UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12 (b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED JULY 30, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM __________ TO __________

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report ____________________________

Commission file number: 1-10083

COLES GROUP LIMITED.

Australian Business Number 11 004 089 936

(Exact name of Registrant as specified in its charter)

VICTORIA, AUSTRALIA

(Jurisdiction of incorporation or organization)

800 TOORAK ROAD, TOORONGA, VICTORIA 3146 AUSTRALIA

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12 (g) of the Act.

Title of each class	Name of each exchange on which registered
Ordinary shares	New York Stock Exchange*

* Not for trading but only in connection with the registration of American Depository Shares, pursuant to the requirements of the Securities and Exchange Commission. Effective February 6, 2006, the Company delisted from the New York Stock Exchange.

Securities registered or to be registered pursuant to Section 12 (b) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15 (d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the Annual Report.

Fully Paid Ordinary Shares	1,189,919,434
Partly Paid Ordinary Shares paid up to A$0.01 per share	21,000

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes x No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 x Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ¨ No x

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CERTAIN DEFINITIONS

The Company or Coles Group or Group means Coles Group Limited and its consolidated entities ABN 11 004 089 936. Shareholders at the 2006 Annual General Meeting approved the renaming of the Company, formerly known as Coles Myer Ltd.

The fiscal year of Coles Group Limited ends on the last Sunday in July each year. The fiscal year ended July 30, 2006 is referred to in the text of this Annual Report as 2006 , and other fiscal years are referred to in a corresponding manner. In the Consolidated Financial Statements included in Item 17, the financial year 2005-06 is also referred to as 2006, and similarly for other years, except where otherwise stated. See also Glossary of Terms at note 41 of the Consolidated Financial Statements included in Item 17 for descriptions of certain terms used in this Annual Report.

In this Annual Report, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Australian dollars (A$).

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 20-F contains certain forward-looking statements, including statements regarding the expected outlook for the retail-trading environment in Australia, the implementation of strategies for growth in other businesses, and levels of anticipated capital expenditures. Coles Group can give no assurances that the actual results will not differ materially from the statements contained herein. Neither can Coles Group give assurances, express or implied, as to any underlying assumption or that a forward looking statement will be achieved. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Coles Group, which may cause actual results to differ materially from those expressed in the statements contained herein. Any such forward-looking statements speak only as of the date of this Annual Report. In the absence of a specific legal obligation to the contrary, Coles Group undertakes no responsibility to publicly announce the result of any revisions to any forward-looking statements contained herein to reflect future developments or events.

Risk factors, which may affect Coles Group s future performance, are discussed in Item 3D.

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ITEM 1 IDENTITY OF DIRECTORS, SENIOR MANAGEMENT & ADVISERS
Not applicable.

ITEM 2 OFFER STATISTICS AND EXPECTED TIMETABLE
Not applicable.

ITEM 3 KEY INFORMATION

A. SELECTED FINANCIAL DATA
The selected income statement data for 2005 and 2006, and the selected balance sheet data as at July 31, 2005 and July 30, 2006 set forth below (other than percentages) are derived from the audited Consolidated Financial Statements of Coles Group included in this Annual Report. They should be read in conjunction with, and are qualified in their entirety by reference to, those statements, including the notes thereto. Coles Group s Consolidated Financial Statements are prepared in accordance with Australian International Financial Reporting Standards (AIFRS), which varies in certain material respects from generally accepted accounting principles in the United States (US GAAP). A reconciliation to US GAAP is set out in note 41 of the notes to the Company s Consolidated Financial Statements included in Item 17.

It should be noted that results for 2006 reflect 52 trading weeks compared to 53 trading weeks for 2005. This is because the Company s fiscal year ends on the last Sunday in July each year and, as a result, approximately every six years an extra trading week is included in the Company s consolidated results for that fiscal year.

In accordance with the instructions to the Form 20-F, owing to the change in the body of the accounting principles used in preparing the Company s Consolidated Financial Statements from Australian generally accepted accounting principles to AIFRS, only two years of financial statements have been presented.

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Amounts in accordance with International Financial Reporting Standards

	2006[1] US$	2006 A$	2005[2] A$
	(In millions, except per share amounts)		
Consolidated Income Statement			
Revenue from sale of goods [3]	28,122.0	36,698.4	36,167.8
Other operating revenue	102.9	134.3	123.1
Revenue (excluding finance income)	28,224.9	36,832.7	36,290.9
Revenue from sale of goods from continuing operations[3]	26,216.7	34,212.0	33,018.2
Other operating revenue from continuing operations	70.3	91.8	71.9
Revenue (excluding finance income) from continuing operations	26,287.0	34,303.8	33,090.1
Profit from ordinary activities before income tax-total	1,055.9	1,377.9	903.2
Profit from ordinary activities before income tax from continuing operations	576.3	752.0	972.0
Profit/(loss) from ordinary activities before income tax from discontinued operations	479.6	625.9	(68.8)
Income tax expense	(164.2)	(214.3)	(265.3)
Income tax expense from continuing operations	(165.2)	(215.6)	(285.9)
Income tax expense from discontinued operations	1.0	1.3	20.6
Profit for the year total	891.7	1,163.6	637.9
Profit for the year from continuing operations	411.0	536.4	686.1
Profit/(loss) for the year from discontinued operations	480.6	627.2	(48.2)
Per Ordinary Share:			
- Basic earnings from continuing operations	0.33	0.43	0.52
- Basic earnings from discontinued operations	0.38	0.50	(0.04)
- Basic earnings from total operations	0.71	0.93	0.48
- Diluted earnings from continuing operations	0.33	0.43	0.52
- Diluted earnings from discontinued operations	0.38	0.49	(0.03)
- Diluted earnings from total operations	0.70	0.92	0.49
- Cash dividends	0.280	0.365	0.313
Consolidated Balance Sheet			
(at year end)			
Total assets	7,000.4	9,135.3	9,223.8
Contributed equity	1,643.1	2,144.2	2,068.6
Total equity	2,757.1	3,598.0	3,415.1

(1) Merely for the convenience of the reader, certain selected financial data has been converted into United States Dollars at the Noon Buying Rate on July 28, 2006, the last trading day of the fiscal year, of A$1.00 = US$0.7663. These translations should not be construed as representations that the A$ amounts actually represent such US$ amounts or could be converted into US$ at the rate indicated. For a more recent A$/US$ exchange rate, refer to Exchange Rates on page 5 of this Annual Report.

(2) Results for 2005 reflect 53 trading weeks compared to 52 trading weeks for other fiscal years shown.

(3) Revenue from sale of goods excludes Goods and Services Tax (GST).

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Amounts in accordance with US GAAP

	2006(1)	2006	2005(2)	2004	2003	2002(3)
	US$	A$	A$	A$	A$	A$
			(In millions, except per share amounts)			
Consolidated Income Statement						
Revenue from sale of goods (3)	28,122.0	36,698.4	36,167.8	32,082.2	26,875.8	25,688.7
Revenue from sale of goods from continuing operations (3)	26,216.7	34,212.0	33,018.2	28,897.8	23,752.9	22,445.5
Revenue from sale of goods from discontinued operations (3)	1,905.3	2,486.4	3,149.6	3,184.4	3,122.9	3,243.2
Net profit before cumulative effect of change in accounting principle total	927.6	1,210.5	512.5	475.4	390.9	310.7
Net profit before cumulative effect of change in accounting principle from continuing operations	403.7	526.8	544.7	423.0	384.4	340.4
Net profit before cumulative effect of change in accounting principle from discontinued operations	523.9	683.7	(32.2)	52.4	6.5	(29.7)
Net profit before cumulative effect of change in accounting principle total						
- Basic earnings per share	0.75	0.98	0.42	0.40	0.29	0.22
- Diluted earnings per share	0.74	0.96	0.41	0.39	0.29	0.22
Net profit before cumulative effect of change in accounting principle from continuing operations						
- Basic earnings per share	0.33	0.43	0.45	0.35	0.28	0.25
- Diluted earnings per share	0.32	0.42	0.44	0.35	0.28	0.25
Net profit total	683.8	892.3	512.5	475.4	444.4	310.7
Net profit from continuing operations	159.9	208.6	544.7	423.0	430.3	340.4
Net profit from discontinued operations	523.9	683.7	(32.2)	52.4	14.1	(29.7)
Net profit total						
- Basic earnings per share	0.55	0.72	0.42	0.40	0.34	0.22
- Diluted earnings per share	0.54	0.71	0.41	0.39	0.33	0.22
Net profit from continuing operations						
- Basic earnings per share	0.13	0.17	0.45	0.35	0.32	0.25
- Diluted earnings per share	0.13	0.17	0.44	0.35	0.32	0.25
Per Ordinary Share:						
- Cash dividends (4)	0.280	0.365	0.313	0.265	0.260	0.255
- Cash dividends in US$ (4) (5)	$ US0.27	$ US0.27	$ US0.24	$ US0.19	$ US0.18	US$ 0.14
Consolidated Balance Sheet						
(at year end)						
Total assets	6,655.5	8,685.2	9,179.4	9,109.9	8,422.4	8,218.8
Contributed equity	1,658.0	2,163.6	2,090.1	1,626.1	2,210.3	2,032.3
Total equity	2,389.5	3,118.2	3,301.2	3,032.7	3,329.4	3,107.6
			Millions of shares			
Issued capital - number of outstanding shares (6)		1,189.9	1,237.2	1,225.5	1,212.5	1,184.7

Refer key on page 5.

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Key to table on page 4.

(1) Merely for the convenience of the reader, certain selected financial data has been converted into United States Dollars at the Noon Buying Rate on July 28, 2006, the last trading day of the fiscal year, of A$1.00 = US$0.7663. These translations should not be construed as representations that the A$ amounts actually represent such US$ amounts or could be converted into US$ at the rate indicated. For a more recent A$/US$ exchange rate, refer to Exchange Rates on page 5 of this Annual Report.

(2) Results for 2005 reflect 53 trading weeks compared to 52 trading weeks for other fiscal years shown.

(3) Revenue from sale of goods excludes Goods and Services Tax (GST). Sales for 2002 have not been adjusted for the concessional sales change of accounting policy.

(4) Dividends for 2002 include the interim and final dividends relating to each respective fiscal year. As a result of the change in accounting policy for providing for dividends, since 2003 dividends for each year include the interim dividend of that year and the final dividend of the prior year (refer note 7 of the Consolidated Financial Statements included at Item 17).

(5) Based on the Noon Buying Rate for cable transfers in A$ as at each payment date as certified for customs purposes by the Federal Reserve Bank of New York. The actual rates of exchange used in determining the dollar payments were the exchange rates on the dates payments were made, being November 14, 2005 and May 15, 2006.

(6) The balance up to 2004 excludes the number of Reset Convertible Preference Shares (ReCAPS). The ReCAPS were converted to ordinary shares during the year ended July 31, 2005. Balances include partly paid shares.

Exchange Rates

The following table sets forth, for the last five complete financial years, the average rate of exchange of A$ into US$ based on the Noon Buying Rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate).

Fiscal Year	**2006**	**2005**	**2004**	**2003**	**2002**
		(all figures in US$ per A$)			
Average rate (1)	0.7475	0.7564	0.7181	0.5884	0.5270

(1) The average of the Noon Buying Rates on the last day of each full month during the period.

The high and low exchange rates for the previous six complete months are:

Months	**High**	**Low**
	(all figures in US$ per A$)	
July 2006	0.7664	0.7407
August 2006	0.7699	0.7568
September 2006	0.7704	0.7461
October 2006	0.7743	0.7434
November 2006	0.7896	0.7629

December 2006	0.7914	0.7795

The exchange rate at January 12, 2007 was A$1.00 = US$0.7826.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

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D. RISK FACTORS

This section describes some of the risks that could affect the Company s business. The factors below should be considered in connection with any forward-looking statements in this Annual Report. The risks below are not the only ones the Company faces some risks may not be known to the Company, and some, which are not currently considered to be material, could later turn out to be material.

The major risk factors, which may impact Coles Group, include:

Risks Related to Coles Group

There is a risk that if the Company s strategic plan is not clearly defined and communicated, the Company will be unsuccessful in fulfilling its vision to be a great retailer that customers turn to first for their everyday shopping purchases.

The Company s vision is to be a great retailer that customers turn to first for their everyday shopping purchases. Well-judged customer propositions and successful marketing programs influence the continued growth of retail profitability. Critical factors to Coles Group maintaining its competitive position are: (i) the ability of Coles Group to successfully gauge and satisfy consumer preferences, and to reward customer loyalty; (ii) merchandising skills to enable improvement in product range to better meet customer needs; (iii) ability to source products in a timely and efficient manner; and (iv) appropriate price positioning. The Company needs an appropriate framework of structures and processes that support the Group through the implementation of this strategy. If the appropriate structures and processes are not in place, the Company may miss or have inadequate responses to the market and new market opportunities.

There is a risk that the Company may not fully realize expected benefits from better leverage of the Group s operations.

The Group s future plans include expected benefits from greater efficiencies in areas that are common across the Group (in particular Supply Chain and Information Technology) and access to greater economies of scale. There is a risk that the Company may not leverage the benefits available from the scale, depth and breadth of its retail capability. If the Company is not able to realize these benefits or identify other sources of benefits, its future ability to reduce costs and remain competitive may be reduced.

There is a risk that the Company may not fully realize expected savings from its simplification program.

One of the key planks of the Company s current strategy is the reduction of support costs and reinvestment into stores, facilitated by the integration of certain brands. This is expected to result in the loss of 2,500 permanent support staff by the end of 2008. The Group has many different systems that are complex and subject to interdependencies. There is a risk that systems cannot be integrated according to plan. This may have an adverse impact on the Company s ability to rationalize its workforce. If the Company is not able to fully realize these savings or identify other sources of benefits its future ability to remain competitive may be reduced.

There is a risk that if the Company is unable to implement its simplification program, the future performance of the Group may be affected.

The cost, potential problems and interruptions associated with the implementation of simplification initiatives may disrupt or reduce the efficiency of our operations. Enhancements to processes and systems may not provide the benefits when anticipated. These risks may result in the businesses not receiving the level of support that they require, and their future profitability may be affected.

There is a risk that the Company may put too much focus on Group change.

The Company continues to have a significant agenda of implementing change across the Group, particularly in Retail Support areas such as Supply Chain and Information Technology. There is a risk that if the change agenda is not well managed, there may be a loss of focus with inadequate resources being directed to core retail activities. If these core retail activities do not perform in line with expectations, there is a risk that the Company s future financial performance may suffer.

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There is a risk that the Company s customer proposition is unsuccessful, which may affect its future competitive position and growth opportunities.

The Company must regularly evaluate its customer proposition for each of its brands in a dynamic and competitive marketplace. Growth initiatives are based on: (i) expanding share within existing markets through differentiated product offers and competitive pricing; or (ii) identifying new retail opportunities. Two of the key planks of the Group s current strategy include the review of store formats and product initiatives. The success of this strategy depends on management s ability to identify and respond to consumer preferences. Product initiatives may require the Company to identify new suppliers, who meet our standards in a timely and efficient manner. There is a risk that if the Company does not successfully innovate and improve its customer offer, its market share and future growth may be impacted.

If Coles Group is unable to locate appropriate store sites, it may not be able to deliver expected store growth.

The Company s growth strategy includes the opening of new stores, together with the enhancement of existing store formats. 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, the Company s growth may be impaired.

There is a risk that some of the Company s stores may underperform.

Individual stores may underperform for a number of reasons (e.g. poor positioning, poor execution, fluctuations in trends and markets, and the Company s failure or inability to swiftly respond to these). There is a risk that the cost of exiting such low returning sites may be prohibitive. If the Company fails to regularly monitor underperforming stores, and to take appropriate remedial action, such stores will adversely affect profitability.

There is a risk that if the Company is unable to implement its new Information Technology (IT) systems and transform the Supply Chain the future performance of the Group may be affected.

The Company s growth strategy includes significant investment in new IT systems. Coles Group has a large number of systems, and there is a risk that if Coles Group does not adequately implement the IT strategy to support improvement and efficiency across the business, its future profitability may be affected.

The transformation of the Supply Chain is a major initiative for the Company, and is intended to result in better service for customers, simpler processes for stores and lower costs for Coles Group. The initiative is complex, with risks including delays and interruptions. Presently, the Supply Chain is changing rapidly, and consequently the risk of interruption increases. These risks may result in the Company not achieving the expected benefits within expected timeframes.

There is a risk that the Company s growth strategy may be affected if there are insufficient skills across the Group to support its implementation.

There is a risk of the loss of key members of the senior management team, which may impede the implementation of the Group s strategies. It is expected that the Company s simplification program will result in the loss of 2,500 permanent support staff by the end of 2008. The loss of key staff may result in interruption or could reduce the efficiency of our operations in the short-term. It could take longer than expected to realize benefits if transition planning is not appropriate. The loss of key personnel or insufficient management or leadership skills may mean that the Company s growth strategy does not meet expectations.

There is a risk that industrial action may affect the Company s operations, impacting business and financial performance.

Coles Group has traditionally had a stable industrial relations environment within its operations. However, there is a risk of industrial unrest or interruption, particularly within distribution centers, in the context of transformation programs, which are currently significantly affecting operations. Any industrial action may increase costs, impact operations and delay transformation initiatives.

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There is a trend of increasing competition (from existing and new competitors) in the markets within which Coles Group operates which may affect the results from its retail operations.

There is significant competition in the Australian and New Zealand markets in which Coles Group s businesses operate. Retail chains generally compete on the basis of location, quality of products, service, price, product variety and store condition. Take-over activity amongst existing competitors intensifies competition. There is also the risk of new entrants into the Australian retail market, either by acquisition of an existing retailing company or through greenfields development. Regulatory authorities may constrain the Company from growing existing brands, particularly within the Food and Liquor Group. As Coles Group operates in a broad range of retail sectors (food and liquor, discount department stores, convenience stores, fuel retailing, etc) it is exposed to competition in almost all retail sectors of the Australian market. These competitive conditions may adversely impact Coles Group s market share and trading results.

There is a risk that the divestment of the Myer business may affect the Company s profitability.

During 2006 the Coles Group divested the Myer business. There is a risk that the new owners of the Myer business will compete directly with the merchandise and apparel businesses of the Coles Group. There is a risk that the Coles Group s market share and future growth may be impacted.

As a consequence of the divestment, Coles Group guaranteed the performance of Myer under certain leases. These guarantees amount to A$164.6 million and primarily expire within a maximum of four years. There is a risk that the Myer business may fail and these guarantees may be called upon.

Coles Group faces the risk of exposure to product liability claims and adverse publicity.

The packaging, marketing, distribution and sale of food products entail an inherent risk of product liability, product recall, adverse publicity and exposure to product liability claims. Such claims may have an adverse impact on the Company s financial performance.

There is a risk that if the Company is not able to improve its Health and Safety record, the associated costs may decrease profitability.

Continuing to improve the Health and Safety record is a major management focus through the Safety Right Now program. This program focuses on creating a safer environment for staff, customers and visitors to all business locations. There is a risk that if the Company is not able to maintain the improving Health and Safety record, the costs associated with workers compensation may increase and affect the future competitive position of the Company.

There is a risk that long-term exchange rate fluctuations may impact the costs of imports.

The Company sources merchandise, both directly and indirectly, from overseas denominated in either Australian dollars or foreign currency. All foreign exchange exposures arising from the importation of merchandise (including freight and customs), capital expenditure and other goods (for example back of house items, fees and expenses), and also foreign currency denominated borrowings, and offshore investments are fully hedged. There is a risk that long-term permanent depreciation of the Australian dollar may impact the Company s future sourcing costs.

There is a risk of non-compliance with governance, corporations law and other listed company obligations and expectations, which may have a negative impact on the Company s performance.

Coles Group is subject to many laws and regulations including, but not limited to, trade practices, corporations law, employment laws, workers compensation and rehabilitation, occupational health and safety, tax and accounting legislation, including the Financial Services Act, State, Territory and local government legislation and regulations that govern property planning issues, liquor licensing, tobacco retailing, retail trading hours and other operational matters, environmental regulation and the Australian Competition and Consumer Commission. Compliance with, or changes in, these laws (which may be brought about by interest lobby groups) may reduce the sales and profitability of Coles Group s operations and may otherwise adversely affect the Company s business, financial condition or results.

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There is a risk that failure of our internal control over financial reporting may have a negative impact on the Company s financial results.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with generally accepted accounting principles in the United States. Owing to its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. There is a risk that any failure to maintain an effective system of internal control may limit our ability to report our financial results accurately or to detect and prevent fraud.

Risks Related to Australia

The Company s financial prospects, both in terms of sales and profits are primarily dependent on the Australian economic environment.

The retail trading environment is subject to general economic conditions in the Australian and global markets. The economic conditions in Australia are influenced by a number of factors, including climatic conditions such as the sustained period of drought currently being experienced in Australia, which may impact on the level of disposable income available to consumers to spend in the Company s stores. Any adverse changes in such economic conditions can be expected to affect the retail-trading environment in general. Adverse developments in economic conditions during the first half of the fiscal year of Coles Group, particularly the Christmas trading period when its sales and profitability are typically strongest, may have a negative impact on Coles Group s trading results.

The Company s future financial results, in terms of sales and borrowing costs, may be negatively impacted by higher interest rates.

Higher interest rates affect income available for spending, which can impact the level of retail sales. Higher interest rates also affect the Company s cost of borrowing and may reduce its profitability.

The foregoing list of important factors is not exclusive and we do not undertake to revise any forward-looking statement to reflect events or circumstances that occur after the date the statement is made.

ITEM 4 INFORMATION ON THE COMPANY

The discussion below contains certain forward-looking information. See comments regarding Forward-Looking Statements on page 1 of this Annual Report.

A. HISTORY AND DEVELOPMENT

GENERAL

Coles Group Limited (formerly Coles Myer Ltd.) is an Australian-based retailer, owning and operating stores in most sectors of the Australian retail market, in the general merchandise sector of the New Zealand retail market, and on the Internet. The Company supplies a wide range of food and non-food items in supermarkets, discount department stores, liquor stores, office supplies stores, automotive service centers, fuel outlets and online. Coles Group Limited predominantly trades under the names of Coles , Bi-Lo , Coles Express , Coles Online , Liquorland , Vintage Cellars , 1st Choice Liquor Superstore , Kmart , Kmart Tyre & Auto , Target , Target Country , Officeworks , and Harris Techno New Zealand, the Company trades as Kmart .

The Company commenced business in 1914, operating variety stores. After incorporation in 1921 as G.J. Coles & Coy. Limited (Coles), it continued to operate variety stores until the end of the 1950s, when it branched out into supermarket retailing. In 1969, Coles introduced the discount store concept into Australia through the establishment of the Kmart chain. In 1985, Coles acquired The Myer Emporium Limited, which was the largest department store business in Australia. In 1986, the Company changed its name to Coles Myer Ltd.

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Further developments since that time have included purchases and dispositions of specialty store chains and liquor outlets, the Coles Express fuel offering, the development of niche market opportunities in growth categories such as office supplies and motor products, either by way of newly established brands such as Officeworks, or through existing brands extending their offering in specialized areas.

Following the sale of the Myer business and related assets in June 2006, shareholders at the 2006 Annual General Meeting approved the renaming of the Company to Coles Group Limited. The new company name coincides with the Company s strategy to grow the everyday needs part of its business under one Coles icon brand.

The Company is incorporated in the State of Victoria, Commonwealth of Australia, with the executive offices at 800 Toorak Road, Tooronga, Victoria, 3146, and its telephone number is (61) (3) 9829 3111.

Coles Group Limited is the holding company. The number of subsidiaries/consolidated entities in the Coles Group at July 30, 2006, was 95, all of which are incorporated in Australia and New Zealand, apart from one company, which is incorporated in Singapore.

RECENT DEVELOPMENTS

1. Divestments

In September 2005, a process began to consider ownership options for Myer, including retention, de-merger and trade sale.

On June 2, 2006, Coles Group announced the completion of the sale of the Myer department store business to TPG-Newbridge Capital and the Myer Family, with TPG-Newbridge assuming control of Myer immediately, for A$1,409.0 million. The disposal included deferred consideration receivable of A$19.5 million, with the gain on sale of Myer after tax amounting to A$583.7 million.

Coles Group Limited will continue to provide some human resources, supply chain, marketing, IT and finance administration support to Myer as independent outsource provider under service level agreements for a commercial fee. Most of these services will transition to Myer during 2007 and the provision of all services will have ceased by the end of 2008.

As a consequence of the divestment, Coles Group Limited has guaranteed rental payments under certain leases. The guarantees amounted to A$164.6 million at July 30, 2006, and primarily expire within a maximum of four years.

In addition, Coles Group Limited issued options for the disposal of certain assets. Subsequent to balance date, the Company has disposed of its interest in the CMS General Trust for A$160.0 million (carrying value A$125.0 million), the Ocean Keys Shopping Center for A$78.0 million (carrying value A$47.9 million) and Casey Central Shopping Center for A$51.0 million (carrying value A$50.7 million).

As a result of the divestment of the Myer business, the Consolidated Financial Statements included at Item 17 have been presented and comparatives restated to distinguish between continuing and discontinued operations. See also note 5 to the Consolidated Financial Statements.

2. Buyout Proposals Kohlberg Kravis Roberts & Co (KKR)

In August 2006, the Coles Group Board (the Board) received a highly conditional proposal by a leveraged buyout consortium to acquire Coles Group at an indicative price of A$14.50 per share. On receipt of this proposal, the Board sought advice from external advisers, Carnegie Wylie & Company and Deutsche Bank. Included in the advisers analysis was their valuation of the Company under a number of different bases including a discounted cash flow, comparable acquisition multiples and a break-up valuation. The advice provided indicated that the proposal undervalued the Company. Acting on the advice provided, the Board rejected the proposal due to the undervaluation of the Company and the uncertainty of the proposal.

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A revised proposal from the KKR led leveraged buyout consortium, of A$15.25 per share, was also rejected during October 2006, for the same reasons mentioned above. The consortium advised the Board that this was its final proposal and that it would withdraw and publicly announce its disengagement if the proposal was rejected. No further proposals have been received from this consortium.

3. Strategy

In July 2006, Coles Group announced details of its strategic plan to simplify and grow the business, which is intended to significantly reduce costs and drive substantial shareholder returns. Under the new strategy, it is intended that the Coles Group will comprise Target, Officeworks, and a new integrated Everyday Needs business that will provide customers with a range of store formats including SuperCentres, supermarkets, liquor stores, convenience and freestanding general merchandise stores. Coles, Bi-Lo, Liquor, Coles Express and Kmart will be progressively integrated, with single rather than multiple support functions. Over time, the Everyday Needs business will be represented by a single umbrella brand, Coles .

During 2006, a number of strategic initiatives were committed to, resulting in pre-tax costs and write-downs totaling A$295.4 million. These costs relate primarily to redundancy, rebadging, changes to the loyalty program and lease exit costs. See also note 4 to the Consolidated Financial Statements at Item 17.

4. Acquisitions

Hedley Hotel Group

In June 2006, Coles Group completed the acquisition of the Hedley Hotel Group for A$320.5 million. Included in the total purchase consideration is A$156.2 million which has been settled by way of 13.7 million Coles Group Limited shares, and deferred consideration of A$49.8 million also to be settled by way of shares. Goodwill recognized on the acquisition was A$292.1 million.

The Hedley Hotel Group included 35 hotels, 102 retail liquor stores and sites for an additional 17 1st Choice Liquor Superstores in Queensland. The Hedley acquisition significantly boosted both our liquor superstore and hotel presence in the key Queensland liquor market.

Mr. Corks Liquor Group and Talbot Hotel Group

In December 2006, the Coles Group acquired the Queensland based Mr. Corks Liquor Group and the Talbot Hotel Group for approximately A$51.0 million and A$53.0 million, respectively.

Mr. Corks Liquor Group comprises five hotels, three large format stores and 14 liquor stores/drive thru bottle shops trading under the name of Mr. Corks. The Talbot Hotel Group comprises six hotels, six liquor barns and 11 detached bottle shops.

Again, the acquisition of this business is in line with the Company s strategic objective of growing its liquor business, particularly in Queensland, which is one of the fastest growing liquor markets in Australia.

Refer note 34 to the Consolidated Financial Statements in Item 17 for information on other acquisitions.

5. Long-term Incentive Program

In November 2006, as a result of the Company s new strategic plan announced to the market on July 31, 2006 (refer note 4 of the Consolidated Financial Statements at Item 17 for further details) and the financial guidance provided to the market on September 21, 2006, the Board decided to revise the senior management, including the CEO s, long-term incentive program. The earnings per share (EPS) hurdles, which apply to 50% of the long-term incentives, were amended in consultation with Mercers, shareholders and governance bodies. The remaining 50% of the incentive program relating to total shareholder return (TSR) hurdles remain unchanged.

For details of the revised EPS hurdles, refer to Item 6, part E Share Ownership .

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6. New York Stock Exchange delisting

Effective February 6, 2006, the Company delisted from the New York Stock Exchange. A review of the Company s secondary listings concluded that international accessibility of the Australian Securities Exchange enables international investor participation in holding Coles Group Limited shares. The review also found that the relatively low volume of trade and the cost of listing outweighed the benefits to shareholders.

7. Financial Updates

1st Quarter Sales

On November 15, 2006, the Company announced 2007 first quarter sales (for the 13 weeks ended October 29, 2006) of A$8,460 million, an increase of 3.2%. Specific sales results were:

	First Quarter (13 Weeks)		
	2007	**2006**	**Change**
Business Group Sales	**A$M**	**A$M**	**%**
Food and Liquor	5,065	4,766	6.3
Coles Express	1,480	1,555	(4.8)
Kmart	888	877	1.2
Target	735	705	4.3
Officeworks	292	291	0.3
Total sales (continuing businesses)	**8,460**	**8,194**	**3.2**
Total sales (discontinued businesses)		**671**	
Total Group Sales	**8,460**	**8,865**	**(4.6)**

8. Management Senior Management Changes

Departures

Mr. Hani Zayadi, Group Managing Director, Food Liquor and Fuel, left the Company on July 31, 2006.

Mr. Gerry Masters, Managing Director, Coles Supermarkets left the Company on April 13, 2006.

Ms. Dawn Robertson, Managing Director, Myer left the Company on May 31, 2006 as a part of the Myer divestment.

Mr. Tom Lemke, Group General Manager, Marketing and Customer Strategy left the Company on July 12, 2006.

On November 17, 2006, the Company announced that Mr. Peter Scott, Managing Director Merchandise, Supermarkets, was dismissed from the Company. Mr. Scott s dismissal relates to breaching the Company s Code of Conduct. Under the oversight of the Audit and Risk Committee of the Board, the Company s investigation of the matter does not indicate a deficiency in the reliability of financial reporting and preparation of financial statements for external purposes in accordance with AIFRS. The Company has fully informed its auditors.

Appointments

On March 20, 2006, the Company announced that it was simplifying its operating structure by delayering food liquor and fuel and that Mr Fletcher would assume day-to-day leadership of Supermarkets while remaining Managing Director and Chief Executive Officer of the Coles Myer Group. Peter Scott was appointed as Managing Director Merchandise, Supermarkets and Peter Merritt was appointed as Managing Director Operations, Supermarkets, both reporting to Mr Fletcher. Mick McMahon was appointed as Managing Director of Coles Liquor in addition to his existing responsibilities as Managing Director of Coles Express, reporting to Mr Fletcher. Mr McMahon took on further additional responsibilities as Group General Manager of Marketing on August 15, 2006.

Pending a permanent appointment of a replacement for Mr Scott, Mr McMahon has acted as Managing Director Merchandise, Supermarkets and Mr Merritt has acted as Managing Director of Coles Express since November 17, 2006.

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9. Capital management

Share buy-backs

On May 23, 2006, the Company announced a capital management program to buy back up to A$1,000 million of shares. The program commenced on that date with the Company announcing its intention to repurchase around A$600 million of its ordinary shares via an off-market buy-back, with the balance of the program to be conducted through an on-market share buy-back, subject to market conditions.

On July 10, 2006, the Company purchased and cancelled 81,816,534 Coles Group fully paid ordinary shares. The shares were acquired at A$10.23 per share, representing a total cost of A$838.9 million, which included A$1.9 million of transaction costs. On the same date the Company announced that the balance of the A$1,000 million capital management program (being A$163.0 million) would be conducted by an on-market buy-back. At January 12, 2007, 5,454,538 Coles Group Limited fully paid ordinary shares had been purchased and cancelled under this program. The shares were acquired at prices ranging from A$13.23 per share to A$13.48 per share. The total cost of the on-market buy-back at January 12, 2007 was A$73.1 million.

On May 27, 2005, the Company purchased and cancelled 70,433,916 fully paid ordinary shares under an off-market buy-back. The total cost of the off-market buy-back (including transaction costs) was A$589.0 million.

On May 23, 2005, the Company announced its intention to buy back up to 15 million ordinary shares on-market. Between June 7, 2005 and July 25, 2005, the Company purchased and cancelled 12,221,111 shares at a total cost of A$115.4 million.

In total, 82,655,027 shares were purchased and cancelled during 2005. Refer note 27 to the Consolidated Financial Statements at Item 17.

On July 12, 2005, the Company converted 7,000,000 reset convertible preference shares (ReCAPS) into 79,282,822 million fully paid Coles Group ordinary shares. Refer note 27 to the Consolidated Financial Statements at Item 17.

B. BUSINESS OVERVIEW

Company Retail Operations

At July 30, 2006, Coles Group operated 2,962 stores in Australia and New Zealand, and employed in excess of 163,000 people.

The Company operates businesses in Australia and New Zealand, all of which are serviced by a centralized corporate group. Each of these businesses is known as brands and is described below. The brands are primarily stand-alone, but increasingly are being supported by a series of Retail Support centers that all operate within policies determined by a centralized corporate group. The results of the operating brands are reported under four groups: Food, Liquor & Fuel; Kmart; Officeworks; and Target. During 2006, the Myer and Megamart businesses were divested. Accordingly the results of these businesses have been included as discontinued operations. Sales, segment result, and identifiable asset data are reported for each segment, and are shown in note 32 to the Consolidated Financial Statements included at Item 17. The table on page 14 provides details of the stores that fall within each brand and Item 5 Operating and Financial Review and Prospects , provides a discussion of the results of operations for each of Coles Group s segments.

Coles Group s sales, and to a greater extent its profits, show a seasonal pattern. Kmart and Target typically experience stronger sales of higher margin merchandise during the Christmas trading period. Sales for Kmart and Target in the 26 weeks to January 29, 2006 accounted for 54.7% (2005 55.5%) of their full year sales and 86.9% (2005 81.8%) of their full year profits. Aggregate sales of food and liquor through supermarkets, fuel and other outlets are not subject to such major seasonal influences.

The Company operates in all Australian States, the Northern Territory, the Australian Capital Territory, and New Zealand. The geographic spread of the Company s Australian operations corresponds closely to the distribution of population and retail spending, with the result that the Company s Australian revenues are not disproportionately exposed to economic conditions in any particular region or industry. In New Zealand, the Company s stores are predominantly located in the North Island, which corresponds with the country s major population concentration.

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The Company continually monitors the performance of its stores in all locations, and closes or re-develops stores which cease to provide acceptable levels of profitability on a continuing basis. The strong correlation between disposable income, retail sales and population across Australia is shown in the following table. The spread of the Company s sales and selling area across the Australian States and Territories, as shown in the following table, also reflects the geographic distribution of population, retail sales and disposable income. Accordingly, the decisions taken by the Company in the opening, closure, or refurbishment of the large majority of its stores are typically not principally influenced by economic conditions in individual states.

	Share of National Aggregates as at July 2006			Share of Coles Group as at July 2006	
	Population %	Retail Sales %	Disposable Income %	Sales %	Selling Area %
State/Territory					
New South Wales / Australian Capital Territory	34.9	35.2	36.8	32.1	29.3
Victoria	24.7	23.9	25.3	26.4	25.8
Queensland	19.5	20.2	17.9	19.6	22.5
South Australia / Northern Territory	8.6	8.2	8.1	8.8	9.0
Western Australia	9.9	10.3	9.9	11.2	11.4
Tasmania	2.4	2.2	2.0	1.9	2.0

Source: Company Records and Australian Bureau of Statistics.

As at July 30, 2006, the number and location of stores trading were:

	Australia	New Zealand	Total
Food, Liquor & Fuel			
Coles	528		528
Bi-Lo	209		209
Coles Liquor	804		804
Coles Express	599		599
Total Food, Liquor & Fuel	2,140		2,140
Kmart			
Kmart	172	13	185
Kmart Tyre & Auto	275		275
Total Kmart	447	13	460
Officeworks			
Officeworks	95		95
Harris Technology	8		8
Total Officeworks	103		103
Target			
Target	145		145
Target Country	114		114
Total Target	259		259

Total	2,949	13	2,962

As at July 30, 2006, the company operated 2,962 stores, an increase of 178 on the 2,784 stores at July 31, 2005, an increase of 72 stores on the 2,712 stores at July 25, 2004. The above store figures do not include divested Myer stores.

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The Company opened, acquired, closed and divested stores as follows:

	2006			2005			2004		
Number of Stores	**Opened/ Acquired**	**Closed/ Divested**	**Net Increase/ (Decrease)**	**Opened/ Acquired**	**Closed/ Divested**	**Net Increase/ (Decrease)**	**Opened/ Acquired**	**Closed/ Divested**	**Net Increase/ (Decrease)**
Food, Liquor & Fuel	234	79	155	84	42	42	652*	33	619
Kmart **	98	17	81	21	1	20	5	2	3
Officeworks***	8		8	9	1	8	11	9	2
Myer		61	(61)				1	4	(3)
Megamart		9	(9)				1		1
Target	9	5	4	11	9	2	9	10	(1)
TOTAL	349	171	178	125	53	72	679	58	621

* Primarily acquisition of Shell fuel sites from multi-site franchisees (Coles Express)

** Includes acquisition of Shell Auto Care and Shell Autoserv car servicing business

*** Includes Harris Technology

Capital expenditure

For 2006, gross capital expenditure was A$1,495.0 million and was spread across the following areas:

A$ million	**2006**	**2005**	**2004**
New stores / replacements	275	343	184
Refits	208	213	205
Acquisitions	459	121	129
Technology	289	223	151
Property / Other	264	235	205
Total expenditure	1,495	1,135	874

Of this amount, 99.8% was spent on the Company s Australian operations, with the remainder spent in New Zealand.

The Company expects its cash flow from operating activities and available borrowings will be sufficient to meet its anticipated capital expenditure and investment requirements over the next twelve months.

Also see Consolidated Statements of Cash Flows, note 5 Discontinued Operations and note 34 Business Combinations to the Consolidated Financial Statements at Item 17.

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Strategy

History

Following the appointment of Mr. John Fletcher as CEO in September 2001, the Company announced a five-year growth strategy in March 2002. The strategy reflected the Company s goal of becoming Australia s number one retailer in all of its brands, by leveraging the strength of the Group and working as a unified team, to provide the best value to customers and grow shareholder value. The key planks of the strategy were:

- Continuous brand improvement
  - Restoring operational excellence in the Kmart, Target and Myer brands;
  - Growing the Food and Liquor brand;
  - Improving efficiencies; and
  - Further strengthening the balance sheet.
- Sustainable growth
  - Strong store network expansion 300+ new stores within the five year plan;
  - Rewarding loyalty for all customers; and
  - Supply chain and information technology improvements building efficiencies and investing for the future.
- Group culture
  - Recruiting and developing the best people;
  - Clear accountability management rewarded on Company-wide success;
  - Succession planning to identify future leaders;
  - Enhanced customer focus; and

All brands working together to leverage Group scale.

Safety

Strong focus on occupational health and safety to prevent and reduce accidents, thereby boosting productivity, reducing costs and being responsible for the Company s staff and customers.

On September 25, 2003, the Company announced a program of strategic whole-of-company initiatives to leverage the unique competitive advantage of the Group, to drive better value and service for customers, and better financial returns for shareholders. The initiatives encompass transformation of Coles Group s Supply Chain, IT systems, organizational culture and loyalty offering. The key components of those initiatives were:

Supply Chain

Transformation of the Supply Chain is intended to result in better service for customers, simpler processes for stores and lower costs for Coles Group Limited;

Transport: enhanced management systems and improved fleet utilization is intended to reduce costs;

Fixture: newly designed roll cages and returnable plastic crates is intended to reduce stock handling and improve the quality of fresh produce;

Stores: reduced direct to store deliveries streamline the distribution network and automated store ordering is intended to increase stock availability and reduce wastage; and

Distribution Centers: costs are expected to reduce as a result of fewer centers with enhanced systems and purpose built sites to improve transport and labor productivity.

The Company s initiatives to transform its Supply Chain involve significant one-off, up front capital expenditure costs. Approximately A$281.0 million had been invested to July 30, 2006. This represents approximately 39% of an estimated project capital expenditure A$726.0 million.

IT Transformation

The IT transformation strategy focuses on removing complexity, duplication, effort and cost of systems, through the introduction of common technology across the brands;

The strategy will see an increased emphasis on innovation to deliver IT business solutions to enable the brands to serve the customer better; and

The systems changes are a prerequisite to the transformation of the Supply Chain.

Loyalty

The new Coles Group loyalty program combines the Coles Express fuel discount offer, the enhanced FlyBuys^{TM} and the Coles Myer Source^{TM} MasterCard; and

The Coles Myer Source ^{TM} MasterCard was re-launched in June 2005, with a range of new features designed to reward customers for their everyday shopping.

Cultural change

Fostering the right culture is a critical part of achieving the Company s goals; and

The four elements of the strategy are recruiting and developing the best people, building leadership, aligning performance and reward with the strategic goals, and providing a safe working and shopping environment.

Outlook Strategic update: September 21, 2006

The Company has made significant progress in transforming the Supply Chain and IT systems during the year.

These projects will simplify the business and are expected to reduce the cost of doing business. The divestment of the Myer business has provided the opportunity to restructure the Group and further develop the strategy.

Under the new strategy, it is intended that the Coles Group will comprise Target, Officeworks, and a new integrated Everyday Needs business that will provide customers with a range of store formats including supercenters, supermarkets, liquor stores, convenience and freestanding general merchandise stores. Coles, Bi-Lo, Liquor, Coles Express and Kmart will be progressively integrated, with single rather than multiple support functions. Over time, the Everyday Needs business will be represented by a single umbrella brand, Coles .

The implementation of the Everyday Needs business strategy will include four key drivers transformation, formats, product initiatives and business simplification.

Transformation

Transformation of supply chain and IT processes and systems underpins the Company s ability to simplify the business and generate cost savings.

Formats

The first SuperCentres are expected to open in late calendar 2007, with potential for an Australia-wide network of 80 stores;

More than half of these could be conversions from within the existing network;

Coles has developed a more efficient and lower cost refurbishment model for its supermarkets which will enable the Company to undertake an increased number of low cost store refurbishments over the next five years;

The existing supermarket format will be enhanced by an annualised A$60.0 million investment in store teams to provide regional support and improved fresh food capability; and

The conversion of Bi-Lo stores to Coles will be completed in 2007.

Product initiatives

An improved and differentiated product offer, designed to drive strong engagement with our customers, will include an increased offering in targeted growth categories, increased direct sourcing in supermarkets and further penetration of housebrands.

Business simplification

The adoption of an Everyday Needs business model provides an opportunity to significantly simplify processes and reduce costs as brands are integrated; and

The Company will remove 1,750 permanent support roles from the business in 2007 and a further 750 by the end of 2008.

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RETAIL OPERATIONS

FOOD, LIQUOR & FUEL GROUP

These brands represent the largest grouping of sales in Coles Group retail operations. At July 30, 2006, the Food, Liquor & Fuel Group operated 2,140 stores. The group comprises Supermarkets, Coles Liquor, Coles Express and Coles Online.

The Supermarkets brand comprises the Coles and Bi-Lo brands, supported by a single cohesive team incorporating primarily centralized finance, administration, marketing and buying functions.

Coles

Coles aims to instill customer loyalty by providing great value and convenience. Coles is committed to giving customers more for their money through competitive everyday prices, supported by strong and relevant promotions.

At July 30, 2006, the brand operated 528 stores across Australia, with 27 new supermarkets opened during the year. The network ranges from small metropolitan stores to large flagship sites, with selling areas of approximately 20,000 to 50,000 square feet. The supermarkets offer customers a wide range of fresh food, groceries and general merchandise. Coles offers both national and housebrand products. Coles operates an Internet shopping service called Coles Online.

During 2006, Coles continued to grow its housebrand strategy, which is designed to optimize choice for customers. The housebrand products strategy offers customers three distinct tiers to choose from: $mart Buys , you ll love Coles and Coles Finest .

Bi-Lo

Bi-Lo operated 209 stores at July 30, 2006, including four new supermarkets during the year. The average store size is smaller than Coles, with the network focused on local neighborhoods and regional areas. As part of the five-year strategic plan, a decision was made to rebrand Bi-Lo stores to Coles. It is anticipated that the conversion program will be completed by the end of fiscal 2007.

Coles Liquor

Coles Liquor has traditionally operated four major brands: Liquorland, Vintage Cellars, Theo s and 1st Choice Liquor Superstore. The inaugural 1st Choice Liquor Superstore opened in Melbourne in May 2005. With the objective of rationalizing the number of Coles Liquor brands, the Theo s stores have been rebadged during 2007 primarily as Liquorland and 1st Choice.

As at July 30, 2006, Coles Liquor operated 804 liquor sites, with representation in all states except Tasmania. Approximately one third of stores are located adjacent to a Coles supermarket, with the majority being freestanding stores.

Liquor retailing and gaming is regulated in Australia, with each state and territory controlling liquor sale via liquor licensing and gaming via gaming licensing. State Government liquor and gaming authorities and in the case of liquor licensing, statewide police agencies execute the licensing regulations in their regions with each region s regulations reflecting their own unique regional issues. Consequently, the degree of regulation differs from State to State. The Company is not aware of any action or proposed action that would invalidate any of its liquor licenses.

Coles Liquor has expanded its liquor retailing over the past five years through a combination of acquisitions and organic store growth. A major growth driver over the next five years is expected to be via the rollout of its large format 1st Choice Liquor Superstores.

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Coles Express

At July 30, 2006, Coles Express operated 599 fuel and convenience stores across Australia. Coles Group has a supply agreement with Shell for fuel and lubricant products, and operating leases for the service station sites. The sites are branded both Coles Express and Shell.

The Coles Express business is a key plank in the customer loyalty strategy. Coles, Bi-Lo and Liquorland customers who make purchases over a certain amount receive a cents per liter fuel discount when they present their receipts at a Coles Express service station.

KMART

Kmart

At July 30, 2006, Kmart operated 185 stores in Australia and New Zealand. Measured by sales, it is Australia s leading discount store business and sells a wide range of items, including sporting goods, toys, electrical appliances and apparel, with a mix of international and national brand names as well as private labels.

Kmart is positioned as a low cost, discount department store for the entire family. Kmart stores typically range in size from 47,500 to 75,000 square feet. They are mostly located in suburban shopping centers in major cities and in larger regional shopping centers, and cater for the needs of a wide range of customers by offering an extensive variety of goods at competitive prices.

Kmart s focus is a consistent offer, with low everyday prices supported by additional specials and seasonal sales events, backed by a lowest price guarantee.

The first Kmart in Australia was opened in Melbourne in 1969, and was a joint venture between Coles and the US based Kmart Corporation (KMC). The new business introduced the discount store concept to Australia. In 1978, Coles acquired full ownership of the joint venture.

In 1994, the Company renewed its License Agreement with KMC, pursuant to which Coles Group has the exclusive right to use the Kmart name in Australia and New Zealand. Coles Group does not believe that there is a significant risk of the License Agreement being terminated in a manner that would have a substantial adverse impact on the Company s operations. Besides the License Agreement, Coles Group has no other affiliation or relationship with KMC.

In New Zealand, the business supplies similar product ranges to Australia. The Company opened its first Kmart store in New Zealand in October 1988, and the chain had 13 stores operating at July 30, 2006.

Kmart Automotive

During 2006, Kmart acquired the service centers located at 92 Shell service stations. At July 30, 2006, there were a total of 275 Kmart Tyre & Auto Service outlets.

OFFICEWORKS

Officeworks operates 3 brands, Officeworks Superstores, Officeworks BusinessDirect and Harris Technology. The first store was opened in 1994, with 103 Officeworks and Harris Technology stores operating at July 30, 2006.

Officeworks is Australia s leading office supplies retailer for small to medium sized businesses, home offices and individual consumers. Officeworks offers a range of over 10,000 products, including stationary, consumables, business machines, office furniture and printing services.

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TARGET

Target

Target offers its customers apparel and soft homewares, underpinned by its strong housebrand strategy. Target is positioned in the market between department stores and discount department stores, competing largely with specialty stores.

Target s core product ranges include womenswear, intimate apparel, menswear, childrenswear, accessories, soft homewares, electrical, toys and other general merchandise. Apparel is predominantly Target-branded, with national brands and licenses used to complement the Target range, such as the popular Piping Hot and World Industries label in youth apparel.

Target stores are typically located in suburban and large regional shopping centers and precincts. Target operated 145 stores at July 30, 2006, with store selling areas ranging from approximately 21,000 to 73,000 square feet.

Target Country

A total of 114 stores trading as Target Country were operating at July 30, 2006, with store selling areas ranging from approximately 3,000 to 18,000 square feet. These stores are located primarily in rural and regional communities, and offer a smaller range of Target merchandise, predominantly apparel and soft homewares such as manchester and tableware.

MYER

Myer

Refer page 10 for details of the Myer divestment.

Megamart

On November 9, 2005, the Company announced that it would divest six stores to another major Australian retailer and close the remaining three stores.

RETAIL SUPPORT

Coles Group has made a strategic shift from being an active portfolio manager of decentralized, autonomous business units to a Company that shares proprietary skills through its brand concept, and shares support activities through the creation of the Retail Support infrastructure.

Retail Support provides support functions to the retail brands and senior management. The aim is to reduce costs, improve efficiencies and provide leverage to the Coles Group through the coordination and integration of joint services. Retail Support also has a corporate function and develops policy across the Coles Group.

The main departments within Retail Support are Accounting Services, Treasury, Taxation, Supply Chain, Retail Property, Human Resources, Corporate Affairs, Information Technology, Legal, Risk Management and Compliance, and Customer Strategy and Financial Services.

Finance

Coles Group Finance Limited (CGFL), formerly known as Coles Myer Finance Limited, a wholly owned subsidiary, is the entity responsible for all funding and funds management for the Company. CGFL is the centralized treasury for Coles Group which provides an integrated cash, debt and financial risk management service to Coles Group, and operates in accordance with policies and authorities approved by the Board. CGFL operates as a managerial division of the Company, and not as a profit center.

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At July 30, 2006, the Company had no secured liabilities, other than a controlled entity having issued a floating charge over assets, capped at A$80.0 million as security for payment obligations to a trade creditor. The Company s borrowing structure is flexible and consistent, based on the acceptance by financial institutions of the Common Provisions Deed Poll (CPDP) and the Standard Coles Group Negative Pledge (the Negative Pledge).

The CPDP is the basis of the Company s unsecured borrowing structure providing the following financial undertakings (terms have the meanings defined in the CPDP):

(1) Limitation on Total Liabilities: The Coles Group will at all times maintain Consolidated Total Liabilities at no greater than 80% of Consolidated Total Tangible Assets;

(2) Limitation on Secured Debt: The Coles Group will at all times maintain Secured Debt (excluding Indebtedness secured by any encumbrance created or extended in accordance with the CPDP) at no greater than 20% of Consolidated Total Tangible Assets; and

(3) Fixed Charges Cover: The Coles Group will at all times ensure that the ratio of the aggregate of EBITDA and Rental Expense to Total Fixed Charges exceeds 1.65 times.

In addition, an undertaking is given not to provide security over Coles Group assets to parties with the benefit of the CPDP, without providing security to all parties of the CPDP.

During 2006, the Negative Pledge continued as the basis of an unsecured borrowing structure for certain unmatured debt, providing financial ratio restrictions of total liabilities to total tangible assets at 80%, and the ratio of secured liabilities to total tangible assets at 40%. In addition, a pledge is given not to provide security over Company assets, in contravention of the terms of the Negative Pledge, without providing equivalent security to parties to the Negative Pledge. Similar ratio restrictions are included in Trust Deeds to provide a standard borrowing structure. On September 12, 2006, all monies outstanding under the Negative Pledge were repaid at maturity, in accordance with their terms. There are now no monies outstanding under the Negative Pledge.

During 2006, the Company revised its Deed of Covenant. The revised deed has been attached as Exhibit 19.2.6. This revised deed is not materially different from the superseded deed. The Coles Group has been in compliance with its financial covenants during 2006.

At July 30, 2006, all foreign currency borrowings were hedged to cover exposure to adverse exchange rate movements. Coles Group s interest rate risk management strategy is to have approximately 50% of core debt hedged at fixed interest rates beyond 12 months in maturity. Core debt represents the Company s long-term, non-seasonal debt. See also Item 11 Quantitative and Qualitative Disclosures about Market Risk for a description of the Company s hedging activities.

Credit Cards

The Coles Myer Source™ MasterCard is a general-purpose credit card for use within all the Coles Group brands as well as externally wherever a MasterCard is accepted.

GE Capital Finance Australasia Pty Ltd (GE), a subsidiary of General Electric Capital Corporation of the US, provides credit facilities to customers of various Coles Group brands, and for other retailers. Under the contractual arrangements between Coles Group and GE, GE has certain exclusive rights to provide credit facilities to customers of the Coles Group, and Coles Group and GE conduct joint marketing programs to promote both the Coles Myer Source™ MasterCard and Coles Myer Card**™**.

PURCHASING AND SUPPLIERS

All Coles Group brands have embraced the concept of developing a partnership approach with their suppliers to ensure customers have access to the quality, range and value they demand.

While the Company generally does not enter into long-term purchasing agreements, it does have some longer term supply contracts, including contracts for the supply of meat and a supply contract in relation to petroleum products in Australia.

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Orders are generally placed with suppliers depending on the sales and stock levels of the product. With the exception of direct sourcing from overseas which is still a small part of the Company s overall purchasing, this method in general allows the Company to retain maximum flexibility to adjust to changes in retail markets.

The Company is not substantially dependent on a single supplier or purchasing contract. Coles Group purchases substantial lines of Australian-made goods, but supplements its ranges with imported goods.

In recent years Coles Group through each of its brands has moved to increase its purchases of goods on a direct sourcing basis from overseas.

The Company hedges against adverse foreign currency movements for directly imported goods.

COMPETITION

Coles Group s supermarkets (Coles and Bi-Lo) operate in a competitive retail sector. Coles and Bi-Lo compete against the large national Woolworths supermarket chain (operating as Safeway in Victoria). Independent operators, regional chains, and convenience and specialty stores provide further competition. During 2001, the German-based international supermarket chain ALDI commenced operations in Australia by opening its first supermarket in New South Wales, and has since opened stores in other states and territories.

Coles Liquor through its major brands, Liquorland, Vintage Cellars, and 1st Choice Liquor Superstore also competes nationally against the Woolworths chain. In addition there is competition from independent retail chains, sole-traders and hotels that sell packaged liquor.

Coles Express competes against other retailers in the fuel and convenience industry including Mobil, BP, Caltex, Woolworths Petrol+ (a retail venture between Woolworths and Caltex) and 7-Eleven. From the perspective of a food and liquor promotional scheme using fuel, the primary competitor is Woolworths Petrol+ and Woolworths/Caltex co-branded service stations.

The Company has a strong position in Australia in the discount department store market through the Kmart, Target and Target Country chains. These chains compete against other chains such as Woolworths Big W and Millers Retail for apparel, and against numerous operators of small chains or single specialty stores.

Officeworks has a strong position in office products. A wide range of brands compete on a category basis, however, no one competitor has a comparable offer across all categories of office products sold.

ADVERTISING AND PROMOTION

Each of the brands selects their own advertising agencies and together they develop their own marketing strategy, develop the creative concept and utilize various media, including television, radio, cinema, press, magazines and on-line media, to accommodate the range of marketing programs across the Company.

Loyalty Programs

FlyBuys is the customer loyalty program for the majority of Coles Group brands. Membership of FlyBuys is free to customers and each member is issued a card to present at point of sale. Each card is linked to a discrete account and points are credited to the account, based on eligible expenditure. When enough points have been accumulated, the member may exchange the points for free air travel, Coles Group shopping vouchers or other benefits. Points expire after three years.

FlyBuys is a joint venture between Coles Group and National Australia Bank, and other major participating companies include Best Western Australia, Budget Rental Cars, Michael Hill Jewellers and Ezibuy.

Under the terms of a service agreement between Coles Group and the FlyBuys partnership, Coles Group (and other participants) pay the partnership for points allocated as a result of eligible purchases. The partnership uses this revenue to pay for the air travel and other awards.

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The Coles Express business is a key plank in the customer loyalty strategy. Coles, Bi-Lo and Liquorland customers who make purchases over a certain amount receive a cents per liter fuel discount when they present their receipts at a Coles Express service station.

RESEARCH & ANALYSIS

The Company provides its brands with access to information concerning the retail environment including customer insights, economic, social, and demographic trends, and competitor intelligence through a centralized research and analysis unit. This unit accesses and shares information, knowledge and expertise across the group, leveraging our buying power and return on investment in information.

The Company strives to understand consumers and their current and future needs and to identify appropriate opportunities to meet these needs in our stores. The research unit utilizes a wide variety of research methods to identify consumer needs including qualitative methods such as focus groups, accompanied shopping trips, ethnography, immersions, and quantitative studies such as brand, advertising and satisfaction tracking. Increasingly the Company utilizes customer data from the point of sale to understand buying patterns and preferences, and thereby modifying assortments to deliver to customer needs.

TRADING HOURS

Coles Group and other large retail chains are generally permitted to trade seven days a week in all state capitals except Perth, Western Australia.

Restrictions on Sunday trading affected the following number of stores in Perth during 2006:

Coles	54
Kmart	13
Target	10
Officeworks	8
Liquor Stores	96

Stores located in Perth (central business districts and tourist areas) and other regional areas of Australia are permitted to engage in limited Sunday trading for seasonal events (summer, Christmas holiday period).

The West Australian Parliament passed legislation that enables all liquor stores to trade seven days a week from December 17, 2006.

REGULATION

The Australian Government has a pro-market competition policy. Due to its size and the fact that it operates in important markets like grocery, fuel and liquor, Coles Group is subject to political and regulatory scrutiny. However, the current Government is not proposing legislative or policy changes that would materially or disproportionately impact Coles Group.

The Australian federal political system, unlike the United States, does not have fixed election dates. Rather, the calling of an election is a matter of political judgment and timing, in accordance with the constitutional and legislative framework that governs the electoral timetables and processes.

The Australian Constitution requires periodic elections for both federal Houses of Parliament, with separate provisions reflecting the different constitutional status of each House. The Commonwealth Electoral Act of 1918 implements the Constitutional scheme.

A general election in Australia was held on October 9, 2004. The Australian Liberal Party in coalition with the National Party was re-elected. The term of the next (the 41st) Federal Parliament of Australia will expire no later than three years after its first sitting after the election. The following election for the House of Representatives must be held on a Saturday, not more than 68 days after the expiry of the parliament s term.

Australian Regulation

As a listed public company, Coles Group is subject to many business laws and regulations including, but not limited to:

- the listing and disclosure rules of the Australian Securities Exchange;
- the Australian Corporations Act 2001; and
- Australian accounting and taxation laws and regulations.

Due to the nature of the Company s retail businesses, the Company is required to operate in compliance with many Australian Federal, State, Territory and local laws and regulations including, but not limited to:

- the Trade Practices Act 1974, including the areas of product liability, restrictive trade practices, unconscionable conduct, consumer protection, the Retail Industry Code of Conduct, and various State and Territory Fair Trading Acts;
- the standards developed by Food Standards Australia New Zealand (FSANZ) and the Therapeutic Goods Administration;
- the sale of alcohol and tobacco, the operation of hotels and gaming machines, both at the Federal and State level;
- the enforcement of health and safety standards by State and local health authorities;
- local planning laws covering zoning, environmental and building regulations;
- State and local laws governing trading hours, as discussed in item 4.B.; and
- legislative provisions relating to privacy matters such as restrictions in the use of personal data (for example, in the use of customer data for, and obtained in the context of, customer loyalty programs or in direct marketing activities).

It should be noted that significant amendments to the Trade Practices Act 1974 came into effect on January 1, 2007.

Coles Group is subject to Federal and State laws and regulations covering, but not limited to:

employment practice standards for workers;

discrimination and equal opportunities in employment; and

workers compensation, workers compensation self-insurance and relevant Occupational Health and Safety regulations.

Product Liability

Strict product liability exists in Australia. This regime is substantially based on the European Community Product Liability Directive and provides that a person who is injured, or whose property is damaged as a result of defective or unsafe goods, has a right to compensation from the manufacturer without the need to prove negligence or breach of contract. The Act provides that this regime cannot be excluded, restricted or modified by contract. This regime also substantially widens the classes of persons who might sue, and extends the definition of manufacturer to include importer as well as supplier in some circumstances.

Consumer Protection

In July 2001, the maximum penalty for a contravention of Part V (Consumer Protection Provisions) of the Act was increased to A$1.1 million for corporations (from A$200,000) and A$220,000 for individuals (from A$40,000).

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New Zealand Regulation

In New Zealand, the Company is subject to various legislative provisions relating, but not limited, to the sale of products, management of facilities, employment practices and health and safety of employees, privacy matters, and taxation of foreign earnings.

The New Zealand Commerce Act 1986 is the primary trade practice legislation in New Zealand and Coles Group s New Zealand operations are also subject to the taxation and accounting legislation in that country.

INSURANCE

All brands in the Company are covered for material losses by insurance policies, including but not limited to workers compensation, marine transit (to cover directly imported merchandise whilst it is being transported), property, public and product liability. All insurances are in excess of self-insured retentions.

The Company has a risk management program in place to assess appropriate levels of self-insurance. The material levels of self-insurance maintained by the Company are:

- public and products liability where up to A$0.5 million per claim is self-insured,
- workers compensation in most Australian states where the Company self-insures up to A$1.0 million per event, and
- property insurance where the Company self-insures up to A$3.0 million in any one year.

As part of the risk management program, insurance that is procured externally is sourced from a portfolio of providers, which is monitored based on a minimum A- Standard and Poors credit rating.

TRADEMARKS AND LICENSES

Trademarks

The Company is entitled, by virtue of a License Agreement with Kmart Corporation (KMC), to the exclusive right to use the Kmart name, service marks, and trade-marks in Australia and New Zealand. The license extends until 2018 with unlimited further renewals for five years at a time at the Company s election. In consideration for the license, the Company pays an annual fee to KMC based on gross sales revenue per fiscal year, but not exceeding A$5.0 million for Australia and NZ$1.0 million for New Zealand. The two License Agreements with KMC (one with Kmart Australia Ltd and one with Kmart New Zealand) have been attached as Exhibits at Item 19.15.1 and 19.15.2.

The Company has no other relationship with KMC, nor does it receive from, nor share with, KMC any other services, strategies nor combined purchasing programs.

Coles Group does not have any relationship or agreement with Target in the US. Coles Group registered the trademark Target name and symbol in Australia in 1973.

Coles Group has the right to exclusive use of all material trademarks and brand names of its businesses referred to in this Annual Report in all its trading jurisdictions. Coles Group is a licensee of the FlyBuys™ trademark. The licensor of FlyBuys™ is Loyalty Pacific Pty. Ltd. The Company holds a 50% share in the FlyBuys Partnership and the National Australia Bank owns the remaining 50% shareholding.

Licenses

Liquor retailing, gaming and the operation of hotels in Australia are regulated by the respective State and Territory Governments. Strict licensing regimes operate in each state and territory, which require Coles Liquor to hold liquor licenses and in the case of Liquorland Hotels, gaming licenses, for each of their locations.

The Company is not aware of any action or proposed action that would invalidate any of its liquor licenses.

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C. ORGANIZATIONAL STRUCTURE

The Coles Group consists of Coles Group Limited and its subsidiaries, which conduct business in Australia and New Zealand. A complete list of subsidiaries and their details can be found at note 35 to the Consolidated Financial Statements included in Item 17. Of these subsidiaries, the following were significant subsidiaries of Coles Group at July 30, 2006:

- Coles Supermarkets Australia Pty Ltd
- Kmart Australia Ltd
- Bi-Lo Pty. Limited
- Target Australia Pty. Ltd.
- Coles Group Properties Holdings Ltd (formerly Coles Myer Properties Holdings Ltd)
- Liquorland (Australia) Pty. Ltd.
- Grocery Holdings Pty Ltd
- Officeworks Superstores Pty Ltd

All the significant subsidiaries are wholly owned and incorporated in Australia.

D. PROPERTY, PLANT AND EQUIPMENT

At July 30, 2006, the Company operated a total of 2,962 stores in Australia and New Zealand, with total selling area of approximately 40 million square feet. Properties include locations in downtown shopping areas, regional and minor shopping centers, strip retail locations, and freestanding stores.

Coles Group is constantly engaged in new store development and refurbishment of existing stores. This process has resulted in an upgrading of the network of retail sites.

Leases entered into by the Company generally comprise a base rental together with a rental payment related to a percentage of sales turnover. Leases generally range for terms of 10 to 25 years, and usually provide options for the Company to extend the lease terms. The vast majority of the premises occupied are leased, as distinct from freehold (owned).

At July 30, 2006, the Company s owned property portfolio was recorded at A$509.8 million (2005 A$642.0 million), held either directly, or indirectly through investments in property joint ventures. Subsequent to balance date the Company disposed of its 50% interest in the CMS General Trust for A$160.0 million (carrying amount A$125.0 million), the Ocean Keys Shopping Center for A$78.0 million (carrying amount A$47.9 million) and the Casey Central Shopping Center for A$51.0 million (carrying amount A$50.7 million).

Freehold land and buildings are stated at cost less accumulated depreciation and impairment. Investment properties are measured at fair value. This is in accordance with Australian Accounting Standards. See also notes 1(o), 1(p), 15 and 16 to the Consolidated Financial Statements included in Item 17.

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ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

The discussion below contains certain forward-looking information. See comments regarding Forward-Looking Statements on page 1 of this Annual Report. Comparative amounts for 2005 have been reclassified to ensure comparability with the current reporting period, and where significant this has been noted.

RETAIL TRADING ENVIRONMENT

As has been the case for some time, growth of the Australian economy in calendar 2006 has been led by domestic spending, which has continued to be boosted by the effect of the rising terms of trade. Business investment again expanded at a double-digit pace over the year to the June quarter, with mining investment particularly strong. In combination with moderate growth in household spending, this has meant that the overall growth in domestic demand has remained relatively strong, albeit below the exceptional pace of a few years ago. A significant part of the additional demand has continued to be met by imports (and, in the latest quarter, by a run-down in inventories) resulting in somewhat lower recorded growth in total output, estimated at around two percent during calendar 2006.

The combination of strong global conditions, rising commodity prices and tight capacity domestically has contributed to a pick-up in inflationary pressures since the start of calendar 2006. The CPI rose by 0.9 percent in the September quarter and by 3.9 percent over the year. Estimates of underlying inflation, which remove the effect of temporary influences, have in recent quarters been running at an annualized pace of about three percent, compared with 2 $^{1}/2$ per cent at the end of last year.

Looking ahead, and taking into account the likely effects of the changes to monetary policy this year, the Reserve Bank of Australia s assessment is that domestic demand can be expected to record moderate growth over the next year or two, with continued expansion in consumer spending, a noticeable easing in investment growth and a gradual pick-up in housing construction.

There will be some significant fluctuations through fiscal 2008 in the headline inflation rate. In particular the unwinding of earlier increases in petrol and banana prices will see the annual headline rate declining sharply over the next year, before rising again by the first half of 2008. The drought may add to some food prices in the short-term, though the experience of previous drought episodes suggests that the net effect on the CPI should be fairly small.

Recent information suggests little reason to change the Reserve Bank of Australia s earlier assessment that in the near term, underlying inflation will continue to run at about 3 percent.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies, means those that require application of management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and that may change in subsequent periods.

The Company s significant accounting policies are described in note 1 to the Consolidated Financial Statements included at Item 17. Not all of these significant policies require management to make difficult, subjective or complex judgments or estimates. The following disclosure is intended to provide an enhanced level of understanding of the policies that could be deemed to be critical, and their impact on Coles Group s Consolidated Financial Statements. These judgments involve assumptions or estimates in respect of future events, which can vary from what is forecast. However, the Company believes that its Consolidated Financial Statements and its ongoing review of the estimates and assumptions utilized in preparing those Consolidated Financial Statements, is appropriate to provide a true and fair view of Coles Group s financial performance and position over the relevant period.

The following are considered critical accounting policies of Coles Group:

Accounting for provisions

Employee entitlements

The provision for employee entitlements is determined based on various assumptions, including but not limited to, future increases in wage and salary rates, employee retention rates, and the timing of future payments.

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under that contract, and only after any impairment losses to assets dedicated to that contract have been recognized. The provision for onerous contracts is determined based on the excess of estimated cash flows to meet the unavoidable costs under the contract over the estimated cash flows to be received in relation to the contract.

Workers compensation and self-insurance

The provisions for workers compensation and self-insurance are determined based on various assumptions, actuarial assessments, including but not limited to, future inflation, investment return, average claim size and claim administration expenses.

The Company s estimated cash flows for employee entitlements, onerous contracts, workers compensation and self-insurance are based on historical experience and knowledge of the market in which it is operating. These estimates, however, project several years into the future and are affected by variable economic and demographic factors that are outside the control of the Company. It is possible that the final settlement of these provisions may vary from the Company s estimate.

Net realizable value of inventory

All stock of finished goods on hand or in transit is valued at the lower of cost or net realizable value. Net realizable value is determined after a detailed review by management, taking into consideration amongst other factors, stock levels, stock turnover, marketing programs and current margins. The Company considers the assumptions used in the calculation to be reasonable and supportable in the existing economic environment.

Impairment of assets

The carrying value of non-current assets does not exceed their recoverable amount. Recoverable amount is determined by reference to the amount expected to be recovered from the discounted net cash flows arising from the assets continued use and subsequent disposal. Each reporting period, the Company reviews the non-current assets for possible impairment issues. If impairment issues are found, the Company is required to make an assessment as to whether the carrying amount of the asset identified remains fully recoverable. In making this assessment, the Company compares the current carrying value to the market value where available or the value in use. Determination of the value in use requires the Company to make assumptions and use estimates. The Company considers the assumptions used in the calculation to be reasonable and supportable in the existing economic environment.

Pensions and other post-retirement benefit plans

The Coles Group contributes to both defined benefit and defined contribution plans for employees. Monthly paid professional and managerial employees are offered membership of Coles Myer Superannuation Plan (the Plan) (a part of Mercer Super Trust). Store based service assistants and other employees whose employment conditions are determined by an award or agreement are offered membership of the industry fund Retail Employees Superannuation Trust (REST) or in another fund as specified by the relevant award or agreement.

In respect of all defined contribution superannuation funds, the Coles Group is obliged to contribute at fixed rates or amounts as set out in the relevant trust deeds, or in accordance with industrial awards, agreements and relevant legislation.

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In respect of the defined benefit section of the Plan, the Coles Group is obliged to ensure that contributions are made to the defined benefit plan at the rate assessed by an actuary, subject to its rights to reduce, suspend or terminate contributions as specified in the relevant trust deed. The obligation of the Coles Group to make contributions to the fund at the actuarially determined rate is legally enforceable up to the date on which the Coles Group gives notice to suspend or terminate contributions as provided in the agreement governing the plan.

The defined benefit section of the Plan has been closed to new members since 1996. All new employees since that date must become members of the defined contribution plans. At balance date the defined benefit plan had approximately 2,000 remaining members.

For the purpose of reporting under AIFRS in accordance with AASB 119 *Employee Benefits* and US GAAP in accordance with SFAS 87 *Employers Accounting for Pensions*, the Company s retirement benefit expense are determined on an actuarial basis, and recognition of the actuarially determined surplus or deficit of the defined benefit plan is required (being the difference between the fair value of Plan assets and the present value of the defined benefit obligation). There are however, a number of key differences in the measurement and application requirements of these standards resulting in a reconciling item from AIFRS to US GAAP as recorded in note 41 to the Consolidated Financial Statements, included at Item 17.

The timing of recognition and charging for the actuarially determine surplus or deficit of the defined benefit plan under AIFRS and US GAAP differs significantly. Under AIFRS, the Company recognizes all actuarial gains and losses directly in retained profits, i.e. there is no impact on net profit. For the purposes of reporting under US GAAP, however, actuarial gains and losses are not able to be recognized in full up front, but rather are amortized to net profit over the average remaining service life of active plan participants.

The treatment of future investment and contribution taxes also differs significantly between US GAAP and AIFRS. For US reporting in accordance with SFAS 87, only current taxes are taken into account in measuring the net liability or asset. While for AIFRS reporting purposes future taxes, which are to be funded by the Company and relate to the provision for the existing benefit obligation, are taken into account in measuring the net liability or asset.

Contributions to the Plan are based on rates determined by the actuary as being necessary and sufficient to ensure the stability and financial soundness of the plan. The contribution rate is formally reviewed annually, along with quarterly updates to the Fund s Trustee. The method used to determine the employer contribution recommendations at the last actuarial review was the Target Funding method. Under the Target Funding method, the funding objective is to set the contribution rate at a level such that the Plan s assets are expected to exceed the Plan s liabilities by a specified margin within a specified period of time, so as to reduce the risk of assets falling below vested benefits to an acceptable level. The current contribution recommended in the actuarial review at July 1, 2006 is 9.5% (July 1, 2005 is 9.5%) of the salaries of all members. Employer contributions to the defined benefit section of the Plan during 2006 amounted to A$11.1 million (2005 A$19.0 million).

Vested benefits are benefits, which are not conditional upon continued membership of the fund or any factor, other than resignation from the fund. The defined benefit pension plan pays benefits to employees at retirement using formulae based on participants years of service and compensation.

The net periodic pension cost has reduced income from operations over the 2006 fiscal year by A$2.0 million in respect of defined benefit members.

The assets of the defined benefit plan are invested in a variety of both domestic and international shares, securities, bonds and properties as determined by professional investment managers appointed by the trustees.

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The asset allocation at the reporting date of the Plan, being July 20, 2006 is as follows:

	Actual	Benchmark
Australian equities	36%	35%
Overseas equities	26%	27%
Properties	8%	8%
Fixed interest securities	25%	25%
Other	5%	5%

The in-house rule under Superannuation law in Australia restricts a Superannuation Plan from holding more than 5% in total assets of the sponsoring company's shares. Plan assets include fully paid ordinary shares in Coles Group of A$NIL million (2005 A$1.6 million).

For the 2006 fiscal year expense, the expected return on assets used by the actuary is 6.5%, which is unchanged from the prior year.

Recent experience between the expected and actual returns for assets backing defined benefits is as follows:

Period	Expected Return	Actual Return
2006 fiscal year	6.5%	13.1%
2005 fiscal year	6.5%	11.9%

The Company does not smooth the effects of changes in actual returns. Only the actual market value of assets is used. The expected return assumption is based on the geometric average return of each sectors anticipated future return.

The Plan determines its discount rate assumption by reference to Australian Commonwealth Government bonds with similar maturity terms. A deduction for income tax on Plan earnings at 15 percent has also been made. The assumed average future service of members expected to receive benefits is 7.1 years. Further disclosures on the retirement plans are included in notes 19 and 41 to the Consolidated Financial Statements at Item 17.

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CONSOLIDATED RESULT

	2006 52 weeks A$M	2005 53 weeks A$M
Continuing operations		
Revenue from sale of goods	34,212.0	33,018.2
Other operating revenue	91.8	71.9
Cost of goods sold	(26,160.8)	(25,305.3)
Gross profit	8,143.0	7,784.8
Other income	134.4	68.3
Advertising expenses	(358.8)	(296.2)
Selling and occupancy expenses	(5,662.3)	(5,424.7)
Administrative expenses	(1,427.3)	(1,142.0)
Finance income	25.0	29.0
Finance costs	(123.9)	(84.2)
Share of profit from joint venture accounted for using the equity method	21.9	37.0
Profit before income tax expense	752.0	972.0
Income tax expense	(215.6)	(285.9)
Profit from continuing operations	536.4	686.1
Profit/(loss) from discontinued operations	627.2	(48.2)
Profit for the year	1,163.6	637.9

2006 compared with 2005

Revenue from the sale of goods

Sales from continuing operations for 2006 were A$34,212.0 million, an increase of 3.6% compared to 2005. Sales from the 53rd week in 2005 are estimated to have been A$610.3 million. After adjusting for the 53rd week in 2005, sales from continuing operations increased 5.6%.

After adjusting for the 53rd week in 2005, sales for Food and Liquor increased 4.3%, Coles Express increased 15.0%, Kmart increased 0.5%, Target increased 4.3% and Officeworks increased 1.2%.

Growth in sales in Food and Liquor was primarily driven by additional store numbers, whilst the Coles Express sales increase was primarily attributable to record fuel prices. Sales at Kmart were adversely impacted by reduced customer spend as a result of record fuel prices and interest rate rises, whilst Officeworks sales growth was also hindered by the restructuring of the Harris Technology business.

Other operating revenue

This revenue represents rental income, gaming machine income generated by the hotels acquired by Coles Liquor and concession income. The increase is primarily the result of growth in the hotel portfolio in Queensland.

Gross Profit

Gross profit increased by 4.6% to A$8,143.0 million in 2006. Margins have continued to improve as a result of increased growth in direct sourcing of general merchandise and apparel.

Other income

Growth in other income is primarily attributable to the gains recorded as a result of fair value adjustments of financial liabilities and derivatives. See also notes 1(l), 1(t) and 2 to the Consolidated Financial Statements included in Item 17.

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Advertising expenses

Advertising expenses predominantly relate to all production costs and fees for press, radio, television, and catalogue advertising of merchandise. Advertising expenses also include the cost of participation in the FlyBuys™ loyalty program. The Company aims to maintain market share in all its trading businesses, whilst at the same time seeking out opportunities to centralize components of the advertising process where possible to take advantage of economies of scale and technological developments.

Overall, advertising expenses have increased from 2005 to 2006 as a result of increased competition in major markets. However, A$31.8 million of the increase relates to costs associated with strategic initiatives. During 2006, the Company committed to changes in the existing loyalty program. As a result of the commitment to changes in the reward structure of the FlyBuys™ program, a one-time charge of A$31.8 million was recorded against advertising expenses.

Selling and occupancy expenses

Selling and occupancy expenses are necessarily incurred to operate the Company s stores and other offices and sites.

Total selling and occupancy costs increased by A$237.6 million, or 4.4%. A$75.5 million of this increase related to costs associated with strategic initiatives, comprising lease exit costs of A$17.0 million associated with the closure of distribution centers, asset write-downs of A$35.7 million and costs of A$22.8 million associated primarily with store rebadging.

In addition, external rent has increased by A$67.0 million and store wages have increased by A$63.0 million. These increases were due to anticipated inflationary increments, and additional stores.

Administrative expenses

Total administrative expenses increased by A$285.3 million, or 25.0%. A$189.3 million of this increase related to costs associated with strategic initiatives, primarily comprising redundancy costs of A$158.1 million and the write-down of brand names of A$22.6 million as a result of the rebadging of Theo s liquor stores.

Salary and wages have increased by A$64.5 million, which is primarily attributable to supply chain costs as transport management is transferred from external suppliers, and the cost of continuing to provide administrative support functions to Myer. These costs are offset, however, by separate income streams from supplier rebates and transitional services fees from Myer.

Finance costs

Increased finance costs is a reflection of debt levels during the year.

Share of profit of joint venture accounted for using the equity method

This comprises the dividend stream from the CMS General Trust. The Trust holds the Cairns Central shopping center, which is accounted for at fair value as an investment property. Accordingly, the revaluation increment of A$11.4 million (2005 A$28.8 million) is recorded as income, which is also included within the share of profit from the joint venture.

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Profit/(loss) from discontinued operations

This represents the results of the Myer and Megamart businesses that were divested during 2006. The profit of A$627.2 million recorded in 2006 reflects the post-tax trading profit for Myer of A$62.6 million, the post-tax trading loss for Megamart of A$19.1 million, and the post-tax gain on sale of Myer of A$583.7 million.

The loss of A$48.2 million recorded in 2005 reflects the post-tax trading profit for Myer of A$31.8 million, the post-tax trading loss for Megamart of A$23.0 million, and the Megamart divestment costs of A$57.1 million.

See also note 5 to the Consolidated Financial Statements included at Item 17.

Net profit

The Company s US GAAP net profit increased from A$512.5 million in 2005 to A$892.3 million in 2006. The difference between the 2006 Australian GAAP net profit and US GAAP net profit is detailed in note 41 to the Consolidated Financial Statements included at Item 17.

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RETAIL RESULTS

Food, Liquor & Fuel Group

2006 compared with 2005

	2006 52 weeks	2005 53 weeks	Change
Sales (A$M)	25,812.6	24,670.0	4.6%
Segment result[1] (A$M)	581.9	761.1	(23.5%)
Stores	2,140	1,985	155
Selling area[2] (M.sq.ft)	17.989	17.230	

1. Profit from ordinary activities before income tax and interest

2. Excludes Coles Express locations

At July 30, 2006, Food, Liquor & Fuel comprised Supermarkets (Coles and Bi-Lo), Coles Liquor and Coles Express which collectively accounted for 70.3% of the Company s total sales in 2006 (2005 68.2%).

Segment sales for this group increased by 4.6% to A$25,812.6 million (2005 A$24,670.0 million). Excluding Coles Express, segment sales increased by A$449.3 million or 2.3%, from A$19,176.2 million to A$19,625.5 million in 2006.

The segment result decreased by 23.5% from A$761.1 million to A$581.9 million. The decrease was predominantly due to the cost of strategic initiatives of A$214.4 million and restructuring costs of A$19.6 million.

Initiatives taken in the second half to improve customer service and enhance promotional activities drove an increasing comparative sales growth trend that has continued into 2007. Customers continued to respond favorably to the housebrand offer, with approximately 1,450 products on shelf. The positive sales and earnings trend generated in the second half of 2006 is expected to continue.

Thirty-one new supermarkets were opened, and 36 supermarkets underwent a major refurbishment during 2006.

The liquor business performed well during the year as momentum continued to build. Seventeen 1st Choice stores opened during 2006 and the Hedley acquisition added 102 liquor stores, 35 hotels and potential sites for 17 1st Choice Liquor stores.

Coles Express contributed A$30.0 million to the Food, Liquor & Fuel group s 2006 segment result. This result was achieved in a sector experiencing minimal growth in volume as a result of record fuel prices and a highly competitive environment.

During the year, the Food and Liquor head office structure was simplified and de-layered, to bring management closer to stores and customers.

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Kmart

2006 compared with 2005

	2006 52 weeks	2005 53 weeks	Change
Sales (A$M)	4,000.5	4,023.3	(0.6%)
Segment result[1] (A$M)	63.2	89.0	(28.9%)
Stores	460	379	81
Selling area (M.sq.ft)	11.425	10.667	

1. Profit from ordinary activities before income tax and interest

Segment sales decreased by 0.6% from A$4,023.3 million to A$4,000.5 million. Segment results decreased by A$25.8 million or 28.9%, from A$89.0 million to A$63.2 million. The decrease was predominantly due to the costs of strategic initiatives of A$12.8 million. Kmart s performance was also impacted by an A$8 million decrease in the result of Kmart Tyre & Auto as record fuel prices and interest rate rises reduced customer spend in the car servicing industry.

Kmart s sales growth improved in the second half against a high prior year base, with solid performances across all categories. Housebrands, including Girl Xpress and Now, also did well. Customers responded positively to promotional events, including Mother s day, Mega Entertainment and the Toy Sale in July.

Kmart divested Tyremaster and three Garden Supercentres in the first half of 2007 as businesses that no longer fit its strategic positioning.

Kmart opened seven new stores during the year and closed two. Kmart s current network includes 185 stores across Australia and New Zealand with an expected two to five new stores in 2007.

Officeworks

2006 compared with 2005

	2006 52 weeks	2005 53 weeks	Change
Sales (A$M)	1,228.8	1,236.3	(0.6%)
Segment result[1] (A$M)	73.2	68.4	7.0%
Stores	103	95	8
Selling area (M.sq.ft)	1.490	1.384	

1. Profit from ordinary activities before income tax and interest

Sales decreased by 0.6% from A$1,236.3 million to A$1,228.8 million. Segment results increased from A$68.4 million to A$73.2 million or 7.0%.

The quality of Officeworks sales was improved through the restructure of Harris Technology early in 2006, subtle changes in category mix in the retail business, reducing low value add offers across all businesses and growing momentum in direct importing.

A number of new business initiatives were introduced during the year. These included the introduction of FlyBuys in all retail stores, a new contemporary stationery range and kids educational stationery offer, the addition of Kodak digital photo kiosks in all stores, a technology department relay and refresh across 11 stores. Each of these initiatives has contributed to an increase in sales and margin.

Eight new stores were opened during the year, increasing the network to 95 Officeworks superstores and eight Harris Technology Business centers.

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Target

2006 compared with 2005

	2006 52 weeks	2005 53 weeks	Change
Sales (A$M)	3,170.1	3,088.6	2.6%
Segment result[1] (A$M)	233.7	218.8	6.8%
Stores	259	255	4
Selling area (M.sq.ft)	9.025	8.784	

1. Profit from ordinary activities before income tax and interest

Sales have increased by A$81.5 million or 2.6% to A$3,170.1 million.

Target delivered another record result following a successful year in 2006. The segment result has increased by A$14.9 million or by 6.8%, from A$218.8 million to A$233.7 million. Retail margins improved reflecting effective management of product sourcing and promotional programs. Direct sourcing of imported goods delivers greater cost efficiencies and faster access to new and differentiated products, enabling Target to deliver a unique and compelling offer to its customers.

Target continued to deliver on its strategy of providing on-trend, differentiated, affordable and high quality ranges, and has been early to market with new and exciting trends. Key promotions, especially homewares and toy sales were strongly supported. Customers responded favorably to Target s private label ranges, including the new Free Fusion range for young women and product licenses in apparel and homewares.

Target opened nine stores and closed five older, smaller stores during the year, with an ongoing strategy of opening in areas where the Target brand remains under-represented and expanding the store footprint in key growth areas, including the successful Target Country format.

Property and Unallocated

2006 compared with 2005

Property and Unallocated includes income derived from the Company s property portfolio, and unallocated corporate costs that are not directly attributable to the retail brands.

Contributing to the results of the property division was primarily rental income from the Company s property portfolio and any gains/losses arising from property disposals. Unallocated corporate costs primarily related to head office costs, such as services provided by the executive team, secretarial, group accounting, taxation and treasury. The result did not include any direct retail expenses, which are charged by Retail Support Services to the retail brands by way of Service Level Agreements.

The segment loss of A$100.0 million for 2006 included strategic initiative costs of A$51.9 million. The segment loss of A$109.1 million for 2005 included supply chain strategy implementation costs of A$43.2 million.

B. LIQUIDITY AND CAPITAL RESOURCES

Cash flow information

	2006 A$M	2005 A$M
Net cash inflow from operating activities	1,300.6	1,157.1

Net cash inflow/(outflow) from investing activities	96.6	(1,020.6)
Free cash flow	1,397.2	136.5
Net cash outflow from financing activities	(1,356.5)	(537.5)
Net increase/(decrease) in cash held	40.7	(401.0)

Net cash inflow from operating activities

Net cash inflow from operating activities increased by A$143.5 million, reflecting the improvement in the underlying performance of the business.

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Net cash inflow/(outflow) from investing activities

Net cash inflow from investing activities of A$96.6 million is after A$1,043.1 million (2005 A$925.0 million) of capital expenditure on property, plant and equipment, and A$202.5 million (2005 A$120.0 million) on business acquisitions, predominantly related to the acquisitions of Hedley Hotel Group Pty Ltd, Hedley Hotel Group No.2 Pty Ltd and Pharmacy Direct Pty Limited.

Disposal of assets realized A$1,329.8 million in 2006 compared with A$27.7 million in 2005. Proceeds in 2006 were primarily attributable to sale of Myer.

Net cash outflow from financing activities

Net cash outflow from financing activities of A$1,356.5 million, (2005 A$537.5 million) comprise A$453.1 million (2005 A$433.2 million) in cash payments for dividends, the net decrease in interest bearing debt of A$239.3 million (2005 a net increase of A$499.9 million), A$122.5 million proceeds from the issue of ordinary shares (2005 A$120.0 million) and payments for share buy-backs of A$838.2 million (2005 A$704.4).

Apart from Australian corporate law, which requires dividends to be declared from retained earnings, there are no legal or economic restrictions on the ability of subsidiaries within the Group to transfer funds to the Company in the form of cash dividends, loans or advances.

Capitalization

	2006 A$M	2005 A$M
Cash	485.6	440.9
Short-term deposits [1]		216.0
Cash	485.6	656.9
Bank overdraft	4.0	
Other loans	26.2	216.0
Short-term debt [1]	30.2	216.0
Commercial paper supported by a committed facility, net of unamortized discount A$223,000 (2005 A$100,000)	94.8	79.9
Domestic bank loans	500.0	350.0
Foreign currency bonds and notes		296.7
Bonds and notes under domestic and international facilities	379.2	400.0
Net value of currency swaps hedging foreign currency borrowings [3]		86.7
Long-term debt	974.0	1,213.3
Total equity	3,598.0	3,415.1
Total capitalization [2]	4,576.0	4,844.4

(1) For the year ended July 30, 2006, the short-term deposit receivable from Bank of New Zealand and other interest bearing loans payable to National Australia Bank Limited have been disclosed on a net basis. This is a result of Coles Group Finance Limited (formerly Coles Myer Finance Limited), CGNZ Finance Limited (formerly CMNZ Finance Limited), National Australia Bank Limited and Bank of New Zealand entering into a netting agreement on July 28, 2006.

(2) Total capitalization consists of short-term debt, long-term debt and total equity.

(3) The interest bearing liabilities have not been restated as permitted by AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*, which have been adopted from August 1, 2005 (refer note 40 to the Consolidated Financial Statements at Item 17).

The Company is of the opinion that its working capital will be sufficient for the next 12 months given the current trading expectations.

Net debt

Total long-term debt was A$974.0 million at July 30, 2006, compared with A$1,213.3 million at July 31, 2005. Long-term debt has lowered by way of sale of assets, such as the Myer divestment, during 2006 which was used to repay long-term foreign currency borrowings and fund the A$838.9 million off market share buy-back. The weighted average debt duration at July 30, 2006 was 4.2 years (2005 3.5 years). For a summary of the maturity profile of long-term liabilities, refer to note 23 of the Consolidated Financial Statements.

At July 30, 2006, the Company had a net debt (total debt less cash) position of A$518.6 million (2005 net debt position of A$772.4 million). The gearing ratio of net debt to total capital (being net debt to net debt and equity) at July 30, 2006, was 12.6% compared to 18.4% at July 30, 2005. Net borrowing costs increased from A$55.2 million to A$98.9 million. The average finance rate decreased from 6.7% at July 31, 2005, to 6.0% at July 30, 2006.

Sources of liquidity

Coles Group Finance Limited (CGFL), formerly Coles Myer Finance Limited, operates a number of different borrowing programs. These consist of:

- An A$3,000.0 million Debt Issuance Program with Medium Term Notes on issue equivalent to A$426.2m million outstanding at year-end. The instruments defining the rights of the security holders of A$400.0 million of Medium Term Notes issued after May 2005 (the Note Deed Poll and the Guarantee Deed Poll) are included as Exhibits to this Form 20-F. The instruments defining the rights of the security holders of A$26.2 million of Medium Term Notes issued prior to May 2005 (the Deed of Covenant and Deed of Guarantee) are included as Exhibits to this Form 20-F. Generally, an annual update of the program is required. However, this year the Company has sought to be relieved from its undertaking to effect and maintain the Debt Issuance Program s listing on the Luxembourg Stock Exchange. Consequently, the Company will not be undertaking the annual update of the program for 2007.

- An unlimited Domestic Commercial Paper program established in October 2000 with A$94.8 million outstanding at year-end.

The following program was terminated effective June 30, 2006:

- US$500.0 million Euro Commercial Paper Program.

The following programs were terminated during 2005:

- US$500.0 million Euro-Medium Term Note Program effective September 15, 2004.

- US$1,000 million US Medium Term Note Program for Coles Group Finance (USA) Pty Ltd (formerly Coles Group Finance (USA) Pty Ltd), cancelled effective August 6, 2004.

Coles Group has relationships with six major domestic and international banks, which at July 30, 2006, provided A$430.0 million of committed un-drawn standby facilities. In addition, the Company has a range of relationships with other major banks and investment banks, which provide it with transactional and advisory services.

Coles Group undertakes borrowings denominated in foreign currencies and imports both merchandise for re-sale and non-merchandise and capital equipment for use in its operations, which may also be priced in foreign currencies. The risks of variation in the rates of exchange for these currencies are managed by compliance with a Board-approved Foreign Exchange Risk Management Policy. This Policy provides that all foreign currency denominated borrowings will be hedged to the Australian dollar at the time that the borrowing is undertaken, by use of currency swaps or long dated forward exchange agreements. Thus, the Company is not exposed to foreign exchange risk on its borrowings, other than in the event of default by a counter-party to a swap agreement. This risk is considered to be negligible.

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The Company operates a centralized system for management of foreign exchange risk associated with merchandise imports. The impact of currency movements applies largely to goods sourced directly from overseas predominantly in the non-food brands. This system involves the Company s centralized treasury function implementing hedges for merchandise imports as soon as a firm order or a highly probable forecast exposure for the merchandise is advised, thereby eliminating the exposure to exchange rate fluctuations. Similarly, foreign exchange risk associated with the importation of non-merchandise and capital equipment is fully hedged.

Exposure to interest rates is actively managed. At July 30, 2006, fixed interest rates applied to 98.7% of net interest bearing debt.

See also Item 11 Quantitative and Qualitative Disclosures about Market Risk .

Capital management initiatives

The Company purchased and cancelled its own shares during 2005 and 2006. See Item 4A. Recent Developments for further detail.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES ETC.

Not applicable.

D. TREND INFORMATION

Relevant industry and market trends are discussed for the Company as a whole and for each brand segment in Item 5A Operating Results .

E. OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any material off-balance sheet arrangements that are not consolidated by the Company. The Company has investments in the following associated entities, which are accounted for under the equity method of accounting as permitted by Australian GAAP:

- CMS General Trust trust arrangement that owns and operates the Cairns Central Shopping Center (disposed subsequent to balance date);
- FlyBuys™ Partnership a customer loyalty program whereby customers accumulate points on their shopping purchases in order to redeem awards such as free travel and accommodation; and
- Quids Technology Pty. Ltd. a software developer involved in developing software for two of the Company s retail brands.

Refer to note 14 to the Consolidated Financial Statements included at Item 17, for further details.

Additionally, the Company has contracted, non-cancelable lease expenditure commitments not provided for as liabilities, however, are disclosed as commitments in note 31 of the Consolidated Financial Statements included at Item 17. For the purposes of US GAAP, transactions relating to certain of these leases are adjusted. Further details of these commitments are outlined in the Contractual Obligations table below.

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F. CONTRACTUAL OBLIGATIONS

A summary of the Company s contractual obligations, including debt service obligations at July 30, 2006 is set out in the table below:

A$ million	**Less than one year**	**One to three years**	**Three to five years**	**Greater than five years**	**Total**
Long-term debt		100.0	494.8	379.2	974.0
Interest payable on long-term debt	58.5	116.4	101.6	24.0	300.5
Capital expenditure (1)	217.9	41.1			259.0
Operating leases (2) (3)	949.2	1,753.8	1,488.8	3,480.6	7,672.4
Total contractual obligations	1,225.6	2,011.3	2,085.2	3,883.8	9,205.9

(1) Amounts principally relate to building and fixture contracts for new stores and shopping centers.

(2) Amounts relate to non-cancelable lease expenditure.

(3) The Company subleases property and equipment to external parties. Future minimum lease obligations include any potential exposure arising from default by external parties on subleases. Contractual obligations in relation to guarantees issued are excluded as they are contingent liabilities.

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ITEM 6 DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

The Directors of Coles Group are vested with the management and control of the business and affairs of the Company. The Constitution of Coles Group provides that there shall be such number of Directors, not less than five nor more than 14, as the Directors may determine. At January 12, 2007, there were nine Directors, of whom one was an Executive Director.

A person appointed as a Director to fill a casual vacancy or as an addition to the existing Directors will hold office until the conclusion of the next Annual General Meeting following their appointment.

The Directors are subject to retirement by rotation with at least one third retiring each year where the number of Directors is more than five (after certain exclusions), and with two retiring where the number of Directors is less than five (after certain exclusions). Eligible retiring Directors may offer themselves for re-election by the shareholders. A Director who is appointed a Managing Director by the Directors is not required to retire by rotation.

The Constitution also provides that unless the Directors decide differently, the office of a Director employed by the Company or by a subsidiary of the Company becomes vacant if the Director ceases to be so employed.

On September 20, 2004, the Board adopted a new policy relating to the tenure of non-executive Directors, in line with Australian Securities Exchange corporate governance guidelines. Under the new policy, Directors other than the Chairman would normally hold office for no more than 10 years except where special circumstances existed. The Chairman would be expected to serve in that role for a period of at least five years.

Board Changes and Composition

Details of the Directors in office at January 12, 2007, were:

Name	Office	Initially elected or appointed	Retires by rotation
Richard (Rick) H. Allert, AM	Chairman	1995	2009
John E. Fletcher	Managing Director and Chief Executive Officer (3)	2001	n/a(1)
Patricia (Patty) E. Akopiantz	Director	2001	2007
Ronald K. (Keith) Barton	Director	2003	2009
William (Bill) P. Gurry, AO	Director	2001	2009
Anthony (Tony) G. Hodgson	Director	2003	2008(2)
Belinda J. Hutchinson	Director	2005	2008(2)
Sandra V. McPhee	Director	2003	2008(2)
John M. (Michael) Wemms	Director	2003	2008(2)

(1) In accordance with Rule 35 of the Company s Constitution, the Managing Director is not subject to retirement by rotation.

(2) In accordance with Rule 35 of the Company s Constitution, one of these Directors will be brought forward to retire in 2007.

(3) In addition to his role as MD and CEO, Mr. Fletcher has assumed day-to-day leadership of Supermarkets.

At the 2006 Annual General Meeting, Mr. Richard (Rick) Allert, Mr. William (Bill) Gurry and Dr. Ronald (Keith) Barton were re-elected Directors. Mr. Martyn K. Myer retired by rotation and did not seek re-election.

In addition to the Directors, the Company has a group of senior managers who are responsible for the planning, directing and controlling the activities of the Consolidated Entity (defined for the purposes of Item 6 as Senior Management).

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Senior Management of Coles Group who were not Directors at January 12, 2007, were as follows:

Name	Position	Appointed to current position	Joined Company
Larry Davis	Managing Director, Kmart	2005	2002
Tim Hammon	Chief Officer, Corporate & Property Services	2001	1996
Launa Inman	Managing Director, Target	2005	2001
Fraser MacKenzie	Chief Financial Officer	2002	2002

Persons who were senior managers during 2006 but have since left the Company: Dawn Robertson - Managing Director, Myer and Hani Zayadi - Group Managing Director, Food, Liquor and Fuel.

Senior Management serve at the discretion of the Directors.

Details of the Directors and Senior Management are as follows:

Directors

Richard (Rick) H. Allert, AM[1]

Chairman

FCA Age 63, (Appointed Director 1995, Chairman from October 10, 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 organizations.

John E. Fletcher

Managing Director and Chief Executive Officer

FCPA Age 55, (Appointed Director 2001)

Prior to Coles Group, Mr. Fletcher spent almost all his professional career with Brambles Industries, commencing in 1974, initially in an accounting role and then in a series of operational 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 Chief Executive Officer of Brambles Industries in 1993. Mr. Fletcher retired as Chief Executive Officer of Brambles in 2001. Mr. Fletcher was previously a Director of Telstra Corporation Limited (2001- 2006).

Patricia (Patty) E. 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 Chief Executive Women. She is also a Director of the YWCA-NSW.

Ronald K. (Keith) Barton

Non-executive Director

BSc, PhD (UNSW), FTSE Age 66, (Appointed Director 2003)

Dr. Barton is a former Chief Executive Officer and Managing Director of James Hardie Industries Ltd, after holding a variety of executive positions at CSR Ltd. Dr. Barton s current Directorships include Tower Ltd (from 2001), Amcor Ltd (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 Ltd, Colonial Ltd and Australian Wealth Management Limited (2004 - 2005) and Citect Corporation Ltd (2001 - 2006).

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[1] AM: Member of the Order of Australia (Australia s honours system). Award for service in a particular locality or field of activity or to a particular group.

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William (Bill) P. Gurry, AO[1]

Non-executive Director

LLB Age 59, (Appointed Director 2001)

Mr. Gurry is a former Executive Chairman of one of Australia s foremost investment banks, UBS Warburg. 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, New Matilda Pty Ltd, Australian Jesuit Foundation and the St Vincent s and Mercy Private Hospital. Mr. Gurry has previously held positions with a number of corporate, government and community entities.

Anthony (Tony) G. Hodgson

Non-executive Director

FCA, FAICD, Age 66, (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 (Chairman Audit Committee) Tabcorp Holdings Ltd (Director from 1994) and a Director of Committed Securities Limited. He is 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 Ltd.

Belinda Hutchinson

Non-executive Director

BEc, FCA, Age 53, (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 Limited (from 1997). She is also a Director of St Vincents and Mater Health Sydney Limited and President of the State Library of New South Wales Council. Ms. Hutchinson s previous appointments include Director of Energy Australia Limited (1997 2005), TAB Limited (1997 2004) and Crane Group Limited (1997 2004).

Ms. Sandra V. McPhee

Non-executive Director

DipEd, FAICD, Age 60, (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, The Art Gallery of NSW and St Vincents and Mater Health. 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.

Michael Wemms

Non-executive Director

BA, MBA, Age 66, (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 adviser to the company until June 2003. His current Non-executive Directorships include the international automotive group, Inchcape plc, A&D Pharma and Majid Al Futtaim Group of Dubai.

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1 AO: Officer of the Order of Australia (Australia s honour system). Award for distinguished service of a high degree to Australia or to humanity at large.

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Senior Management

Larry Davis

Managing Director Kmart

Age 63

Larry Davis was appointed Managing Director of Kmart on February 14, 2005. Preceding this appointment Larry was Managing Director of Target Australia Pty Ltd from September 2001, where he developed the brand into one of Australia s biggest retailers of women s apparel. Larry s career, prior to joining Coles Group, has been highlighted by 29 years at Sears Roebuck and Company and five years at Kmart US. He began his career in 1965 with Sears as a management trainee and spent the next 15 years in merchandise management and store operations roles. In 1987, Larry was appointed to Regional General Merchandise Manager for the New York region and was promoted to Eastern Regional Manager and then National Marketing Manager. He was then recruited as a retail consultant to the international marketing and advertising agency, Young & Rubicam to utilize his merchandise and retail marketing expertise. Larry joined Kmart US in 1996 and was appointed Senior Vice President Marketing and Advertising, where he led the campaign to reposition the company.

Tim Hammon

Chief Officer, Corporate & Property Services

Age 53

Tim Hammon is Chief Officer, Corporate and Property Services for Coles Group. This role sees him responsible for property, legal services, risk management and company secretarial. Mr. Hammon began his legal career as an Articled Clerk at the law firm Mallesons Stephen Jaques, becoming a partner in 1984. From 1993 to 1994 he was Managing Partner for the firm s Melbourne office, and in 1995, Managing Partner for the firm s Sydney, Brisbane and Canberra offices. In 1996 he became Executive Director Strategy. Tim joined Coles Group in July 1996 as General Counsel to the Coles Group Board, and was appointed Chief Legal Officer in February 1997. His responsibilities at that time included Internal Audit, Risk Management, Compliance and Security. In 1998 he was appointed Chief Administration Officer and his responsibilities were expanded to include Property, Human Resources, Company Secretarial, Media Relations and Government Affairs.

Launa Inman

Managing Director Target

Age 50

Launa Inman was appointed Managing Director of Target Australia Pty Ltd on February 14, 2005, with leadership of one of Australia s biggest retailers of women s apparel responsible for more than 250 Target, Target Country and Baby Target stores. Prior to this appointment Launa was Managing Director of Officeworks from May 11, 2004, responsible for more than 80 Officeworks Superstores and Officeworks BusinessDirect. Before joining Officeworks, Launa was General Manager of Apparel and Accessories for Target Australia Pty Ltd with responsibility for all apparel divisions, including clothing, sleepwear, shoes and accessories. Launa joined Coles Group in January 2001 and set about repositioning Target in the competitive apparel market, with a view to offering good value, quality, on-trend, fashionable clothing. As a key member of the Coles Group Senior Executive team, Launa brings an extensive range of international retail knowledge and experience to her current position. Prior to joining Coles Group, Launa held senior leadership roles in Big W and with large South African based retail companies Pages and Edgars. Launa was awarded the 2003 Telstra Australian Business Woman of the Year and she was also the winner of the Commonwealth Government Private and Corporate Sector Award. She is also a member of the Women s Chief of Enterprises Body Australia Ltd.

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Fraser MacKenzie

Chief Financial Officer

Age 55

Fraser MacKenzie was appointed Chief Financial Officer for Coles Group Limited in 2002, with responsibility for the Group s Finance and Administration. He has extensive experience in financial strategy and management, including complex business transformations and integrations and successful cost reduction programs. He began his career in 1972 with Ernst & Young in Scotland. In 1976 he joined SmithKline Beecham in the UK where he worked in various financial management positions before becoming Business Development Director for Northern Europe. In 1985 he commenced as Finance Director for Australia and in 1988 he was appointed Managing Director for the New Zealand operation. Between 1990 and 1993, Mr. MacKenzie worked for Hanimex and Gestetner Australasia as Finance Director. Mr. MacKenzie held various positions between 1993 and 2001 including Market Development Director for Pfizer Animal Health New York, General Manager for SmithKline Beecham Australia/New Zealand and Chief Financial Officer for OPSM Group Ltd.

B. COMPENSATION

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT TEAM

The aggregate amount of remuneration paid by Coles Group during 2006 to the above Directors and Senior Management during the year was A$28,096,683. This amount includes option amortization.

At January 12, 2007, there were agreements with P.E. Akopiantz, R.H. Allert, and W.P. Gurry which provide for benefits upon cessation of their directorships. Remuneration of non-executive Directors who have entered into retirement agreements includes amounts provided for by the Company in relation to the contractual retirement payment to which the non-executive director will be entitled to upon retirement from office. Retiring non-executive Directors have been paid in accordance with the terms of their retirement agreements. On March 27, 2003, the Company announced that non-executive Directors appointed after that date will not receive retirement benefits. At the Company s Annual General Meeting on November 17, 2005, it was announced that the retirement benefits would be frozen as at that date, and no further accrual would be made. From November 17, 2005, all Directors have been paid according to one scale of fees.

Contributions to superannuation funds and amounts paid in respect of retirement benefits of A$821,547 are included in the aggregate amount of remuneration referred to above.

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The remuneration for the 2006 financial year is as follows:

	Short-term				Post employment				Non-cash, share-based remuneration		
Key Management Personnel	**Salary and fees $**	**Short-term incentives $**	**Non-monetary benefits(1) $**	**Other(2) $**	**Super-annuation(3) $**	**Retirement benefits $**	**Termination payments $**	**Total cash-based remuner-ation $**	**Performance Shares $**	**Options $**	**Total remuner-ation $**
Non-executive Directors											
R. Allert	397,201			5,825	35,748	61,817		500,591			500,591
P. Akopiantz	120,799			5,825	40,878	8,964		176,466			176,466
K. Barton	132,577			5,825	26,099			164,501			164,501
W. Gurry(4)	138,318			5,825	12,449	(2,700)		153,892			153,892
T. Hodgson	170,069			5,825	15,306			191,200			191,200
S. McPhee	132,577			5,825	26,099			164,501			164,501
M. Myer	120,799			5,825	40,878	3,827		171,329			171,329
M. Wemms	97,997			5,825	67,003			170,825			170,825
B. Hutchinson	111,361			4,977	24,189			140,527			140,527
Subtotal	**1,421,698**										