



23 February 2007

Dear Shareholder

The Coles Group Board today provided updated earnings guidance and announced that it will commence a process to review ownership options for the company and its businesses.

The Board's decision to examine ownership alternatives follows a number of informal approaches to our external advisers over the last few weeks.

The Board will decide whether a 100% sale or a restructuring of the Group, including demerger, would create greater value for shareholders than the current ownership structure and growth strategy.

A formal process will be established – governed by strict protocols to ensure a rigorously competitive process – to receive and assess proposals from interested parties.

The company's external advisers, Carnegie Wylie & Company and Deutsche Bank, have advised us that the value of the company remains substantially above \$15.25.

We also announced today that we have revised market guidance for financial year 2008. This takes account of lower than anticipated sales and earnings growth in supermarkets and Kmart.

While financial year 2007 earnings are expected to remain in the order of \$787m net profit after tax, the contribution from supermarkets will be lower than anticipated.

Earnings for financial year 2008 are now expected to be approximately 10 percent lower than previous guidance of \$1,066 million net profit after tax.

While earnings guidance has been adjusted, the company has made strong progress in implementing some components of the strategy.

On the plus side, business simplification has identified potential savings in excess of the \$363m target outlined last September. Our Liquor business, Coles Express, Target and Officeworks have also gained strong strategic momentum.

However, initiatives to drive top-line growth in supermarkets have taken longer to gain traction, including the rebranding of Bi-Lo to Coles which has not achieved the sales and earnings uplift envisaged. This has contributed to an easing in Food and Liquor comparative sales growth to 2.6% in the second quarter.

Your Board believes the strategy outlined to the market in July and September last year remains sound but the growth rate in the earlier years would be slower than envisaged.

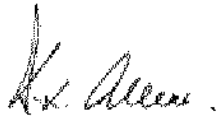
To ensure our Group CEO, John Fletcher, has sufficient time to oversee the ownership review process, Mick McMahon will be appointed as Chief Operating Officer of Coles retail businesses (Supermarkets, Liquor and Express).

Mr McMahon brings extensive experience in retail leadership to the position, having held a number of senior positions within Shell before joining Coles Myer two years ago as Managing Director, Coles Express.

The Board will keep you updated on progress. If you have any questions in the interim, please contact our shareholder information line on 1300 130 278 (for overseas callers +61 2 8280 7768).

We thank you for your continuing support for the company.

Yours sincerely

A handwritten signature in black ink, appearing to read "R. Allert".

Rick Allert
Chairman