

Annual Report '07

Year in Review

In financial year 2007, we achieved sales of \$34.7 billion, up 1.4% from the previous financial year, and \$792.4 million underlying net profit after tax.

A disappointing result from Supermarkets was offset by strong performances from the other brands, and additional savings from business simplification.

Ordinary dividends are up 6.0% to 44.5 cents per share.

The Board announced on 2 July 2007 that it would recommend to shareholders a proposal from Wesfarmers Limited to acquire the company by way of a scheme of arrangement.

Year of transition

as we invested in our new growth strategy and business transformation

Simplifying our business in line with strategy

to create one integrated Coles business meeting the everyday shopping needs of all Australians

Creating value for shareholders

while Supermarkets results were disappointing, Target, Kmart, Officeworks, Express and Liquor all delivered strong performances

Coles Group Community Fund established

to take a more strategic approach to our corporate giving

Ownership change underway



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Inside back cover Shareholder Information

Sales

(\$million)

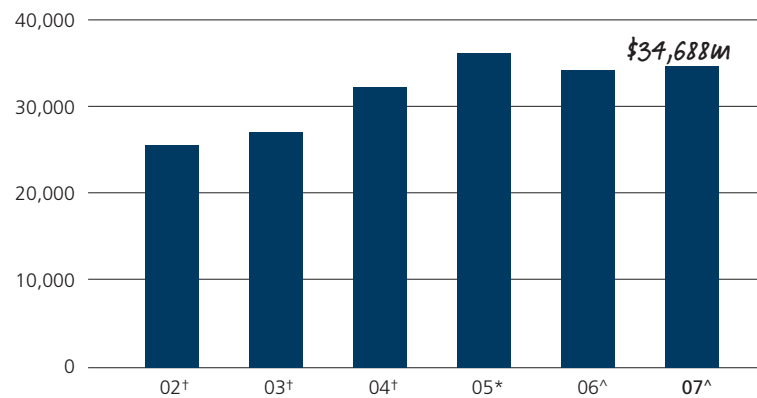


1.4%

†AGAAP

^continuing businesses

*adjusted for the 53rd week in 2005



Underlying net profit after tax

(\$million)



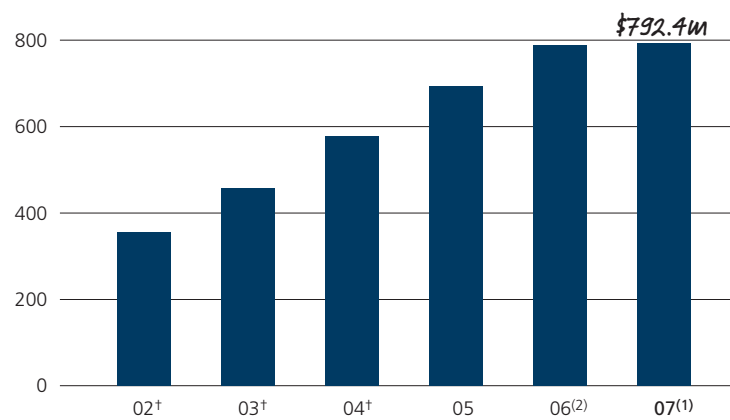
0.6%

†AGAAP

[1] excludes \$44.6 million of ownership review costs

[2] excludes strategy costs and profit on sale of Myer

Refer prior Annual Reports for an explanation of prior year results

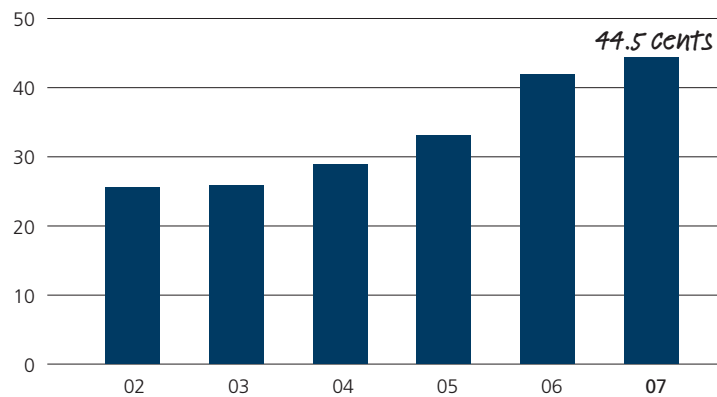


Ordinary dividend

(cents)



6.0%



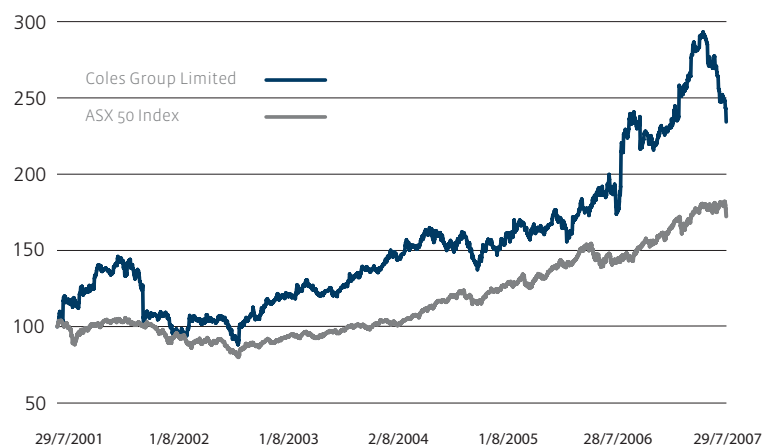
Relative share price growth

(over six years)



134.3%

CGJ shares



Chairman and CEO Q&As

Chairman, Rick Allert: The Board was first approached about ownership in August last year shortly after we had outlined our new growth strategy to shareholders.

In order that shareholders could see the value to be created by the Company remaining independent and pursuing its growth strategy, we provided financial guidance to the market for both the 2007 and 2008 financial years on September 21 2006.

At the same time, the Board announced that following approaches from a number of parties, it would explore all ownership options, including sale in whole or in part of the Company, to determine whether additional shareholder value could be created under alternative scenarios.

RA: Following a rigorous process during which we looked at all options and formal bids were invited and received, the Board announced on July 2 2007 that it would recommend to shareholders a proposal from Wesfarmers Limited to acquire the Company by way of a scheme of arrangement to be approved at a meeting of shareholders.

The Independent Expert, Grant Samuel & Associates, has found the enhanced proposal, whilst not in the fair value range, is on an overall basis in the best interests of shareholders in the absence of a superior proposal.

The Board believes that the Wesfarmers' proposal, incorporating a mix of cash and scrip, provides Coles shareholders with an attractive opportunity to both continue to benefit from the growth of Coles' businesses and to earn higher dividends as shareholders of the expanded Wesfarmers.

Chief Executive Officer, John Fletcher: We have made strong progress in simplifying our business in line with our strategy to create one integrated Coles business meeting the everyday shopping needs of all Australians. During the 2007 financial year,



we significantly exceeded our savings target of \$70 million and are well on track to achieve total annual savings of more than \$363 million by the end of the 2008 financial year.

We have also continued to make good progress in transforming the systems and processes that support the movement of products from suppliers to stores, with the opening of six new state-of-the-art distribution centres.

I am particularly pleased about the performance of Target, Officeworks, Kmart, Coles Express and Liquor, each delivering results in line with their new strategy.

Q. So what went wrong in Supermarkets?

JF: Our strategy included the rebranding of Bi-Lo stores to Coles. Our execution of this initiative was poor and we did not deliver the planned customer value proposition. This, in turn, impacted sales and earnings. Remedial plans have now been developed and are being implemented to ensure that we get the product and value equation right for customers.

We have also launched new initiatives to improve our fresh produce offer through the 'Love Fresh' campaign, which has received a positive response from customers.

While we still have some way to go to achieve sustainable sales and earnings growth in Supermarkets, the team know what they need to do and have plans in place to get there.

Q. How did the rest of the business perform?

RA: We said at the start of the 2007 financial year that it would be a year of transition as we invested in our new growth strategy and business transformation.

While the contribution from Supermarkets to the full-year profit result was lower than anticipated, this was offset by strong performances from our other businesses.

JF: Target's result was outstanding, reinforcing its position as Australia's most successful apparel retailer. Kmart also gained real earnings traction under its new strategy to improve margins by lowering reliance on promotional activity. Officeworks again demonstrated its unique position in the office products market, and our Coles Express convenience stores continued to grow strongly.

Coles Liquor performed very well, with the successful consolidation and integration of acquisitions, and the roll-out of the 1st Choice network ahead of expectations.

Q. How do you feel about selling the Company?

RA: The Board believes this outcome is good for shareholders, for customers and for team members. Our shareholders can continue as investors in Coles' businesses with the opportunity to share in potential operational upside. Customers will continue to have access to an Australian-owned business, managed by a company with a track record of strong financial and operational performance. Team members will get to work for another great Australian company.



Implementing our strategy

Following the achievement of our five-year turnaround strategy, Coles Group embarked on a new strategy in July 2006 to simplify and grow the business. At the centre of this new strategy is the creation of one integrated Coles business meeting the everyday shopping needs of all Australians.

Key components of the strategy are in the process of being implemented.

Simplification

- Plans to simplify our business in line with our strategy progressed well during 2007. Over 350 initiatives were implemented that simplify what we do above store so that we can reinvest in stores and customers.
- These initiatives have delivered well above the \$70 million benefit to earnings we forecast last July.
- We are on track to exceed the planned \$363 million annualised savings as a result of simplification by the end of financial year 2008.

Transformation

- Our business transformation program progressed this year as we opened two purpose-built national distribution centres (DCs) in Somerton, Victoria, and Eastern Creek, NSW. Four regional DCs were also opened across Australia this year.
- We have closed five DCs to date with around 13 more to close in the next financial year as we reduce the number of DCs in our network from over 40 to around 26, to improve efficiency.
- The first phase of Supermarkets' multi-buy and discounting program has commenced. This will be followed by the roll-out of the Automated Store Ordering System.

Formats

- In liquor, all our Theo's stores were rebranded as the portfolio was simplified and consolidated into three core customer propositions – convenience (Liquorland), specialist (Vintage Cellars) and large format (1st Choice).
- Eight pilot convenience stores operated successfully during the year, with the improved convenience offer and other initiatives now being rolled-out across the network.
- Target continued to accelerate investment in stores by opening a net nine stores, expanding the floor selling space in 11 stores and completing two Kmart to Target store conversions.
- We converted 129 Bi-Lo stores to Coles.

Customer and in-store experience

- In Supermarkets, the 'Love Fresh' and 'Price Rewind' programs were introduced late in the year and were well received by customers.
- A new team member rostering system was implemented in Supermarkets to better manage store teams.
- 30,000 new trolleys were delivered to stores across Australia.
- A refreshed FlyBuys program was launched making it easier for our customers to claim rewards.

Product

- The Designers for Target range was launched in Spring 2006, delivering both national and international designer fashion collections to our customers at affordable prices. In March, the Stella McCartney for Target range achieved unprecedented success, which has recently been followed by a collection from Australian designer Josh Goot.
- In housebrands in Supermarkets, over 200 'Smart Buy' lines were added, taking the total to over 430 in the range at the end of the year. The range of 'You'll love Coles' products has expanded and is being well received by customers. Our new top-tier range, 'Coles Finest', was introduced from December 2006.



Our Brands

Coles Group is one of Australia's largest retailers with more than 3,000 stores throughout Australia and New Zealand.

Food and Liquor

Food and Liquor earnings were down 9.5% while sales were up 4.1% to \$20.4 billion.

Supermarkets' performance was impacted by the poor execution of the Bi-Lo conversion strategy and the impact of the change program. While there is still considerable work to be done, remedial actions are being implemented, with some encouraging signs evident in the priority areas of Fresh, Value and Product Availability.

The Coles Liquor group includes our brands of Liquorland, Vintage Cellars, 1st Choice Liquor Superstores and also 85 hotels. The Liquor group performed well this year, with the successful consolidation and integration of recent acquisitions and the roll-out of the 1st Choice network ahead of expectations.

coles

BI-LO

VINTAGE CELLARS
AUSTRALIA'S FINE WINE SPECIALIST

1ST
CHOICE
Liquor Superstore

LIQUORLAND

coles
express

Coles Express

In Coles Express, our convenience stores made a strong contribution with our customer focused strategy continuing to deliver solid growth. Coles Express achieved a great result in a highly competitive sector with underlying retail earnings of \$45.4 million.

Kmart

Kmart is one of Australia's largest discount department store retailers, with over 180 stores throughout Australia and New Zealand and over 26,000 team members. Our aim in Kmart is to be the leading discount department store for families in Australia and New Zealand, providing the best range of products at great prices.

Kmart's 27.4% rise in earnings demonstrated the success of our new strategy to improve margins and profitability by delivering better value every day to our customers.

Kmart

Target.

Target

Target has more than 260 stores across all states in Australia, offering our customers quality, on-trend, fashionable apparel and soft homewares, underpinned by a strong housebrand strategy.

Target's achievement of a 16.8% increase in earnings to \$290 million reinforced our reputation as Australia's most successful apparel retailer.

Officeworks
The works

Officeworks

Officeworks is Australia's leading retailer of office supplies, catering to the needs of small-to-medium sized businesses, home offices and personal shoppers. We have more than 100 sites across Australia, supported by over 3,600 team members, offering over 10,000 products.

Officeworks BusinessDirect is one of Australia's largest direct marketers of office supplies, and Harris Technology is one of Australia's top resellers of IT products and services to Australian organisations.

Officeworks' 14.0% increase in earnings further consolidated the unique position of our office products business.



It was a very challenging year in Supermarkets, mainly due to the poor execution of the Bi-Lo rebranding, as well as the amount of change impacting the business.

In the second half of the year, we focused on four priority areas: Bi-Lo, Fresh, Availability and Value in a challenging and increasingly competitive environment. Good progress was made in growing sales in fresh, investing in better value for our customers, and improving on-shelf product availability.

In Bi-Lo, the business was stabilised and the sales decline was arrested in both the 129 converted and 71 unconverted stores.

Trials are underway in several converted Bi-Lo stores and the early customer response has been positive, however, we will continue to refine this offer before considering wider implementation of a sustainable solution.

Through our 'Love Fresh' program, we are seeing more of our customers purchasing our quality fresh food products at competitive prices.

While product availability issues throughout the year impacted our customers, this has now stabilised and is improving as we focus on consistency across our stores.

On the value front we introduced several hundred innovative housebrand products. The development of our family of brands represents our commitment to giving our customers quality, value and choice.

Committed to giving our customers quality, value and choice

'You'll love Coles' offers our customers great products equivalent to market-leading prices. We also have hundreds of new 'Smart Buy' products offering very good quality at the lowest price. Our top tier, 'Coles Finest', stands for inspirational quality.

Also this year we launched 'Price Rewind', a marketing program to lower prices for our customers. We're 'rewinding' prices on hundreds of items, focusing on products that matter most to our customers.

We continue to support Australian growers, purchasing over \$2.5 billion in fresh produce and meat each year. This year, 97 per cent of our fresh food and 85 per cent of our grocery products were sourced from Australia.

We opened 20 new supermarkets and divested 12, taking our total store network to 745 stores nationally.

While it has been a difficult year for Supermarkets, we are clear on the customer priorities and the need to effectively manage the business change program and strengthen our organisational capability. In the year ahead, we will continue with our aim to offer our customers something better, every day.





VINTAGE CELLARS
AUSTRALIA'S FINE WINE SPECIALIST

Food & Liquor	2007	2006	Change
Sales (\$m)	20,437	19,626	4.1%
Retail EBIT (\$m) ⁽¹⁾	693.3	766.3	-9.5%
Retail margin ⁽¹⁾	3.39	3.90	-51bps

(1) 2006: Excludes strategic initiative costs (\$214.4m)

Food & Liquor



9.5% profit

At Coles Liquor, it's been a year of growth in an extremely competitive market where customers have enjoyed greater choice and value than ever before.

Each of our retail brands – Liquorland, Vintage Cellars and 1st Choice – has grown. We have increased our store portfolio by 16 to a total of 751 stores.

During the year we integrated our acquisitions, Hedley, Mr Corks and Talbot, to our common branding, systems and supply chain. This huge project, involving 46 hotel and 137 retail sites, was completed in less than 12 months and has been welcomed by team members and customers.

Giving customers great range, unbeatable value and a unique retail experience

We grew our hotel portfolio by 16 to a total of 85 hotels, with new sites in WA, SA and Queensland. Our Eastern states' hotel portfolio now stretches from the NSW border to Palm Cove in Far North Queensland. New bar, bistro and gaming initiatives have been very popular with customers.

Our 1st Choice Liquor Superstore rollout continued with 20 additional large format stores bringing the total to 39, including 24 stores trading in the fast-growing Queensland market. The team is focused on giving customers great range, unbeatable value and a unique retail experience.

We upgraded 51 Liquorland stores, and have now completed refurbishment of 200 stores, giving our customers convenience and a bright new store environment where it is easy to find the products they want.

Vintage Cellars, our specialist wine brand, further strengthened its position with successful releases of the Grange and Penfolds Bin ranges, and some exciting new international wines. The Vintage Cellars Wine Club is among the most successful of its kind in Australia and its membership base continues to grow.

Product differentiation has been a key focus across the Liquor business with a range of new and exclusive products introduced to customers throughout the year, including the St Andrews wine range, Tangled Vine casks, Lachlan Ridge casks, Pizzazz sparkling wines and Hammer 'N' Tongs draught beer. Our merchandise team scours Australia and the world to bring our customers exciting new products and greater choice – and more exclusives are on the way.

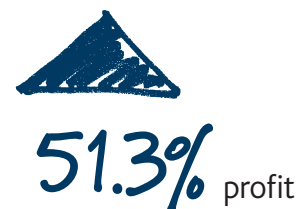
Next year we will build on our momentum by continuing our successful store roll-out and refurbishments, optimising our hotel portfolio and delivering an outstanding liquor offer to customers across all our hotels and retail brands.





	2007	2006	Change
Sales (\$m)	5,793	6,187	-6.4%
Retail EBIT (\$m) ⁽¹⁾	45.4	30.0	51.3%

(1) 2007: Excludes \$34.5 million for renegotiated Coles Express leases previously expensed under AIFRS.



This year, Coles Express has worked towards giving our customers even greater value and quality in our fuel and convenience store offer, introducing a number of new, quality Shell fuels and launching our customer-focused convenience store strategy.

The major focus of our store strategy was earning customer loyalty by giving customers better value. This was achieved through new and exciting product promotions, offering our 'You'll love Coles' housebrand products across major categories, improving our food-to-go and bread and milk offer, and making sure we deliver this at locations that are convenient to our customers.

We were the first Australian fuel retailer to introduce the '4+2' fuel discount program, where customers who spend \$30 or more in one transaction in a Coles, Bi-Lo, Liquorland or Kmart store receive a four cent per litre fuel discount docket, and can then receive an additional two cent per litre discount if they spend \$2 or more on Coles Express in-store items.

To deliver value and freshness, we introduced 'You'll love Coles' bread and milk 'two for' deals at Supermarket prices, and the popular 'Coles Finest' coffee and fresh donut offer. Also, on the east coast, we introduced Coles fresh sandwiches, pies and drink combo deals.

Supply chain improvements made as part of the strategy meant we were also able to deliver savings and increase efficiency in deliveries to our network of just over 600 stores.

For motoring enthusiasts, we were proud to launch Shell V-Power and Shell V-Power Racing this year in selected stores. Developed in association with Ferrari, Shell V-Power is a 98-octane premium fuel available exclusively at Coles Express, and Shell V-Power Racing, blended with 5% ethanol, is Australia's only super-premium 100-octane fuel.

Coles Express has delivered quality and value in our fuel and convenience offer to our customers

We also launched the competitively priced Shell Unleaded E10 with Fuel Economy Formula to sites across the eastern seaboard. Blended with 10% ethanol, Shell Unleaded E10 is cleaner burning and can help to reduce greenhouse gas emissions.

In the coming year, we will increase our network and accelerate our refurbishment program following the successful pilot of our new format convenience store.





	2007	2006	Change
Sales (\$m)	3,889	4,001	-2.8%
Retail EBIT (\$m) ⁽¹⁾	96.8	76.0	27.4%
Retail margin ⁽¹⁾	2.49	1.90	59bps

(1) 2006: Excludes strategic initiative costs (\$12.8m)



27.4% profit

Kmart has had a challenging but exciting year, focusing on the reinvigoration of our product offer. This improvement, combined with an increased number of store refurbishments, has positioned Kmart for profitable growth next financial year.

We are building a strong business that will deliver every day value to our customers

This year, Kmart remained a destination for customer favourites like childrenswear, men's underwear, toys, footwear, DVDs, camping and fishing. Customers responded well to the tremendous range we offered, with something for all the family, from toys to manchester, clothes and barbecues. We again gave customers a mix of our own, excellent value brands such as GirlXpress, Now, Jackeroo and Rivergum, and the national brands our customers love.

We are focused on a big, bright future for Kmart. We are building a strong business that will deliver every day value to our customers and is flexible to their needs, wants and shopping habits.

Our team members form the heart of Kmart. We are proud of their commitment to providing the best customer shopping experience, and are focused on building capability and helping develop their careers.

We opened six new stores this year, while nine underperforming stores were closed, bringing our total portfolio to 168 stores across Australia and 14 in New Zealand. We have plans underway to open more stores in both countries next year.

Our foundation is 'A Good Life Is Affordable at Kmart', and we make affordability a priority. This year we have acted on that promise by improving our offer to customers in Home (sheets, pillows and storage), Women (seasonal and fashion basics, underwear, footwear, wellbeing and cosmetics), Family (for men and for children) and Entertainment and Recreation (from the family barbecue to beach volleyball, from the latest MP3 or video games to backyard cricket).

Kmart Tyre and Auto Service is Australia's largest automotive service, repair and tyre retailer, offering consistent high quality in products and service. This year we sold our tyre wholesale business, and we focused on integrating the 96 sites we purchased the previous year from Shell. We now have a network of 267 stores in excellent locations, and we are Australia's largest single employer of mechanics and apprentices.

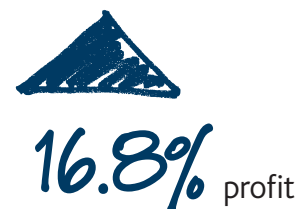
With a leading range of national brands and our own brands, a major focus on the continuous improvement of our customer experience and in-store execution and a great Kmart team, we look forward to an exciting year of growth.





	2007	2006	Change
Sales (\$m)	3,306	3,170	4.3%
Retail EBIT (\$m) ⁽¹⁾	290.0	248.3	16.8%
Retail margin ⁽¹⁾	8.77	7.83	94bps

(1) 2006: Excludes strategic initiative costs (\$14.6m)



This year, at Target we continued our very successful strategy of providing our customers with fashionable and affordable merchandise across all categories.

Our focus on delivering differentiated fashion merchandise created strong customer demand in our childrenswear and menswear businesses. The women's apparel, footwear and homewares businesses also helped to consolidate our reputation as a destination for wanted on-trend products across all of our merchandise categories.

Our Designers for Target program, introduced ahead of the Spring Racing Carnival in October, was an instant hit with customers keen to own on-trend designer garments at discount department store prices. The March launch of the Stella McCartney for Target collection was an unprecedented success and further reinforced Target as a destination for affordable fashion. We are planning to grow this component of our business with more exciting and highly sought after designer collaborations next year.

As well as enhancing our merchandise offer, we have undertaken significant work to improve our customers' in-store shopping experience, by introducing our ambience program. The program improves stores with enhancements including new flooring, better fixture and aisle positions, new fixtures, large graphic treatments and painting. The ambience program helps Target to be consistent with the style of our products, delivering a light, clean and easy place to shop and also highlighting the products we offer.

This year, we gained traction in our strategy of expanding the Target store network, opening a net nine stores. We

look forward to bringing the Target brand to more Australian communities as a major shopping destination as our store roll-out program continues in 2008.

We are providing our customers with fashionable and affordable merchandise in all categories

As well as opening new stores, this year we completed refurbishment works at 11 stores, and replaced nine stores. Five of these replacements were Target Country stores, which were replaced with full line Target stores to provide customers in these communities with a more comprehensive offer.

Looking ahead, we will continue to open new stores and improve the shopping experience in our existing store network. We will also further enhance our merchandise selections to make sure our customers have access to exciting, on-trend, affordable merchandise.





	2007	2006	Change
Sales (\$m)	1,262	1,229	2.7%
Retail EBIT (\$m) ⁽¹⁾	85.4	74.9	14.0%
Retail margin ⁽¹⁾	6.77	6.09	68bps

(1) 2006: Excludes strategic initiative costs (\$1.7 m)



14.0% profit

Customers, including small and medium businesses, home offices, students, teachers and parents, come to Officeworks to source office products and solutions that help and inspire them to work more efficiently and create the most effective office space.

Our well known promotional events, including Back-to-School, Tax Time and The Works, again proved popular with our customers.

Fashion stationery continues to be a huge success and we have built on this, adding colourful new ranges of manila and suspension folders, expanding our housebrand range and adding new specialty paper.

We successfully launched the new Microsoft Vista™ platform and Office 2007™ suite. The new shredder range, as well as data storage and computer networking products, have been popular.

In line with our strategy to accelerate our store roll-out, we opened 14 new Officeworks stores this year and closed two, bringing our total to 107 across the country. In Harris Technology, we opened one Business Centre, the ninth in the network, and refurbished two others.

This year, we introduced 'Knowledgeworks', a program to improve the product knowledge and selling skills of our customer facing teams. This has been delivered to more than 4,000 team members through 45 online training modules.

We centralised the management of our retail and direct supply chains, working hard to reduce total supply chain costs while delivering faster and more efficient service to our stores and customers.

Our promotional events, including Back-to-School, Tax Time and The Works again proved popular

During the year, we completed a major IT project and relaunched a strengthened website www.officeworks.com.au, offering improved functionality and product searching. We will continue to develop our web presence to give customers a simple and exciting online shopping experience.

We celebrated Harris Technology's 20th birthday during the year, and also upgraded the Harris Technology website www.harristechnology.com.au to improve navigation and product searching.

In 2008, we will continue to build on and improve our core range of stationery, consumables and technology, and copy and print services. We will again accelerate the growth of our store network as well as refurbishing our existing stores. We'll continue to develop and grow our direct channel, with a focus on improving our online shopping experience. In Harris Technology we'll focus on opening new stores to reach new markets and customers.

Officeworks is well positioned to continue delivering strong returns and growth in the year ahead.



Doing Business Responsibly



Corporate Responsibility Index

This year, the Coles Group participated in the annual Corporate Responsibility Index, managed by the St James Ethics Centre. The Index is a way to measure our performance and progress in four key areas of social responsibility – community, environment, marketplace and workplace.

This year we achieved an overall score of 70.2 per cent, a five per cent improvement on our first result in the 2003 Corporate Responsibility Index.

We were encouraged to be recognised for progress in several key areas.

We improved our workplace results, largely through the work we've done around values and behaviours, diversity and labour rights.

Our work in establishing the Coles Group Community Fund was recognised, as was our work in Supply Chain with the launch of our Ethical Sourcing Code.

We also showed progress in environmental responsibility, through work with the National Packaging Covenant including returnable plastic crates, reduction of single-use plastic bags, reuse and recycling of clothes hangers, and increased recycling of plastic, cardboard and paper across our business.

While these results are encouraging, we know we have plenty of work ahead of us, particularly in implementing our community and environment strategies, to make sure we keep improving.

Our Team

We know that building a great team and creating a great place for people to work is a key to success, and we have continued a range of initiatives to keep improving.

During this year, we continued to implement our diversity strategy and values and behaviours framework.

Diversity initiatives this year included Diversity Workshops for regional, state and departmental managers in our Supermarkets business, and online Diversity and Equal Opportunity training for Line Managers. These programs help provide a stronger understanding of diversity and inclusion, and diversity and leadership skills, at the front line of our business.

Initiatives to support women in the workplace included a range of Women's Leadership programs, a Women's Executive Group coaching program for high potential female executives and our first Women in Supermarkets event, for over 140 female store and department managers from Victoria. The highly successful Women's Network continued to run networking sessions covering work-life management, financial planning and marketing.

We established a Diversity Council led by senior executives in 2006, and diversity and values issues are now a standing agenda item for the monthly meetings of the Group Executive Team.

Our strong focus on diversity is showing promising results. The percentage of women in senior leadership (Executive) positions has grown from 15.8 per cent in 2003 to 22 per cent in March 2007, in line with our targets. The number of female store managers has grown from 21 per cent to 24 per cent since 2004.

In recognition of our work in providing employment opportunities to people with a disability, Coles Group won a Prime Minister Employer of the Year award. Coles received a record number of nominations with 19 stores recognised by external providers for supporting and employing team members with a disability from within their local communities.

The safety of our team continues to be a key priority. We have set ourselves an objective of reducing Lost Time Injury Frequency Rates (LTIFR) to single digits across our business. Officeworks achieved this goal, but our overall Group LTIFR this year was 15.1.



Caring for Our Communities

Coles Group Community Fund

This year, we established the Coles Group Community Fund to take a more strategic approach to our corporate giving. To support our aim of building healthier communities, the Fund helps organisations whose core work focuses on health and wellbeing, lifelong learning and the environment.

The Fund has four key programs: Community Grants, Workplace Giving, Fundraising Top-Up, and Community Partnerships. As a business we also support a range of cause-related marketing and fundraising initiatives.

The Community Grants Program, launched in February 2007, allows registered Australian charitable organisations to apply for funding for inspiring projects and programs in communities where we have stores and conduct our business. We aim to give around \$800,000 each year via two funding rounds, giving grants of between \$5,000 and \$50,000.

In addition, we set up exciting new national Community Partnerships within our three focal areas, with the Cancer Council, the Education Foundation and Landcare Australia.

This year we also surveyed our team members to understand the key causes and organisations that they were keen to support. Using this feedback, we selected 26 charitable organisations to be part of our new Workplace Giving Program, which enables team members to make donations directly through their pay. The Fund will match team member giving, capped at \$1 million each year.



Smith Family Partnership

This year, Officeworks partnered with the Smith Family supporting their Learning for Life program to provide educational opportunities for disadvantaged young Australians.

Through the partnership, Officeworks distributed 'Back to School' packs to 10,500 primary students and funded more than 120 student scholarships, as well as donating one per cent of sales of all Officeworks A4 copy paper to the Learning for Life program.



Officeworks supports the Smith Family's Learning for Life program



Coles Supermarkets partners with the Salvos to provide drought relief

The Salvation Army Drought Appeal

As a supermarket retailer, we deal with farmers and growers across Australia every day, and are aware of the devastating impact of drought on rural communities.

From 15 January to 4 March this year our customers could donate to the Salvation Army Drought Appeal at Coles' cash registers. We committed to donating \$100,000 as well as matching the total amount donated by customers. The total raised by Coles and our customers reached a staggering \$1,260,000.

Proceeds from the Drought Appeal will focus on strengthening the capacity of families to get through the hardship, especially to help make children's lives as normal as possible.

This year Coles also supported the Victorian Farmers Federation's Drought Relief Fund, and the Dairy Farmers' Greener Pastures Fund.

Environment

Climate change is of growing concern to our customers, team members and shareholders and we recognise the increasing importance of including environmental considerations in our decision making.



Target Head Office extension, designed to conserve water



The reduction of single-use plastic bags is a key focus

Energy Business Case

Our energy management has been identified as a major priority. The Coles Board has signed off on an Energy Business Case that commits to spending up to \$27 million on Energy Efficient Capital Works over the next 3 years.

Environmental Concept Stores

Coles has been involved in a 'Greening of Coles' program in conjunction with the Federal Government. These works have seen the opening of four stores in the past two and a half years, at Gisborne and Lynbrook in Victoria, and Winmalee and Rouse Hill in NSW.

A range of Ecologically Sustainable Development (ESD) initiatives has been trialled in these concept stores, including:

- natural refrigerants in refrigeration plants;
- rainwater capture and use for toilet flushing and landscaping;
- daylight in the form of skylight panels linked to lighting control; and
- use of plantation timbers and alternative materials of construction.

Another store incorporating ESD is set to open in the next six months at Ropes Crossing in NSW, with further stores planned for the future.

Coles is also a member of the Green Building Council.

Energy Efficiency Opportunities (EEO) Program

Coles has signed up to the Federal Government's EEO program. We will undertake the work required for EEO in conjunction with our broader Energy Management Program.

Managing Waste

The Coles Group was the first major retailer to sign up to both the first and second National Packaging Covenants. Through our action plan, we are working on a number of initiatives to reduce the amount of packaging we use, and ensure that, where possible, it can be recycled.

One key initiative has been our introduction of Returnable Plastic Crates for fresh produce. Coles Supermarkets now uses returnable plastic crates for packing, transporting and displaying fresh produce, reducing handling and helping to

improve product quality. Farmers fill the crates with fresh produce and send them to stores, where they are put straight onto display for customers to select from. Once emptied the crates are collected, washed and re-issued to farmers. Each week around 800,000 crates are returned back to our fresh produce suppliers. Each crate will be re-used around 15 times a year. By using these crates, we remove 35,000 tonnes of cardboard from our supply chain each year.

Recycling

We collect and recycle cardboard and plastic in all our stores, with most stores also offering a collection service for used plastic bags. Coles Group is among Australia's largest cardboard recyclers, and we diverted more than 133,000 tonnes of cardboard and paper and 3,300 tonnes of plastic from landfill in the past 12 months.

We are also currently trialling organic recycling facilities for fresh produce waste at stores in NSW and Victoria, and look forward to expanding this trial to other stores soon.

Plastic bags

Coles Group is committed to continuing to reduce the number of single-use plastic bags distributed.

The efforts made by Supermarkets since 2002 stopped over 385 million bags being distributed last year alone.

We continue to offer new, attractive alternative bags at reasonable cost to customers. Over the past year we sold over five million alternative bags, raising much-needed funds for our environmental partners Clean Up Australia, Planet Ark and Landcare Australia.

Water

Coles Group is committed to reducing water use by progressively implementing water saving measures.

Initiatives include a detailed Water Management Plan for our Tooronga Head Office in Melbourne, and implementation of water saving measures in South East Queensland to comply with Level Five water restrictions and the requirements of Water Efficiency Management Plans. We have made changes including flow restrictors on taps and showers, water saving urinals, and trigger nozzles to hoses in wash down areas. We are committed to progressively rolling out these water saving initiatives across the rest of the country.

In March, Coles Group won the prestigious savewater! 'built environment' award for outstanding achievements in water conservation, for the extension of Target's head office in Geelong.

Water wise developments in this project included capturing stormwater on the 1,600 square metre roof and storing it in 16 tanks under the building, from where it is drawn to flush toilets in the building, significantly reducing the consumption of town water.

The awards are an initiative of the savewater! Alliance Inc., an alliance of metropolitan and regional water businesses in Victoria and New South Wales.



Ethical Sourcing Code — making progress

In November 2005, the Coles Group launched an Ethical Sourcing Code. Our goal is to only purchase products or services that are produced in a socially responsible manner. We want to make sure the goods we sell are made in good and safe working conditions and the basic human rights of workers are respected.

The Ethical Sourcing Code, and the audit procedures that accompany it, are intended to help us achieve this goal.

In line with our risk matrix, we have focused on direct imports from Asia. This has resulted in audits and detailed analysis of

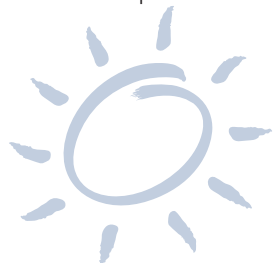
primarily our non-food suppliers to Kmart, Target and Coles supermarkets. So far we have audit documentation covering 168 factories and 66% of our purchases through Coles Group Asia.

We are making steady progress. We will continue to concentrate on high risk product categories, add our Ethical Sourcing Code as a requirement in the selection and sourcing of Coles' housebrand products, and undertake further buyer and supplier training.



COLES GROUP LIMITED
ETHICAL SOURCING CODE





Meet the Board

Board of Directors

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 the Advisory Council of Chief Executive Women. She is also a Director the YWCA-NSW. Ms Akopiantz's previous directorships include the Australian Graduate School of Management and the Foundation for Young Australians.

Richard (Rick) H Allert, AM

Chairman

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

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

Ronald K (Keith) Barton

Non-executive Director

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

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

John E Fletcher

Chief Executive Officer and Managing Director

FCPA, age 56, (appointed Director 2001)

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

William (Bill) P Gurry, AO

Non-executive Director

LLB, age 60, (appointed Director 2001)

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

Non-executive Director

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

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

Belinda J Hutchinson AM

Non-executive Director

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

Ms Hutchinson has broad experience as a Non-executive Director and as an executive within the banking and financial services sector. Ms Hutchinson is a Director of Telstra Corporation Limited (from 2001) and QBE Insurance Group Ltd (from 1997). She is also a Director of St Vincents and Mater Health Sydney Limited. Ms Hutchinson's previous appointments include Director of Energy Australia Limited (1997-2005), TAB Limited (1997-2004) and Crane Group Limited (1997-2004).

Sandra V McPhee

Non-executive Director

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

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



Board members: (Back row) Belinda Hutchinson, Keith Barton, Tony Hodgson, Bill Gurry, Patty Akopiantz. (Front row) left to right: Michael Wemms, Rick Allert, John Fletcher, Sandra McPhee.

Martyn K Myer

Non-executive Director

BEng, MEng, MSM (MIT), age 49, (appointed Director 1996, retired 20 November 2006)

Mr Myer has extensive experience in financial services, engineering and biotechnology. He is Chairman of Cogstate Ltd (director from 2000), a Director of Diversified United Investments Ltd (from 1991), and the SP Ausnet group of companies (from 2005). Mr Myer has involvement in several philanthropic activities, including President of the Howard Florey Institute at the University of Melbourne and member of the board of The Myer Foundation.

J Michael Wemms

Non-executive Director

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

Mr Wemms has extensive retail and business experience in the United Kingdom. He worked at Tesco from 1972 to 2000 in a range of positions, including Store Manager, Personnel Director and Store Operations Director. He was a Director of Tesco plc from 1989-2000 and a part-time advisor to the company until June 2003. His current Non-executive directorships include the

international automotive group, Inchcape plc (from 2004), AaD Pharma Holdings NV (from 2006), Galiform plc (from 2006) and Moneysupermarket.com Group plc (from 2007). Mr Wemms was a Director and Chairman of House of Fraser plc (1996-2006) and Chairman of the British Retail Consortium (2004-2006).

Committee membership

Audit and Risk Committee: Tony Hodgson (Chair), Patty Akopiantz, Rick Allert, Michael Wemms

Nomination Committee: Rick Allert (Chair), Bill Gurry, Michael Wemms

Remuneration Committee: Sandra McPhee (Chair), Rick Allert, Keith Barton, Belinda Hutchinson, Michael Wemms

Corporate Social Responsibility Committee: Patty Akopiantz (Chair), Rick Allert, John Fletcher

Due Diligence Committee: Tony Hodgson (Chair), Rick Allert, John Fletcher

Corporate Governance

Your Directors and management are committed to high standards of corporate governance, which are embodied in the Board Governance Charter. This charter establishes the framework for how the Board oversees the Company and performs its functions on behalf of shareholders.

Role of the Board

The Board is responsible to shareholders for the overall strategy, governance and performance of the Company. Under the Board Governance Charter, the Board has reserved certain matters to itself for decision, such as appointing the CEO and approving strategy and annual budgets. All matters not specifically reserved to the Board for decision have been delegated to the CEO for decision.

Composition of the Board

The Board is to have a majority of independent Directors so that it can bring quality judgments, which are free of bias, to all issues. An independent Director is one who is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act with a view to the best interests of the Company.

The Board has adopted a definition of 'independence', which is in line with the ASX Corporate Governance Council Best Practice Recommendations. For full details visit www.colesgroup.com.au. The Chairman of the Board should be an independent Director. The Board currently comprises eight independent Non-executive Directors and one Executive Director, being the Managing Director.

Criteria for Board membership

For Directors appointed by the Board, the Board will consider the range of skills and experience required in light of:

- the strategic direction and progress of the Company;
- the current composition of the Board; and
- the need for independence.

A Director appointed by the Board must stand for election at the next Annual General Meeting. Apart from the Managing Director, all Directors are subject to re-election by rotation at least once every three years.

Board committees

The Board carries out certain duties by delegation to Board committees. These committees meet regularly and make recommendations to the Board on the issues delegated to them. The committees' charters may be viewed on the Company's website.

Audit and Risk Committee

The committee assists the Board in relation to the Company's corporate governance framework, the identification of areas of significant business risks and the monitoring of:

- the preparation of the Company's financial statements;
- maintenance of an effective and efficient internal and external audit;
- effective management of business risks;
- compliance with laws and regulations; and
- business dealings, in particular related party transactions.

The committee is responsible for the appointment, compensation, retention and oversight of the work of the external auditor. Under the committee's charter all members must be independent Directors. The committee members are Tony Hodgson (Chair), Patty Akopiantz, Rick Allert and Michael Wemms.

Nomination Committee

The principal responsibilities of the committee are:

- to advise the Board on Directorship appointments, with particular attention to the mix of skills, experience and other qualities of existing Directors;
- to advise the Board on the appointment of potential successors to the Chief Executive Officer;
- to advise the Board on a process for regularly assessing the effectiveness of the Board as a whole;
- review Board succession plans;
- to annually review the Board's required mix of skills, experience and other qualities; and
- to develop and implement a process for the orientation and education of new Directors.

The members of the Nomination Committee are Rick Allert (Chair), Bill Gurry and Michael Wemms.

Remuneration Committee

The committee will:

- review Directors' remuneration annually, including board fees, committee fees, retirement benefits or any other remuneration for the Chairman of the Board and other Non-executive Directors, supported by independent advice and market information;
- review remuneration policies and practices for senior executives, supported by independent advice and market information;
- monitor the preparation of the annual Executive Remuneration Report in conjunction with the Audit and Risk Committee; and
- oversee Human Resources policies and practices which relate to the Coles Group Executive Team and key talent.

The members of the Remuneration Committee are Sandra McPhee (Chair), Rick Allert, Keith Barton, Belinda Hutchinson and Michael Wemms.

Corporate Social Responsibility Committee

This committee advises the Board on issues related to the Company's social and environmental commitments to its stakeholders.

Committee members are Patty Akopiantz (Chair), Rick Allert, and John Fletcher.

Board appraisal process

The Board monitors and evaluates its performance and the performance of the Board committees and individual Directors annually in order to fairly review and actively encourage enhanced Board effectiveness. External consultants are engaged to assist in the evaluation process. The Board also evaluates the performance of each Director standing for re-election before deciding whether to recommend to shareholders that the Director be re-elected.

Fair dealings and related party transactions

Directors, as well as senior management, convey the message to all stakeholders through the relevant policies and our internal review mechanisms, that integrity and effective control cannot be compromised when dealing with suppliers, particularly if a supplier is a related party. The Company has implemented a comprehensive policy regarding related party transactions. A Director, or entities in which a Director has a significant interest and/or influence, who enters into a transaction with the Company (other than a transaction involving the payment of compensation), must make full disclosure. If the total value of the transactions for a month exceeds \$1 million, details will be reported to the Audit and Risk Committee. Certain contracts with Directors, or entities in which Directors have a significant interest and/or influence, must be approved by the Audit and Risk Committee in advance of committing the Company.

Share trading

The Company's policy and procedures on dealing in the Company's securities requires that Directors and employees who possess inside information should never deal in the Company's securities. It also provides that Directors and senior executives are not permitted to trade in the Company's securities in the three-week period prior to the announcement of the half-year profit result, the full-year profit result or a quarterly sales announcement. It also prohibits Directors and senior executives from entering into hedging contracts in relation to their securities without first obtaining the specific approval of either the Chairman or the CEO.

Group results and monitoring

The Board has overall responsibility for the appropriate reporting of the Coles Group results. In order to effectively carry out this function, the Audit and Risk Committee monitors the effectiveness of the Group's systems and internal financial controls. The Group's performance is monitored on a monthly basis through annual operating and capital budgets which have been established by the relevant business heads and approved

by the Board. Internal Audit is used extensively to monitor the areas of greatest risk as identified by risk analysis. The external auditor reviews and tests the system of internal control to the extent necessary to form an opinion on the Financial Report.

External auditor independence

The independence and performance of the external auditor is subject to continual review by the Audit and Risk Committee. Audit engagement partners are rotated every five years, with the most recent rotation occurring in the 2007 financial year.

Code of Conduct

A Code of Conduct, based on the fundamental principle that all Company affairs shall be conducted legally, ethically and with strict observance of the highest standards of integrity and propriety, has been adopted by all Directors and team members. It is wide ranging and describes how an individual should act in many different circumstances.

It also provides guidance on how to resolve uncertainties and how to deal with suspected breaches of the Code by others. The Code may be viewed on the Company's website.

Non-executive Director tenure policy

The Board has adopted a tenure policy for all Non-executive Directors. The policy provides that Non-executive Directors will hold office for no more than 10 years (normally three full terms) unless there are special circumstances in which the Board considers that the Director should serve longer. The Chairman is expected to serve in that role for at least five years.

Professional advice to Directors

Subject to the approval of the Audit and Risk Committee, Directors may engage an outside professional advisor at the expense of the Company in appropriate circumstances.

Communication with shareholders

The Company is committed to:

- ensuring that shareholders and the financial markets are provided with full and timely information about its activities;
- complying with continuous disclosure obligations contained in applicable ASX Listing Rules and the Corporations Act; and
- ensuring that all stakeholders have equal opportunities to receive externally available information issued by the Company.

The Company has established a Continuous Disclosure Committee which is responsible for monitoring the continuous disclosure practices of the Company, assessing the information provided by the Company's businesses and considering the appropriate response to any market rumours concerning the Company. Information is communicated to shareholders through the distribution of the Annual Report and whenever there are other significant developments to report. In addition, all significant information is posted on the Company's website as soon as it is disclosed to the ASX.

Corporate Governance

(continued)

The Annual General Meeting, along with profit and sales presentations, is also broadcast live on the website. A copy of all the governance policies referred to in this report are also able to be viewed on the Company's website.

Donations

The Board's decision to contribute to the major political parties, federally and in the states, is motivated by its desire to see a strong political system that supports the democratic process in Australia.

Commitments made to political parties at the federal and state levels during the year were:

Australian Labor Party	\$82,000
Liberal Party of Australia	\$82,000
National Party of Australia	\$23,500

ASX corporate governance recommendations

At the date of this report the Company complies with the ASX Principles of Good Corporate Governance and Best Practice Recommendations.

The information required to be disclosed by those recommendations is found both in this Corporate Governance section and in the Directors' Report on pages 33-34 of this report.

Concise Financial Statements

Income Statement

For the 52 weeks ended 29 July 2007 (2006 30 July)

	2007 \$m	2006 \$m
Continuing operations		
Revenue from sale of goods (excluding goods and services tax)	34,687.9	34,212.0
Other operating revenue (excluding finance income)	126.5	91.8
Cost of goods sold	(26,316.1)	(26,160.8)
Gross profit	8,498.3	8,143.0
Other income	257.4	134.4
Advertising expenses	(340.6)	(358.8)
Selling and occupancy expenses	(5,838.6)	(5,662.3)
Administrative expenses	(1,518.1)	(1,427.3)
Finance income	33.3	25.0
Finance costs	(136.1)	(123.9)
Share of profit of joint venture accounted for using the equity method	35.3	21.9
Profit before income tax expense	990.9	752.0
Income tax expense	(270.8)	(215.6)
Profit from continuing operations	720.1	536.4
Profit from discontinued operations	27.7	627.2
Profit for the year⁽¹⁾	747.8	1,163.6
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company		
Basic earnings per share	60.2 cents	43.0 cents
Diluted earnings per share	59.6 cents	42.6 cents
Earnings per share for profit attributable to the ordinary equity holders of the Company		
Basic earnings per share	62.5 cents	93.4 cents
Diluted earnings per share	61.9 cents	92.4 cents

(1) The profit for the year ended 29 July 2007 was \$747.8 million. After adjusting for costs associated with the ownership review of \$44.6 million, the profit for the year would have been \$792.4 million. Refer to note 5 for further information on segment results.

The profit for the year ended 30 July 2006 was \$1,163.6 million. After adjusting for the gain on disposal of Myer of \$583.7 million and strategic initiative costs of \$207.4 million, the profit for the year would have been \$787.3 million.

The above Income Statement should be read in conjunction with the accompanying notes.

Concise Financial Statements

Balance Sheet

As at 29 July 2007 (2006 as at 30 July)

	2007 \$m	2006 \$m
Current assets		
Cash and cash equivalents	546.1	485.6
Trade and other receivables	428.8	390.8
Inventories	2,946.5	2,851.8
Derivative financial instruments	1.7	1.4
Assets classified as held for sale	26.1	151.7
Total current assets	3,949.2	3,881.3
Non current assets		
Receivables	41.2	43.7
Investments	7.4	125.0
Derivative financial instruments	6.8	9.4
Property, plant and equipment	3,460.0	3,133.3
Investment properties	7.6	7.6
Deferred tax assets	501.1	484.5
Intangible assets	1,670.2	1,412.2
Retirement benefit asset	77.6	38.3
Total non current assets	5,771.9	5,254.0
Total assets	9,721.1	9,135.3
Current liabilities		
Trade and other payables	3,057.9	3,080.3
Interest bearing liabilities	200.0	30.2
Derivative financial instruments	62.4	24.0
Tax liabilities	38.8	66.4
Provisions	622.0	761.9
Total current liabilities	3,981.1	3,962.8
Non current liabilities		
Payables		23.0
Interest bearing liabilities	1,285.9	974.0
Derivative financial instruments	21.7	16.1
Deferred tax liabilities	85.6	77.6
Provisions	291.9	320.7
Other	148.1	163.1
Total non current liabilities	1,833.2	1,574.5
Total liabilities	5,814.3	5,537.3
Net assets	3,906.8	3,598.0
Equity		
Contributed equity	2,198.9	2,144.2
Reserves	(16.2)	3.9
Retained profits	1,724.1	1,449.9
Total equity	3,906.8	3,598.0

The above Balance Sheet should be read in conjunction with the accompanying notes.

Statement of Recognised Income and Expense

For the 52 weeks ended 29 July 2007 (2006 30 July)

	2007 \$m	2006 \$m
Foreign currency translation reserve		
Exchange differences on translation of foreign operations	7.2	(7.3)
Cash flow hedge reserve		
Net hedging losses recognised directly in equity	(64.6)	(11.5)
Net hedging gains transferred to the Income Statement	(0.2)	–
Net hedging losses/(gains) transferred to inventory	12.3	(8.6)
Retained profits		
Actuarial gains on defined benefit plan	38.7	17.4
	(6.6)	(10.0)
Income tax on equity items	4.3	0.8
Net expenses recognised directly in equity	(2.3)	(9.2)
Profit for the year	747.8	1,163.6
Total recognised income for the year	745.5	1,154.4
Effects of change in accounting policy – financial instruments		
Adjustment on adoption of AASB 132 and AASB 139, net of tax:		
Retained profits		(20.7) ⁽¹⁾
Reserves		6.0 ⁽¹⁾
		(14.7)

(1) As permitted, on adoption of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*, Coles Group elected to recognise an opening balance adjustment at 1 August 2005. Further information on adoption of these standards is available in the 2006 Full Annual Report.

The above Statement of Recognised Income and Expense should be read in conjunction with the accompanying notes.

Concise Financial Statements

Cash Flow Statement

For the 52 weeks ended 29 July 2007 (2006 30 July)

	Inflows/(outflows)	
	2007 \$m	2006 \$m
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	37,249.3	39,814.5
Payments to suppliers and employees (inclusive of goods and services tax)	(35,920.0)	(38,012.2)
Distributions received from joint venture partnership	2.3	10.2
Finance income received	36.8	23.6
Finance costs paid	(112.9)	(112.8)
Income tax paid	(313.0)	(422.7)
Net cash from operating activities	942.5	1,300.6
Cash flows from investing activities		
Payments for property, plant and equipment and intangible assets	(1,040.8)	(1,043.1)
Payments for purchase of licences	(8.0)	
Payments for purchase of businesses and controlled entities, net of cash acquired	(145.2)	(202.5)
Payments for purchase of joint venture	(7.3)	(0.9)
Proceeds on sale of licences	4.9	
Proceeds on sale of property, plant and equipment	169.8	19.9
Proceeds on sale of businesses and controlled entities, net of transaction costs	11.1	1,309.9
Proceeds on sale of investments	158.5	13.3
Net cash from investing activities	(857.0)	96.6
Cash flows from financing activities		
Proceeds from contributions to equity	76.9	122.5
Payments for purchases of buy-back shares, including transaction costs	(78.4)	(838.2)
Proceeds from borrowings	5,883.7	8,309.2
Repayments of borrowings	(5,402.5)	(8,496.9)
Dividends paid	(500.7)	(453.1)
Net cash from financing activities	(21.0)	(1,356.5)
Net increase in cash held	64.5	40.7
Cash at the start of the year	481.6	440.9
Cash at the end of the year	546.1	481.6

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

Concise Financial Statements

Notes to the Concise Financial Statements

Note 1 2007 concise financial statements

The concise financial statements are an extract of, and have been derived from, Coles Group Limited (formerly Coles Myer Ltd.) and its controlled entities Financial Report (the Financial Report) for the year ended 29 July 2007. The Financial Report is prepared on a going concern basis. To the extent there is a change in the ownership of Coles Group Limited, a new owner of the Company may have a different view of critical accounting estimates and judgements included in the Financial Report.

The concise financial statements cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Coles Group as the Financial Report.

A copy of Coles Group's Financial Report for the year ended 29 July 2007, including independent audit report, is available to all shareholders and will be sent to shareholders without charge upon request. The share registry contact details for Coles Group Limited are contained on the inside back cover of this report.

The expression 'Coles Group' refers to Coles Group Limited and its controlled entities, and 'Coles Group Limited' or 'the Company' is used to refer to the ultimate parent entity and legal entity Coles Group Limited.

The financial year is for the 52 weeks ended 29 July 2007 (2006 52 weeks ended 30 July). Reference in this report to 'a year' is to the financial year ended 29 July 2007, unless otherwise stated.

The presentation currency used in this Annual Report is Australian Dollars, unless otherwise stated.

Revenues and expenses are recognised net of the amount of goods and services tax. Dollar amounts have been rounded to the nearest one hundred thousand dollars unless specifically stated otherwise. Where the amount is \$50,000 or less, this is indicated by a dash ('-').

Note 2 Significant items

	2007 \$m	2006 \$m
Profit for the year includes the following items whose disclosure is relevant in explaining the financial performance of Coles Group:		
Ownership review		
Refer below for a detailed description of the costs associated with the ownership review, net of income tax benefit of \$11.3 million	(44.6)	
Disposal of Myer		
Gain on sale of Myer, net of income tax expense of \$10.1 million (2006 income tax benefit of \$20.0 million)	29.4	583.7
Strategic initiatives		
Refer below for a detailed description of the costs associated with the strategic initiatives, net of income tax benefit of \$88.0 million		(207.4)
	(15.2)	376.3

Concise Financial Statements

Notes to the Concise Financial Statements (continued)

Note 2 Significant items (continued)

Ownership review

On 23 February 2007, Coles Group announced the commencement of a process whereby it would review the ownership options for the Company and its businesses. This process would consider whether a 100% sale or a restructuring of the Group, including demerger, would create greater value for shareholders than the current ownership structure and growth strategy.

During the second half of the financial year ended 29 July 2007, \$55.9 million of costs were recorded in relation to the ownership review process. These costs predominantly include consultants' fees and advisors' fees, and the re-imbursement of due diligence costs incurred by interested parties.

On 2 July 2007, the Coles Group entered into a Scheme Implementation Agreement (SIA) with Wesfarmers Limited. The Coles Group Directors unanimously recommended a scrip and cash proposal that includes \$4.00 cash, 0.2843 Wesfarmers Limited ordinary shares, and \$0.25 Coles Group fully franked dividend for each Coles Group Limited ordinary share held.

On 5 September 2007, the Coles Group Directors recommended a revised proposal from Wesfarmers Limited. The proposal was modified such that 0.2843 Wesfarmers Limited ordinary shares for each Coles Group Limited ordinary share would be replaced by 0.14215 Wesfarmers Limited ordinary shares and 0.14215 Wesfarmers Limited Partially Protected shares for each Coles Group Limited ordinary share. The Partially Protected shares will be a new form of security to be issued. It is intended the Partially Protected shares will be listed on the Australian Securities Exchange, pay a fully franked dividend of at least \$2.00 per share (subject to the availability of sufficient retained earnings and franking credits), and provide shareholders with additional Wesfarmers Limited ordinary shares in the event that the Wesfarmers Limited ordinary share price is less than \$45.00 at their lapse date. Under the terms of the revised SIA, if the Coles Group Directors elect not to proceed with the transaction, the Company must pay Wesfarmers Limited a break fee of \$150 million.

Significant additional transaction costs may be incurred in the 2008 financial year. Should a transaction be consummated, the Company is required to pay its advisors a success fee, the quantum of which is yet to be determined.

Strategic initiatives

During the year ended 30 July 2006, a number of strategic initiatives were committed to, resulting in significant write-downs and costs. These included:

- redundancy expenses of \$158.1 million associated with the consolidation of support services, simplification of back office processes and closure of the Somersby and Hampton Park distribution centres;
- lease exit costs of \$17.0 million associated with the closure of Somersby and Hampton Park distribution centres;
- write-down of brand names of \$22.6 million as a result of the rebranding of Theo's liquor stores;
- asset write-downs of \$35.7 million and costs of \$22.8 million associated primarily with the rebranding of Bi-Lo stores to Coles, and other store rebranding as a result of changes to the format;
- accruals of \$31.8 million associated with the changes to the existing loyalty program; and
- other costs of \$7.4 million.

	Food, Liquor and Fuel \$m	Kmart \$m	Officeworks \$m	Target \$m	Property and unallocated \$m	Total \$m
Provision for redundancies	(100.3)	(3.5)		(11.8)	(42.5)	(158.1)
Provision for surplus leased space	(17.0)					(17.0)
Write-down of brand names (intangible assets)	(22.6)					(22.6)
Asset write-downs	(29.6)	(2.5)	(1.6)		(2.0)	(35.7)
Provision for restructuring	(19.8)	(3.0)				(22.8)
Accruals – loyalty program	(25.1)	(3.8)	(0.1)	(2.8)		(31.8)
Other costs					(7.4)	(7.4)
Total strategic initiatives	(214.4)	(12.8)	(1.7)	(14.6)	(51.9)	(295.4)

Note 3 Discontinued operations**(a) Description**

On 9 November 2005, Coles Group announced the divestment of its nine Megamart stores. A pre-tax charge of \$81.5 million was recorded in the year ended 31 July 2005 largely comprising the write-down of non current assets and inventory to recoverable amount and the recognition of a provision for surplus leased space. No consideration was received in relation to the divestment. During the year ended 29 July 2007 an additional charge of \$2.4 million was recorded in relation to surplus leased space.

On 2 June 2006, Coles Group disposed of its Myer business for \$1,409.0 million. The disposal included deferred consideration of \$19.5 million which was received during the year ended 29 July 2007. As at 30 July 2006, accruals and provisions for divestment costs totalled \$79.4 million. During the year ended 29 July 2007, certain obligations and requirements have been re-negotiated and where appropriate those provisions and accruals have been reversed, resulting in an additional gain on sale before income tax of \$39.5 million.

Financial information relating to these discontinued operations for the period to the date of disposal or divestment, and for the year ended 29 July 2007, is set out below.

(b) Financial performance and cash flow information

The financial performance and cash flow information for Myer and Megamart are presented for the period to date of disposal or divestment, and for the year ended 29 July 2007.

	2007 \$m	2006 \$m
Revenue and other operating income		2,528.9
Expenses	(2.4)	(2,466.7)
(Loss)/profit before income tax benefit/(expense)	(2.4)	62.2
Income tax benefit/(expense)	0.7	(18.7)
(Loss)/profit after income tax benefit/(expense) of discontinued operations	(1.7)	43.5
Gain on the sale of Myer before income tax (expense)/benefit	39.5	563.7
Income tax (expense)/benefit	(10.1)	20.0
Gain on sale of Myer after income tax (expense)/benefit	29.4	583.7
Profit from discontinued operations	27.7	627.2
Net cash from operating activities	(10.9)	(51.5)
Net cash from investing activities (2006 includes an inflow of \$1,298.9 million from the disposal of Myer)	(8.9)	1,218.2
Net cash from financing activities		121.1
Net cash generated by Myer and Megamart	(19.8)	1,287.8

Concise Financial Statements

Notes to the Concise Financial Statements (continued)

Note 3 Discontinued operations (continued)

(c) Carrying amounts of assets and liabilities

The carrying amounts of assets and liabilities for Myer as at 2 June 2006 was:

	2007 \$m	2006 \$m
Cash and cash equivalents		2.9
Trade and other receivables		23.3
Inventories		560.9
Property, plant and equipment and intangible assets		485.7
Deferred tax assets		83.2
Total assets		1,156.0
Trade and other payables		(339.3)
Provisions		(74.1)
Other		(67.3)
Total liabilities		(480.7)
Net assets		675.3

(d) Details of the sale of Myer

	2007 \$m	2006 \$m
Consideration received or receivable:		
Cash		1,389.5
Deferred consideration receivable		19.5
Total disposal consideration		1,409.0
Carrying amount of net assets sold		(675.3)
Divestment costs associated with disposal	39.5	(170.0)
Gain on sale before income tax	39.5	563.7
Income tax (expense)/benefit	(10.1)	20.0
Gain on sale after income tax	29.4	583.7

(e) Other transactions related to the sale of Myer

As an outcome of the disposal of the Myer business and its related assets, Coles Group issued options for the disposal of certain other freehold properties. On 31 August 2006 an option was exercised resulting in the disposal of Ocean Keys Shopping Centre for \$78.0 million (carrying amount \$47.9 million). On 31 August 2006 an option for the sale of Casey Central Shopping Centre for \$51.0 million (carrying amount \$50.7 million) was also exercised. Coles Group also disposed of its 50% interest in the CMS General Trust for \$160.0 million (carrying amount \$125.0 million).

On 2 June 2006, the Company entered into a number of contracts relating to the sale of its Myer business, whereby Coles Group has guaranteed the performance of certain leases by Myer Limited. The guarantees amount to \$160.1 million and primarily expire within a maximum of three years. The fair value of these guarantees was not considered to be material and as such a separate liability has not been recognised.

Note 4 Dividends

	2007 \$m	2006 \$m
(a) Ordinary shares		
Final dividend for the year ended 30 July 2006 of 22.5 cents (2005 17.0 cents) per fully paid ordinary share paid on 13 November 2006 (14 November 2005). Fully franked at 30% tax rate (2005 30%).	268.1	210.0
Interim dividend for the year ended 29 July 2007 of 19.5 cents (2006 19.5 cents) per fully paid ordinary share paid on 14 May 2007 (15 May 2006). Fully franked at 30% tax rate (2006 30%).	232.6	243.1
Total dividends	500.7	453.1

(b) Dividends not recognised at year end

In addition to the above dividends, since year end the Directors have declared a final dividend of 25.0 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed ordinary dividend expected to be paid on 23 November 2007 out of retained profits at 29 July 2007, but not recognised as a liability at year end, is \$299.7 million. The final dividend declared after 29 July 2007 will be fully franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 27 July 2008.

(c) Dividend franking account

	2007 \$m	2006 \$m
This amount represents the balance of the dividend franking account after allowing for current tax paid and provided for and dividends paid during the year based on a tax rate of 30% (2006 30%).	356.7	297.7

Concise Financial Statements

Notes to the Concise Financial Statements (continued)

Note 5 Segment information

Primary reporting – business segments 2007 \$m	Food, Liquor and Fuel	Kmart	Officeworks	Target	Property and unallocated	Total continuing operations	Discontinued operations - Myer/ Megamart	Consolidated
Revenue								
Sales	26,230.1	3,889.4	1,262.4	3,306.0		34,687.9		34,687.9
Other operating revenue	102.9	1.2	2.9	0.3	19.2	126.5		126.5
Total segment revenue	26,333.0	3,890.6	1,265.3	3,306.3	19.2	34,814.4		34,814.4
Segment result	773.2 ⁽¹⁾	96.8	85.4	290.0	(151.7) ⁽²⁾	1,093.7	37.1 ⁽³⁾	1,130.8
Net finance costs								(102.8)
Profit before income tax								1,028.0
Income tax expense								(280.2)
Profit for the year								747.8*
Segment assets	5,385.2	1,008.5	339.5	872.3	1,614.5	9,220.0		9,220.0
Tax assets								501.1
Total assets								9,721.1
Segment liabilities	(2,139.3)	(458.4)	(199.6)	(461.5)	(2,431.1)	(5,689.9)		(5,689.9)
Tax liabilities								(124.4)
Total liabilities								(5,814.3)
Other segment information								
Investment in joint venture					7.3	7.3		7.3
Share of profit of joint venture					35.3	35.3		35.3
Acquisitions of property, plant and equipment, intangibles and other non current segment assets	688.3	49.9	22.4	97.4	339.2	1,197.2		1,197.2
Depreciation and amortisation expense	(322.5)	(59.1)	(19.0)	(52.9)	(89.5)	(543.0)		(543.0)
Write-downs to recoverable amounts:								
Freehold properties					(2.6)	(2.6)		(2.6)
Leasehold improvements	(1.1)	(0.3)			(0.2)	(1.6)		(1.6)
Property, plant and equipment	(9.0)	(3.8)		(0.1)	(1.5)	(14.4)		(14.4)
Total write-downs	(10.1)	(4.1)		(0.1)	(4.3)	(18.6)		(18.6)
Reversal of previous write-downs:								
Leasehold improvements	0.4	0.1				0.5		0.5
Property, plant and equipment	10.2	2.4				12.6		12.6
Total reversal of previous write-downs	10.6	2.5				13.1		13.1

* The profit for the year was \$747.8 million. After adjusting for ownership review costs of \$55.9 million (post-tax \$44.6 million) (note 2) reported in the property and unallocated segment, the profit for the year would have been \$792.4 million. The result includes:

- (1) Write-back of fixed rental accruals of \$34.5 million (post-tax \$24.2 million) for re-negotiated Coles Express leases.
- (2) Response advisory fees of \$23.9 million (post-tax \$16.7 million) and consulting and additional redundancy costs relating to business simplification of \$51.5 million (post-tax \$36.0 million).
- (3) Profit from discontinued operations of \$37.1 million (post-tax \$27.7 million).

Primary reporting – business segments 2006 \$m	Food, Liquor and Fuel	Kmart	Officeworks	Target	Property and unallocated	Total continuing operations	Discontinued operations - Myer/ Megamart	Consolidated
Revenue								
Sales	25,812.6	4,000.5	1,228.8	3,170.1		34,212.0	2,486.4	36,698.4
Other operating revenue	72.3	0.6	2.3	0.2	16.4	91.8	42.5	134.3
Total segment revenue	25,884.9	4,001.1	1,231.1	3,170.3	16.4	34,303.8	2,528.9	36,832.7
Segment result	581.9 ⁽¹⁾	63.2 ⁽²⁾	73.2 ⁽³⁾	233.7 ⁽⁴⁾	(100.0) ⁽⁵⁾	852.0	625.9	1,477.9
Net finance costs								(100.0)
Profit before income tax								1,377.9
Income tax expense								(214.3)
Profit for the year								1,163.6*
Segment assets	4,789.3	1,177.4	333.9	894.6	1,455.6	8,650.8		8,650.8
Tax assets								484.5
Total assets								9,135.3
Segment liabilities	(2,168.2)	(495.9)	(158.6)	(466.1)	(2,104.5)	(5,393.3)		(5,393.3)
Tax liabilities								(144.0)
Total liabilities								(5,537.3)
Other segment information								
Investment in joint venture					125.0	125.0		125.0
Share of profit of joint venture					21.9	21.9		21.9
Acquisitions of property, plant and equipment, intangibles and other non current segment assets	942.3	83.2	27.5	71.3	316.1	1,440.4	71.6	1,512.0
Depreciation and amortisation expense	(298.7)	(55.2)	(16.6)	(46.4)	(73.0)	(489.9)	(34.8)	(524.7)
Write-downs to recoverable amounts:								
Leasehold improvements	(2.5)	(0.4)				(2.9)	(1.8)	(4.7)
Property, plant and equipment	(39.3)	(7.4)		(0.2)		(46.9)		(46.9)
Intangible assets	(22.6)				(1.5)	(24.1)		(24.1)
Total write-downs	(64.4)	(7.8)		(0.2)	(1.5)	(73.9)	(1.8)	(75.7)
Reversal of previous write-downs:								
Leasehold improvements	0.7	0.5		0.1		1.3	11.6	12.9
Property, plant and equipment	3.9	6.1		0.5		10.5	24.7	35.2
Total reversal of previous write-downs	4.6	6.6		0.6		11.8	36.3	48.1

* The profit for the year was \$1,163.6 million. After adjusting for the profit on sale of Myer of \$583.7 million (note 3) and strategic initiative costs of \$207.4 million (note 2), the profit for the year would have been \$787.3 million. Strategic initiative costs by segment are:

- (1) \$214.4 million (note 2).
- (2) \$12.8 million (note 2).
- (3) \$1.7 million (note 2).
- (4) \$14.6 million (note 2).
- (5) \$51.9 million (note 2).

Concise Financial Statements

Notes to the Concise Financial Statements (continued)

Note 5 Segment information (continued)

Secondary reporting - geographical segments	Sales to external customers		Segment assets		Acquisition of property, plant and equipment, intangibles and other non current segment assets	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Australia	34,530.8	36,542.0	9,125.8	8,545.2	1,194.6	1,506.4
New Zealand	157.1	156.4	59.2	74.8	1.1	3.2
Other			35.0	30.8	1.5	2.4
	34,687.9	36,698.4	9,220.0	8,650.8	1,197.2	1,512.0

Business segments

Coles Group operates predominantly in the retail industry and comprises the following main business segments:

(i) Continuing operations

Food, Liquor and Fuel	Retail of grocery, liquor and fuel products
Kmart	Retail of apparel and general merchandise
Officeworks	Retail of office supplies
Target	Retail of apparel and general merchandise
Property and unallocated	Management of the Coles Group property portfolio and unallocated or corporate functions

(ii) Discontinued operations

Myer	Retail of apparel and general merchandise
Megamart	Retail of furniture and electrical goods

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Coles Group's segments operate geographically as follows:

Australia	The home country of the parent entity. Coles Group undertakes retail operations in all states and territories.
New Zealand	Coles Group has Kmart retail operations, supplying basically the same ranges of goods as the corresponding business in Australia. These operations are predominantly based in the North Island.
Asia	Branch offices located in China.

Inter-segment transfers

Segment revenues, expenses and results include transfers between segments. Such transfers are principally priced on an arm's length basis and are eliminated on consolidation.

Note 6 Events subsequent to balance date

On 2 July 2007, the Coles Group entered into a Scheme Implementation Agreement (SIA) with Wesfarmers Limited. The Coles Group Directors unanimously recommended a scrip and cash proposal that included \$4.00 cash, 0.2843 Wesfarmers Limited ordinary shares, and \$0.25 Coles Group fully franked dividend for each Coles Group Limited ordinary share held.

On 5 September 2007, the Coles Group Directors recommended a revised proposal from Wesfarmers Limited. The proposal was modified such that 0.2843 Wesfarmers Limited ordinary shares for each Coles Group Limited ordinary share would be replaced by 0.14215 Wesfarmers Limited ordinary shares and 0.14215 Wesfarmers Limited Partially Protected shares for each Coles Group Limited ordinary share. The Partially Protected shares will be a new form of security to be issued. It is intended the Partially Protected shares will be listed on the Australian Securities Exchange, pay a fully franked dividend of at least \$2.00 per share (subject to the availability of sufficient retained earnings and franking credits), and provide shareholders with additional Wesfarmers Limited ordinary shares in the event that the Wesfarmers Limited ordinary share price is less than \$45.00 at their lapse date. Under the terms of the revised SIA, if the Coles Group Directors elect not to proceed with the transaction, the Company must pay Wesfarmers Limited a break fee of \$150 million.

Significant additional transaction costs may be incurred in the 2008 financial year. Should a transaction be consummated, the Company is required to pay its advisors a success fee, the quantum of which is yet to be determined.

Directors' Report

The Directors present their report for the financial year comprising the 52 weeks ended 29 July 2007.

Principal activities

The principal activity of Coles Group during the year was retailing, further details of which are set out on the inside cover to page 15 of the Annual Report.

Directors

The Directors of Coles Group during the period from 31 July 2006 to the date of this report and particulars of their qualifications, experience, special responsibilities and directorships in other listed companies are set out on pages 16-17 of the Annual Report.

Details of the qualifications and experience of the Company Secretary are also set out on the inside back cover of the Annual Report.

Board committees

The Board committees during the year were the Audit and Risk Committee, the Nomination and Remuneration Committee, the Nomination Committee, the Remuneration Committee, the Corporate Social Responsibility Committee and the Due Diligence Committee. The composition of these committees and their functions is set out in the Corporate Governance Statement on pages 18-21 of the Annual Report.

Dividends

Details of dividends paid during the financial year and to be paid in respect of the financial year are set out on page 29 of the Annual Report.

Review and results of operations and likely future developments

The consolidated net profit of the Coles Group for the financial year was \$747.8 million.

The operations of the Coles Group during the financial year, the results of those operations, the financial position of the Coles Group and the Group's business strategies and future prospects are reviewed in:

- Year in Review see the inside front cover to page 1
- Q&A with the Chairman and CEO see pages 2-3
- Operational Review see pages 4-15

Further details of likely future developments in the operations of the Coles Group are referred to in the Q&A with the Chairman and CEO on pages 2-3 of the Annual Report.

Further information in relation to these likely future developments has been omitted from this Directors' Report, as to include it would be likely to result in unreasonable prejudice to the Coles Group.

State of affairs

Particulars of the significant changes in the state of affairs of the Coles Group during the financial year are as follows:

- an on-market buy-back totaling \$73.2 million was conducted;
- the Company commenced an ownership review (see Note 2, page 26)

Events after the end of the financial year

On 5 September 2007, Coles Group and Wesfarmers Limited announced an enhanced Wesfarmers' proposal to acquire the Company (see Note 6, page 32)

Except as otherwise referred to in this report, the Directors are not aware of any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations, results of operations or state of affairs of the Coles Group in future financial years.

Environmental

The Coles Group is committed to conducting its business activities with respect for the environment while continuing to meet expectations of shareholders, team members, customers and suppliers. The Coles Group is committed to achieving a level of environmental performance which meets or exceeds Commonwealth, state or local regulatory requirements, and to improve its use of natural resources and minimise waste where practicable.

The Directors are not aware of any material breaches of environmental regulations during the year. During the period from 31 July 2006 to the date of this report no particular and significant environmental regulation under a law of the Commonwealth or of a state or territory has applied to the Coles Group or its operations.

Indemnity and insurance

Coles Group has entered into a Good Faith Protection and Access Deed in the form approved by shareholders at the 1999 Annual General Meeting with Non-executive Directors of the Company. The Deed provides for indemnification of the directors to the maximum extent permitted under law and does not indemnify for any liability involving a lack of good faith. Rule 70 of the Company's constitution also provides an indemnity in favour of officers (including the Directors and Company Secretary) of Coles Group Limited (and such other officers and former officers of the Coles Group as the Directors decide) against liabilities incurred while acting as such officers to the extent permitted by law.

No Director or officer of Coles Group has received the benefit of an indemnity from the Company during or since the end of the year. Coles Group maintains a Directors' and Officers' insurance policy. Due to confidentiality obligations and undertakings of the policy, no further details in respect of the premium or policy can be disclosed.

Directors' interests in Coles Group Shares

Ordinary shares in which a Director has a relevant interest

Patty Akopiantz	3,253
Rick Allert	25,569
Keith Barton	10,200
John Fletcher ¹	1,204,458
Bill Gurry	140,000
Tony Hodgson	6,000
Belinda Hutchinson	42,000
Sandra McPhee	7,539
Michael Wemms	208

Note:

¹ John Fletcher also holds 1,704,500 executive options, and 374,000 performance shares.

Details of options on issue at the date of this report and of shares issued as a result of an exercise of an option during or since the end of the financial year are set out in note 36 of the Full Financial Report.

Remuneration Report

As required by the Corporations Act, the Company's Remuneration Report is set out on pages 35 to 50 of the Annual Report.

Directors' Report

(continued)

Attendance at meetings

	Programmed Board meetings		Additional Board meetings		Audit and Risk Committee		Nomination and Remuneration Committee		Nomination Committee		Remuneration Committee		Corporate Social Responsibility Committee		Due Diligence Committee	
	A	B	A	C	A	B	A	B	A	B	A	B	A	B	A	B
Patty Akopiantz	8	8	54	59	5	5							3	3		
Rick Allert	8	8	59	59	5	5	2	2	1	1	6	6	3	3	3	3
Keith Barton	8	8	45	59			2	2			6	6				
John Fletcher	8	8	59	59									3	3	3	3
Bill Gurry	7	8	46	59			2	2	-	1						
Tony Hodgson	8	8	53	59	5	5									3	3
Belinda Hutchinson	8	8	52	59	1	1	2	2			6	6				
Sandra McPhee	8	8	55	59			2	2			6	6				
Martyn Myer	2	2	2	2	1	1										
Michael Wemms	7	8	42	59	4	4			1	1	4	6				

A = Number of meetings attended

B = Number of meetings held while in office

C = Number of meetings held while in office which the Director was eligible to attend.

All Directors may attend Board committee meetings if they choose to.

Other Board committee meetings held during the year were attended by Rick Allert (2/2) and John Fletcher (2/2).

Audit and non-audit services

A copy of the auditor's independence declaration is included on page 51 of the Annual Report.

During the year, the auditor, PricewaterhouseCoopers, was paid the following amounts in relation to non-audit services provided to the Coles Group:

	\$'000
Acquisitions/Divestments	730
Sales certificates under leases	450
Taxation advice	98
Other	82
	<u>1,360</u>

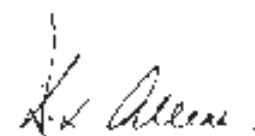
The Directors are satisfied, based upon the advice of the Audit and Risk Committee, that the provision of non-audit services outlined above by the auditor during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act.

The reason for forming this opinion is that the unique knowledge of the Coles Group possessed by the auditor places the audit firm in a position to provide these services in the most efficient manner, in areas where the Directors and management consider audit risk to be low.

Rounding

Coles Group Limited is a company of the kind referred to in the Australian Securities and Investments Commission Class Order 98/0100 dated 10 July 1998. As a result, amounts in this report and accompanying financial statements have, where applicable, been rounded to the nearest one hundred thousand dollars except where otherwise indicated.

Signed in accordance with a resolution of the Board of Directors:



Rick Allert
Chairman



John Fletcher
Chief Executive Officer and Managing Director

19 September 2007

Remuneration Report

In the 2007 Remuneration Report, the expression 'Coles Group' refers to Coles Group Limited and its controlled entities, and 'Coles Group Limited' or 'the Company' is used to refer to the ultimate parent entity and legal entity Coles Group Limited.

In accordance with the remuneration reporting requirements of the Corporations Act 2001 and Accounting Standard AASB 124 *Related Party Disclosures*, this report details the remuneration arrangements for both the Company's and Coles Group's Key Management Personnel (KMP).

In accordance with the requirements of AASB 124, KMP include:

- The Chairman and Non-executive Directors of Coles Group Limited;
- Mr John Fletcher, the Chief Executive Officer and Managing Director of Coles Group Limited; and
- Those executives who have the authority and responsibility for planning, directing and controlling the activities of the Company and Coles Group. During the 2007 financial year, these individuals were Mr Larry Davis, Mr Tim Hammon, Ms Launa Inman, Mr Fraser MacKenzie and Mr Mick McMahon (for further details regarding these individuals, refer note 37 of the Full Financial Report). In identifying executives for inclusion in the group of KMP, consideration was given to the following additional criteria: the relative size of the business managed by the individual with relative size assessed on the basis of sales and/or a contribution to the consolidated result, the relative degree of decision making authority or autonomy inherent in an individual's role and the extent to which the individual's performance was visible to external stakeholders.

The same group of individuals is regarded as KMP for both the Company and Coles Group disclosure purposes.

In addition, in accordance with the Corporations Act 2001, this report also details the Company's and Coles Group's five most highly remunerated officers during both the 2006 and 2007 financial years.

This report forms part of the Directors' Report and is set out under the following headings:

- A. Principles applied in the determination of remuneration
- B. Group performance and the link with remuneration
- C. Non-executive Director remuneration
- D. Chief Executive Officer and Managing Director and other KMP remuneration
- E. Summary of employment contracts
- F. Details of KMP remuneration
- G. KMP at risk remuneration
- H. KMP share-based remuneration

The information provided under headings A and C through H includes remuneration disclosures that are required under AASB 124. These disclosures have been transferred from the Financial Report and have been audited. The disclosures under heading B are additional disclosures required by the Corporations Act 2001 and are not required to be and have not been audited.

Glossary of terms used in this report

CEO	Chief Executive Officer
CSSG	Comparative store sales growth
EBIT	Earnings before interest and tax
EPS	Earnings per share
KMP	Key Management Personnel
LTI	Long-term incentive
LTRP	Leveraged Transformation Reward Program
NPAT	Net profit after tax
ROI	Return on investment
SEOP	Senior Executive Option Plan
SEPPSP	Senior Executive Performance Share Plan
STI	Short-term incentive
TFR	Total fixed remuneration
TSR	Total shareholder return

A. Principles applied in the determination of remuneration

The Remuneration Committee

On 21 September 2006 the Board approved the separation of the Nomination and Remuneration Committee into two separate committees, being the Nomination Committee and the Remuneration Committee (the Committee).

The Committee plays a key role in setting Coles Group's remuneration framework and policy and in the determination of remuneration amounts paid to KMP. The Committee is responsible for:

- annually reviewing independent expert advice on the level of remuneration paid to the CEO and for reporting to the Board accordingly;
- annually reviewing and advising the Board on the components of remuneration of those executives who report directly to the CEO;
- reviewing management's recommendations in relation to the Coles Group's remuneration framework generally and specifically in relation to the linking of remuneration to performance; and
- reviewing the remuneration report.

The Committee comprises at least three Non-executive Directors, with the Committee's Chairman appointed by the Board. The Committee meets at least three times per year and other Directors, not being members of the Committee, may attend meetings. Other Coles Group executives and/or parties external to the Coles Group may attend at the invitation of the Chairman of the Committee. The following independent Non-executive Directors were members of the Committee from 21 September 2006: Sandra McPhee (Chair), Rick Allert, Keith Barton, Belinda Hutchinson and Michael Wemms. In addition the following Non-executive Directors were members of the predecessor Nomination and Remuneration Committee prior to 21 September 2006: Rick Allert (Chair), Sandra McPhee, Keith Barton, Bill Gurry and Belinda Hutchinson.

Remuneration Report

(continued)

During the 2007 financial year the Committee received independent expert advice from Mercer Human Resources and Ernst & Young in relation to various remuneration and reward issues. The key purpose of this advice was to assess whether remuneration structures remain consistent with market trends and the Company's stated strategic objectives, and support the delivery of value to shareholders over the longer term.

Amongst others, key activities undertaken by the Committee during the year which had a significant impact on remuneration outcomes, included:

- reviewing the calculation of STI entitlements in relation to the 2006 financial year, and thereafter authorising the payment of those entitlements;
- aligning STI and LTI entitlement programs for the 2007 and 2008 financial years with earnings guidance provided to the market on 21 September 2006; and
- approving new or changed remuneration arrangements to foster business continuity in a climate of uncertainty surrounding ownership due to the approaches by private equity and the subsequent Ownership Review, announced by the Company to the market on 23 February 2007.

Remuneration framework and policy

The overriding objective of the Company's remuneration framework is to enable Coles Group to attract, retain and motivate high calibre individuals and to provide reward for performance that is competitive and appropriate given the results generated. In particular the framework aligns executive remuneration with the achievement of strategic objectives and the creation of value for shareholders. The Board's aim is for executive, including KMP, remuneration to satisfy the following key criteria for good remuneration governance practices:

- competitiveness and reasonableness relative to market;
- performance linkage and alignment of executive remuneration to outcomes which create shareholder value; and
- transparency.

The remuneration framework provides a mix of fixed and variable remuneration components. The fixed component of remuneration comprises a base salary amount, and was expanded in the 2007 financial year to include a short-term retention plan in response to the uncertainty within the business resulting from the level of strategic changes, approaches by private equity and in response to the Ownership Review. Variable remuneration components are at risk and take the form of short-term cash incentives and long-term equity based rewards. The provision of fixed and at risk remuneration components is expected to generate a market competitive remuneration outcome that aligns remuneration to:

- Shareholder interests by:
 - the inclusion of financial measures such as profit and earnings targets as a core component of short and long-term incentive programs
 - focusing on sustained growth in shareholder wealth and the extent to which that growth is comparable to the growth achieved by other significant Australian industrial companies

- attracting and retaining high calibre executives
- acknowledging and rewarding behaviour which is consistent with the Coles Group's values and behaviours

■ Executives' interests by:

- rewarding capability and performance
- providing a clear structure for earning remuneration
- incentivising them to manage their teams appropriately and to generate shareholder value.

B. Group performance and the link with remuneration

The adoption of an appropriate remuneration framework incentivises executives, including KMP, to work towards the creation of shareholder value. During the five-year period from 2001 to 2006, the Company implemented a significant turnaround strategy that resulted in underlying NPAT increasing by more than two-fold. On 31 July 2006 and 21 September 2006, the Company outlined in detail its new growth strategy and announced that the 2007 financial year would be a year of transition as the business commenced implementation of the new strategy and continued to execute its transformation program. The progressive implementation of this new strategy will simplify and grow the business delivering substantial shareholder returns over the next five years.

The incentives offered over the past six years to KMP have generated outcomes which are consistent with an increase in shareholder value including:

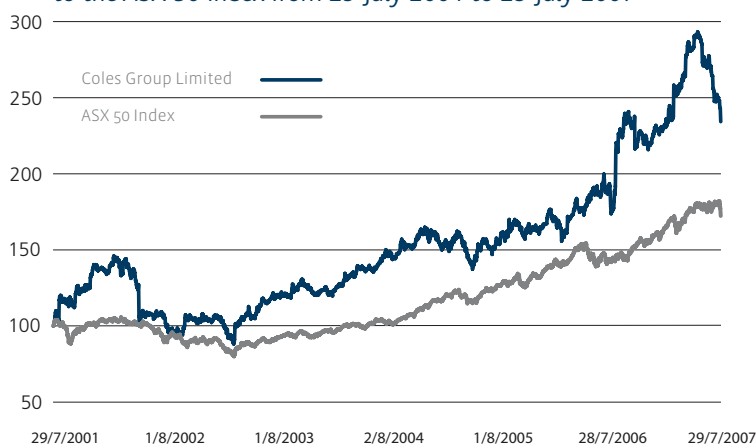
- a share price, as per Graph 1, which stood at \$14.29 at 29 July 2007
 - this price represents an increase of \$8.19 or 134% relative to the price as at 29 July 2001 and compares favourably to the 72% average share price increase in ASX top 50 companies over the same time frame;
- a \$459 million increase in underlying NPAT from \$333 million in 2001 to \$792 million in 2007, as evidenced in Graph 2;
- a sustained increase in underlying EPS, as evidenced in Graph 3; and
- a consistent increase in dividends, as evidenced in Graph 4.

As detailed in Sections D and E, the quantum of short-term cash and long-term equity incentives actually received by each individual KMP is dependant, to varying degrees, on both financial and other non-financial measures of performance. In turn, the incentive, if any, actually received by an individual is dependent on the degree of success achieved each year.

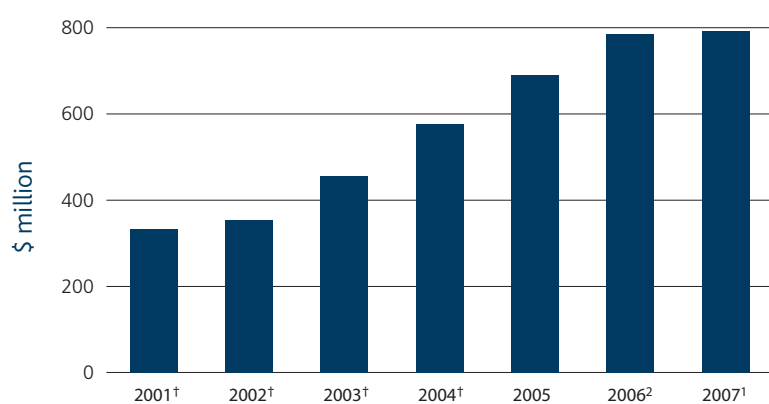
Year on year improvement in a performance measure in itself does not necessarily result in the payment of a cash reward or the issue of equity to an individual. However, improvement above a threshold level does result in individuals obtaining entitlements to cash and/or equity rewards.

For the 2007 financial year, long-term equity incentive entitlements, which are tested either at the end of a three-year testing period or progressively over a five-year testing period, have generally been received by executives, including KMP, while short-term incentives for 2007 are significantly lower than in recent years reflecting the composition of the current year's underlying result.

Graph 1 Coles Group Limited's share price performance relative to the ASX 50 Index from 29 July 2001 to 29 July 2007



Graph 2 The increase in Coles Group underlying net profit after tax from 2001 to 2007



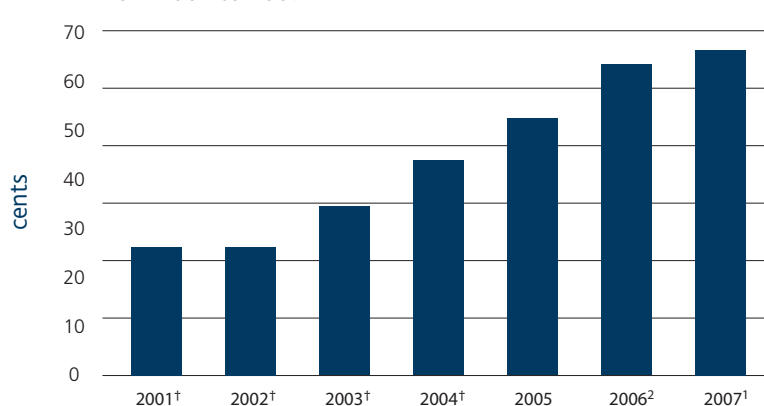
[†] AGAAP

[1] excludes \$44.6 million of ownership review costs

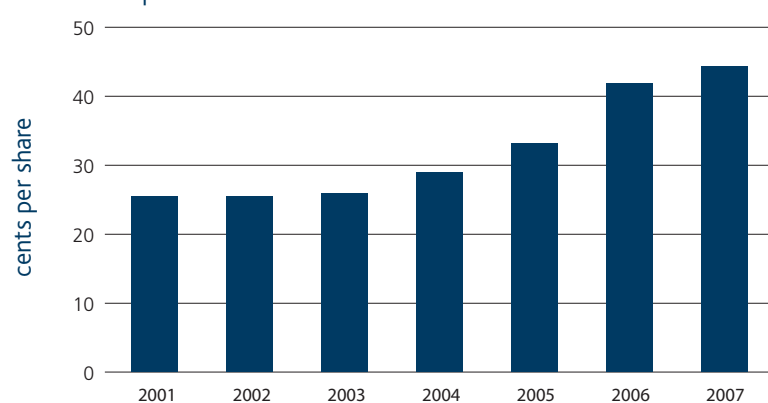
[2] excludes strategy costs and profit on sale of Myer

Refer prior Annual Reports for an explanation of prior year results

Graph 3 Movements in underlying EPS over the period from 2001 to 2007



Graph 4 Dividends from 2001 to 2007



Remuneration Report

(continued)

C. Non-executive Director remuneration

The Committee is responsible for reviewing the level of Non-executive Director fees. When undertaking this review and prior to making a recommendation to the Board as to appropriate fee levels, the Committee considers:

- the Company's existing remuneration policies;
- independent professional advice;
- fees paid by companies of comparable size and complexity;
- the general time commitment required from Non-executive Directors and the risks associated with discharging the duties attaching to the role of Director; and
- the level of remuneration necessary to attract and retain Directors of a suitable calibre.

After considering the Committee's recommendation, Non-executive Director fees, including committee fees, are then set by the Board within the maximum aggregate amount of \$2.0 million (2006 \$2.0 million) last approved by shareholders in November 2005. In accordance with the Company's constitution, superannuation contributions and retirement benefits are not taken into account for the purposes of the

maximum aggregate Non-executive Director remuneration approved by shareholders. Table 1 sets out the remuneration levels, as at year end, applicable to the roles undertaken by Non-executive Directors.

The Board has determined that Non-executive Directors' fees will be increased annually in accordance with increases in the Consumer Price Index (All Groups). In addition, the Board also undertakes to periodically review Non-executive Director fees to ensure they remain consistent with general fee levels paid by comparable companies. As a result of changes in the Consumer Price Index during the year, base fees for Non-executive Directors increased to \$163,800 and the Chairman's fee increased to \$491,400. These fee increases became effective on 1 May 2007. The Board will continue to review its approach to Non-executive Director remuneration to ensure it remains in line with general industry practice.

In addition, Non-executive Directors are reimbursed for business related travel costs and they receive an annual expense allowance of \$5,825 (2006 \$5,825) to cover costs incurred in maintaining a home office such as telephone, stationery and computer costs.

No element of a Non-executive Director's remuneration is performance related or at risk. The Board believes that the absence of at risk remuneration components from the Non-executive Director remuneration structure enhances the strength of the Board's

Table 1 – Directors' base fees (inclusive of superannuation entitlements)

	Board		Audit and Risk Committee		Nomination and Remuneration Committee		Remuneration Committee		Nomination Committee		Corporate and Social Responsibility Committee	
	Chairman ⁽²⁾ \$	Member \$	Chairman \$	Member \$	Chairman \$	Member \$	Chairman \$	Member \$	Chairman \$	Member \$	Chairman \$	Member \$
2007												
Fee	491,400	163,800	41,000	20,500	–	–	20,400	10,200	10,400	5,200	10,400	5,200
2006												
Fee ⁽¹⁾	480,000	160,000	40,000	20,000	20,000	10,000	–	–	–	–	10,200	5,100

(1) Up until 18 November 2005, Directors who were appointed prior to 27 March 2003 received lower annual fees of \$112,600 (exclusive of superannuation) to reflect their entitlement to retirement benefits. From 18 November 2005, the retirement benefits of these particular Directors were frozen and all Directors now receive fees on the same scale.

(2) The Chairman does not receive additional fees for serving on Board committees.

Table 2 – Accrued retirement benefits at year end

Non-executive Directors entitled to retirement benefits	Years of service	Accrued retirement benefit	
		2007 \$	2006 \$
Rick Allert (Chairman)	11	1,140,436	1,140,436
Patty Akopiantz	5	324,196	324,196
Bill Gurry	6	319,769	319,769
Martyn Myer ⁽¹⁾		–	374,114
Total		1,784,401	2,158,515

(1) Mr Myer retired as a Director on 20 November 2006.

independence and its ability to objectively consider corporate governance issues and other commercial matters.

Retirement benefits

The Company ceased to offer retirement benefits to Non-executive Directors on 27 March 2003. However, Non-executive Directors who were appointed prior to 27 March 2003 retained their contractual entitlement to a retirement benefit. Their contracts provided for a retirement benefit equal to the aggregate of remuneration received by the particular Director over the last three years of service plus 5% of that amount for each year of service in excess of three years, but not exceeding 15 years, with any benefit paid on retirement, termination or death being reduced by the amount of any superannuation benefit received. On 18 November 2005 those Directors who were contractually entitled to a retirement benefit agreed to have their benefit frozen at that date in exchange for having their base fee increased to the same level as the fee payable to Non-executive Directors who were not entitled to a retirement benefit. Accrued retirement benefits are set out in Table 2. The benefits shown are net of superannuation benefits payable.

D. Chief Executive Officer and Managing Director and other Key Management Personnel remuneration

Below is a discussion of the remuneration policy applicable to the CEO and KMP. A similar policy applies in relation to the remuneration of other senior executives.

The remuneration of KMP, other than Non-executive Directors, comprises both fixed and at risk remuneration components. Further, KMP may be entitled to additional benefits on completion of their service to Coles Group pursuant to the terms of their employment contract or otherwise at the discretion of the Board. Each remuneration component is further detailed below.

Total fixed remuneration (TFR)

The fixed component of remuneration comprises a base salary amount. Base salary is determined on an individual basis and does not vary over the course of a year, unless impacted by the outcomes of the annual salary review process or changes in an individual's role and responsibilities. A salary packaging approach is followed whereby base salary may be taken in the form of cash, superannuation contributions, non-monetary fringe benefits (including up to two motor vehicles) and other benefits. All KMP remuneration is governed by the same salary packaging policy.

Base salary amounts are reviewed annually with revisions to amounts payable taking into account, amongst other things, individual performance during the previous year, changes in the size and scope of the role occupied by the specific executive, reasonableness relative to market, and the continued significance of the role to the Coles Group. There are no guaranteed increases in TFR.

At risk remuneration

The at risk remuneration component comprises both short-term and long-term incentive components. These are intended to remunerate relevant KMP for increasing shareholder value via the achievement of financial targets and the implementation of appropriate business strategies.

Short-term incentives (STI)

The STI program is designed to reward executives for the successful achievement of specified levels of individual, business unit or Brand and Coles Group performance over the financial year. The STI program is available to KMP, excluding Non-executive Directors, and involves linking specific annual financial and non-financial performance measures with the opportunity to earn cash amounts based on a percentage of TFR.

Financial STI performance measures may include but are not limited to:

- underlying NPAT - calculated after excluding certain non-recurring items of income and expenditure;
- underlying Brand EBIT - calculated after excluding certain non-recurring items of income and expenditure from a brand's result;
- underlying Brand CSSG - compares relative sales levels on a like-for-like basis between years after adjusting for such things as store closures, new openings and temporary closures due to refurbishment and other reasons;
- ROI - calculated by dividing Coles Group's underlying EBIT by average net assets employed; and
- underlying EPS - calculated by dividing earnings after excluding certain non-recurring items of income and expenditure by the weighted average number of ordinary shares on issue during the year.

Selected financial performance criteria are chosen in favour of others on the basis that they are readily and objectively determinable, they are capable of being independently verified and because an increase in each is likely to most directly correlate to an increase in shareholder value via an increase in share price and/or an increased capacity to pay dividends in the future. For these reasons, STI potential is generally weighted more heavily towards financial outcomes.

Non-financial STI performance measures may include but are not limited to:

- customer loyalty and feedback;
- exhibiting the Company's values and behaviours; and
- delivery of critical strategic business objectives, such as specified savings from business simplification.

STI performance measures are determined annually by the Board to reflect the strategic business objectives of Coles Group. The Board takes advice from the CEO in relation to the STI performance measures applicable to the CEO's direct reports. The Board also takes advice from independent, external advisers on the level of remuneration that is potentially available to the CEO and the CEO's direct reports under the STI program. Selected financial and non-financial performance measures are chosen because they align KMP remuneration outcomes to the delivery of increases in shareholder value. The STI amounts payable vary depending on the degree of achievement - performance above a threshold level is required before any STI is payable. As established in September 2006, Table 3 summarises the 2007 STI entitlement of each KMP that was available if various performance levels were achieved.

In November 2006, as an additional retention mechanism and to focus the executive team on delivering the underlying NPAT in line with the earnings guidance presented to the market on 21 September 2006, STI

Remuneration Report

(continued)

Table 3 – STI performance criteria

KMP	STI potential as a percentage of total fixed remuneration (assuming all criteria are met at the relevant level)		
	Threshold	Target	Stretch
J. Fletcher	30%	65%	120%
L. Davis	16%	38%	80%
T. Hammon	16%	36%	80%
L. Inman	20%	42%	80%
F. MacKenzie	20%	45%	100%
M. McMahon	18%	38%	80%

payments for executive team members, excluding the CEO, were set at a minimum of 75% of the maximum potential STI available (per Table 3) upon achievement of the underlying NPAT target of \$787 million. Whilst underlying NPAT in excess of \$787 million has been reported, in accordance with the provisions of this additional retention mechanism, the Board has exercised its discretion and has not paid the guaranteed 75% of the maximum potential STI owing to the composition of this result. Accordingly, Table 3 continues to summarise the performance levels applicable to assess the 2007 STI entitlement of each KMP.

The actual STI paid or payable to eligible KMP with respect to the 2007 and 2006 financial years is detailed in Tables 8 and 9 respectively.

STI performance assessment

The Board makes an assessment after the conclusion of the financial year in order to determine whether the individual performance of the CEO and each of the CEO's direct reports results in an entitlement to an STI, and if so whether their performance entitles them to a threshold, target or stretch STI amount. STI amounts are ordinarily only payable if an executive occupies an eligible position as at the conclusion of each financial year and pro-rata entitlements are ordinarily not payable if an executive leaves the Coles Group prior to this date. In the event of termination of employment of an eligible executive more than half way through the financial year, executives remain eligible for pro-rata entitlements. When payable, STI are calculated via reference to each individual executive's TFR, determined as at the end of the financial year.

In assessing the achievement of financial performance measures, calculation is via reference to the figures appearing in the Company's Full Annual Report and in management reports prepared for internal purposes.

The measures used for assessing the achievement of non-financial measures are varied but may include: outcomes of independent third party surveys; results from the internal 360-degree employee feedback process on a particular executive; and delivery of outcomes in accordance with stated critical strategic business objectives, such as specified savings from business simplification. The exercise of Board discretion may be required regarding the degree to which a non-financial measure has been achieved.

Leveraged Transformation Reward Program (LTRP)

The LTRP was created during the 2007 financial year following the first approach by private equity and the Company's announcement of financial guidance for the 2007 and 2008 financial years. The program was designed to provide an opportunity for senior management to obtain the leverage of reward outcome typically associated with private equity arrangements.

The program was based on executives contributing an agreed amount of their 2007 STI and receiving a multiplier of five times contribution on the achievement of an NPAT goal of \$1.066 billion at the end of the 2008 financial year. Contributions made by all KMP were \$100,000, with the exception of the CEO who contributed \$300,000. As an extra 'stretch' incentive, if \$1.119 billion NPAT, post payment of incentives, was achieved, executives were eligible to receive an additional five times their initial contribution in the form of performance shares.

In July 2007, the Company announced that it would recommend to shareholders the proposed acquisition of Coles Group businesses by Wesfarmers Limited under a scheme of arrangement to be voted on by shareholders in early November 2007.

In reporting its full-year financial results for the 2007 financial year on 19 September 2007, the Coles Group Directors concluded that it would be inappropriate to maintain the revised guidance for the 2008 financial year provided to the market on 23 February 2007, given that the Company would not remain in its current ownership structure under any scenario. If the scheme of arrangement is approved by shareholders, management of the Company will become the responsibility of Wesfarmers Limited. If the scheme is unsuccessful, the Coles Group Board will consider a number of alternative strategies and restructuring options for the operation and ownership of the Company. In neither event would the previous guidance be maintained. In the interim, however, Coles Group is continuing to operate under plans consistent with that guidance.

For these reasons, the Board has decided it would, in turn, be inappropriate to continue the LTRP. The effect of the Board's decision is that all 2007 STI amounts payable have been assessed in accordance with STI performance criteria.

Long-term incentives (LTI)

LTI are currently provided via the SEPSP and were previously provided under the SEOP. LTI are provided in addition to STI in order to motivate executives to adopt strategies and to make decisions which have a positive and enduring impact on the drivers of shareholder value over the longer term.

Senior Executive Performance Share Plan (SEPSP)

The SEPSP, approved by shareholders at the 2004 Annual General Meeting, is designed to link long-term executive remuneration with the growth in shareholder value. It is also designed to facilitate the retention of strategically important senior executives.

The SEPSP provides for annual grants of performance shares to executives. A performance share is a right to acquire an ordinary share in the Company for no consideration.

The number of performance shares granted to each executive is calculated by reference to the level of responsibility of the executive and the market value of the Company's share price at the start of each financial year.

Subject to performance hurdles being met, performance shares may vest at the end of the testing period. The testing period is normally a three-year period commencing on the first day of the financial year of the grant. However, where performance shares vest over a period in excess of three years, the testing period is the last three years of the vesting period. If the performance hurdles are not met at the end of the testing period the performance shares will lapse.

If the performance hurdles are met, then the Company will issue or transfer ordinary shares to the executive. The Company currently intends to undertake on-market share purchases and to subsequently transfer the shares acquired to eligible executives so as to ensure there is no dilution of existing shareholder interests as a result of the operation of the performance share plan. Once transferred to eligible executives, the shares must then be held by the executive for a period of 12 months following which they will be free to deal with the shares. There are two performance hurdles applicable to the performance shares, namely relative TSR and underlying EPS growth. Each hurdle applies to 50% of the performance shares granted to each participant. For 100% of an executive's performance shares to vest, both the TSR and EPS hurdles must be satisfied to the maximum extent.

TSR measures changes in the market value of the Company's shares over a three-year test period. In the calculation of the market value of shares, dividends are notionally re-invested. TSR was chosen as a performance measure because it:

- ensures an alignment between the return to shareholders and executive remuneration;

- provides a comparative, externally focused performance benchmark with which to measure Coles Group's performance relative to those companies with which the Group competes for capital, customers and talent; and
- is a performance measure widely used in long-term incentive plans adopted by comparable Australian companies.

TSR performance is compared with the TSR performance of the largest 50 industrial companies in the S&P/ASX top 100 index over discrete three-year periods. Calculation of TSR is undertaken independently by Mercer Consulting Group or Link Market Services.

EPS is a measure of earnings or profits that accrue to each shareholder and is calculated by dividing Coles Group's underlying NPAT by the weighted average number of shares on issue during the year. An underlying profit figure is used and reflects reported profit after tax excluding certain non-recurring items of income and expenditure.

EPS was chosen as a performance measure because it:

- is a fundamental indicator of financial performance, both internally and externally; and
- links directly to Coles Group's long-term objective of growing earnings.

EPS performance is assessed at the end of each discrete three-year period. Performance shares vest if the EPS over the three-year period exceeds target EPS.

The TSR and EPS vesting schedules are set out in Tables 4-7. Prior to vesting, performance shares carry no voting or dividend rights.

Performance share vesting schedules

Performance shares subject to the TSR performance hurdle (TSR performance shares) will vest in accordance with Table 4.

During the 2006 financial year, the Board undertook a review of the EPS performance hurdle to ensure that it remained market competitive and provided an appropriate and meaningful incentive to senior executives to improve shareholder wealth. The hurdles applicable to the SEOP, determined in 2001, were adopted in the creation of the SEPSP in 2004. In 2001 the Coles Group had just reported an underlying net profit of \$333 million and announced a five-year turnaround strategy, which included identification of specific stated financial goals. As the turnaround strategy was drawing to a conclusion and its stated financial goals had been largely achieved, the Board considered that a review of the EPS hurdles applicable to the SEPSP, but not the SEOP, was required. As a result of the review, which considered the LTI programs of other comparable companies, and for SEPSP purposes only, the Board approved a new vesting schedule that included modified EPS hurdles, which required a minimum EPS target of 8% pa compound for vesting to commence at 25% of the entitlement.

Table 4 – TSR vesting schedule

TSR Target	% of TSR performance shares that vest
TSR below 51st percentile	Nil
TSR between 51st and 74th percentile (inclusive)	Progressive vesting on a straight-line basis from 50% to 99%
TSR at or above 75th percentile	100%

Remuneration Report

(continued)

Subsequent to the end of the 2006 financial year, the Company announced its new growth strategy and on 21 September 2006 provided specific earnings guidance to the market for the 2007 and 2008 financial years. This necessitated further revision of the EPS vesting schedule of the SEPS to reflect this guidance which was announced in November 2006. The EPS hurdles, which apply to 50% of the LTIs, were amended in consultation with Mercers, shareholders and governance bodies. The remaining 50% of the LTIs relating to TSR remained unchanged.

Further, in reporting its full-year financial results for the financial year ended 29 July 2007 on 19 September 2007, the Company said that Coles Group Directors had concluded that it would be inappropriate to maintain the revised guidance given to the market on 23 February 2007 given that the Company would not remain in its current structure under any scenario. If the scheme of arrangement is approved by shareholders, ownership and management of the Company will pass to Wesfarmers Limited. If the scheme is unsuccessful, Coles Group Directors will consider a number of alternative strategies and restructuring options for the Company. In neither event will the previous guidance be maintained and consequently, if required, the Board will set new EPS hurdles for LTI vesting for the 2008 and subsequent financial years. In the interim, however, Coles Group is

continuing to operate under plans consistent with that guidance.

The effect of revisions to the EPS hurdles and the Company's announcement on 19 September 2007 was as follows:

- EPS hurdle for all performance shares issued in the 2005 and 2006 financial years for the three-year test period, other than CEO Mr Fletcher's 2006 financial year issue, will be assessed in accordance with the pre-existing vesting schedule levels approved by shareholders in 2004 and set out in Table 5;
- EPS hurdle for the performance shares issued in the 2006 financial year to Mr Fletcher will be \$0.894 in the 2008 financial year, which is an all or nothing test;
- EPS hurdle for all performance shares to be issued in the 2007 financial year will vest in accordance with Table 6; and
- EPS hurdles for all performance shares to be issued in the 2008 and subsequent financial years will be reassessed if required following the completion of the Ownership Review, however in the absence of any revision, the EPS hurdles as set out in Table 7 remain relevant.

Table 5 – The pre-existing EPS vesting schedule for performance shares issued in 2005 and 2006 (other than the 2006 issue of performance shares to the CEO)

EPS Target	% of EPS options and performance shares that vest
EPS growth less than 12.5% pa compound	Nil
EPS growth at 12.5% pa compound	50%
EPS growth between 12.5% pa and 15% pa compound	Progressive vesting on a straight-line basis from 51% to 99%
EPS growth at or above 15% pa compound	100%

Table 6 – The EPS vesting schedule for performance shares issued in the 2007 financial year

2009 financial year EPS Target growth based on the 2008 financial year EPS of \$0.894	% of EPS performance shares that vest
EPS growth less than 8%	Nil
EPS growth at 8%	25%
EPS growth between 8% and 10%	Progressive vesting on a straight-line basis from 25% to 49%
EPS growth at 10%	50%
EPS growth between 10% and 12%	Progressive vesting on a straight-line basis from 51% to 99%
EPS growth at or above 12%	100%

Table 7 – The EPS vesting schedule for performance shares to be issued in the 2008 and subsequent financial years

EPS Target growth with a 2008 financial year EPS base of no less than \$0.894	% of EPS performance shares that vest
EPS growth less than 8% pa compound	Nil
EPS growth at 8% pa compound	25%
EPS growth between 8% pa and 10% pa compound	Progressive vesting on a straight-line basis from 25% to 49%
EPS growth at 10% pa compound	50%
EPS growth between 10% pa and 12% pa compound	Progressive vesting on a straight-line basis from 51% to 99%
EPS growth at or above 12% pa compound	100%

Details of the impact of modifications to the terms of performance shares are set out in note 36 of the Full Financial Report.

If a participant ceases to be employed due to death, disability, retrenchment or retirement prior to the three-year testing date, pro-rata vesting will occur, subject to performance hurdles being met. In this situation the performance hurdles will be tested at the next half or full financial year end following cessation of employment.

Senior Executive Option Plan (SEOP)

Prior to the introduction of the SEPSP, the Company operated the SEOP. The SEOP provided for market priced options to be issued to senior executives. The SEOP has now been replaced by the SEPSP. However, as some options granted under the SEOP still remain on issue, including those granted to the CEO, a brief description of the SEOP is set out below.

Subject to performance hurdles being met and the payment of the relevant exercise price, an option confers a right in favour of the executive to purchase ordinary shares in the Company. The exercise price of each option is generally determined via reference to the weighted average market price of the Company's shares, as quoted on the ASX, during the 10 trading days prior to the day on which the option is issued.

Executives generally received one grant of options, which, subject to performance hurdles being met, vests progressively over a five-year period. Supplementary grants were given to executives who were promoted. In general there is no vesting during the first two years post issue. After two years, 40% of the options granted may vest, followed by 20% for each of the next three years.

Consistent with the SEPSP, TSR and EPS performance hurdles are also used for the purposes of determining whether options granted under the SEOP actually vest. Except for 1,500,000 options granted to the CEO in 2003, all other options on issue vest subject to the EPS hurdle as detailed in Table 5 and a TSR hurdle which provides progressive vesting of options between the 50th and 65th percentiles.

Other than the 1,500,000 options granted to the CEO, achievement of either EPS or TSR hurdle results in the options vesting.

In respect to the tranche of 1,500,000 options granted to the CEO in November 2003, 50% vest subject to the achievement of the TSR hurdle and 50% vest subject to the achievement of the EPS hurdle. The TSR hurdle for this particular tranche of options is set out in Table 4.

Options ordinarily lapse if performance hurdles are not achieved within the five-year period post grant date or if an executive resigns prior to completion of the required vesting periods. However, the Board, in its discretion, may decide that options will vest notwithstanding that performance targets have not been met or in the instance where an executive resigns prior to the completion of the required vesting period. In addition, where an executive leaves the Coles Group as a result of death, disability, retirement or retrenchment, they are, subject to performance hurdles being met, entitled to options on a pro-rata basis to the date of their departure.

Board discretion regarding change of control

The current LTI rules incorporate Board discretion with regard to the proportion of unvested awards, which should be permitted to vest in the event of a change of control. At the date of signing this report, the Board has not exercised its discretion.

Valuation of LTI equity based remuneration

In accordance with the requirements of the Accounting Standards, remuneration as disclosed in Tables 8 and 9 includes a proportion of the notional value of equity instruments, being options and performance shares, granted or outstanding during the financial year. The notional value of these equity instruments is determined as at the grant date and is progressively allocated over the instrument's vesting period. The notional value of equity instruments may change where conditions attached to the instruments are changed. Any effect on the notional value resulting from a change in condition is allocated prospectively over the instrument's remaining vesting period. Amounts included in remuneration are not necessarily indicative of the benefit, if any, that an individual may ultimately receive should the equity instruments vest. The notional value of performance shares issued in 2005, 2006 and 2007 and options issued in earlier years has been determined in accordance with AASB 2 *Share-based Payment*. Equity instruments are valued by independent valuers. Performance shares are valued using the Monte-Carlo pricing model, which incorporates market based performance conditions such as TSR. Options are valued using the Black-Scholes pricing model. Where options are subject to performance conditions, a 50% probability has been applied to the Black-Scholes valuation. Performance share and option amounts are expensed over their vesting period and as such enter into the determination of net profit. Details of the assumptions which have been used in the valuations are set out in note 36 of the Full Financial Report.

Retirement benefits

Where an executive's employment with the Coles Group is terminated, termination entitlements are paid in accordance with contractual obligations or otherwise at the discretion of the Board.

E. Summary of employment contracts

Section E contains a summary of the employment contract for each KMP, excluding Non-executive Directors whose details of employment are set out in Section C. Each summary excludes details in relation to an executive's remuneration and STI arrangements where they are disclosed elsewhere in this report.

Further, each employment contract provides that each KMP may be entitled to an allocation of performance shares subject to performance hurdles being met and the rules applicable to the LTI plan. The number of performance shares that each may receive is determined annually by the Board. Table 12 sets out the number of performance shares that were allocated to KMP during the year ended 29 July 2007.

Unless otherwise noted, each employment contract is open ended and includes standard termination clauses that provide that the Company may terminate an executive's employment at any time by providing 12 months notice or payment in lieu of notice.

Remuneration Report

(continued)

An executive's employment may also be terminated without notice or payment in lieu of notice where circumstances warrant summary dismissal. Unless otherwise noted, KMP may resign at any time by providing six months notice.

John Fletcher – Chief Executive Officer and Managing Director

Mr Fletcher's employment contract was entered into on 3 September 2001 and has been extended such that it is now open ended. It provides an entitlement to:

- receive a car allowance of \$60,000 per year plus reimbursement for maintenance and fuel costs;
- receive 2,500,000 options with such options vesting at a rate of 500,000 per year over the five-year period to 3 September 2006 subject always to performance hurdles being met; and
- receive a pro-rata entitlement to an STI in the event that Mr Fletcher's employment ceases in the second half of a financial year. In this instance the amount of an STI payable will be calculated via reference to normal performance criteria. Mr Fletcher is not eligible to receive any STI amount with respect to a financial year if employment ceases in the first half of that financial year.

In addition to the options issued pursuant to the terms of Mr Fletcher's contract, in November 2003 shareholders approved the grant of an additional 1,500,000 options, exercisable in two equal tranches in September 2005 and 2006. The performance hurdles applying to these particular options were changed during the 2005 financial year to make them consistent with the hurdles applying to performance shares. There was no impact on Mr Fletcher's remuneration in any year as a result of the change to performance hurdles. Unless the Board decides otherwise, these options expire one year after the date on which Mr Fletcher ceases employment with the Company.

Mr Fletcher may resign from the Company at any time subject to the provision of 12 months notice. However, Mr Fletcher need not provide 12 months notice and may resign immediately in the event of a 'fundamental change' to his role, such as ceasing to be the most senior executive of the Coles Group or a demonstrable inability to work with the Board.

Larry Davis – Managing Director Kmart

Mr Davis' current employment contract was entered into on 14 February 2005 and is open ended. It provides for the reimbursement of reasonable costs incurred in relocating to the United States in the event of the termination of employment.

Further, Mr Davis' options are subject to service hurdles only as a retention mechanism and were based on the need to replicate similar conditions that applied in North America in relation to share option plans at the time.

Tim Hammon – Chief Officer, Corporate and Property Services

Mr Hammon's employment contract, which was current during the 2007 financial year, was entered into on 1 February 2002 and, as agreed by ancillary arrangement, concluded through redundancy on 31 July 2007.

As a result of Mr Hammon's departure through redundancy from the Company, Mr Hammon's employment contract provided for 12 months

notice or payment in lieu of notice from his departure date, being 31 July 2007, and the Board approved the following termination provisions:

- consistent treatment with other members of the Coles Group Executive Team with respect to any Board discretion exercised in favour of executives regarding LTI entitlements;
- a payment of \$250,000 in recognition by the Company for deferral by Mr Hammon of his departure date to 31 July 2007; and
- outplacement services at the cost of the Company.

Launa Inman – Managing Director Target

Ms Inman's current employment contract was entered into on 12 December 2005 and is open ended. It provides for the:

- payment of prescribed annual retention cash amounts and the issue of 22,000 performance shares per year for each year that Ms Inman remains with the Company up to the year ending 31 July 2008. In respect of the years ending July 2007 and 2008 the prescribed cash amounts are \$150,000 and \$200,000 respectively (July 2006 \$100,000).

In the climate of uncertainty due to the private equity approaches, commencement of the Ownership Review process and the competitive environment for talent, the Company entered into the following ancillary provisions for Ms Inman:

- the payment of a cash-based retention bonus of \$382,500, based on continued employment with the Company until the earlier of three months after the completion of a corporate transaction or 31 March 2008; and
- in the event of a corporate transaction, a cash payment of \$850,000 in lieu of options and performance shares due to vest in the 2009 financial year. The payment will only be made if Board discretion is exercised such that no awards due to be measured in the 2009 financial year are vested early. The amount of the cash payment will be reduced to reflect any portion of awards due to be measured in the 2009 financial year that are vested due to the Board exercising its discretion.

Fraser MacKenzie – Chief Financial Officer

Mr MacKenzie's employment contract was for a minimum fixed term to 30 April 2007. Mr MacKenzie agreed to extend his departure date to 31 July 2007 and the Board approved the following retirement provisions for Mr MacKenzie:

- a payment of \$250,000 in recognition by the Company for deferral by Mr MacKenzie of his retirement date from 30 April 2007 to 31 July 2007;
- reimbursement of travel and accommodation costs incurred while commuting between Melbourne and Sydney during the period 1 May 2007 to 31 July 2007; and
- consistent treatment with other members of the Coles Group Executive Team with respect to any Board discretion exercised in favour of executives regarding LTI entitlements.

Mick McMahon – Chief Operating Officer, Coles Retail

Mr McMahon was appointed as Chief Operating Officer, Coles Retail on 23 February 2007. Mr McMahon's TFR and participation in the STI and LTI programs were reviewed in light of the substantial increase in his job size

and accountabilities and were realigned to reflect this change in role and the Company's market positioning policy, with a new employment contract entered effective from 23 February 2007. The contract is open ended.

In the climate of uncertainty due to the private equity approaches, commencement of the Ownership Review process and the competitive environment for talent, the Company entered into the following ancillary provisions for Mr McMahon:

- payment of an additional cash bonus of \$250,000 based upon a combined stretch EBIT target for Supermarkets, Liquor, and Coles Express for the 2007 financial year. This target was not achieved and hence no bonus payment has been made;
- payment of a cash-based retention bonus of \$625,000, based on continued employment with the Company until the earlier of three months after the completion of a corporate transaction or 31 March 2008; and
- payment of a cash bonus should the Board of Directors recommend a corporate sale transaction to shareholders and the transaction is completed. The payment will be between \$150,000 and \$350,000 depending on the success of the outcome and the level of value delivered to shareholders.

F. Details of Key Management Personnel remuneration

The details of remuneration paid or payable to KMP during the 2007 and 2006 financial years are set out in Tables 8 and 9 respectively. Unless otherwise indicated, the individuals listed were regarded as KMP for the whole of the relevant financial year.

Remuneration Report

(continued)

Table 8 – Remuneration for the 2007 financial year

Key Management Personnel ⁽¹³⁾	Short-term				Post employment		Termination payments \$	Total cash-based remuneration \$	Non-cash, share-based remuneration		Total remuneration \$
	Salary and fees \$	Short-term incentives \$	Non-monetary benefits ⁽¹⁾ \$	Other ⁽²⁾ \$	Super-annuation ⁽³⁾ \$	Retirement benefits \$			Performance shares \$	Options \$	
Non-executive Directors											
R. Allert	381,953	–	–	5,825	100,897	–	–	488,675	–	–	488,675
P. Akopiantz	148,166	–	–	5,825	42,451	–	–	196,442	–	–	196,442
K. Barton	65,860	–	–	5,825	105,140	–	–	176,825	–	–	176,825
W. Gurry	152,987	–	–	5,825	13,769	–	–	172,581	–	–	172,581
T. Hodgson	184,587	–	–	5,825	16,613	–	–	207,025	–	–	207,025
B. Hutchinson	68,579	–	–	5,825	104,080	–	–	178,484	–	–	178,484
S. McPhee	75,719	–	–	5,825	103,942	–	–	185,486	–	–	185,486
M. Myer ⁽⁷⁾	14,151	–	–	1,828	42,407	–	–	58,386	–	–	58,386
M. Wemms ⁽¹³⁾	137,600	–	–	5,825	54,894	–	–	198,319	–	–	198,319
Subtotal	1,229,602	–	–	48,428	584,193	–	–	1,862,223	–	–	1,862,223
Other KMP											
J. Fletcher	2,548,236	965,746	6,368	–	–	–	–	3,520,350	1,003,278	43,760	4,567,388
L. Davis ⁽¹¹⁾	1,371,094	657,230	23,551	–	100,000	–	–	2,151,875	593,966	9,356	2,755,197
T. Hammon ^(4,11)	779,014	465,432	–	250,000	111,164	–	860,000	2,465,610	296,674	10,527	2,772,811
L. Inman ⁽¹¹⁾	639,912	427,115	31,375	319,854	110,220	–	–	1,528,476	365,980	45,911	1,940,367
F. MacKenzie ^(5,11)	759,500	481,440	–	250,000	104,114	–	–	1,595,054	275,816	29,949	1,900,819
M. McMahon ^(6,11)	1,088,513	405,900	–	241,337	12,723	–	–	1,748,473	246,219	–	1,994,692
Subtotal	7,186,269	3,402,863	61,294	1,061,191	438,221	–	860,000	13,009,838	2,781,933	139,503	15,931,274
Total remuneration	8,415,871	3,402,863	61,294	1,109,619	1,022,414	–	860,000	14,872,061	2,781,933	139,503	17,793,497

Footnotes in relation to remuneration paid in the 2007 and 2006 financial years and as disclosed in Tables 8 and 9 respectively.

- (1) Non-monetary amounts include costs relating to fringe benefits which are available as part of normal salary packaging arrangements and may include motor vehicles, accommodation, travel, insurance and tax planning fees.
- (2) The other benefits figures include annual expense allowances for Non-executive Directors, sign on bonuses and payments for continued service. There will be additional benefits in future years if continued service conditions are fulfilled. In particular included in other benefits are accrued cash-based retention bonuses for Ms Inman of \$319,854 and Mr McMahon of \$241,337.

Other benefits have been presented on an accruals basis in accordance with Accounting Standard requirements. Where a KMP's employment is terminated but they nonetheless receive an amount in lieu of a payment for continued service, that amount is included as a component of the KMP's termination remuneration.

- (3) The Coles Group is not required to make superannuation contributions in respect to overseas nationals who hold certain business visas.
- (4) Consistent with Mr Hammon's position as Chief Officer, Corporate and Property Services becoming redundant on 31 July 2007, Mr Hammon's remuneration for the 2007 financial year and up to 31 July 2007 (as disclosed in Table 8) includes the following amounts:
 - \$860,000 in lieu of notice of Mr Hammon's employment not extending beyond 1 August 2007; and
 - a \$250,000 payment in recognition for deferral by Mr Hammon of his departure date to 31 July 2007, which has been disclosed as other remuneration. For the purposes of this report and particularly Tables 10 and 11, the amount paid in relation to deferral of Mr Hammon's departure date was not considered as an STI as it was not contemplated in Mr Hammon's 2007 incentive plan and was in addition to Mr Hammon's salary, STI and non-cash share-based remuneration earned during this period.

Mr Hammon's other remuneration amount in 2006 included a special \$300,000 discretionary bonus, which was awarded in recognition of Mr Hammon's significant contribution to the Myer sale process. For the purposes of this report and particularly Table 10, the amount was not considered as an STI as it was not contemplated in Mr Hammon's 2006 incentive plan.

- (5) Mr MacKenzie's other remuneration amount in 2007 includes \$250,000 paid by the Company in recognition for deferral by Mr MacKenzie of his retirement date from 30 April 2007 to 31 July 2007.
- (6) Mr McMahon was appointed as a KMP in the role of Chief Operating Officer, Coles Retail on 23 February 2007. All components of his remuneration have been included in Table 8 for the full 2007 financial year.
- (7) Mr Myer retired as a Director on 20 November 2006. Mr Myer's remuneration up to his date of retirement is included in Table 8.
- (8) Mr Gurry previously received fees for acting as Chairman of the Coles Myer Superannuation Fund. His retirement from this position in 2003 resulted in a decrease in his anticipated retirement benefit compared with the prior year.

Table 9 – Remuneration for the 2006 financial year

Key Management Personnel ⁽¹³⁾	Short-term				Post employment		Termination payments \$	Total cash-based remuneration \$	Non-cash, share-based remuneration		Total remuneration \$
	Salary and fees \$	Short-term incentives \$	Non-monetary benefits ⁽¹⁾ \$	Other ⁽²⁾ \$	Super-annuation ⁽³⁾ \$	Retirement benefits \$			Performance shares \$	Options \$	
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 ⁽⁸⁾	138,318	–	–	5,825	12,449	(2,700)	–	153,892	–	–	153,892
T. Hodgson	170,069	–	–	5,825	15,306	–	–	191,200	–	–	191,200
B. Hutchinson	111,361	–	–	4,977	24,189	–	–	140,527	–	–	140,527
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 ⁽¹³⁾	97,997	–	–	5,825	67,003	–	–	170,825	–	–	170,825
Subtotal	1,421,698	–	–	51,577	288,649	71,908	–	1,833,832	–	–	1,833,832
Other KMP											
J. Fletcher	2,298,864	1,516,858	4,573	–	100,587	–	–	3,920,882	334,978	316,348	4,572,208
L. Davis ⁽¹²⁾	1,271,073	413,100	38,806	–	108,920	–	–	1,831,899	337,656	123,633	2,293,188
L. Inman	657,606	449,500	29,287	200,425	53,088	–	–	1,389,906	186,274	111,283	1,687,463
T. Hammon ^(4,12)	799,686	517,080	–	300,000	80,673	–	–	1,697,439	165,138	54,868	1,917,445
F. MacKenzie ⁽¹²⁾	715,317	560,000	–	–	107,606	–	–	1,382,923	89,875	60,071	1,532,869
D. Robertson ^(9,12)	1,244,753	1,144,138	130,050	1,000,000	10,116	–	1,863,321	5,392,378	–	2,822,959	8,215,337
H. Zayadi ^(10,12)	1,785,964	758,160	290,666	–	–	–	2,631,880	5,466,670	443,434	134,237	6,044,341
Subtotal	8,773,263	5,358,836	493,382	1,500,425	460,990	–	4,495,201	21,082,097	1,557,355	3,623,399	26,262,851
Total remuneration	10,194,961	5,358,836	493,382	1,552,002	749,639	71,908	4,495,201	22,915,929	1,557,355	3,623,399	28,096,683

- (9) Ms Robertson's remuneration for the 2006 financial year and up to 31 May 2006 (as disclosed in Table 9) included the following amounts:
- \$1,827,983 in lieu of notice and in lieu of Ms Robertson's employment not extending beyond 1 June 2007 (of which \$30,706 had been accrued as remuneration in the prior year);
 - a \$750,000 retention bonus and a \$250,000 Myer divestment transaction completion bonus. The aggregate of these amounts is disclosed as other remuneration. For the purposes of this report and particularly Table 10, neither of these amounts are considered to be an STI as they were not contemplated in Ms Robertson's 2006 incentive plan;
 - An STI of \$1,144,138;
 - \$35,338 as a reasonable allowance to cover Ms Robertson's relocation to the United States; and
 - \$2,822,959 which was attributable to the value of options held by Ms Robertson which the Board, in its discretion, decided would vest in favour of Ms Robertson as part of her termination entitlement (note, the value of the options has been disclosed in Table 9 as a component of share-based remuneration). In the ordinary course, these particular options would potentially have vested in the 2007 financial year subject to the achievement of the relevant performance hurdles. The value attributed to these options does not represent a cash cost to the Company.
- (10) Consistent with Mr Zayadi's role as Managing Director Food, Liquor and Fuel becoming redundant in March 2006, Mr Zayadi received termination entitlements which included \$1,872,000 in lieu of notice, a further amount of \$748,800 which was contractually payable on separation of employment and an amount of \$11,080 in relation to a reimbursement of taxation adviser fees. In addition, the Board, in its discretion, decided that options that were otherwise due to vest during the 2007 financial year would vest as at the date of Mr Zayadi's termination. These options were originally subject to a length of service hurdle only and were not subject to TSR or EPS performance hurdles. The value attributed to these options does not represent a cash cost to the Company.
- (11) In addition to the CEO and in accordance with Section 300A(1)(c) of the Corporations Act 2001, these five executives received the highest remuneration amounts in respect of the 2007 financial year.
- (12) In addition to the CEO and in accordance with Section 300A(1)(c) of the Corporations Act 2001, these five executives received the highest remuneration amounts in respect of the 2006 financial year.
- (13) For full details regarding related party transactions with Non-executive Directors and other KMP, refer to note 37 of the Full Financial Report. In particular during the year ended 29 July 2007, Mr Wemms provided services in the amount of \$126,000 (2006 \$60,000) to Coles Group Limited. At balance date, the amount payable to Mr Wemms was \$126,000 (2006 \$60,000). The consulting services were not provided in his capacity as a Director and hence have not been included in Tables 8 and 9 above.

Remuneration Report

(continued)

Table 10 shows the actual STI payment as a percentage of the payment that would have been due had the stretch STI criteria been met.

Table 10 – Extent of STI entitlement

KMP	2007			2006		
	Actual STI payment ⁽⁵⁾ \$	Actual STI payment as a % of stretch STI potential	% of stretch STI potential not received	Actual STI payment \$	Actual STI payment as a % of stretch STI potential	% of stretch STI potential not received
J. Fletcher	965,746	33%	67%	1,516,858	53%	47%
L. Davis	657,230	57%	43%	413,100	38%	62%
T. Hammon ^(1,2,4)	465,432	68%	32%	517,080	78%	22%
L. Inman ^(3,4)	427,115	70%	30%	449,500	78%	22%
F. MacKenzie ^(2,4)	481,440	57%	43%	560,000	70%	30%
M. McMahon ^(3,4)	405,900	41%	59%	–	–	–
D. Robertson ^(1,4)	–	–	–	1,144,138	79%	21%
H. Zayadi	–	–	–	758,160	41%	59%

- (1) Ms Robertson's actual 2006 STI amount excludes \$750,000 paid as a retention bonus and \$250,000 paid in relation to Ms Robertson's contribution to the divestment of Myer. Similarly, Mr Hammon's actual 2006 STI amount excludes \$300,000 paid in relation to Mr Hammon's contribution to the divestment of Myer.
- (2) Mr MacKenzie's actual 2007 STI excludes \$250,000 paid by the Company in recognition for deferral by Mr MacKenzie of his retirement date. Similarly Mr Hammon's actual 2007 STI excludes \$250,000 paid by the Company in recognition for deferral by Mr Hammon of his departure date.
- (3) Ms Inman's and Mr McMahon's 2007 STI amounts exclude accrued retention bonuses of \$319,854 and \$241,337 respectively arising from retention arrangements.
- (4) All amounts detailed in footnotes (1) to (3) above have been excluded from the STI amounts on the basis that in each instance, the amounts ultimately paid were not contemplated in the relevant individual's original potential stretch STI amount (being the maximum STI that was potentially available in the ordinary course of business).
- (5) All STI amounts in respect to the 2007 financial year will be paid subsequent to year end. The minimum potential value of the STI granted in respect of the 2007 and 2006 financial years was \$Nil. The maximum value of the STI granted in the 2007 and 2006 financial years is the actual STI payment. There is no retesting of the STI entitlement and the unvested portion is forfeited.

G. Key Management Personnel at risk remuneration

Table 11 details the relative proportion of remuneration paid in 2007 to KMP, other than Non-executive Directors, which was dependent upon the achievement of specific performance levels versus that which was not. No component of the remuneration of Non-executive Directors is at risk.

Table 11 – The extent to which remuneration is at risk

KMP	Fixed remuneration as at % of total remuneration ⁽¹⁾	Total actual at risk remuneration as a % of total remuneration ⁽¹⁾	At risk components as a % of total remuneration ⁽¹⁾		
			STI	Options	Performance shares
J. Fletcher	56%	44%	21%	1%	22%
L. Davis	54%	46%	24%	–	22%
T. Hammon	60%	40%	24%	1%	15%
L. Inman	57%	43%	22%	2%	19%
F. MacKenzie	59%	41%	25%	2%	14%
M. McMahon	67%	33%	20%	–	13%

- (1) For the purposes of calculating the percentages disclosed in Table 11:
- Total remuneration excludes amounts payable on termination and the value of options, which vest on the termination of KMP. On the same basis, fixed remuneration excludes amounts referable to termination remuneration entitlements;
 - Fixed remuneration includes amounts payable to Mr McMahon (\$241,337), Ms Inman (\$319,854), Mr MacKenzie (\$250,000) and Mr Hammon (\$250,000). In each instance the payment of the amount was only contingent on service being rendered over a specified period of time and as such is not considered to be at risk.

These adjustments have been made to reflect total remuneration and fixed remuneration payable in the ordinary course of business excluding the impact of termination events.

H. Key Management Personnel share-based remuneration

Details of the terms and conditions of each grant of options and performance shares provided to KMP and which enter into the calculation of their remuneration in the current and future reporting periods are detailed in Table 12.

Table 12 – KMP's option and performance share entitlements

KMP	Type	Grant date	Exercise price	Expiry date ⁽²⁾	Balance as at 30 July 2006	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 29 July 2007	Vested during the year	Vested and exercisable at 29 July 2007 ⁽¹⁾	Future financial years that grant may vest
J. Fletcher	Opt	Sep '01	\$6.33	Cess+1	500,000	–	–	–	500,000	500,000	500,000	
	Opt	Nov '03	\$7.53	Cess+1	1,500,000	–	–	295,500	1,204,500	829,500	1,204,500	
	PS	Nov '05	–	Sep '08	170,000	–	–	–	170,000	–	–	170,000: 2008/09
	PS	Nov '06	–	Sep '09	–	204,000	–	–	204,000	–	–	204,000: 2009/10
L. Davis	Opt	Sep '01	\$6.28	Cess+1	300,000	–	–	–	300,000	300,000	300,000	
	PS	Jun '05	–	Sep '07	76,000	–	–	–	76,000 ⁽³⁾	–	–	76,000: 2007/08
	PS	Dec '05	–	Sep '08	76,000	–	–	–	76,000	–	–	76,000: 2008/09
	PS	Dec '06	–	Sep '09	–	76,000	–	–	76,000	–	–	76,000: 2009/10
T. Hammon	Opt	Feb '02	\$7.66	Nov '06	245,000	–	245,000	–	–	149,000	–	
	PS	Jun '05	–	Sep '07	43,400	–	–	–	43,400 ⁽³⁾	–	–	43,400: 2007/08
	PS	Dec '05	–	Sep '08	28,000	–	–	–	28,000	–	–	28,000: 2008/09
	PS	Dec '06	–	Sep '09	–	43,000	–	–	43,000	–	–	43,000: 2009/10
L. Inman	Opt	Feb '02	\$7.66	Nov '06	34,000	–	34,000	–	–	34,000	–	
	Opt	Jul '04	\$8.43	Nov '09	210,000	–	–	–	210,000 ⁽⁴⁾	42,000	84,000	42,000: 2007/08
												42,000: 2008/09
												42,000: 2009/10
	PS	Jan '05	–	Sep '07	14,000	–	–	–	14,000 ⁽³⁾	–	–	14,000: 2007/08
	PS	Jun '05	–	Sep '07	6,700	–	–	–	6,700 ⁽³⁾	–	–	6,700: 2007/08
	PS	Dec '05	–	Sep '08	50,000	–	–	–	50,000	–	–	50,000: 2008/09
	PS	Dec '05	–	Sep '09	22,000	–	–	–	22,000	–	–	22,000: 2009/10
	PS	Dec '05	–	Sep '10	22,000	–	–	–	22,000	–	–	22,000: 2010/11
	PS	Dec '06	–	Sep '09	–	43,000	–	–	43,000	–	–	43,000: 2009/10
F. MacKenzie	Opt	Sep '02	\$5.88	Nov '07	344,000	–	172,000	–	172,000 ⁽⁵⁾	172,000	–	172,000: 2007/08
	PS	Dec '05	–	Sep '08	50,000	–	–	–	50,000	–	–	50,000: 2008/09
	PS	Dec '06	–	Sep '09	–	57,000	–	–	57,000	–	–	57,000: 2009/10
M. McMahon	PS	Jun '05	–	Sep '07	7,000	–	–	–	7,000 ⁽³⁾	–	–	7,000: 2007/08
	PS	Dec '05	–	Sep '08	28,000	–	–	–	28,000	–	–	28,000: 2008/09
	PS	Dec '06	–	Sep '09	–	57,000	–	–	57,000	–	–	57,000: 2009/10
	PS	Mar '07	–	Sep '09	–	4,750	–	–	4,750	–	–	4,750: 2009/10

(1) There are no options on issue which have vested but which are contractually unable to be exercised.

(2) Cess +1 denotes that the options expire one year after the cessation of an individual's employment.

(3) Subsequent to balance date, 76.8% of these performance shares have vested and 23.2% have lapsed.

(4) Subsequent to balance date, 37,380 of these options have vested.

(5) Subsequent to balance date, these options have vested.

Remuneration Report

(continued)

In accordance with section 300A(1)(e) of the Corporations Act 2001, Table 13 shows the value of performance shares granted during the year as part of certain KMP's remuneration, the value of any options exercised by KMP during the year (calculated as at the date of exercise) and the value of any options held by those KMP that lapsed during the year (calculated as at the date of lapse). No new options were granted to any KMP during the year.

Table 13 – The value of performance shares and options granted

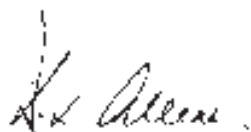
KMP	Equity instrument	Grant date	Value of option or performance share granted ⁽¹⁾ \$	Value at date of exercise or acquisition ⁽²⁾ \$	Value at date of lapse ⁽²⁾ \$	Total\$
2007						
J. Fletcher	Option	Nov '03	–	–	(2,092,140)	(2,092,140)
	Perf' Share	Nov '06	2,041,020	–	–	2,041,020
L. Davis	Perf' Share	Dec '06	752,020	–	–	752,020
T. Hammon	Option	Feb '02	–	1,689,050	–	1,689,050
	Perf' Share	Dec '06	425,485	–	–	425,485
L. Inman	Option	Feb '02	–	218,768	–	218,768
	Perf' Share	Dec '06	425,485	–	–	425,485
F. MacKenzie	Option	Sep '02	–	1,441,360	–	1,441,360
	Perf' Share	Dec '06	564,015	–	–	564,015
M. McMahon	Perf' Share	Dec '06	564,015	–	–	564,015
	Perf' Share	Mar '07	56,026	–	–	56,026
2006						
J. Fletcher	Option	Sep '01	–	3,490,000	–	3,490,000
	Perf' Share	Nov '05	1,228,250	–	–	1,228,250
H. Zayadi	Option	Aug '01	–	4,767,880	–	4,767,880
	Perf' Share	Jun '05	–	–	(285,626)	(285,626)
	Perf' Share	Dec '05	546,440	–	(575,288)	(28,848)
D. Robertson	Option	May '02	–	6,879,000	–	6,879,000
	Perf' Share	Dec '05	546,440	–	(864,120)	(317,680)
L. Davis	Option	Sep '01	–	1,284,000	–	1,284,000
	Perf' Share	Dec '05	546,440	–	–	546,440
T. Hammon	Option	Feb '02	–	1,198,000	–	1,198,000
	Perf' Share	Dec '05	201,320	–	–	201,320
F. MacKenzie	Option	Sep '02	–	746,480	–	746,480
	Perf' Share	Dec '05	359,500	–	–	359,500
L. Inman	Option	Feb '02	–	88,400	–	88,400
	Perf' Share	Dec '05	639,810	–	–	639,810

(1) The value of each option and performance share granted has been determined in accordance with AASB 2. The minimum total value of the grant, if the applicable performance conditions are not met, is \$Nil.

(2) The value of each option exercised is based on the market price of the Company's share as at the date of exercise less the exercise price of the option. Where an option has lapsed out of the money, the value was determined as the difference between the exercise price of the option less the market price of the Company's shares as at the date the option lapsed. The value of each performance share that vested is equivalent to the market price of the Company's shares on the date the share was acquired by an executive.

Directors' Declaration

The Directors' declare that in their opinion, the concise financial report of the Coles Group for the year ended 29 July 2007 as set out in pages 21 to 32 complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*. The financial statements and specific disclosures included in this concise financial report have been derived from the full financial report for the year ended 29 July 2007. The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position, and financing and investing activities of the Coles Group as the full financial report, which is available on request. This declaration is made in accordance with a resolution of the Directors of Coles Group Limited.



Rick Allert
Chairman



John Fletcher
Chief Executive Officer
and Managing Director

Melbourne
19 September 2007

Auditor's Independence Declaration

As lead auditor for the audit of Coles Group Limited for the 52 weeks ended 29 July 2007, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Coles Group Limited and the entities it controlled during the period.



Con Grapsas
Partner
PricewaterhouseCoopers

Melbourne
19 September 2007

Independent audit report to the members of Coles Group Limited

The accompanying concise financial report of Coles Group Limited comprises the balance sheet as at 29 July 2007, the income statement, statement of recognised income and expense and cash flow statement for the 52 weeks ended on that date and related notes, derived from the audited financial report of Coles Group Limited for the 52 weeks ended 29 July 2007. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards.

Directors' Responsibility for the Concise Financial Report

The Directors are responsible for the preparation and presentation of the concise financial report in accordance with Accounting Standard AASB 1039 *Concise Financial Reports*, and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation of the concise financial report; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the concise financial report based on our audit procedures. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of Coles Group Limited for the 52 weeks ended 29 July 2007. Our audit report on the financial report for the 52 weeks was signed on 19 September 2007 and was not subject to any modification. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the 52 weeks is free from material misstatement.

Our procedures in respect of the concise financial report included testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the 52 weeks, and examination on a test basis, of evidence supporting the amounts and other disclosures which were not directly derived from the financial report for the 52 weeks. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the concise financial report.

For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Coles Group Limited on 19 September 2007, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's opinion

In our opinion, the concise financial report of Coles Group Limited for the 52 weeks ended 29 July 2007 complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

PricewaterhouseCoopers

Con Grapsas
Partner

Melbourne

19 September 2007

Top 20 shareholders

as at 14 September 2007

	Ordinary shares	Number	%
1	Wesfarmers Retail Holdings Pty Ltd	126,717,949	10.57%
2	J. P. Morgan Nominees Australia Limited	99,497,294	8.30%
3	National Nominees Limited	87,711,060	7.32%
4	Citicorp Nominees Pty Ltd	84,562,774	7.05%
5	HSBC Custody Nominees (Australia) Limited	83,692,513	6.98%
6	M F Custodians Ltd	40,531,272	3.38%
7	ANZ Nominees Limited	22,726,060	1.90%
8	Cogent Nominees Pty Limited	16,108,728	1.34%
9	UBS Nominees Pty Ltd	15,910,943	1.33%
10	TWH (Qld) Pty Ltd	11,271,200	0.94%
11	RBC Dexia Investor Services Australia Nominees Pty Limited	10,981,752	0.92%
12	Australian Foundation Investment Company Limited	9,849,599	0.82%
13	AMP Life Limited	8,852,779	0.74%
14	Kareidis Nominees Pty Limited	7,836,000	0.65%
15	Australian Reward Investment Alliance (ARIA)	7,409,575	0.62%
16	Queensland Investment Corporation	6,672,621	0.56%
17	Bond Street Custodians Limited	5,321,271	0.44%
18	Coles Group Employee Share Plan Ltd	5,135,880	0.43%
19	Suncorp Custodian Services Pty Ltd	5,068,421	0.42%
20	Peter Alexander Brown	4,815,018	0.40%
		660,672,709	55.11%

(Number of ordinary shares 1,198,786,888)

Shareholder analysis

Substantial shareholders

The names of substantial shareholders in Coles Group Limited and the number of shares in which each has an interest as disclosed in substantial shareholder notices given to the Company as at 14 September 2007 were as follows:

Wesfarmers Limited and its associates	144,581,288
Commonwealth Bank of Australia and its associates	71,944,935

Distribution of holdings

Number of holders (and numbers of securities) by size of holding at 14 September 2007 were as follows:

	Ordinary shares		Executive share options		Performance shares	
	Securities	Holders	Securities	Holders	Securities	Holders
1 to 1,000	139,815,148	238,780				
1,001 to 5,000	156,287,901	76,923	19,045	5	166,369	53
5,001 to 10,000	58,790,141	8,397	50,137	8	254,364	38
10,001 to 100,000	94,849,513	4,659	2,464,264	72	2,743,314	108
100,001 and over	749,044,185	210	3,256,500	8	1,011,200	5
Total	1,198,786,888	328,969	5,789,946	93	4,175,247	204



Shareholder information

Shareholder enquiries

Investors seeking information about their shareholding should contact the Company's Share Registry. Shareholders should have their Securityholder Reference Number (SRN) or Holder Identification Number (HIN) available when contacting the Share Registry.

Share Registry contact details

Link Market Services Limited
Level 9, 333 Collins Street
Melbourne VIC 3000

Locked Bag A14,
Sydney South NSW 1235

Telephone (within Australia): 1300 130 278
Telephone (outside Australia): +61 2 8280 7768
Fax: +61 2 9287 0309

Email: colesgroup@linkmarketservices.com.au

Shareholders on-line

www.linkmarketservices.com.au/colesgroup

The Link Market Services website provides Coles Group shareholders with the following information:

- balances of current and previous holdings;
- your current communication election;
- your dividend information; and
- whether your TFN or ABN has been quoted.

You can also access dividend statements on-line and update your details.

Voting rights

Ordinary shares – entitle the holder to one vote, except on a poll where each share is entitled to one vote.

Dividends

A fully franked final dividend of 25.0 cents per share will be paid on all fully paid ordinary shares on the Share Registry at 16 November 2007 (record date). The dividend is payable on 23 November 2007.

Shareholders may have their dividends paid directly into any bank or building society account within Australia by advising their details to the Company's Share Registry. Payments to shareholders with an Australian address are made by direct credit only.

Company Secretary

Richard Dammery, LLB, BA (Hons), PhD (Cantab)

Richard Dammery is General Counsel and Company Secretary. Prior to joining Coles Group in 2005, his previous roles included Corporate Counsel of the Telecom Corporation of New Zealand, and running several business units of that company's Australian subsidiary, AAPT Limited.

How to contact us

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800 Toorak Road
Tooronga Victoria 3146, Australia

Telephone: +61 3 9829 3111
Facsimile: +61 3 9829 6787

Website

The Annual and Full Financial Reports are available on our website:
www.colesgroup.com.au

Coles Group Investor Relations

800 Toorak Road
Tooronga Victoria 3146, Australia.

Telephone: +61 3 9829 4521
Facsimile: +61 3 9829 5424

Email: investor.relations@colesgroup.com.au

2007 Annual Report

The 2007 Annual Report is a concise summary of our activities and financial position. The Concise Financial Statements are derived from the Financial Report. These statements cannot be expected to provide as full an understanding of the financial performance, financial position and investing activities of the Coles Group as the Financial Report. You may obtain a copy of the Financial Report (see above for contact details).

The expression 'Coles Group' refers to Coles Group Limited and its controlled entities, and 'Coles Group Limited' or 'the Company' is used to refer to the ultimate parent entity and legal entity Coles Group Limited.

The financial year is for the 52 weeks ended 29 July 2007. Reference in this report to 'a year' is to the financial year ended 29 July 2007 unless otherwise stated. All figures are expressed in Australian currency unless otherwise stated.

Revenues and expenses are recognised net of the amount of Goods and Services Tax.

Coles Group Limited ABN 11 004 089 936

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