4 April 2018

The Manager
Company Announcements Office
Australian Securities Exchange

Dear Manager,

CHAIRMAN'S LETTER TO SHAREHOLDERS REGARDING THE INTENTION TO DEMERGE COLES

Please see attached a letter from the Wesfarmers Chairman regarding the intention to demerge Coles, which will be sent to shareholders on 5 April 2018.

Yours faithfully,

L J KENYON
COMPANY SECRETARY

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5 April 2018

Dear Shareholder,

By now, you are probably aware of the important announcement Wesfarmers made on 16 March 2018 of our intention to demerge Coles. Our new Managing Director Rob Scott has since described the proposed demerger as a once in a decade repositioning of the Wesfarmers portfolio and on behalf of all the Board I would like to share with you some of the rationale behind it.

Most importantly, we believe it will be in the best interests of shareholders and it will, of course, only proceed with shareholders' approval.

Under the proposed demerger, Coles will become a stand-alone top 30 publicly listed company on the ASX and Wesfarmers will remain in the ASX top 20. As a Wesfarmers shareholder, you will receive shares in Coles proportional to your existing holding in Wesfarmers. This will be after taking into account any stake in Coles to be retained by Wesfarmers, which we propose will be a minority interest of up to 20 per cent. You will retain your existing Wesfarmers shares.

The decision to pursue a demerger of Coles comes after a thorough review of our portfolio of businesses and is about repositioning Wesfarmers and Coles for the next decade.

When we acquired Coles as part of the larger Coles Group in 2007, it was a business badly in need of repair. In the decade since, we have seen a remarkable turnaround unfold. Some elements of the transformation that have resulted from the significant investment made across the business include:

- Coles has lowered the cost of the weekly shop for Australian families for eight consecutive years
- The Coles store network has been expanded and 80 per cent of it has been refurbished
- Omni-channel capabilities have been established, including more than 800 "click and collect" sites expected by the end of this financial year
- Collaborative long-term relationships have been established with fresh food suppliers, including through the $50 million Nurture Fund
- A number of transformational community programs have been developed through partnerships such as Redkite and SecondBite

These investments have delivered significant improvements in Coles' financial performance since the first full year under Wesfarmers' ownership, including a doubling in earnings before interest and tax and strong cash generation.

Coles is now firmly restored to its position as a leading Australian retailer: a large, mature and cash-generative business that is well-positioned to operate independently.

Following the turnaround, while Coles will continue to be a strong competitor with many opportunities to grow, its future long-term growth profile is expected to be more moderate. With Coles accounting for more than 60 per cent of Wesfarmers' capital employed, a demerger would significantly reposition Wesfarmers capital towards higher growth opportunities in its remaining businesses, notably Bunnings Australia and New Zealand, Kmart and the Industrials division. It would also mean enhanced focus by Wesfarmers on existing businesses and new opportunities, and new investment would have a greater impact on returns on capital for Wesfarmers' shareholders.

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If the demerger is implemented, shareholders will have an investment in two companies with different investment attributes. Coles is expected to be attractive to shareholders seeking a solid earnings growth profile with defensive investment characteristics and strong cash generation to support dividend payments. Wesfarmers is targeting a higher capital weighting to businesses with higher earnings growth prospects over the long term.

As always, Wesfarmers will measure our success over the next decade based on the returns we generate not the size of the portfolio. We expect to retain our strong credit rating and our dividend policy will remain unchanged.

Next steps and further information

We will announce further detail, including Coles' proposed capital structure, dividend policy, separation, and governance arrangements in due course.

The demerger process will take some time and is subject to final Board approval, third party consents, regulatory approvals and, I reiterate, shareholder approval. Subject to those being obtained, implementation is expected in the 2019 financial year. In due course you will receive further information about this process. There is nothing for you to do now in relation to the proposed demerger.

In the meantime, if you have any questions, please call the Wesfarmers shareholder information line on business days between 8:30am and 5:30pm (AWST):

Australian shareholders:	1300 558 062
Overseas shareholders:	+61 3 9415 4631

More detailed information regarding the proposed demerger can be found online at **www.wesfarmers.com.au**.

We look forward to keeping you informed throughout this process.

Yours sincerely,

Michael Chaney AO
Chairman

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