Scheme Implementation Agreement is terminated in accordance with its terms; or
- (b) if the Scheme is not Effective by the End Date,

unless Coles and Bidder otherwise agree in accordance with the Scheme Implementation Agreement.

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) each party is released from its obligations to further perform this deed poll except those obligations under clause 8.1 and any other obligations which by their nature survive termination; and
- (b) Scheme Shareholders retain the rights they have against each party in respect of any breach of this deed poll which occurred before it is terminated.

3 Performance of obligations generally

Each Party will comply with its obligations under the Scheme Implementation Agreement and do all things necessary or expedient on its part to implement the Scheme.

4 Payment of Scheme Consideration

4.1 Payment obligations

Subject to clause 2, Bidder and the Covenantor undertakes in favour of each Scheme Shareholder to provide or procure the provision of the Scheme Consideration to each Scheme Shareholder in accordance with the terms of the Scheme.

4.2 Satisfaction of Scheme Consideration

The obligations of Bidder to provide or procure the provision of the Scheme Consideration will be satisfied by:

- (a) in relation to the Cash Consideration, before 11am on the Implementation Date, Bidder depositing an amount equal to the aggregate amount of the Cash Consideration payable to all Scheme Shareholders, in cleared funds in a trust account operated by the Trustee, to be held on trust for the Scheme Shareholders, except that any interest on the amount deposited (less bank fees and other charges) shall be to Bidder's account;
- (b) in relation to the Scrip Consideration:
 - (1) on or before the Implementation Date, Wesfarmers issuing the requisite number of New Wesfarmers Shares (as determined under the Scheme) to each Scheme Shareholder (other than Ineligible Foreign Shareholders and Electing Small Shareholders);
 - (2) on or before the Implementation Date, Wesfarmers issuing the requisite number of New Wesfarmers Shares (as determined under the Scheme) to the nominee of Bidder in respect of Ineligible Foreign Shareholders and Electing Small Shareholders; and

Annexure C: Deed Poll (continued)

- (3) on, or as soon as practicable after, the Implementation Date, Bidder and Wesfarmers sending or procuring the dispatch to each Scheme Shareholder (other than Ineligible Foreign Shareholders and Electing Small Shareholders) and the nominee (in respect of Ineligible Foreign Shareholders and Electing Small Shareholders), by pre-paid post to its Registered Address at the Scheme Record Date, holding statements or notices confirming the issue of the Scrip Consideration to that Scheme Shareholder or nominee representing the total number of New Wesfarmers Shares to be issued to that Scheme Shareholder or nominee in accordance with the terms of the Scheme.

4.3 Joint holders

In the case of Scheme Shares held in joint names:

- (a) the Cash Consideration is payable to and must be forwarded to the holder whose name appears first in the Share Register as at the Scheme Record Date; and
- (b) in relation to Scrip Consideration:
 - (1) the New Wesfarmers Shares must be issued to, and registered in the name of the joint holders; and
 - (2) the holding statements or notices for the New Wesfarmers Shares must be sent to the holder whose name appears first in the Share Register as at the Scheme Record Date.

4.4 Trading of New Wesfarmers Shares

- (a) Wesfarmers will, before the Second Court Date, seek confirmation from ASX that, as from the Business Day following the Effective Date (or such later date as ASX requires), the New Wesfarmers Shares comprising the Scrip Consideration will be listed for quotation on the official list of ASX, initially on a deferred settlement basis and thereafter on an ordinary settlement basis.
- (b) Wesfarmers will take all steps necessary or expedient to ensure the New Wesfarmers Shares comprising the Scrip Consideration will be listed for quotation on the official list of ASX as from the Business Day following the Effective Date (or such later date as ASX requires).

5 Covenant to pay

Subject to clause 2, Wesfarmers covenants severally in favour of each Scheme Shareholder to comply with its obligations under clause 7.3(c) of the Scheme of Implementation Agreement.

6 Warranties

Each party 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 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.

7 Continuing obligations

This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until:

- (a) each party has fully performed its obligations under this deed poll; or
- (b) the earlier termination of this deed poll under clause 2.

8 General

8.1 Stamp duty

Bidder will

- (a) pay or procure the payment of all stamp duties and any related fines and penalties in respect of the Scheme and this deed poll, the performance of this deed poll and each transaction effected by or made under the Scheme and this deed poll; and
- (b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 8.1(a).

8.2 Notices

Any notice or other communication to a party in respect of this deed poll must be in legible writing and in English and:

(a) addressed as shown below:

Party	Address	Addressee	Fax
Bidder	Level 11, Wesfarmers House, 40 The Esplanade, Perth WA 6000	Chief General Counsel	+61 8 9327 4290
	with a copy to (for information purposes only): Allens Arthur Robinson Level 25 Deutsche Bank Place 126 Phillip Street Sydney NSW 2000	Ewen Crouch/ Tom Story	+61 2 9230 5333
Wesfarmers	Level 11, Wesfarmers House, 40 The Esplanade, Perth WA 6000	Chief General Counsel	+61 8 9327 4290
	with a copy to (for information purposes only): Allens Arthur Robinson Level 25 Deutsche Bank Place 126 Phillip Street Sydney NSW 2000	Ewen Crouch/ Tom Story	+61 2 9230 5333

except that any notice given to Bidder will also be deemed to be notice to Wesfarmers and any notice given to Wesfarmers will also be deemed to be notice to Bidder;

- (b) must be signed by the person making the communication or by a person duly authorised by that person;
- (c) must be delivered or posted by prepaid post to the address, or sent by fax to the fax number, of the party in accordance with clause 8.2(a);
- (d) will be regarded as received by the party:
 - (1) if sent by fax, at the time at which that fax is sent as shown on the transmission report which is produced by the machine from which that fax is sent and which confirms transmission of that fax in its entirety, unless that local time is not a Business Day, or is after 5.00pm on a Business Day, when that communication will be regarded as received at 9.00am on the next Business Day; and
 - (2) if delivered by hand or by post, on delivery at the address of the addressee as provided in clause 8.2(a).

8.3 Definition of "sending"

For the purposes of clause 4.2 the expression "sending" means:

- (a) sending by ordinary pre-paid post or courier to the Registered Address of the Scheme Shareholder or nominee at the Scheme Record Date; or
- (b) delivery to the address by any other means at no cost to the recipient.

8.4 Governing law and jurisdiction

- (a) This deed poll is governed by the laws of Victoria.
- (b) Each party irrevocably submits to the non-exclusive jurisdiction of the courts of Victoria and the courts competent to determine appeals from those courts.

8.5 Waiver

If a Scheme Shareholder does not exercise a right arising from a breach of this deed poll at a given time, it may, unless it has waived that right in writing, exercise the right at a later point in time.

Annexure C: Deed Poll (continued)

8.6 Variation

A provision of this deed poll may not be varied unless the variation is agreed to by Coles and (if required) the Court indicates that the amendments would not of itself preclude approval of the Scheme, in which event the parties will enter into a future deed poll in favour of the Scheme Shareholders giving effect to the amendment.

8.7 Cumulative rights

The rights, powers and remedies of the Scheme Shareholders and the parties under this deed poll are cumulative and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

8.8 Assignment

The rights of each Scheme Shareholder under this deed poll are personal and must not be assigned or otherwise dealt with at law or in equity without the prior written consent of Bidder.

8.9 Further actions

Each party will promptly do all things and execute and deliver all further documents necessary and expedient to give effect to this deed poll.

8.10 Severability

If the whole or any part of a provision of this deed poll is void, unenforceable or illegal in a jurisdiction it is severed for that jurisdiction. The remainder of this deed poll has full force and effect and the validity or enforceability of that provision in any other jurisdiction is not affected. This clause 8.10 has no effect if the severance alters the basic nature of this deed poll or is contrary to public policy.

Executed as a deed poll:

Signed sealed and delivered by
Wesfarmers Retail Holdings Pty Limited
by

Director

in the presence of

Witness

Signed sealed and delivered by
Wesfarmers Limited
by

Director

in the presence of

Witness

Annexure D: Notice of meeting

Coles Group Limited ABN 11 004 089 936

Notice is given that, by an order of the Supreme Court of Victoria pursuant to section 411(1) of the Corporations Act 2001, a meeting of shareholders of the Company (other than Excluded Shareholders) will be held at Hamer Hall, Victorian Arts Centre, Melbourne on 7 November 2007 at 11:00am (Melbourne time).

Business of meeting

The purpose of the Scheme Meeting is to consider and, if thought fit, to agree to a Scheme of Arrangement (with or without modification) to be made between the Company and the Company's shareholders (other than Excluded Shareholders).

Resolution

"That pursuant to and in accordance with section 411 of the Corporations Act, the Scheme of Arrangement (the terms of which are described in the Scheme Booklet of which the notice convening this meeting forms part) is agreed to (with or without modification as approved by the Supreme Court of Victoria)."



Richard Dammery

Secretary

Dated 27 September 2007

Explanatory notes

Material accompanying this notice

This notice of meeting and the Resolution should be read in conjunction with the booklet of which this notice forms part (Scheme Booklet). Terms used in this notice, unless otherwise defined, have the same meaning as set out in the Glossary in Section 14 of the Scheme Booklet.

A copy of the Scheme is contained in Annexure A to this Scheme Booklet.

A proxy form also accompanies this notice (**Proxy Form**).

Voting

The Coles Group Directors recommend that you vote in favour of the Resolution. They each intend to vote all Coles Group Shares held by them at the time of the Scheme Meeting in favour of the Resolution.

Majorities required

In accordance with section 411(4)(a) of the Corporations Act, for the Scheme to be Effective, the Resolution must be passed by:

- a majority in number of holders of ordinary shares present and voting (either in person or by proxy); and
- at least 75 per cent of the votes cast on the Resolution contained in this Notice of Meeting.

Court approval

In accordance with section 411(4)(b) of the Corporations Act, to become Effective, the Scheme of Arrangement must be approved by the order of the Court. If the Resolution set out in this notice is agreed to by the required majorities set out above and the Conditions Precedent set out in the Scheme of Arrangement are satisfied or waived, Coles Group will apply to the Court for the necessary orders to give effect to the Scheme.

Determination of entitlement to attend and vote

The Court has ordered that, for the purposes of the Scheme Meeting, Coles Group Shares will be taken to be held by the persons who are registered as members at 7:00pm on 5 November 2007 (other than Excluded Shareholders). Accordingly, registrable transmission applications for transfers registered after this time will be disregarded in determining entitlements to vote at the Scheme Meeting.

How to vote

If you are a Coles Group Shareholder (other than an Excluded Shareholder) entitled to attend and vote at the Scheme Meeting, you may vote by:

- attending the Scheme Meeting in person;
- by appointing an attorney to vote on your behalf;
- by appointing a proxy to attend on your behalf; or
- in the case of a corporation which is a Coles Group Shareholder, by appointing an authorised corporate representative to attend on its behalf.

Voting at the Scheme Meeting will occur by poll

All persons attending the Scheme Meeting are asked to arrive at least 30 minutes prior to the time the Scheme Meeting is to commence, so that either their shareholding may be checked against the Coles Group Register, their power of attorney or appointment as corporate representative can be verified (as the case may be), and their attendance noted.

Jointly held securities

If the Coles Group Shares are jointly held, only one of the joint shareholders is entitled to vote. If more than one shareholder votes in respect of jointly held Coles Group Shares, only the vote of the shareholder whose name appears first on the Coles Group Register will be counted.

Voting in person

To vote in person at the Scheme Meeting, you must attend the Scheme Meeting to be held at Hamer Hall, Victorian Arts Centre, Melbourne on 7 November 2007. The meeting will commence at 11:00am.

A Coles Group Shareholder (other than an Excluded Shareholder) who wishes to attend and vote at the Scheme Meeting in person will be admitted to the Scheme Meeting and given a voting card on disclosure at the point of entry to the Scheme Meeting of their name and address.

Annexure D: Notice of meeting

(continued)

Voting by proxy

A Coles Group Shareholder (other than an Excluded Shareholder) entitled to attend and vote at the meeting is also entitled to vote by proxy. The proxy form is enclosed with this Scheme Booklet. You may appoint not more than two proxies to attend and act for you at the Scheme Meeting. A proxy need not be a Coles Group Shareholder. If two proxies are appointed, each proxy may be appointed to represent a specified number or proportion of your votes. If no such number or proportion is specified, each proxy may exercise half of your votes.

If you do not instruct your proxy on how to vote, your proxy may vote as he or she sees fit at the Scheme Meeting.

A proxy will be admitted to the Scheme Meeting and given a voting card on providing at the point of entry to the Scheme Meeting written evidence of their name and address.

The sending of a proxy form or registering of a proxy by internet will not preclude a Coles Group Shareholder (other than an Excluded Shareholder) from attending in person and voting at the Scheme Meeting if the Coles Group Shareholder is entitled to attend and vote.

Please refer to the enclosed proxy form for instructions on completion and lodgement. In addition, you may log-on to www.colesgroup.com.au and follow the relevant instructions to appoint a proxy (to use this facility you will need your Coles Group Shareholder ID).

Please note that proxy forms must be received by the Coles Group Share Registry by no later than 11:00am (Melbourne time) on 5 November 2007.

Voting by attorney

Powers of attorney must be received by the Coles Group Share Registry, at the registered office of the Coles Group Share Registry, or registered over the internet at www.colesgroup.com.au, by no later than 11:00am (Melbourne time) on 5 November 2007 (or if the meeting is adjourned, at least 48 hours before the resumption of the meeting in relation to the resumed part of the Scheme Meeting).

An attorney will be admitted to the Scheme Meeting and given a voting card on providing at the point of entry of the Scheme Meeting written evidence of their appointment, their name and address and the identity of their appointer.

The sending of a power of attorney will not preclude a Coles Group Shareholder (other than an Excluded Shareholder) from attending in person and voting at the Scheme Meeting if the Coles Group Shareholder is entitled to attend and vote.

Voting by corporate representative

To vote at the Scheme Meeting (other than by proxy or by attorney), a corporation that is a Coles Group Shareholder (other than an Excluded Shareholder) must appoint a person to act as its representative. The appointment must comply with section 250D of the Corporations Act.

An authorised corporate representative will be admitted to the Scheme Meeting and given a voting card on providing at the point of entry to the Scheme Meeting written evidence of their appointment including any authority under which it is signed, their name and address and the identity of their appointer.

Lodgement of proxies

Proxy forms, powers of attorney and authorities should be sent to the Coles Group Share Registry using the enclosed reply paid envelope, or as indicated on the proxy form.

Corporate Directory

Coles Group Limited

Registered Office

Coles Group Limited
800 Toorak Road
Tooronga VIC 3146
Phone: +61 3 9829 3111
Fax: +61 3 9829 6787

Coles Group Information Line

(Australia) 1300 663 897
(Overseas) +61 3 9415 4314

Coles Group Share Registry

Link Market Services Limited

Level 9
333 Collins Street
Melbourne VIC 3000
Phone: 1300 130 278
or +61 2 8280 7768
Fax: +61 2 9287 0303

Financial advisers

Lazard Carnegie Wylie

101 Collins Street
Melbourne VIC 3000
Phone: +61 3 9657 8400
Fax: +61 3 9657 8411

Deutsche Bank

Deutsche Bank Place
Corner of Hunter and Phillip Streets
Sydney NSW 2000
Phone: +61 2 8258 1234
Fax: +61 2 8258 1400

Legal adviser

Freehills

101 Collins Street
Melbourne VIC 3000
Phone: +61 3 9288 1234
Fax: +61 3 9288 1567



Coles Group Limited

ABN 11 004 089 936

Scheme Booklet