COLES MYER LTD
Form 6-K
March 21, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 UNDER

THE SECURITIES EXCHANGE ACT 1934

For the month of March, 2006

COLES MYER LTD.

(Translation of registrant's name into English)

800 TOORAK ROAD, TOORONGA, VICTORIA, AUSTRALIA

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F __X__ Form 40-F ___

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ___

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Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ___

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Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's "home country"), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pusuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes __ No _X_

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

Coles Myer Ltd.

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News Release

20 March 2006

*Comparable net profit after tax up 16.6%

- NPAT up 10.5%
- up 16.6% on comparable basis
- Group ROI up to 28.6%
- Earnings per share growth up 15.4% to 39 cents
- Interim dividend up 20% to 19.5 cents
- Food and Liquor earnings up 8.8% (excluding net transformation costs)
- Growth in non-food brands up 16.1%
- Transformation progressing to plan
- AIFRS earnings guidance - $785 million

Coles Myer Ltd (CML) today announced record half-year earnings, with headline net profit after tax (NPAT) up 10.5% to $484.5 million for the 26 weeks ended 29 January 2006. Sales increased by 4.3% to $19.0 billion.

On a comparable basis, net profit after tax was up 16.6%*, taking account of the impact of capital management changes.

"This has been another very strong half for the Group in which we have more than doubled the profit and return on investment of four years ago," Coles Myer Chief Executive Officer John Fletcher said.

"Coles Myer's earnings for the first half of FY2006 were higher than for the whole of FY2003, indicating just how far the Group has come in a few short years.

"As we complete the final leg of our five-year turnaround strategy, we are on track to deliver the aspirational earnings goal we set four years ago - which is $785 million net profit after tax under the new AIFRS accounting standards.

"As we look beyond FY2006, our transformation program will be the bridge from our current turnaround strategy to our future growth strategy, equipping the organisation with modern stores, supported by the best information systems and a world class supply chain.

"The Group is well advanced in developing the next strategic framework which will be centred on leveraging our high volume and value franchises to enhance and expand our customer offer.

"The Board's decision to divest Myer reflects our new strategic intent, enabling us to direct greater financial and management focus to our core business and to simplify our operating model and lower costs.

"Thus, we are announcing today a simpler and flatter functional structure for our core supermarkets business which I will lead in recognition of the fact that this business accounts for the greatest proportion of the Group's earnings.

"The new structure will build capacity in the critical functions of supermarkets merchandise and marketing and will integrate leadership of transformational activities with day-to-day operations.

"The restructured supermarkets leadership team will report directly to me and will include two new positions - Managing Director Merchandise, Supermarkets and Managing Director Operations, Supermarkets.

"Peter Scott, currently Managing Director of Coles Myer Liquor Group, will become Managing Director Merchandise, Supermarkets; Peter Merritt, currently Managing Director of Strategy and Development for Food, Liquor and Fuel, will become Managing Director Operations, Supermarkets and Mick McMahon, Managing Director of Coles Express, will take on the additional responsibility of leading the Coles Myer Liquor Group. All three will report directly to me.

"Two Food, Liquor and Fuel executive positions will cease to exist in the new structure - Managing Director of the Food, Liquor and Fuel Group and Managing Director of Supermarkets

"Hani Zayadi will retire in August and will return to Canada after completing work on the new strategy and assisting me to transition to the new structure which he helped to develop.

"Gerry Masters has elected to leave the company rather than assume one of the leadership roles in the new structure. We are very grateful to Gerry for his outstanding contribution to Coles Myer's Food and Liquor business over the past 33 years," he said.

Growing shareholder value

Group net profit after tax for the half was $484.5 million, up 10.5%, with Earnings Per Share (EPS) growth up 15.4%. Group EBIT increased by 15.1% to $735.6 million.

The Food and Liquor business lifted earnings by 8.8%, excluding transformation costs, while the non-food businesses increased EBIT by 16.1% as Target and Myer delivered strong results, with earnings up 27.5% and 6.1% respectively.

Cost of doing business for the Group reduced by 3 basis points and gross margins expanded by 33 basis points, driven by improved sourcing and mix changes.

Group Return on Investment increased by 390 bps to 28.6%, up from 14.4% in HY2001. Operating cashflow of $871.3 million was generated, increasing by $368.5 million or 73.3%, driven by a strong improvement in working capital for the half.

Directors have declared a fully franked interim dividend of 19.5 cents per share, up 3.25 cents or 20.0% on last year's interim dividend.

As announced last week, the Board has agreed to sell the Myer business and Myer Melbourne property to Newbridge Capital Management and the Myer Family Company for $1.4 billion, conditional upon third party consents.

On completion within the next few months, this transaction will provide a net profit of around $700 million.

The Board will consider capital management initiatives in the light of the prospective sale, balancing the objectives of maintaining balance sheet flexibility, returning surplus funds to shareholders and growing the Group's businesses organically and through acquisition where appropriate.

Details regarding capital management initiatives will be announced after completion of the Myer sale transaction.

The dividend policy for the Group remains unchanged, with the expected payout ratio to be maintained at around 65% of full year earnings.

Delighting our customers

Our brands continue to focus on offering quality products at competitive prices in a network of conveniently located and easy-to-shop stores.

We have an ongoing program of expanding and renewing our store fleet, opening 69 new stores and refurbishing a further 107 over the past six months.

We continue to improve our range and value by increasing the proportion of goods we directly source for our general merchandise and apparel brands from 17% to 24%. Direct sourcing allows us to bring unique products to market in a cost effective manner and at value price points.

In supermarkets, returnable plastic crates are being introduced to significantly reduce the handling of produce between the farmer and stores, improving quality and availability.

Our unique loyalty program - the most comprehensive in Australian retailing - continues to drive growth. The program includes the Coles Myer Source Mastercard, Flybuys, Myer One and the Coles Express fuel discount offer.

A Flybuys offer allowing customers to redeem 1000 points for 10 cents per litre fuel discount vouchers was well received during the half. The popularity of our ongoing offer of an 8 cents per litre fuel discount to new Source Card holders also continued to build.

Being the best team

Our commitment to providing a safe working and shopping environment continued to gain traction during the half, with further reductions achieved in the number of workplace injuries and the cost of workers compensation insurance premiums.

A number of initiatives were also implemented to engender cultural change and diversity in the business.

Leadership development for women, mentoring and networking programs, and diversity and equal opportunity awareness have all been areas of focus - with the number of women in management increasing. New programs for women considering motherhood and pilot flexible work hours programs have commenced.

Our alliance with Disability Works Australia culminated in Coles Myer being awarded the National Corporations category of the Prime Minister's Employer of the Year Awards that recognise excellence in the employment of people with disabilities.

Over 7,000 line managers completed a one-day workshop to introduce them to our new values and behaviours program. Further work is underway to embed values and behaviours across the business.

Between August and February, more than 50,000 team members utilised the resources of the Coles Myer Institute to improve their business skills and further their careers.

To enhance our ability to source the best retail talent, we have partnered with highly respected recruitment agency, Talent 2, to provide an in-house recruitment service for management, specialist and executive positions across all Coles Myer brands and functions. The service will commence in April this year.

Trading Outlook

The Food and Liquor sales trend is expected to improve over time as the new customer initiatives in supermarkets gain traction. In non-food the environment is expected to remain very competitive.

Under AIFRS accounting, full-year earnings are expected to increase to $785 million before the sale of Myer and excluding the expected profit on sale (previous AGAAP earnings guidance of $769 million).

The finalisation of the Myer divestment is expected to occur within the next few months, with the impact on overall guidance expected to be minimal for FY2006.

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Financials

RESULTS SUMMARY	2006 AIFRS	2005[2] AIFRS	2005 AGAAP	Change	Retail EBIT/Sales			Change
	26 weeks	26 weeks	26 weeks		2006 AIFRS	2005[2] AIFRS	2005 AGAAP	
	$m	$m	$m		%	%	%	
Sales	19,013	18,224	18,345	4.3%				
Underlying Retail EBIT[a]	780.6	691.7	672.5	12.9%				
Food and Liquor [a]	397.3	365.3	351.7	8.8%	4.05	3.86	3.71	19 bps

- Excluding net transformation costs								
Coles Express	20.3	13.7	20.1	48.2%	0.67	0.52	0.76	15 bps
Kmart	92.9	90.7	89.1	2.4%	4.25	4.07	4.06	18 bps
Officeworks	29.5	28.9	28.2	2.1%	4.96	5.04	4.91	(8) bps
Myer	67.9	64.0	60.7	6.1%	4.27	4.12	3.64	15 bps
Megamart	(16.1)	(19.0)	(18.5)	(15.3)%				
Target	188.8	148.1	141.2	27.5%	10.88	8.89	8.64	199 bps
Property	23.5	33.5	9.9	(29.9)%				
Corporate costs	(47.7)	(49.0)	(49.3)					
Underlying EBIT[b]	756.4	676.2	633.1	11.9%				
F&L Net transformation costs	(20.8)							
Food and liquor restructure		(20.7)	(20.7)					
Net supply chain implementation costs		(16.3)	(16.3)					
EBIT	735.6	639.2	596.1	15.1%				
Net borrowing costs	(49.5)	(24.1)	(18.4)					
Net profit before tax	686.1	615.1	577.7	11.5%				
Income tax expense	(201.6)	(176.6)	(173.9)					
Net profit after tax	484.5	438.5	403.8	10.5%				

Earnings per share (basic) (cents)	39.0	33.8	31.0	15.4%
Ordinary dividend per share (cents)	19.5	16.25	16.25	20.0%
Operating gross margin (%)				
- CML Group incl Fuel	25.42	25.09	24.88	33 bps
- Food and Liquor	24.68	24.32	24.23	36 bps
- Non Food	35.66	33.67	33.24	199 bps
Cost of doing business / sales (%)				
- CML Group incl Fuel	21.55	21.58	21.63	(3) bps
- Food and Liquor[c]	20.84	20.46	20.52	38 bps
- Non Food	29.78	28.59	28.40	119 bps
Return on investment (%) (mat)	28.6	24.7	22.8	390 bps
Operating cash flow	871.3	502.8	504.8	73.3%
Free cashflow	276.0	143.5	145.5	92.3%
Net debt (cash) / Net debt (cash) & equity (%)	14.3	14.2	(3.2)	
Fixed charges cover (times) (mat)	2.3	2.3	2.4	

a.	Excludes Food and Liquor net transformation costs $20.8m TY 2006; Food and Liquor restructure costs LY 2005 $20.7m
b.	Excludes Food and Liquor net transformation costs $20.8m TY 2006; Food and Liquor restructure costs LY 2005 $20.7m and Net supply chain implementation costs LY 2005 $16.3m
c.	Excludes Food and Liquor restructure costs LY 2005 $20.7m

RETAIL OPERATIONS

Food and Liquor

	2006 - **AIFRS**	2005 - **AIFRS**[2]	2005 - **AGAAP**	Change
Sales ($m)	9,807.2	9,452.5	9,490.4	3.8%
Comparative store sales growth				1.5%
Retail EBIT ($m)[3] - excluding net transformation costs ($20.8m)	397.3	365.3	351.7	8.8%
Retail margin (%)	4.05	3.86	3.71	19 bps
Net assets employed (NAE) ($m)	2,244	2,206	2,268	
ROI (mat) (%)	37.7	33.4	32.3	430 bps

- Food and Liquor retail EBIT up 8.8% (excluding net transformation costs)
- ROI increased by 430 bps to 37.7%
- Customer initiatives implemented during the half
- Investment in transformation and new store growth

Food and Liquor reported an 8.8% increase in retail EBIT for the half, excluding transformation costs, with margin expansion of 19 basis points, in a highly competitive market.

The business delivered a strong ROI of 37.7%, up 430 bps.

Food and Liquor's cost of doing business was flat pre-transformation costs for the half, given the lack of sales leverage and the impact of higher CODB in hotels. The gross margin expanded by 36 basis points, driven by changes in the mix of merchandise sales.

Group Managing Director Food, Liquor and Fuel, Hani Zayadi, said the business had achieved a good profit outcome while making significant investment in the future, both in-store and at a head office level, despite a disappointing sales trend during the half.

The investment in transformation will continue during the balance of FY2006 and FY2007, with net transformation costs of $34 million this year.

Supermarkets

A number of strategic initiatives to improve the customer offer and experience were progressed during the half:

- the roll out of new fresh produce crates began and they are now being introduced at the rate of 60 stores per month. The crates significantly reduce the handling of fresh produce between the farmer and the customer, enhancing quality and presentation;

- establishment of the new housebrand offer, with 400-plus lines now in store and around 1000 more planned for introduction during the financial year; and,

- implementation of roll cages, facilitating the efficient re-stocking of shelves, now almost complete.

Additionally, as announced at second quarter sales, the supermarkets team has undertaken a number of key initiatives to improve focus on customer service and to reinforce customer perceptions of the great value offered at both Coles and Bi-Lo. While initial feedback from customers has been encouraging, this will take some time to be reflected in the sales trend.

The network was expanded by the opening of a further 20 new stores and 24 refurbishments were completed. A further seven new stores plus three replacements stores and 31 refurbishments are planned for the remainder of FY2006.

The focus going forward will be on continuously improving our customer experience while building a better business for the future through transformational initiatives.

The new supermarkets operating model brings together under one Managing Director leadership of both day-to-day operational issues within supermarkets and implementation of transformation projects. Similarly, the new position of Managing Director Merchandise will assume accountability for the integration of the new housebrand strategy as well as day-to-day category management.

In recognition of the need to enhance our dialogue with customers, the Group General Manager of Customer Strategy, Tom Lemke, will assume functional responsibility for Supermarkets Marketing.

Liquor

The liquor business continued to progress against strategy during the half.

Managing Director Coles Myer Liquor Group, Peter Scott, said customer acceptance of the new look Liquorland had been very pleasing and the business was starting to see consequential increases in comparative sales growth as refurbishments were progressed.

A total of 30 Liquorland stores now reflected the true convenience proposition designed for customers who want to 'grab and go'. An additional 25 stores would be refurbished in the remainder of FY2006.

The 1st Choice Liquor Superstore brand rollout continued, with a further five stores opening during the half, bringing the total to seven. The brand expects to rollout a further 10 stores for the remainder of FY2006, bring the total network to 17 by financial year end.

"The acquisition of the Hedley group further strengthens our liquor business and we expect it to deliver Coles Myer market leadership in superstore liquor retailing in the fast-growing Queensland market. The acquisition will accelerate the 1st Choice rollout in Queensland," Mr Scott said.

"The acquisition of Hedley has provided Coles Myer with quality assets in key locations and will take the number of sites available nationally for 1st Choice development to 72, subject to licensing approval. The Hedley acquisition is expected to be finalised at the end of May 2006.

"1st Choice offers the best range of liquor at the lowest prices guaranteed and offers an entertaining shopping experience unique to liquor retailing in Australia. Customer feedback regarding 1st Choice has been extremely positive," he said.

As the business continued to realign its portfolio to reflect its strategy and grow its large format presence, the network was reduced by 26 stores during the half.

Two additional hotels were also acquired during the half.

Coles Express

	2006 - **AIFRS**	2005 - **AIFRS2**	2005 - **AGAAP**	Change
Sales ($m)	3,031.8	2,614.2	2,647.5	16.0%
Comparative store sales growth				15.3%
Retail EBIT ($m)	20.3	13.7	20.1	48.2%
NAE ($m)	147	147	164	
ROI (mat) (%)	23.0	17.2	23.3	580 bps

Coles Express reported retail EBIT of $20.3 million, up 48.2% on the prior half. This was an outstanding result achieved in a highly competitive sector and despite record oil prices. ROI was 23.0%, up 580 bps.

The result was driven by a strong performance in both fuel and convenience for the half, particularly over the course of the critical Christmas/summer trading period.

Managing Director Mick McMahon said: "The highly seasonal convenience stores segment of the business performed very well for the half, with the increased focus on customer service, in-store execution and supply chain improvements, delivering a strong result.

"In addition, Coles Express fuel customers benefited from competitive prices and a range of innovative fuel offers, including the 4cpl discount offer, a number of '20cpl' discount promotions and the Fly Buys 'Fill up for less' campaign.

"The strength of the Shell alliance was demonstrated through our ability to manage the impact of oil price volatility, while continuing to deliver competitive fuel prices to customers. In addition, we successfully launched Optimax Extreme during the half and opened nine new stores," he said.

The business remains on track to open 12-15 new stores for the year.

GENERAL MERCHANDISE & APPAREL

The non-food businesses delivered another strong result, with retail EBIT increasing by 16.1%. Return on Investment improved by 370 basis points to 26.5% for the half.

Gross operating margins continued to expand as a result of continued focus on improving quality of sales and reducing product cost via better sourcing arrangements.

The non-food brands continue to explore new and exciting sources of merchandise, with approximately 24% (increasing from 17% in full year FY2005) of merchandise now sourced directly through offices located in both Hong Kong and Shanghai. With 227 team members, Coles Myer Asia works on designing, sourcing and procuring quality merchandise for all the non-food brands.

Kmart

	2006 - AIFRS	2005 - AIFRS2	2005 - AGAAP	Change
Sales ($m)	2,186.0	2,228.2	2,192.8	(1.9)%
Comparative store sales growth				(5.0)%
Retail EBIT ($m)	92.9	90.7	89.1	2.4%
Retail margin (%)	4.25	4.07	4.06	18 bps
NAE ($m)	503	584	613	
ROI (mat) (%)	14.7	14.9	14.3	(20)bps

Kmart reported a 2.4% increase in retail EBIT to $92.9 million, with 18 bps improvement in EBIT margin for the half.

Kmart's ongoing adjustments to product range and quality, store execution, inventory management and its promotional program resulted in improved product margin and quality of sales across all apparel and most general merchandise categories during the half. Importantly, Kmart's sales trend mid-way through the third quarter has improved on the trend from the previous quarter.

Best performing categories for general merchandise this half were consumables and seasonal, sport and fitness, photographics and home décor. For apparel, Kmart achieved good performances from women's outerwear and Girl Xpress, footwear and accessories, men's fashion and activewear and children's underwear and sleepwear.

Kmart Managing Director Larry Davis said: "Our product margins improved over the half, and the sales trend for the current quarter is encouraging. The improved product margin results from our continued investment in the brand, with better store presentation, ambience and execution and a stronger focus on customer service with special emphasis on checkouts and layby. Ongoing training and development of the buying team remains a key priority in ensuring Kmart delivers wanted, quality merchandise at the best value price to customers.

"Inventory remained below last year even with six new stores, and we saw a major improvement in stock flow over the crucial Christmas and Stocktake period compared to the previous year. Flowing inventory faster through the supply chain remains a key priority for our business.

"Going forward, our key priorities remain the same. They include developing a more balanced and strategic promotional program, with a reduction on the reliance on store-wide and category-wide events, and achieving lower overall cost of product via better sourcing of new, wanted merchandise for customers. We will also maintain our intense focus on inventory flow and investment in the store portfolio," Mr Davis said.

Kmart opened six new stores for the half and closed one Garden Supercentre. Kmart also announced the acquisition of 90 new sites from Shell through its Kmart Tyre and Auto Service business.

Kmart will open one new store in the second half and will also convert the former Shell autoserv outlets to Kmart Tyre and Auto, bringing the KTAS fleet up to 290 sites.

Myer

	2006 - **AIFRS**	2005 - **AIFRS2**	2005 - **AGAAP**	Change
Sales ($m)	1,591.9	1,555.1	1,667.0	2.4%
Comparative store sales growth				2.8%
Retail EBIT ($m)	67.9	64.0	60.7	6.1%
Retail margin (%)	4.27	4.12	3.64	15 bps
NAE ($m)	427	460	573	
ROI (mat) (%)	10.1	15.6	12.1	(550) bps

Myer reported a 6.1% increase in retail EBIT to $67.9 million for the half, with retail margins improving by 15 bps to 4.27%. Under A-GAAP reporting Myer's EBIT growth for the half was 10.0%.

Managing Director, Dawn Robertson, said Myer continued to deliver on its strategy by profitably growing sales, regaining market share and delivering further improvements across all stores.

"This is a significant result for Myer and comes at the end of the third year of our five-year turnaround strategy, signifying that we are achieving great progress and positioning Myer for long-term success," Ms Robertson said.

"Myer continued to deliver improvements across the business with new brands and initiatives such as Joh Bailey, Kit, Becca, Breville Home and Jane Lamerton. Myer Brisbane was relaunched in September following a complete renovation and the basement in Melbourne has achieved early success. Myer Carlingford will close at the end of March and will be re-badged as a Target.

"MYER One continued to grow in popularity during the half, achieving 900,000 members. More than 650,000 members used their MYER One card over the Christmas and Stocktake trading periods, with an average spend in excess of $500 per customer.

"Customer response to new Winter season merchandise has been strong and with clean inventory going into the second half, and we remain confident that the business will continue to grow sales and earnings in the second half of FY2006," Ms Robertson said.

Target

	2006 - **AIFRS**	2005 - **AIFRS2**	2005 - **AGAAP**	Change
Sales ($m)	1,735.4	1,666.2	1,634.4	4.2%
Comparative store sales growth				1.0%
Retail EBIT ($m)	188.8	148.1	141.2	27.5%
Retail margin (%)	10.88	8.89	8.64	199 bps
NAE ($m)	381	405	449	
ROI (mat) (%)	64.7	48.4	44.2	1630 bps

Target reported a 27.5% increase in retail EBIT to $188.8 million for the half as retail margins improved by 199 bps to 10.88%.

Target Managing Director, Launa Inman, said the brand had delivered a record interim profit by adhering to its strategy of on-trend, affordable and high quality ranges, coupled with the ongoing development of the Target brand.

"Target continued its strong focus on faster access to new, unique and highly differentiated affordable merchandise, combined with strong in-store execution. This has been supported by increasing the level of direct sourcing which delivered greater cost efficiencies and speed to market," Ms Inman said

"Target enjoyed strong sales growth in apparel, with the brand continuing to be a key destination for children's and womenswear, with a growing and important footwear business. However, the brand experienced softer sales in some hard goods categories which customers deemed more discretionary. There is no doubt that this is a challenging marketplace in which competition continues to intensify.

"The key focus for the business will be to further grow the brand through accelerating our investment in stores and adhering to our strategy. The brand continually explores new and exciting merchandise opportunities to offer customers," she said.

During the half, Target opened six new stores. Target is accelerating its new store program in areas where the brand remains under-represented, with eight new stores planned in the next 12 months. It is also expanding the store footprint in key growth areas, for both Target and Target Country brands, with seven expansions planned in the next year.

Officeworks

	2006 -	2005 -	2005 -	Change

	AIFRS	**AIFRS2**	**AGAAP**	
Sales ($m)	594.3	573.2	574.6	3.7%
Comparative store sales growth				4.9%
Retail EBIT ($m)	29.5	28.9	28.2	2.1%
Retail margin (%)	4.96	5.04	4.91	(8) bps
NAE ($m)	176	183	192	
ROI (mat) (%)	42.9	31.1	29.9	1180 bps

The Officeworks reported Retail EBIT was up 2.1% to $29.5 million on a margin decline of 8 bps impacted by the Harris Technology restructure.

Officeworks Managing Director, Joe Barberis, said that excluding Harris Technology the results were pleasing as the business continued to strengthen its position as the leading supplier for quality office and technology products for home offices, students and small to medium size businesses.

"The restructure of the Harris Technology business early in the first half impacted both sales and EBIT results. The restructure is progressing in line with expectations, with the business now focusing on improving product selection and availability on a lower cost base," Mr Barberis said.

"Officeworks' strong promotional calendar and merchandise offer was well received by customers during the year, with highlights being the successful 'Birthday Sale' and 'Back to School' events.

"Our Technology division (including Business Machines and Consumables) has experienced strong sales growth in a technology market that continues to reach lower price points. Lower percentage margins in technology impacted margin levels overall during the half."

Four new Officeworks stores were opened during the half, increasing the network to 91 Officeworks stores and eight Harris Technology Business centres. Officeworks remains on track to open a further 4 - 5 new stores for the year.

Megamart

	2006 - **AIFRS**	2005 - **AIFRS2**	2005 - **AGAAP**	Change
Sales ($m)	66.2	134.9	138.2	(50.9)%
Retail EBIT ($m)	(16.1)	(19.0)	(18.5)	(15.3)%

Six of the nine Megamart stores were divested during the half. The remaining three stores were closed, with the results reflecting the trading loss recorded by the business.

Business transformation

Mr Fletcher said that business transformation was on track and already delivering significant benefits to the Group.

Since 2003, Groupwide infrastructure had been put in place to enable individual businesses to leverage the scale of CML. Centralised recruitment, development and performance management systems had enabled the fostering of a more integrated Group culture, with one leadership team committed to a shared vision and strategy.

"The implementation of a Groupwide safety program has significantly reduced the number of workplace injuries and thus the cost to the business of both time lost through injuries and workers compensation premiums," Mr Fletcher said.

"The now centralised Information Technology function is well advanced in replacing numerous outdated, duplicative and complex systems with an integrated, simplified and modern technology platform.

"The formation of a centralised Strategic Procurement function has also delivered significant savings by removing duplication and leveraging the opportunity to purchase common services for the business as a whole.

"In our non-food businesses, direct sourcing through Coles Myer Asia has reduced the cost of products for both customers and the company, as well as enhancing the quality of merchandise and speed to market.

"The introduction of a single container tracking and processing tool, I-trade, gives our non-food businesses visibility of stock from overseas freight forwarders to our distribution centres and links our Supply Chain management directly to Australian Customs.

"In the Food and Liquor business, we are implementing new merchandising and forecasting systems, a new store replenishment system and improved discounting systems and electronic trading with suppliers.

"Development of our new Distribution Centre network is also underway, to include up to 11 new purpose-built facilities in are modelled and streamlined network of food and liquor DCs. These will be supported by a range of new technology and systems, improving overall efficiency

"We have also successfully implemented the first stage of our new Transport Management System which underpins our Factory Gate Pricing strategy, allowing us to maximise the flow of goods into our DCs.

"Meanwhile, the introduction to stores of roll cages, returnable plastic crates and shelf-friendly packaging is already producing customer benefits by simplifying the way we transport goods from suppliers onto shelves."

Mr Fletcher said that over the past three years some transformation timeframes had moved forward while others had been put back to suit the needs of the business and enhance shareholder outcomes.

Therefore, while the source of benefits achieved to date was different to that originally envisaged, the Group would achieve transformation savings totalling $425 million annually in FY08. Net benefits will continue to increase beyond that point.

"All these programs are significant, require time to design and implement, and are deliberately focused on positioning us for long-term growth by delivering better customer outcomes and reducing costs through improved efficiency.

"Our transformation initiatives are on track and achievable.

"We have established strong foundations, have a highly skilled team, invested in change leadership and implemented strong governance principles across the transformation program," Mr Fletcher said.

Interest and Tax

Net borrowing costs increased by $25.4 million to $49.5 million, reflecting higher net debt levels following the capital management program implemented in FY2005.

Income tax expense of $201.6 million represents an effective tax rate of 29.4%.

BALANCE SHEET

$m	2006 AIFRS	2005 AIFRS [2]	2005 AGAAP
Inventory	3,414.8	3,352.5	3,308.7
Trade creditors	(2,235.4)	(2,096.7)	(2,096.7)
Net investment in inventory	1,179.4	1,255.8	1,212.0
Other current net liabilities	(1,236.5)	(1,034.4)	(1,098.0)
Working capital	(57.1)	221.4	114.0
Intangible assets	825.1	681.4	569.9
Property, plant & equipment	3,663.8	3,184.6	3,458.8
Other net assets/(liabilities)	(298.4)	(265.9)	(121.2)
Funds Employed	4,133.4	3,821.5	4,021.5
Net tax balances	249.2	153.4	236.4
Net assets employed	4,382.6	3,974.9	4,257.9
Net (debt)/cash	(627.0)	(563.6)	136.4
Shareholders' equity	3,755.6	3,411.3	4,394.3

CML's balance sheet remains strong with the Group net debt / net debt to equity position at 14.3%. The strength of the balance sheet and cashflow position allow for the continued investment in the network to drive future growth, both organically and via acquisition.

Return on Investment increased strongly from 24.7% to 28.6%, an improvement of 390 basis points on the prior comparable period. This reflects a more than doubling of ROI over the four and half years of the current strategy.

Inventory levels rose by $62.3 million or 1.9% on a sales increase of 4.3%, including new stores and acquisitions. Our net inventory investment has declined by $76.4 million, reflecting higher trade creditor levels against last year. Stock turns across the Group improved on the prior half year and inventory quality remained high across all businesses. Increasing levels of direct sourcing and a new international inventory system have increased the level of inventory entering our supply chain, offsetting some of the stock turn improvements in our non-food brands.

Total capital expenditure was $551 million (FY2005: $370 million), representing an increase of $181 million on the prior half year. The increase was driven by the investment in our store network expansion and transformation program. Investment in stores and future growth opportunities remain a key priority for the Group in the remainder of FY2006 and beyond. Net capital expenditure investment is expected to be $1.1 billion in FY2006, pre the Hedley acquisition, as we continue to invest in each of our businesses to transform and drive future growth.

Cash flow

$m	2006 AIFRS	2005 AIFRS [2]	2005 AGAAP
Operating cash flow	871.3	502.8	504.8
Capex	(578.2)	(374.9)	(374.9)
Other	(17.1)	15.6	16.1
Free cash flow	276.0	143.5	145.5
Dividends paid	(210.0)	(205.4)	(207.4)
Other movements in equity	78.7	89.8	89.8
Net cash flow	144.9	27.9	27.9

EBITDA growth for the half was 12.2% with operating cashflow increasing by 73.3%. The strong operating cashflow position reflects minimal growth in stock levels and a higher creditors position relative to the prior comparable period last year.

Coles Myer Ltd.

Appendix 4D

Half Year Report

for the 26 weeks ended 29 January 2006

(previous corresponding period: 26 weeks ended 23 January 2005)

This Half Year Report is provided to the Australian Stock Exchange under ASX Listing Rule 4.2A. The information set out in this Half Year Report should be read in conjunction with the annual report for the year ended 31 July 2005.

Results for Announcement to the Market				
				$m
Revenue	up	4.3 %	to	19,143.6
Profit after tax attributable to members	up	10.5 %	to	484.5

Net profit for the period attributable to members	up	10.5 %	to	484.5

Dividends	Amount per security	Franked amount per security at 30% tax
Interim dividend J006 J005	19.5 cents 16.25 cents	19.5 cents 16.25 cents
Record date for determining entitlements to the dividend	21 April 2006	

Consolidated Income Statement

For the 26 weeks ended 29 January 2006

		January 2006 $m	January 2005 $m
Sales		19,012.7	18,224.2
Cost of goods sold		(14,216.7)	(13,668.6)
Gross profit		4,796.0	4,555.6
Other income		119.5	120.7
Interest income		11.4	14.6
Borrowing costs		(60.9)	(38.7)
Advertising expenses		(226.0)	(218.2)
Selling and occupancy expenses		(3,299.4)	(3,152.5)
Administrative expenses		(654.5)	(666.4)
Profit before income tax expense		686.1	615.1
Income tax expense		(201.6)	(176.6)

Net profit		484.5	438.5
Earnings per share			
Basic earnings per share		39.0 cents	33.8 cents
Diluted earnings per share		38.7 cents	33.5 cents

Consolidated Balance Sheet

As at 29 January 2006

	January 2006 $m	July 2005 $m	January 2005 $m
Current assets			
Cash	578.2	440.9	876.7
Receivables	551.7	536.1	567.1
Inventories	3,414.8	3,261.6	3,352.5
Derivative financial instrument	2.4		
Assets held for sale	49.3		
Other	42.0	21.0	60.2
Total current assets	4,638.4	4,259.6	4,856.5
Non-current assets			
Receivables	17.3	17.6	19.0
Investments	137.7	144.9	143.7
Property, plant and equipment	3,663.8	3,487.8	3,184.6

Investment properties	9.6	9.6	20.8
Deferred tax assets	472.6	449.0	399.0
Intangibles	825.1	803.3	681.4
Other	56.5	52.0	42.2
Total non-current assets	5,182.6	4,964.2	4,490.7
Total assets	9,821.0	9,223.8	9,347.2
Current liabilities			
Payables	3,275.5	3,018.8	2,956.5
Interest bearing liabilities	217.0	216.0	617.9
Tax liabilities	126.2	127.3	140.5
Provisions	625.0	600.8	579.1
Total current liabilities	4,243.7	3,962.9	4,294.0
Non-current liabilities			
Interest bearing liabilities	1,205.0	1,213.3	345.2
Deferred tax liabilities	97.2	103.0	105.1
Provisions	304.1	317.9	291.1
Other	215.4	211.6	200.5
Total non-current liabilities	1,821.7	1,845.8	941.9
Total liabilities	6,065.4	5,808.7	5,235.9
Net assets	3,755.6	3,415.1	4,111.3
Equity			
Contributed equity	2,162.3	2,083.6	2,396.5
Reserves	392.0	384.0	367.4
Retained profits	1,201.3	947.5	1,347.4
Total equity	3,755.6	3,415.1	4,111.3

Consolidated Statement of Changes in Equity

For the 26 weeks ended 29 January 2006

	Attributable to Equity Holders							
	Share Capital		Equity Compensation Reserve $m (i)	General Reserves $m (ii)	Foreign Currency Reserve $m (iii)	Hedge Reserve $m (iv)	Retained Profits $m	TOTAL $m
	Ordinary $m	Preference $m						
At 31 July 2005	(2,083.6)		10.8	(395.3)	0.5	0.0	(947.5)	(3,415.1)
Adjustment on adoption of AASB 132 and AASB139, net of tax						(6.0)	20.7	14.7
Movement in foreign exchange					(0.2)			(0.2)
Movement in hedge reserve						4.1		