



Demerger of Coles – Briefing presentation

Friday, 5 October 2018



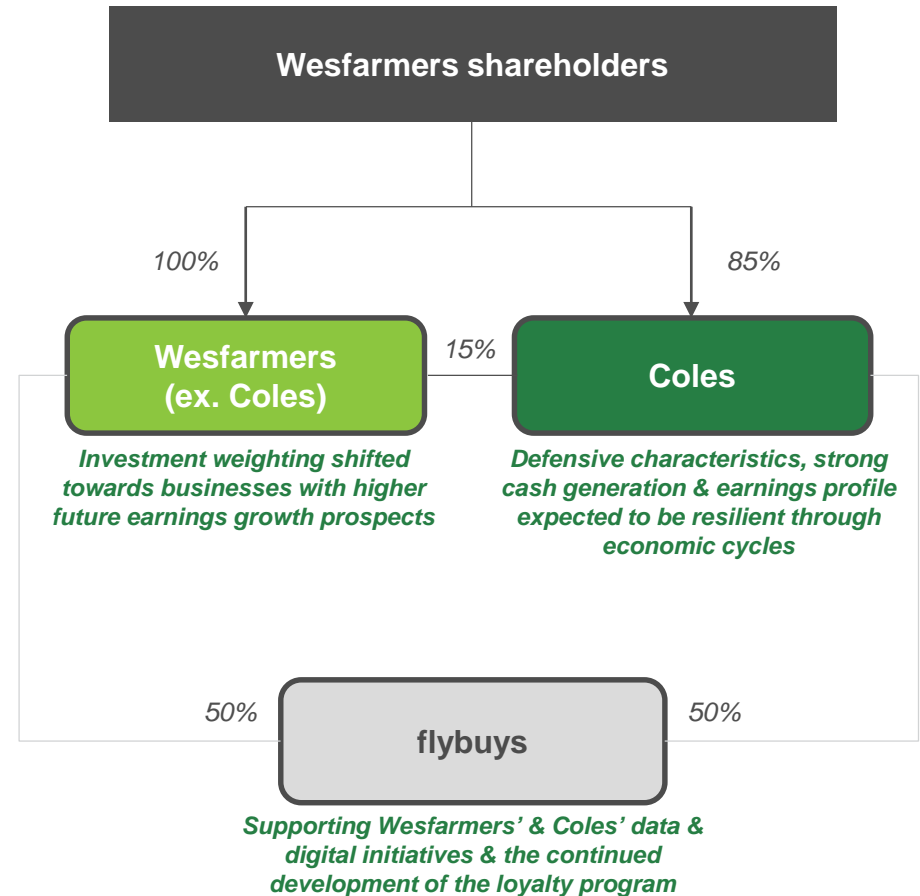
Demerger overview

Creation of a new top 30 ASX company with leading positions in grocery, liquor & convenience

Overview

- Coles to be demerged into a separate ASX-listed company
- Shareholders will receive 1 Coles share for every share held in Wesfarmers
 - Expected to qualify for demerger tax relief
- Wesfarmers will retain 15% minority interest in Coles & 50% ownership stake in flybuys
- It is anticipated that, taken together, the dividends to be declared by Coles & Wesfarmers for FY19 will be broadly equivalent to the dividends that Wesfarmers would otherwise have declared if the demerger did not proceed (including in respect of franking)
- Shareholders will have the opportunity to vote on the demerger at the shareholder meetings on 15 November

Post-demerger

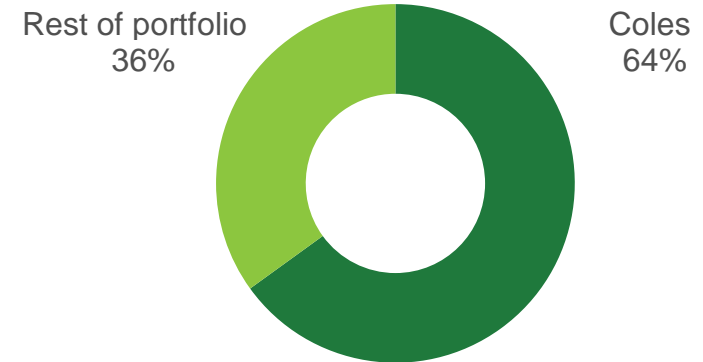


Demerger rationale

Repositioning Wesfarmers & Coles for the next decade

- Enhancing Wesfarmers' returns by shifting investment weighting & focus towards businesses with higher future earnings growth prospects
 - Successful turnaround of Coles has now been delivered & it is once again a leading Australian retailer
 - Demerger facilitates enhanced focus on growth opportunities, with greater flexibility & impact on total shareholder returns
- Delivering an investment in two companies with different investment attributes
- Coles is well positioned to continue to grow & expected to be attractive to shareholders seeking earnings growth with defensive characteristics
 - Strong cash generation & resilient earnings
 - Strong balance sheet
 - Investment in the future

Divisional capital employed contribution (R12 Jun 18)



Divisional EBIT contribution (FY18)



Demerger impact

Wesfarmers' balance sheet will remain strong, preserving the ability to act opportunistically & to invest in organic growth opportunities

	Current Wesfarmers	Pro forma for demerger ¹	
		Wesfarmers	Coles
FY18 Revenue ² (\$b)	66.9	27.5	39.3
FY18 EBIT ³ (\$b)	4.4	3.0	1.4
FY18 Operating cash flows (\$b) ⁴	5.6	3.4	2.2
FY18 Net financial debt (\$b)	3.6	1.6	2.0
Employees (#) ⁵	~217,000	~105,000	~112,000
Retail stores (Australia & NZ) ⁵ (#)	3,572	1,065	2,507
FY18 Divisional EBIT contribution (%)			

1. Financials include pro forma adjustments for ongoing separation costs resulting from the demerger.

2. Revenue from continuing operations, pro forma Wesfarmers and Coles revenue may not add due to rounding.

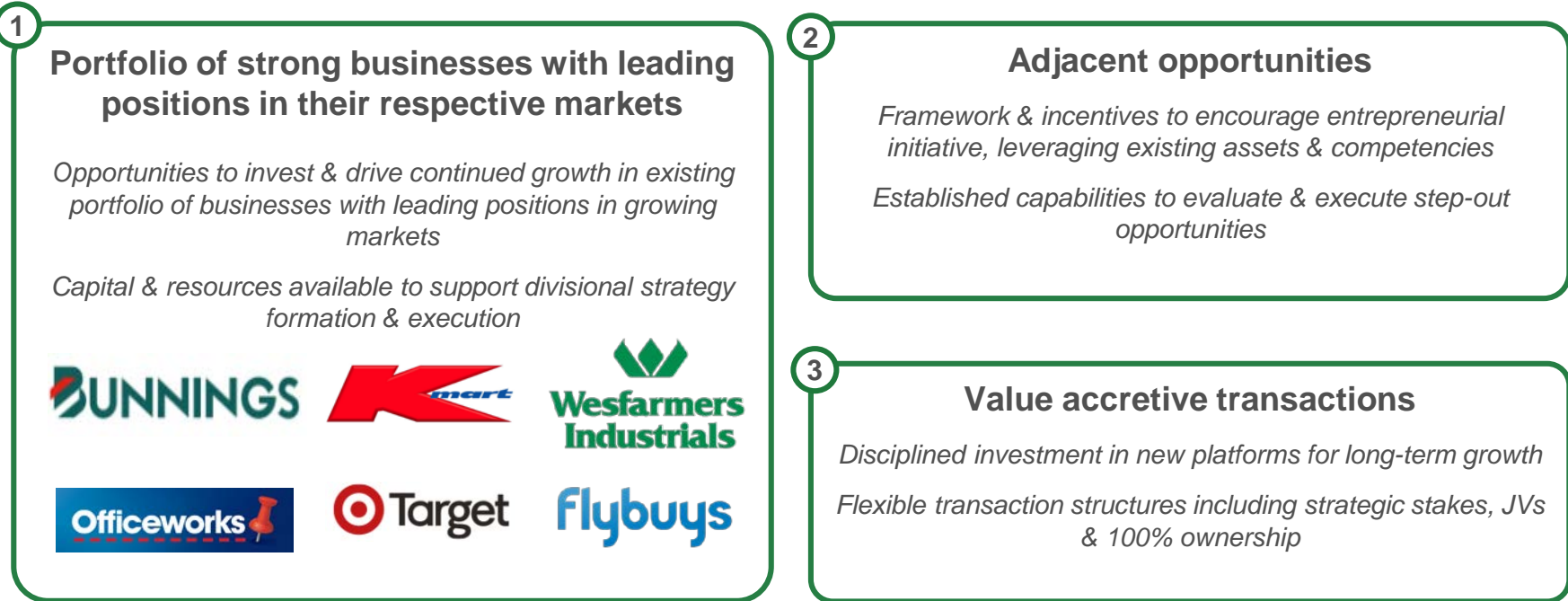
3. Wesfarmers EBIT from continuing operations excludes significant items & includes pro forma adjustments for demerger of Coles (\$1,500m), earnings from 15% interest in Coles & 50% interest in flybuys (\$145m) & operating costs transferred to Coles (\$28m). Coles EBIT includes pro forma adjustments for net additional standalone operating costs (\$28m) & operating costs transferred to Coles (\$28m).

4. Represents operating cash flows before capital expenditure, financing costs & tax & includes pro forma adjustments set out above.

5. As at 30 June 2018, excludes Kmart Tyre and Auto (KTAS) stores. An agreement to divest KTAS to Continental AG was announced on 13 August 2018.

Wesfarmers platforms for future growth

Proven operating model underpinned by disciplined capital allocation & divisional autonomy



Summary & next steps

Positioning Wesfarmers & Coles for the next decade

- Demerger is the optimal structure to deliver Wesfarmers shareholders investments in two listed companies with different investment attributes
- Wesfarmers is committed to ensuring Coles is set up with a strong foundation for success & growth as an independent listed company
- Grant Samuel & Associates, the Independent Expert, has concluded that the demerger is in the best interests of Wesfarmers shareholders
- The Wesfarmers Board unanimously recommends & strongly encourages shareholders to support the demerger
 - Shareholder vote to be held at the General & Scheme Meetings on 15 November 2018
 - Record date for determining entitlement to Coles shares under the demerger:
4:00pm Thursday, 22 November 2018
 - Coles shares to commence trading on the ASX on a deferred settlement basis from
Wednesday, 21 November 2018

Wesfarmers post-demerger

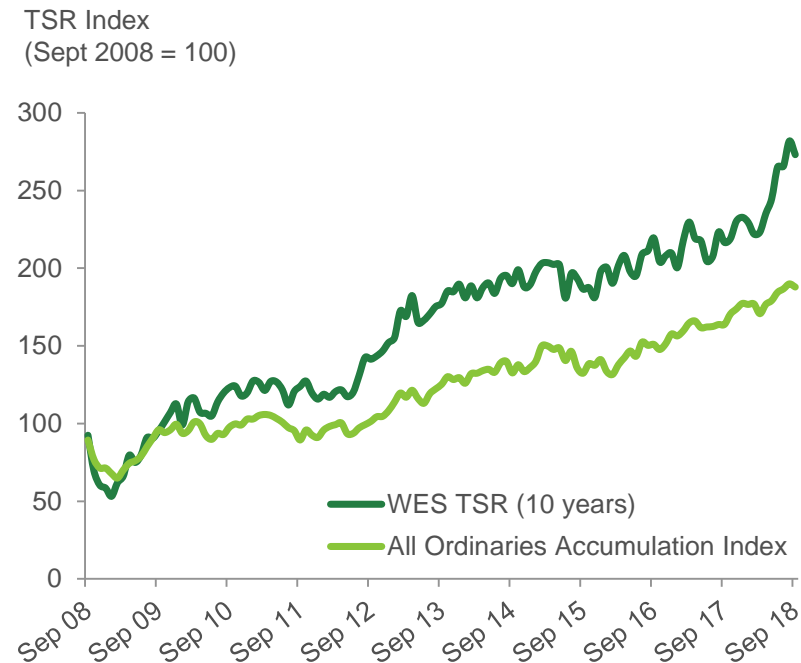


Wesfarmers post-demerger

Wesfarmers' objective of providing a satisfactory return to shareholders will remain unchanged

- Following repositioning of the portfolio, Wesfarmers is well placed to deliver sustainable growth in earnings & improved shareholder returns
- Continued focus on leveraging data & digital capabilities, developing great talent & teams, & driving entrepreneurial initiative
- 15% ownership interest in Coles & 50% ownership stake in flybuys will create opportunities to leverage data & digital capabilities
- Cash generative assets & strong balance sheet continue to provide flexibility to pursue value-accretive investment opportunities when they arise
- Wesfarmers will maintain strong capital disciplines with respect to capital allocation & investment decisions
- Dividend policy to remain unchanged






Total shareholder return¹



1. Source: IRESS. Assumes 100% dividend reinvestment on the ex-dividend date & full participation in capital management initiatives; as at 30 September 2018.

Wesfarmers portfolio post-demerger

Four divisions with leading market positions, strong growth prospects & high returns on capital

	Bunnings	Department Stores	Industrials	Officeworks	Other
					
	<ul style="list-style-type: none"> • Leading retailer of home improvement & outdoor living products • Iconic brand with strong community engagement • Pipeline of new stores, reinvestment in existing stores, growing addressable market & developing digital offer 	<ul style="list-style-type: none"> • Kmart: a leading product development & deep discount retailer in apparel & general merchandise. Its sourcing model underpins its lowest price position in the market • Target: offers quality & fashion across apparel, homewares & general merchandise 	<ul style="list-style-type: none"> • Diversified portfolio of industrial businesses • Strong operational expertise in industrial chemicals • Leveraging technology to enhance service & grow markets • Platform for the pursuit of inorganic growth opportunities 	<ul style="list-style-type: none"> • Leading retailer & supplier of office products & solutions • World-class omni-channel offer • Driving growth through range extension & merchandise investments 	<ul style="list-style-type: none"> • 15% ownership interest in Coles • 50% interest in flybuys, one of Australia's most popular & well-recognised loyalty programs, with ~8m active members • Data & digital capabilities • Other businesses¹
FY09-18 EBIT CAGR	9.6%	3.9%²	8.6%³	10.2%	n.a.
Jun-18 ROC	49.4%	32.8%²	18.0%³	16.6%	n.a.

1. Includes BWP Trust, Gresham & Wespine.

2. Includes Kmart Tyre & Auto (KTAS). An agreement to divest KTAS to Continental AG was announced on 13 August 2018.

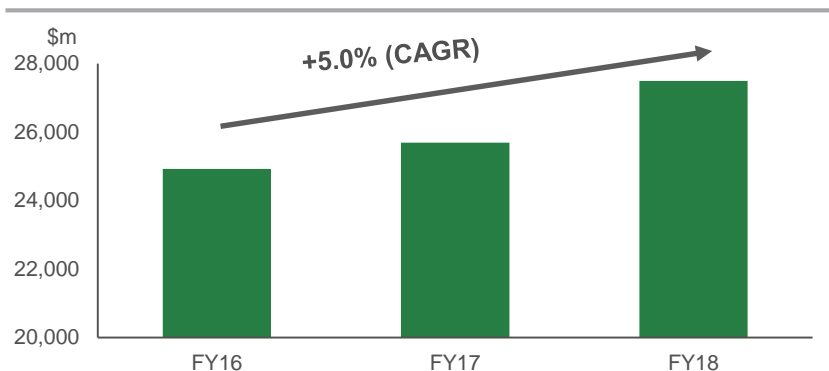
3. Excludes Resources & Quadrant.

n.a. = not applicable

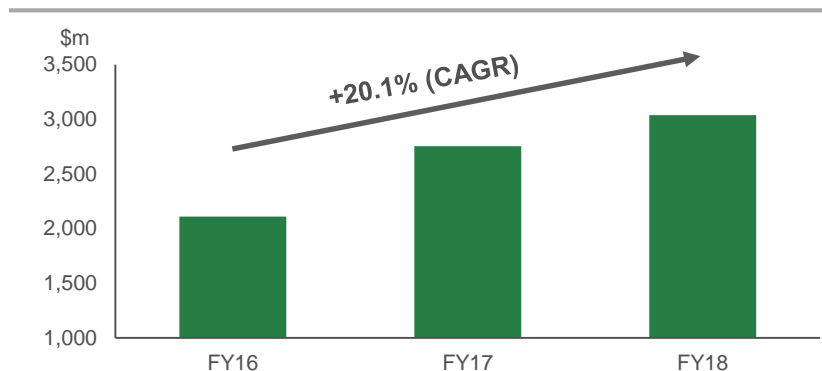
Wesfarmers pro forma financials

A top 20 ASX company focused on earnings growth, disciplined capital allocation & strong cash generation to support returns to shareholders

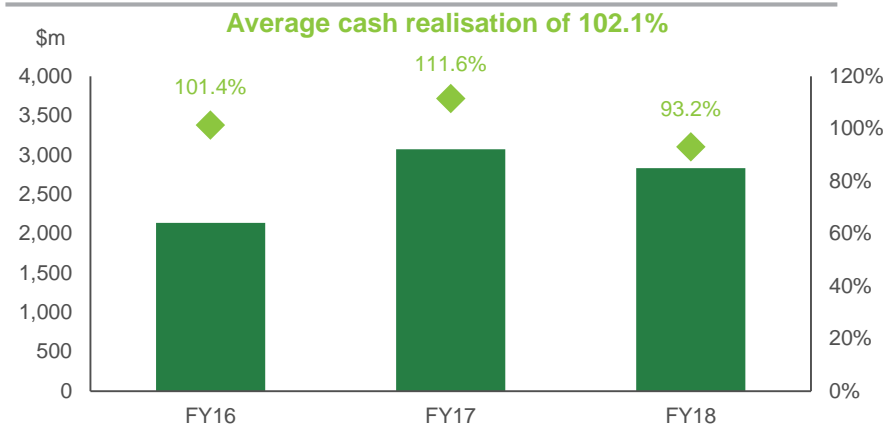
Revenue



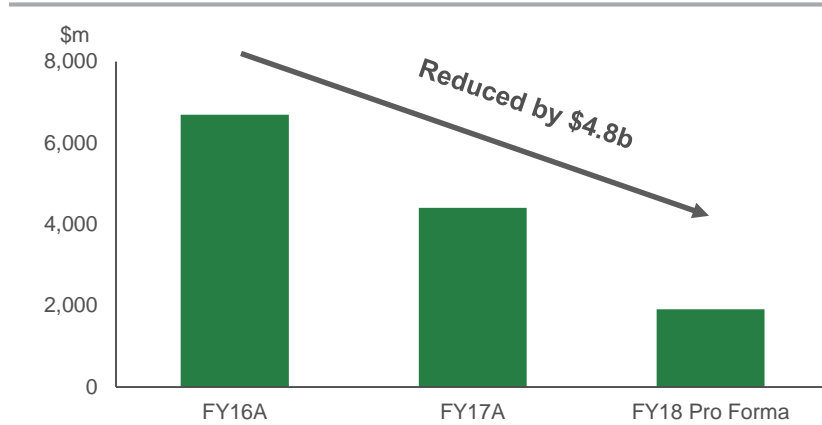
EBIT¹



Operating cash flows²



Net debt³



1. From continuing operations excluding significant items.

2. Operating cash flows after net capital expenditure pre interest & tax. Cash realisation represents this number divided by EBIT from continuing operations excluding significant items.

3. Interest bearing loans & borrowings less cash & cash equivalents.



Wesfarmers



Coles Group Limited

5 October 2018

Disclaimer

SUMMARY INFORMATION

This presentation contains summary information about Coles Group Limited (**Coles**) and its activities current as at 3 October 2018. The information in this presentation is of a general background nature and does not purport to be complete. It should be read in conjunction with other periodic and continuous disclosure announcements by Wesfarmers Limited (**Wesfarmers**), including the scheme booklet (**scheme booklet**) relating to the proposed demerger of Coles Group Limited, which are available at www.wesfarmers.com.au.

Decisions regarding voting on the demerger should be made on the basis of the scheme booklet. Decisions regarding investing in Coles shares should be made on the basis of the information memorandum that will be lodged in connection with its listing on the Australian Securities Exchange.

NOT FINANCIAL PRODUCT ADVICE

This presentation is for information purposes only and is not financial product or investment advice or a recommendation to acquire securities in either Wesfarmers or Coles and has been prepared without taking into account the objectives, financial situation or needs of individuals. Before making an investment decision, prospective investors should consider the appropriateness of the information having regard to their own objectives, financial situation and needs and seek legal and taxation advice appropriate to their jurisdiction. Statements made in this presentation are made as at the date of the presentation unless otherwise stated.

NO OFFER OR INVITATION

This presentation does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase or subscribe for, any securities in Wesfarmers or Coles and neither this presentation nor anything contained herein shall form the basis of or be relied on in connection with any contract or commitment whatsoever. The securities in Wesfarmers or Coles have not been and will not be registered under the U.S. Securities Act of 1933 (the "Securities Act") and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act.

PAST PERFORMANCE

Past performance information given in this presentation is given for illustrative purposes only and should not be relied upon as (and is not) an indication of future performance.

FUTURE PERFORMANCE

This presentation contains certain "forward-looking statements". The words "expect", "should", "could", "may", "predict", "plan" and other similar expressions are intended to identify forward-looking statements. Any indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements.

Forward-looking statements, opinions and estimates provided in this presentation are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Forward-looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Actual results, performance or achievements may vary materially for many projections because events and actual circumstances frequently do not occur as forecast and these differences can be material. This presentation contains such statements that are subject to risk factors associated with the industries in which Wesfarmers (including Coles) operates which may materially impact on future performance. Investors should form their own views as to these matters and any assumptions on which any forward-looking statements are based. No person assumes any obligation to update or revise such information to reflect any change in expectations or assumptions. The inclusion of forward-looking statements in this presentation should not be regarded as a representation, warranty of guarantee with respect to its accuracy or the accuracy of the underlying assumptions or that Wesfarmers or Coles will achieve, or is likely to achieve, any particular results.

GENERAL

Neither Wesfarmers, nor its related bodies corporate (including Coles), nor their directors, officers, employees, agents, contractors, consultants or advisers makes or gives any representation, warranty or guarantee, whether express or implied, that the information contained in this presentation is complete, reliable or accurate or that it has been or will be independently verified, or that reasonable care has been or will be taken by them in compiling, preparing or furnishing this presentation and its contents.

To the maximum extent permitted by law, Wesfarmers, its related bodies corporate (including Coles), and their directors, officers, employees, agents, contractors, consultants and advisers expressly disclaim any and all liability for any loss or damage suffered or incurred by any other person or entity however caused (including by reason of fault or negligence) and whether or not foreseeable, relating to or resulting from the receipt or use of the information or from any errors in, or omissions from, this presentation.

The statements and the information in this presentation are subject to change without notice.

No person, including Wesfarmers and its related bodies corporate (including Coles), and their directors, officers, employees, agents, contractors, consultants and advisers accepts any obligation to update this presentation or to correct any inaccuracies or omissions in it which may exist or become apparent.

Distribution of this presentation outside Australia may be restricted by law. Persons who come into possession of this presentation who are not in Australia should seek advice on and observe any such restrictions.

Presenting today



Steven Cain
Managing Director and CEO

- Over 20 years of Australian and international retail experience
- Recently re-joined Coles. Prior roles include:
 - Metcash – CEO, Supermarkets & Convenience
 - Carlton Communications plc – Chief Executive
 - Pacific Equity Partners – Operating Director and portfolio company chairman
 - Coles – Managing Director, Food, Liquor and Fuel
 - Asda – Director, Group Marketing, Store Development and Grocery Trading



Leah Weckert
Chief Financial Officer

- Over 16 years of finance, commercial and strategy experience
- 7 years at Coles in various senior roles, including:
 - Strategy Director
 - Chief People Officer
 - State General Manager Victoria
 - General Manager Merchandise, Strategy and Innovation
- Previous experience includes McKinsey & Company and Foster's

Contents

01	Coles overview	4
02	Investment highlights	7
03	Financial overview	24
A	Supporting material	31
B	Risk factors	37



01

Coles overview



Coles overview

Coles is an iconic Australian business which has been operating for more than 100 years and has been autonomously run within the Wesfarmers portfolio for the last decade

Est. 1914

first supermarket opened in 1960

~2,500

stores

112,000

team members

\$39bn

FY18PF revenue

\$1.4bn

FY18PF EBIT

43

quarters of consecutive like-for-like sales growth

>21 million

transactions per week

31%

food market share¹

~\$9 billion

of capital invested between FY09 and FY18

~80%








of Australians are within a 10 minute drive of a Coles store



Portfolio of market leading businesses

Coles maintains a diverse portfolio of brands across four divisions

coles

	Supermarkets	Liquor	Convenience	Other
Divisional summary	 <ul style="list-style-type: none"> • A leading Australian full-service supermarket • Rapidly growing online channel • Coles Financial Services 	    <ul style="list-style-type: none"> • Three major national brands, each with a distinct value proposition • Portfolio of 88 hotels under the Spirit Hotels brand 	 <ul style="list-style-type: none"> • National fuel supply network through alliance with Viva Energy Australia • Leading convenience store offer, with growth in the food-to-go range 	 <ul style="list-style-type: none"> • 50% interest in flybuys, Australia's most popular loyalty program, with more than 8 million active members • Freehold property holdings
FY18 pro forma revenue	~\$30.2bn	~\$3.3bn	~\$5.8bn	N / M
FY18 pro forma EBIT¹ (% contribution)	\$1,176m (80%)	\$130m (9%)	\$133m (9%)	\$31m (2%)
Stores / sites	809	987 ²	711	N / A

¹ Excludes \$28m of pro forma net additional standalone operating costs and \$28m pro forma operating costs transferred from Wesfarmers. ² Includes 88 hotels.

02

Investment highlights



Investment highlights

#1

Coles operates in resilient and growing markets

#2

Demonstrated ability to maintain a leading market position in an evolving competitive landscape

#3

Established, non-replicable national store network

#4

Customer-led strategy will drive customer experience and shareholder returns

#5

Highly experienced Board and management team in place to execute Coles' strategy

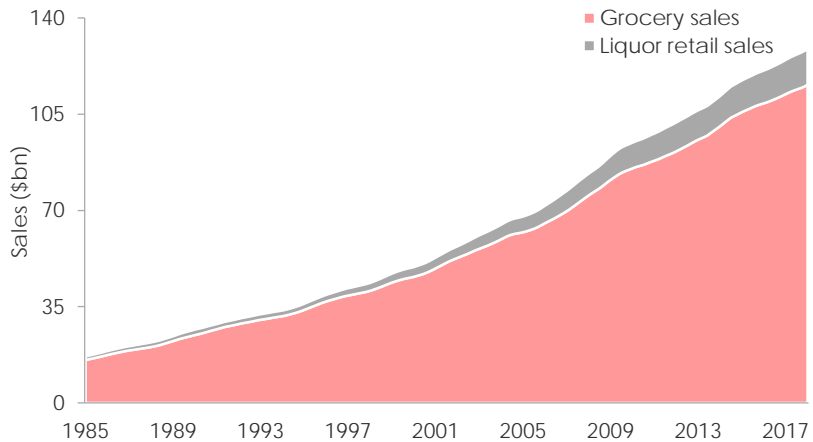
#6

Strong cash generation, attractive dividend payout ratio and robust balance sheet

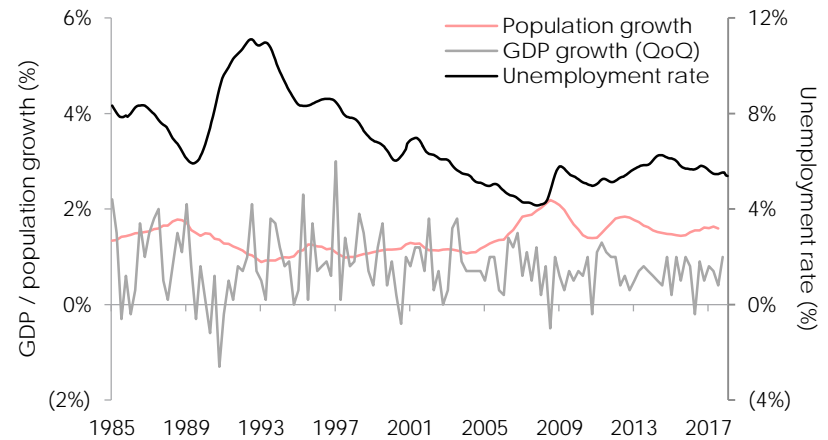
#1 Coles operates in resilient and growing markets

Coles' core markets have highly defensive attributes

Australian grocery and liquor retail sales¹



Australian macroeconomic conditions over time



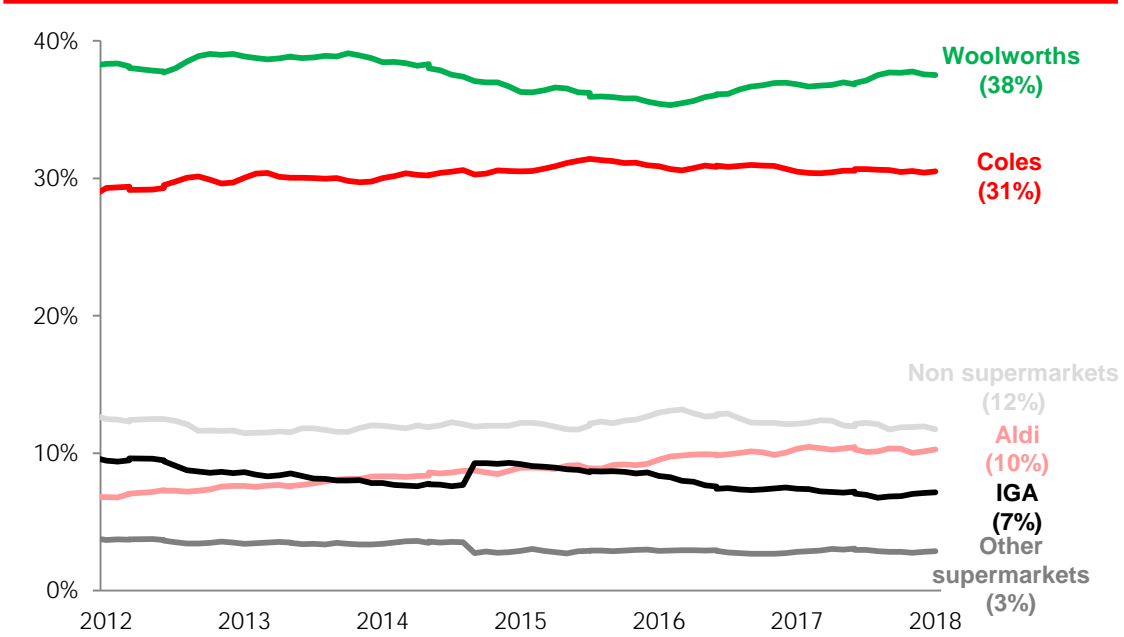
- Non-discretionary nature of grocery and liquor products has meant consistent growth throughout economic cycles
- Growth outlook supported by robust economic conditions and population growth, with forecasts of:
 - 3.0% p.a. real GDP growth (2018-19)²
 - 1.6% p.a. population growth (2018-22)³
 - Stable unemployment rate of 5.5% (2019-21)⁴

#2

Demonstrated ability to maintain a leading market position in an evolving competitive landscape

Coles has demonstrated its ability to maintain and modestly grow its market share

Grocery market share trend



- Over time, combined market share of Coles and Woolworths has remained stable
- Coles has also been able to maintain market share and positive like-for-like sales growth over the past 2 years, despite aggressive competitor pricing
- Discount entrants (e.g. Aldi, Costco) have continued to grow market share at the expense of independents and non-supermarket players

Source: Rolling 12 week grocery market share based on Coles calculation using Nielsen Homescan data (© 2018, The Nielsen Company) ending 14 July 2018.

#3 Established, non-replicable national store network

Coles' extensive store network provides a key competitive advantage

✓ Extensive store portfolio

- Approximately 2,500 sites nationally
- Significant scale and market position in all states and territories

✓ Non-replicable access to the Australian population

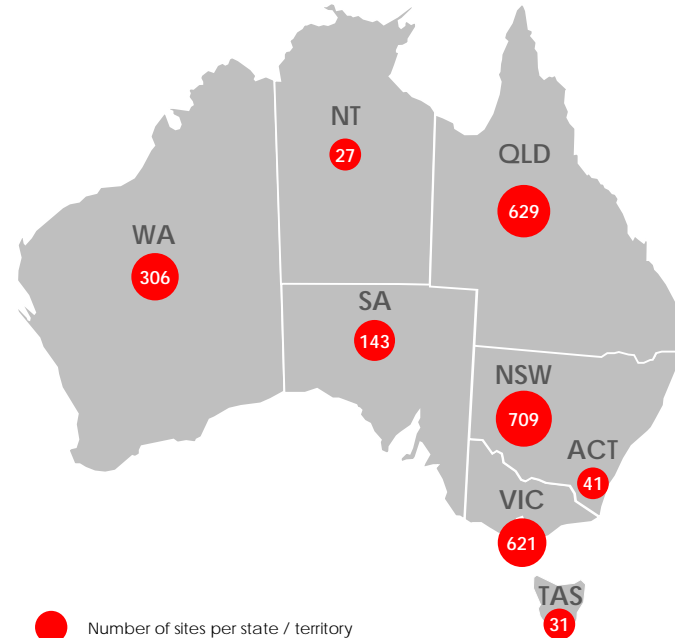
- ~80% of Australians are within a 10 minute drive of a Coles store
- Convenience of location is a key determinant of customer shopping decisions

✓ Long-term approach to network growth

- Key freehold properties in strategic growth corridors are identified and secured up to 10 years in advance
- Coles holds ~\$1bn in property assets

✓ Coles Online able to leverage physical network

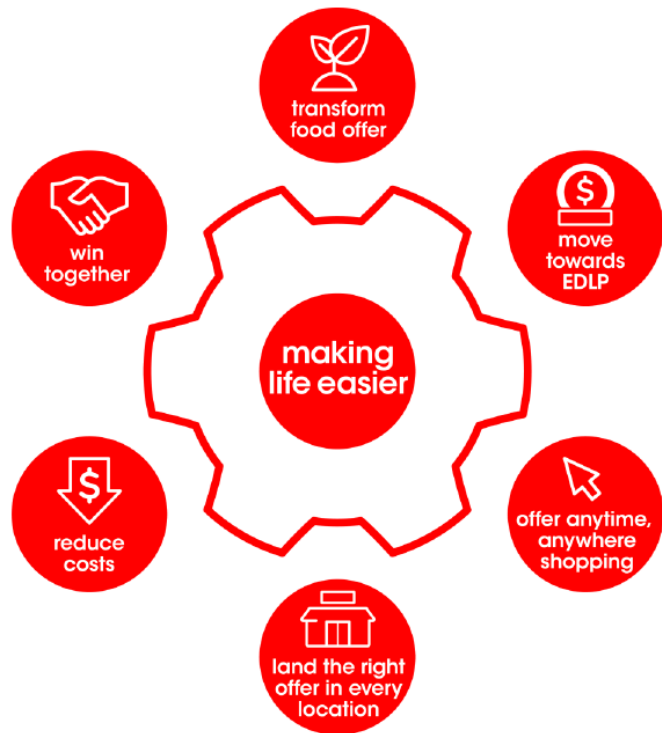
- 'Click & Collect' and home delivery services leverage Coles store network
- Proximity to customers provides advantaged last mile economics



#4

Customer-led strategy will drive customer experience and shareholder returns: Supermarkets

Coles recently unveiled its 'Fresh Tomorrow' strategy, which builds on its prior customer-led strategy and aims to deliver strong returns for shareholders



How we will measure success:

- ✓ Customer satisfaction
- ✓ Team member engagement
- ✓ Comparable sales growth
- ✓ Sales per square metre
- ✓ EBIT



Transform food offer

Coles will continue to improve the product offer in fresh departments, drive innovation in Own Brand and develop strong supplier relationships

Destination for Fresh

- Drive Fresh sales and market share gains through improved freshness, a focus on availability, and the transformation of the 'food to go' offer

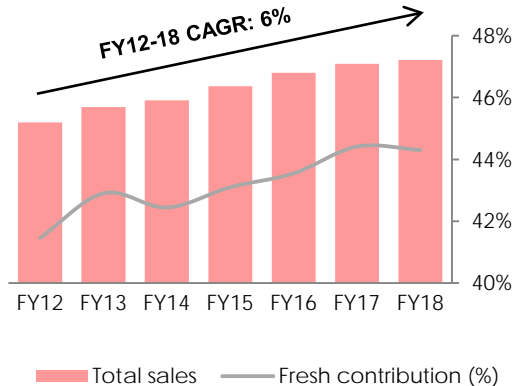
Own Brand powerhouse

- Deliver brands and products that customers love and which provide a reason to shop at Coles

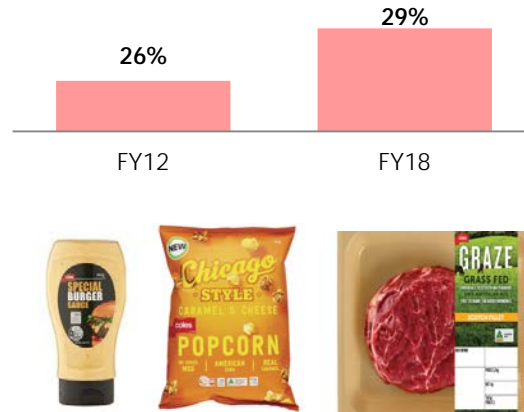
Partnering with our suppliers

- Focus on local suppliers to deliver great products, including exclusive products only available at Coles

Fresh sales¹



Coles Own Brand penetration²



Examples

- 10-year partnership with Laurent, creating a new, artisan-style bread range
- All Coles Brand pork is sow stall-free with no artificial growth promotants
- 100% Australian sourced, no added hormone Coles Brand beef
- All Coles brand seafood is responsibly sourced



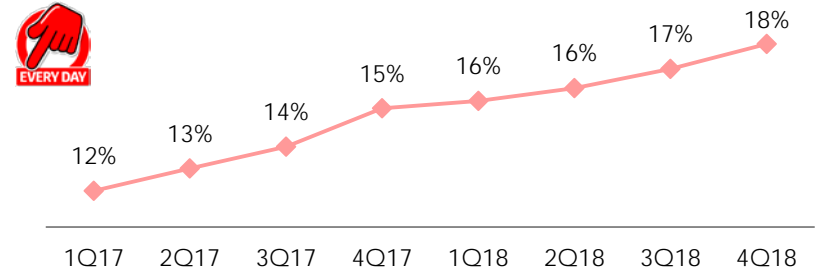


Move towards Everyday Low Prices

Coles will maintain its unwavering commitment to providing trusted value to customers on products that matter most

- Coles will continue to invest in price, having delivered nine consecutive years of price deflation
- More products will be offered on Everyday Low Prices (EDLP), with fewer but deeper, more impactful promotions
- Own Brand will drive greater value leadership across more tiers
- Advanced analytics will improve business decisions related to range, pricing and promotions
- Continue to partner with our suppliers to deliver simpler and more efficient processes for suppliers, logistics and stores
- Deliver customer value beyond price by leveraging proprietary flybuys data, analytics and emerging digital technologies to create personalised offers

Products on EDLP (% SKUs)



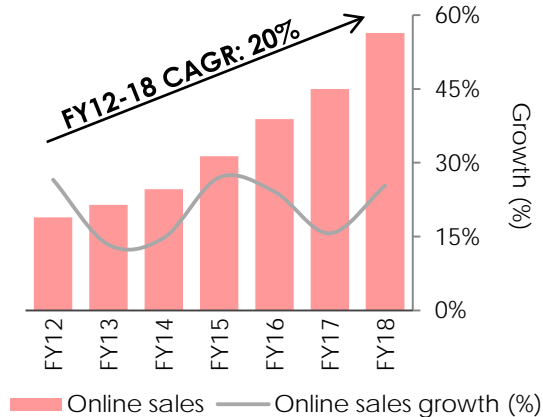


Offer anytime, anywhere shopping

Ongoing investment in technological innovation to execute an omni-channel strategy and meet changing customer needs

Coles Online sales and growth

Changing customer preferences evidenced by the rapid growth of Coles Online



Coles Online shopping experience

Coles is committed to offering customers a suite of convenient shopping alternatives and flexible delivery times, and continues to investigate new delivery and pick-up product concepts



Home Delivery

- ~75% of online orders
- Fleet of 599 delivery vans
- Servicing both consumer and business customers
- Leverages extensive physical store network and two dedicated online supermarkets

Click&Collect

- ~25% of online orders
- Over 1,000 Click & Collect locations, offering same day service
- Leverages extensive physical store network and two dedicated online supermarkets



Land the right offer in every location

Coles is reinventing the in-store customer and brand experience, and tailoring stores to the shopping missions of local customers by continuing to reinvest in its store network

✓ Store tailoring

- Data-led approach to store ranging, offers and layout
- Stores and products tailored to local customers (e.g. kosher and halal products, international product ranges)

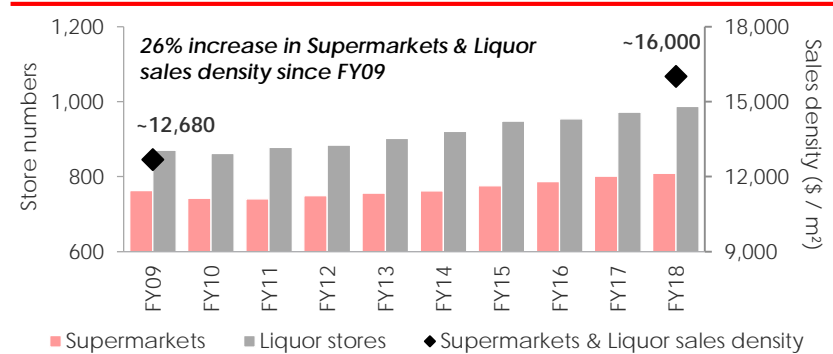
✓ Disciplined store renewal program

- ~90% of Supermarkets network has been renewed since FY09
- Average age of Supermarkets fleet is now 8.1 years¹

✓ Evolving store blueprint given increasing urban density

- One size does not fit all – tailored stores for the community
- Fill network gaps

Coles store numbers and sales density



¹ Average age stated is based on years since last store renewal.



Reduce costs

Coles' partnership with Witron is expected to transform its supply chain and deliver significant productivity benefits

Investment overview

- Coles has entered into a Heads of Agreement with Witron Australia, a subsidiary of Witron Logistik + Informatik GmbH (Witron), to develop two new automated ambient distribution centres for Coles over a five year period
- Witron is a market leader in the design and realisation of dynamic warehouse and order picking systems for distribution centres, with over 50 automated projects for major retailers around the world
- Expected to deliver significant productivity improvements over the medium to long term and meets Coles' return hurdles

Strategic and operational benefits

- ✓ **Lower cost to serve:** Significant reduction in operating cost through reduction in cost per carton
- ✓ **Improved store efficiency and availability:** Enables aisle friendly deliveries
- ✓ **Improved store service and reduced loss:** Improved pick accuracy and reduced stock damage through optimised pick configuration
- ✓ **Increased capacity in the supply chain:** Supporting sales growth over the next decade
- ✓ **Safer working environment:** Significant reductions in heavy lifting

FY19 financial impact

- Coles will recognise provisions of approximately \$130-150m before tax in FY19, comprised of redundancies and lease exit costs
- FY19 capital expenditure associated with this strategic project is included in FY19 capex guidance (net capex of \$600-800m)





Win together

Coles will continue to engage with team members, customers and communities

✓ Safety part of our DNA

- Target zero
- Mind your health

✓ Building careers and growing talent

- Leading graduate program
- Retail Leaders program
- Skills for trade / apprenticeships











✓ Community engagement

- Supporting national and local community partners, including charities, schools and clubs
- Financial contributions, fundraising, food donations and disaster relief

✓ Strong Corporate Social Responsibility

- Responsible and ethical sourcing
- \$50m Coles Nurture Fund
- Reduce environmental impact
- Renewable energy
- Coles Drought Appeal has raised over \$7m to help drought-affected farming families across Australia, in addition to \$5m in grants and interest-free loans from the Coles Nurture Fund

Coles' sustainability commitments for the future

	90% of all waste diverted from landfill by 2022		Halve food waste in Coles supermarkets by 2020
	Donate unsold edible food from every Coles supermarket		Provide 100 million meals to Australians in need by 2020
	Work with suppliers to reduce food waste		All Coles Brand packaging recyclable by 2020
	More recycled content in Coles Brand packaging		Reduce excess packaging across our stores and supply chain
	Provide in-store soft plastic recycling options in every Coles supermarket		Introduce new labelling to promote recycling

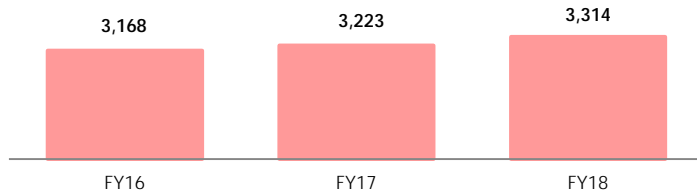
#4

Customer-led strategy will drive customer experience and shareholder returns: Liquor

The liquor transformation continues to progress, with continuing positive sales momentum and significant opportunities to drive growth

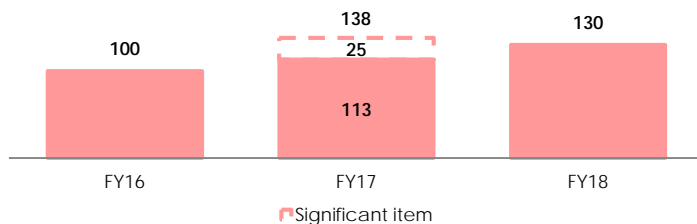
FY16-18 pro forma revenue (\$m)

FY16-18 CAGR: 2.3%



FY16-18 pro forma EBIT (\$m)

FY16-18 underlying CAGR: 14.0%



Business update

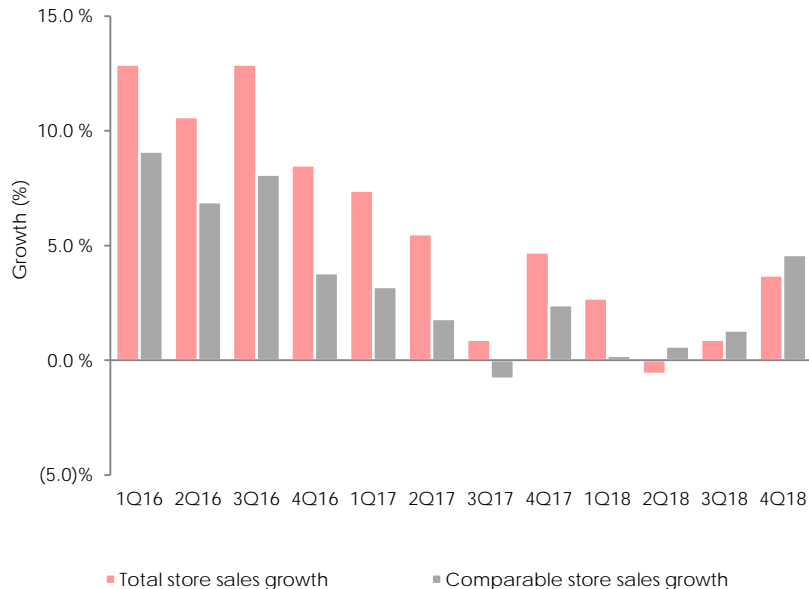
- ✓ **Positive sales momentum continued**
 - 11 consecutive quarters of comparable sales growth
- ✓ **Continued expansion & optimisation of the store network**
 - 163 Liquorland renewals completed for the year
 - Next evolution Liquorland and Liquor Market formats trialled
- ✓ **Focus on providing greater convenience**
 - All banners now offering Click & Collect, same and next day delivery
 - 30 minute Click & Collect available across Liquorland network
- ✓ **Key growth opportunities**
 - Exclusive brands portfolio expansion
 - Productivity efficiencies

#4

Customer-led strategy will drive customer experience and shareholder returns: Convenience

Convenience is delivering strong growth in store sales, helping to offset lower fuel volumes

FY16-18 Convenience store sales growth (%)



Business update

- ✓ **Improved comparable store sales momentum**
 - Double digit growth in food-to-go offering
 - Compelling 'Every Day Value' proposition
- ✓ **Continued emphasis on innovation**
 - Rollout of food-to-go offer to 500+ stores by 1H19
 - 'Click & Collect' roll out
 - Trialling fresh product offering
- ✓ **Further improvement to the site network**
 - 17 new sites opened & 402 upgraded in FY18
- ✓ **Key alliance initiatives include V-Power Diesel rollout and network optimisation**

#4

Customer-led strategy will drive customer experience and shareholder returns: flybuys

Coles will continue to work in partnership with flybuys to deliver value, build relationships and drive loyalty with its customers



Australia's most popular loyalty program



>8m active members
~6m households



>20 flybuys partners

flybuys partner network



- ✓ flybuys aims to deliver better value to customers
 - Enable members to earn and redeem in more places more often
- ✓ Develop new business and partnership opportunities
 - Partner with valuable brands with complementary products and services that appeal broadly to Australian consumers
- ✓ Better utilisation of data and digital assets
 - Ongoing investment and support from both Coles and Wesfarmers will assist flybuys to realise its full potential as a leading loyalty and data company
- ✓ Coles and Wesfarmers joint ownership expected to deliver incremental customer benefits

#5

Highly experienced management team in place to execute Coles' strategy

Leadership team supporting Steven combines broad global experience across the retail sector with deep Coles expertise



Steven Cain
Managing Director and CEO
20+ years in retail



Leah Weckert
Chief Financial Officer

*7 years at Coles
Various senior management roles at Coles. Previous experience at McKinsey & Company and Foster's*



David Brewster
Legal and Safety Director

*2 years at Coles
Previous experience includes Partner at Allens Linklaters*



Daniella Pereira
Company Secretary

Previous experience includes 14 years at Incitec Pivot, including as Company Secretary



Matthew Swindells
Supply Chain Director

*12 years at Coles
Various senior management roles across supply chain and merchandise; CEO of Tasman Meats*



Greg Davis
Chief Operating Officer
(Merchandise, Marketing)

*9 years at Coles
Previous experience includes 10 years at Aldi, including as Group Buying Director*



Alister Jordan
Coles Express, Coles Online
& Corporate Affairs Director

*5 years at Coles
Previous experience includes senior executive roles at Wesfarmers and Chief of Staff to the Prime Minister*



Cathi Scarce
Acting Liquor Director

*25 years at Coles
Various National Operations roles in both Supermarkets and Liquor*



Chief People Officer
Recruitment process underway



Paul Bradshaw
Store Operations Director

*8 years at Coles
Extensive knowledge and experience across the UK retail industry, spending entire career within retail*



Thinus Keeve
Store Commercial and
Property Director

*8 years at Coles
Previous experience includes various leadership roles at SAB Miller in South Africa*



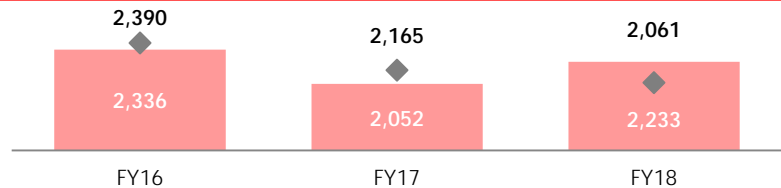
Roger Sniezek
Digital and Financial Services
Director

*7 years at Coles
Extensive experience with international loyalty programs, including the launch of UK's largest loyalty program, senior IT roles*

#6 Strong cash generation, attractive dividend payout ratio and robust balance sheet

Coles' strong cash generation underpins its 80-90% target dividend payout ratio, with a balance sheet set up to support a strong investment grade credit profile

Cash generation (\$m)



- Pro forma net operating cash flows, before capital expenditure, financing costs and tax
- ◆ Pro forma EBITDA

Dividend policy

- Coles' dividend will be determined with regard to current earnings and cash flows, available franking credits, future cash flow requirements and targeted credit metrics
- Target dividend payout ratio of 80-90%
- In relation to the FY19 dividend:
 - Wesfarmers intends to pay an interim dividend in Mar-19, with reference to the 5 months of Coles earnings prior to the Demerger
 - Coles expects to pay its first dividend in Sep-19, which will be a final dividend for the year ending 30-Jun-2019, with reference to the 7 months of earnings post Demerger

Capital structure and facilities (FY18 pro forma, \$m)

Debt facilities limit ¹	\$4,000m
Drawn debt ²	\$1,905m
Cash and cash equivalents ³	\$325m

Credit rating

- Coles' balance sheet is expected to support strong investment grade credit ratings
 - The key metrics of the ratings agencies have been analysed
- Coles expects to receive its formal credit ratings from Moody's and Standard & Poor's around the time of the Demerger

¹ \$4,000m of debt facilities as at Demerger. ² Excludes bank guarantees. ³ Cash and cash equivalents includes \$325m of operating cash, which is cash that is used in store or is in transit.

03

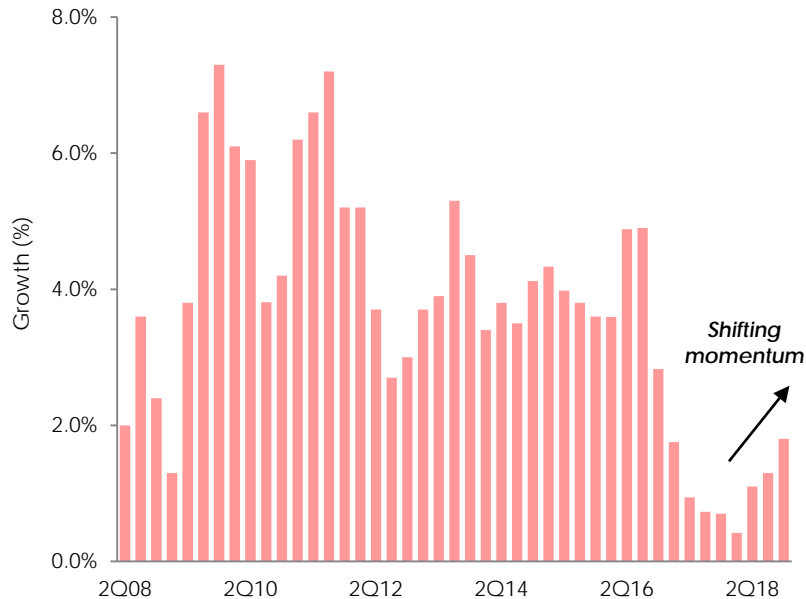
Financial overview



Coles financial performance

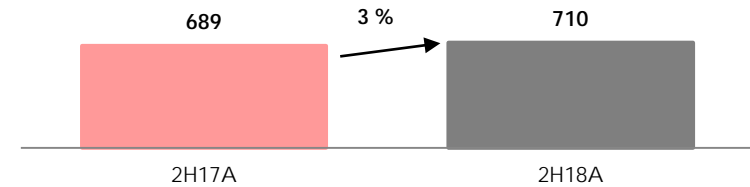
Coles has recorded 43 quarters of consecutive like-for-like food and liquor sales growth, is experiencing increasing sales momentum and has returned to earnings growth in 2H18

Like-for-like food and liquor sales growth (%)



Earnings performance

2H17 versus 2H18 EBIT (\$m)¹



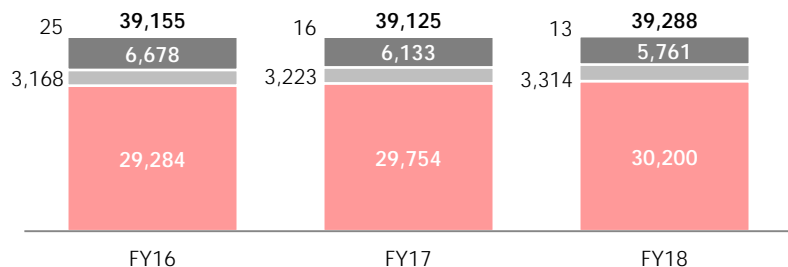
- Earnings decline to \$1,414m in FY18 primarily due to:
 - Annualisation of the high level of investments made in the customer offer in FY17
 - One-off items in FY17
 - Lower Coles Convenience earnings
 - Higher Supermarkets team member costs following the implementation of a new enterprise agreement
- The business returned to modest earnings growth in the second half of the 2018 financial year

¹ Earnings are as reported and are not pro forma for the demerger.

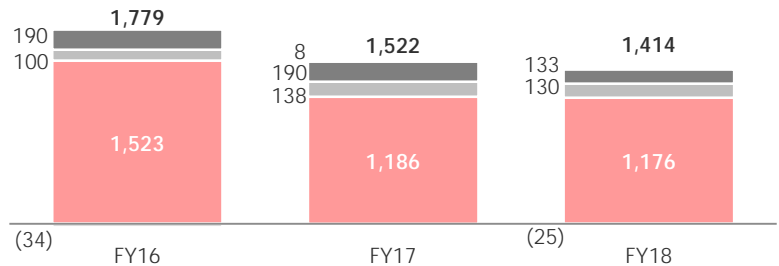
Coles divisional financial performance

Coles is comprised of its Supermarkets, Liquor and Convenience businesses

Pro forma divisional revenue breakdown (\$m)



Pro forma divisional EBIT breakdown (\$m)



■ Supermarkets ■ Liquor ■ Convenience ■ Other and incremental costs¹

Key commentary

Supermarkets

- Moderate revenue growth due to increased levels of competition
 - Sales momentum has improved at an increasing rate throughout FY18, underpinned by growth in transactions, units sold and basket size
- FY16-18 earnings decline driven by greater investment in the customer offer ahead of simplicity benefits and higher team member costs

Liquor

- Revenue has steadily improved under 5-year transformation plan
- Strong underlying earnings growth² driven by improved sales growth, exclusive brand product expansion and productivity efficiencies

Convenience

- Revenue decline due to lower fuel volumes
 - Partly offset by higher convenience store sales, primarily driven by improved food-to-go offering and Everyday Low Prices strategy
- FY18 earnings decline due to increase in wholesale fuel costs resulting in a lower fuel retail margin

Note: All corporate overheads (excluding net additional standalone operating costs and operating costs transferred from Wesfarmers) are allocated to respective divisions

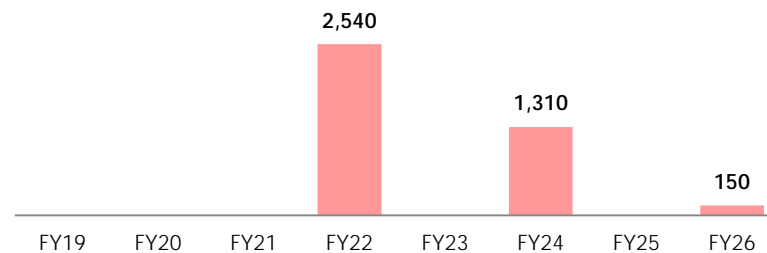
¹ Other includes pro forma net additional standalone operating costs and pro forma operating costs transferred from Wesfarmers. ² Excluding \$25m significant item in FY17, which was the one-off release of surplus restructuring provision taken to prior years.

Coles balance sheet and debt management

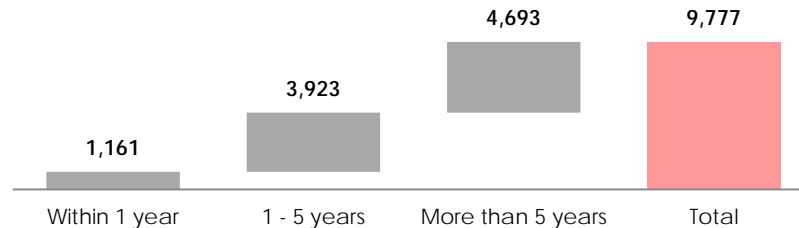
Post-separation, Coles will maintain its disciplined capital management

- Pro forma gross debt of \$1,905 million as at 30-June-2018
 - Bilateral bank facilities totalling \$4 billion
 - Revolving multi option and term loan facilities with maturities of 3, 5 and 7 years provide financial flexibility
- Disciplined management of off-balance sheet leases continues
 - Undiscounted lease commitments of \$9,777 million as at 30-June-2018
 - Weighted average lease expiry of 6.1 years as at 30-June-2018
 - Lease options provide Coles with flexibility to extend tenure

Debt facility maturity profile (\$m)



Lease commitments as at 30-Jun-2018 (\$m)



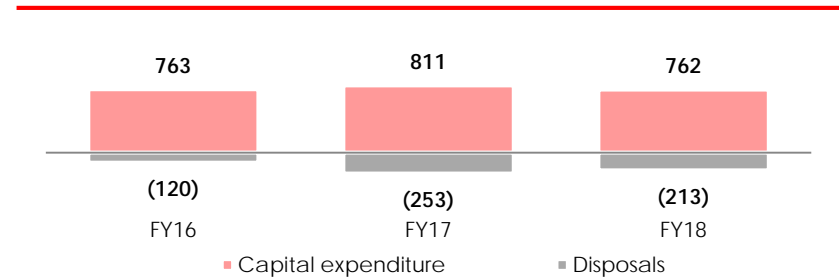
Coles capital expenditure and network investment

Coles has a history of disciplined capital allocation

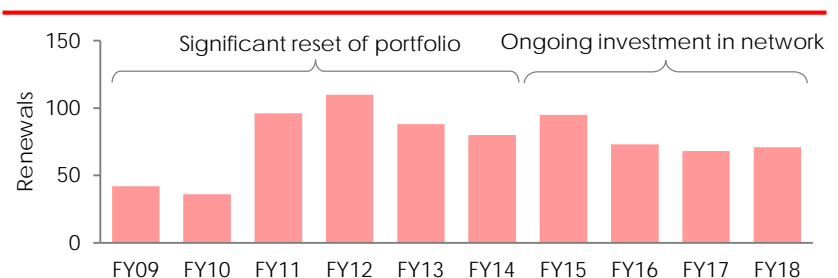
- ✓ **History of disciplined capital allocation**
 - Focused on ROC & sales density metrics
 - Data-led approach to store ranging & layout (customer insights, flybuys analytics)
- ✓ **Store network in good condition following decade-long investment program**
 - ~\$9bn of capital invested since FY09
 - ~90% of supermarket network has been renewed
 - Average age of fleet now 8.1 years¹
 - Average age of top quartile stores is 5.7 years²
- ✓ **Investment in property offset by disposals through asset recycling program**
 - Current book value of property assets ~\$1.0bn

Subject to net property investment, Coles net capital expenditure is expected to be approximately \$600 million – \$800 million in FY19, inclusive of distribution centre automation capex requirements

Capital expenditure³ (\$m)



Supermarket renewals (refurbishments + new stores)



¹ Average age stated is based on years since last store renewal. ² Top quartile refers to stores in the top 25 per cent based on sales revenue. ³ Capital expenditure includes accruals to represent costs incurred during the year, as derived from the segment information contained within the financial statements of Wesfarmers.

Investment highlights

#1

Coles operates in resilient and growing markets

#2

Demonstrated ability to maintain a leading market position in an evolving competitive landscape

#3

Established, non-replicable national store network

#4

Customer-led strategy will drive customer experience and shareholder returns

#5

Highly experienced Board and management team in place to execute Coles' strategy

#6

Strong cash generation, attractive dividend payout ratio and robust balance sheet

Q&A



A

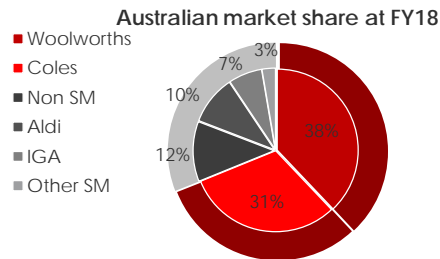
APPENDIX Supporting material



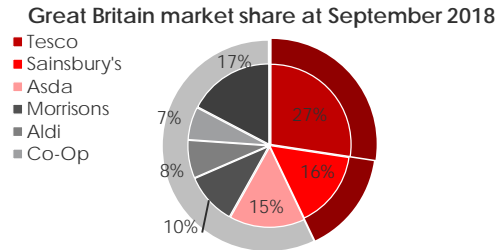
Supermarket industry

- The Australian supermarket and grocery industry recorded sales of over \$100bn in FY18 (CAGR of 6.2% from Jun-85 – Jun-18 through macroeconomic cycles)
- Approximately 1,900 distinct retailing businesses in Australia, with the two largest players (Coles and Woolworths) holding a combined market share of ~68%
 - Market share of leading players reflects the importance of physical store footprint and maintaining convenient locations for shoppers
 - The UK industry has four key competitors that make up ~68% of the market
 - The US industry is highly fragmented, with the three largest players holding ~26% of the market
- The Australian industry is forecast to continue to grow at a CAGR of 3.0% from 2018 to 2022
- Key drivers of growth in the Australian supermarkets industry include population growth, changes in real household disposable income and changes in consumer sentiment

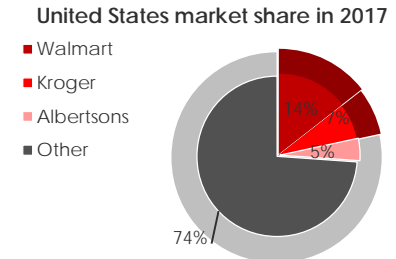
Comparison of the Australian, US and Great Britain supermarket industries



Population CAGR 2018-2022	1.2%
GDP CAGR 2018-2019	2.7%
Unemployment 2018-2022	-0.1%
Industry CAGR 2018-2022	3.0%



Population CAGR 2018-2022	0.6% ¹
GDP CAGR 2018-2019	1.5% ¹
Unemployment 2018-2022	+1.1% ¹

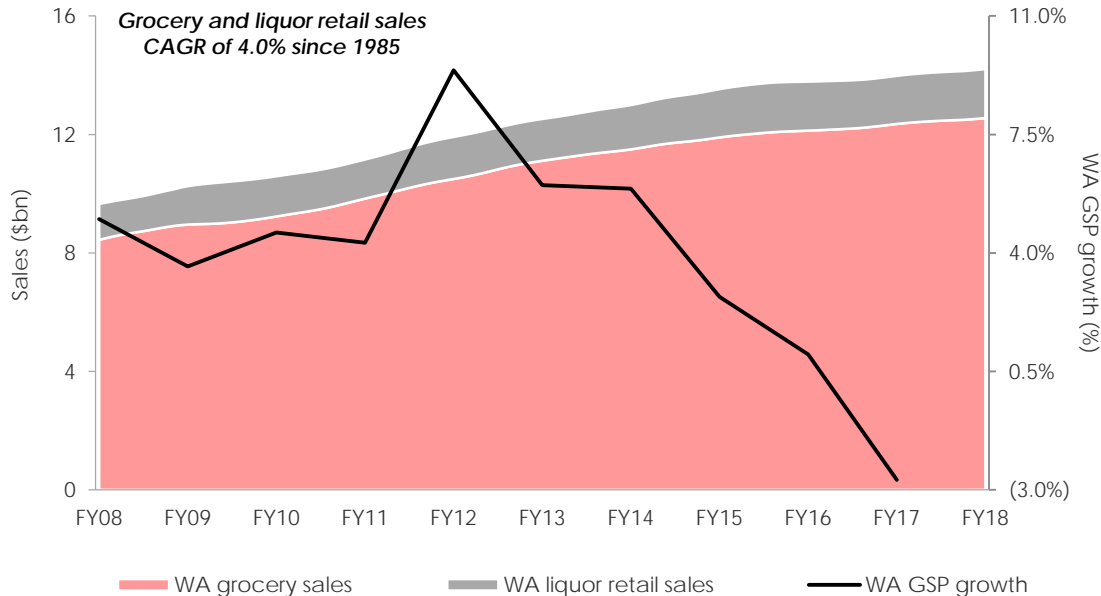


Population CAGR 2018-2022	0.7%
GDP CAGR 2018-2019	2.1%
Unemployment 2018-2022	+0.2%

Two largest players in the market

Case study: W.A. economic downturn

Western Australia grocery and liquor retail sales¹



Commentary

- The economy of Western Australia (WA) is highly leveraged to mineral resources and oil and gas exploration and production sectors
- Following the end of a period of heightened capital investment and expansion in resources projects in FY13, the WA economy began to slow dramatically
- Despite this downturn in the economy, grocery and liquor retail sales continued to grow
- Counter-cyclicality driven by customers substituting spending at restaurants and licensed venues with groceries and liquor purchases

Coles pro forma historical balance sheet and cash flows

Coles pro forma historical balance sheet

\$m	30-Jun-18	\$m	30-Jun-18
Current assets		Current liabilities	
Cash & cash equivalents	325	Trade & other payables	3,266
Trade & other receivables	566	Provisions	683
Inventories	2,105	Other	279
Current tax assets	115	Total current liabilities	4,228
Other assets	39		
Total current assets	3,150	Non current liabilities	
		Interest bearing liabilities	1,905
Non-current assets		Provisions	444
PPE	4,230	Other	27
Deferred tax assets	378	Total current liabilities	2,376
Intangible assets	1,687		
Other	94	Total liabilities	6,604
Total non-current assets	6,389		
		Net assets	2,935
Total assets	9,539	Shareholders equity	
		Issued capital	2,742
		Retained earnings	707
		Reserves	(514)
		Total shareholders equity	2,935

Coles pro forma historical cash flows

\$m	30-Jun-16	30-Jun-17	30-Jun-18
Pro forma historical EBIT	1,779	1,522	1,414
Depreciation and amortisation	611	643	646
Pro forma historical EBITDA	2,390	2,165	2,061
Other items	(11)	(89)	130
Changes in working capital	(43)	(24)	42
Net operating cash flows, before financing activities and tax	2,336	2,052	2,233
Capital expenditure ¹	(763)	(811)	(762)
Proceeds from sale of property, plant and equipment and intangibles	120	253	213
Net operating cash flows after net capital expenditure, before financing activities and tax	1,693	1,494	1,684

¹ Capital expenditure includes accruals to represent costs incurred during the year, as derived from the segment information contained within the financial statements of Wesfarmers.

Coles Board (1/2)



James Graham AM
Chairman

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



Steven Cain
Managing Director & CEO

Steven has over 20 years of experience in Australian and international retail. Steven was previously Chief Executive Officer of supermarkets and convenience at Metcash Limited. He was also Chief Executive of Carlton Communications plc, a FTSE 100 media group company, and Operating Director and portfolio company chairman at Pacific Equity Partners, a private equity firm. He was also Group Marketing Director, Store Development Director and Grocery Trading Director of Asda (UK) during its turnaround and has held roles at Kingfisher plc, a UK retail group, and Bain & Company. Steven was previously the Managing Director of food, liquor and fuel at Coles Myer and was an advisor to Wesfarmers on its takeover of the Coles Group in 2007.



David Cheesewright
Non-Executive Director
(Wesfarmers nominee)

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



Jacqueline Chow
Non-Executive Director

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

Coles Board (2/2)



Abi Cleland

Non-Executive Director

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



Richard Freudenstein

Non-Executive Director

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



Wendy Stops

Non-Executive Director

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



Zlatko Todorcevski

Non-Executive Director

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

B

APPENDIX Risk factors



Risk factors associated with an investment in Coles Group

EXISTING BUSINESS RISKS

This section outlines a number of risks that may affect the Coles Group following the Demerger. The risks set out in this section may adversely affect the future operating or financial performance or prospects of the Coles Group, and the investment returns or value of Coles Shares. Some of these risks may be mitigated by appropriate controls, systems and other actions, but others will be outside the control of the Coles Group. Many of these are risks to which Wesfarmers Shareholders are currently exposed, while others arise as a result of Coles becoming a standalone ASX-listed entity independent from the Wesfarmers Group following the Demerger. The risks set out in this section are not exhaustive of all the risks to which the Coles Group could be exposed.

Operational

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

Coles relies on its own and third-party information technology infrastructure and systems for its day-to-day operations, including for processing customer transactions, maintaining its website, product ordering, warehouse management and logistics systems and maintaining other back-office functions. Any failure of, or disruption to, information technology infrastructure or systems could impede the processing of customer transactions or limit Coles' ability to procure or distribute stock for its stores. Similarly, the unauthorised disclosure of confidential company, customer, team member or third-party information, or a malicious attack on Coles' infrastructure, applications or online presence, could impact reputation or competitive strength or result in litigation and/or regulatory enforcement. As part of the flybuys arrangements, Loyalty Pacific (which will be 50 per cent owned by Coles) will access and utilise certain Coles customer data, and will be responsible for compliance with privacy laws and regulations. After a transitional period under a TSA, Loyalty Pacific will be responsible for maintaining the security of that data. Coles seeks to mitigate these risks by regularly testing and reviewing its information technology infrastructure and systems, strong resilience processes, planning and testing, and continually seeking to strengthen data and cyber security.

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

A failure to successfully manage industrial relations or ensure proper design, processes, security and culture at stores or sites could result in industrial disputes, work stoppages or accidents that cause adverse reputational, financial, legal, productivity or morale impacts. Industrial action in operations in Coles' supply chain in particular has the potential to cause widespread disruption to Coles' business. Coles' largest enterprise agreement was approved by the Fair Work Commission this year. This covers most wage-paid team members engaged under one of the relevant classifications contained in the enterprise agreement. The enterprise agreement does not cover or apply to any team member engaged by Coles for the purpose of working solely, or predominately, within the meat department. There is a risk that Coles may not be able to satisfactorily renegotiate collective labour agreements when they expire. If the agreements are not successfully renegotiated, the business may be exposed to protected industrial action from team members in support of their bargaining claims, and potential applications to terminate the expired agreements. Coles seeks to mitigate these risks with a targeted industrial relations strategy and people and culture strategy. In addition to its directly employed workforce, Coles has supply end service contracts with a number of third-party logistics providers which have site-specific enterprise agreements. While Coles works with these providers to ensure that industrial risk is minimised, the third-party employer ultimately manages that risk.

(c) Risks inherent in distribution and sale of products

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

(d) Climate change

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

(e) Supply chain risks

Coles is generally dependent on the supply of products by an extensive, diversified network of primary producers, suppliers and distributors located in Australia and overseas. Coles relies on its network of suppliers to supply products of the requisite quality at the right price to meet the expectations of its customers. The supply of products could be disrupted by many factors, including the failure by Coles to develop and maintain effective supplier relationships of mutual trust, climate events or natural disasters, transport or shipping delay/issues or labour disruptions. Similarly, labour rights may be breached by contractors or suppliers resulting in legal action, supply interruptions and adverse reputational impact, or Coles or a supplier may discover ethical concerns, such as human rights abuses, in a supply chain. Coles seeks to mitigate supply chain risks by maintaining a high degree of rigour regarding ongoing contract and supplier management, moving some key services in-house, and having processes in place to identify and investigate any alleged unethical sourcing or human rights abuses.

Risk factors associated with an investment in Coles Group (cont'd)

(f) Supplier relationships risk

Across its supermarket, liquor and convenience businesses, Coles has a number of key strategic supplier relationships. The relationships Coles has with these suppliers are subject to certain risks, which if they materialise, may result in material changes to the relationship or even termination, and may have a material negative impact on Coles' business and financial performance. These risks include: an increase in the wholesale cost of products (such as an increase in the cost of fuel supplied by Viva Energy under the Alliance Agreement), which Coles may not be able to control or fully pass on in a timely manner to customers; the termination of key contracts, or cessation of supply, or disputes arising under key contracts; or a change in ownership or management of a supplier which may result in a changed approach to the relationship with Coles. Coles seeks to manage these risks by maintaining a high degree of rigour regarding ongoing contract and supplier management.

(g) Reputation risk

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

(h) Health and safety

Due to the nature of some of the industries in which Coles operates, there is a risk of accidents or unsafe operations (amongst employees, contractors, customers or third parties). Notwithstanding the preventative measures which Coles has taken or may take, accidents or unsafe operations may occur. Such events may result in additional costs and fines, and may jeopardise Coles' reputation and credibility. Coles seeks to manage these risks by implementing a rolling five year health and safety plan under the three pillars of critical risk reduction, safety leadership and culture, and mind your health, supported by strong processes to ensure safety is integrated into key decisions and reviews with an external audit program to promote continuous improvement.

Strategic

(a) Increased competition

Increased competition is expected to continue to be a feature of the market in which Coles operates, due to strong performance by current competitors and new entrants, particularly international discount retailers that have grown successfully in recent years in Australia. In a changing competitive landscape, Coles may need to compete with a more diverse range of retailers operating different models, including pure play online retailers. Coles seeks to respond to this competitive pressure by monitoring the retail market, putting in place programs to realise lower operating costs and continuing to execute its strategy to enhance its proposition to customers, improve its price competitiveness and differentiate itself more clearly from competitors. However, any increased competition from new and existing competitors could adversely impact Coles' sales performance, lead to a loss of market share, cause a decline in profitability and adversely affect Coles' financial performance.

(b) Ineffective execution of strategy

Coles may fail to implement or achieve its strategic objectives due to a range of factors, including management not prioritising delivery of the key pillars of the strategy, changes to the competitive environment that result in a change to the underlying assumptions of the strategy, poor cost management, loss of key personnel or ineffective change management. In addition, the dynamic competitive environment in which Coles operates results in the need to regularly respond to competitor actions, which could result in a distraction or delay to executing the longer term goals of the strategy. A failure by Coles to execute its strategy may result in a failure to maintain or increase operating margins and market share. As part of its strategy, Coles may undertake acquisitions or divestments from time to time, acquire or develop new retail sites or invest capital in new projects or initiatives. While Coles is focused on maintaining discipline in its capital expenditure, such actions could result in a variability of earnings over time, may give rise to liabilities or may distract management from business as usual operations, which could potentially adversely affect Coles' financial performance. Coles seeks to mitigate these risks through management focus on delivery of strategic objectives, including 'Fresh Tomorrow', investments in team members and operations, and a customer first focus to decision making.

(c) Changing consumer behaviours and digital disruption

Customer expectations are rapidly evolving, for example there is increased customer engagement with digital platforms, an increased appetite for convenience and ongoing expectation of lower prices. If Coles fails to meet customer expectations or fails to compete effectively in online and other formats, or an existing or new competitor of Coles adapts to changes more rapidly, this could result in a loss of market share or missed opportunities for growth, including a failure to leverage the value of Coles' brands, to fully utilise data to optimise the customer experience or to create value through disruptive technologies. Coles seeks to mitigate this by monitoring customer insights, trialling new technologies and in-store initiatives to service emerging trends and through the establishment of its dedicated disruptive technology team, including the investment in trials for emerging and digital technologies.

Risk factors associated with an investment in Coles Group (cont'd)

Regulatory

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

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

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

NEW OR INCREASED RISKS SPECIFICALLY ASSOCIATED WITH THE DEMERGER

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

(a) Tax

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

(b) Financing

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

(c) Capital management

Dividend and capital management capacity

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

Franking capacity

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

Risk factors associated with an investment in Coles Group (cont'd)

GENERAL RISKS

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

(a) Economic conditions

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

(b) Market risks

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

(c) Interest rates

Coles will have external interest bearing liabilities after the Demerger and, accordingly, will be exposed to movements in interest rates. While Coles will take reasonable steps to protect itself from rising interest rates through the use of hedges, a rise in rates may still adversely affect Coles' interest payments for floating rate instruments.

(d) Movements in currency and commodity prices

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

(e) Taxation

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

(f) Insurance risks

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

(g) Litigation

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

(h) Accounting

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