UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

FOR THE FISCAL YEAR ENDED JULY 25, 2004

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission file number: 1-10083

COLES MYER LTD.

Australian Business Number 11 004 089 936

(Exact name of Registrant as specified in its charter)

VICTORIA, AUSTRALIA

(Jurisdiction of incorporation or organization)

800 TOORAK ROAD, TOORONGA, VICTORIA 3146 AUSTRALIA

(Address of principal executive offices)

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

Title of each class	**Name of each exchange on which registered**
Ordinary Shares	New York Stock Exchange*
American Depositary Shares**	New York Stock Exchange

* Not for trading but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

** Evidenced by American Depositary Receipts, each American Depositary Share representing eight Ordinary Shares.

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

None

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

None

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

Fully Paid Ordinary Shares	1,225,410,546
Partly Paid Ordinary Shares paid up to A$0.01 per share	114,000

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

Yes x No ¨

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

Item 17 ¨ Item 18 x

Table of Contents

TABLE OF CONTENTS

Table of Contents

CERTAIN DEFINITIONS

The fiscal year of Coles Myer Ltd. (the Company , Coles Myer CML or CML Group , which, unless the context otherwise requires, includes Coles Myer Ltd. and its consolidated entities) ends on the last Sunday in July each year. The fiscal year ended July 25, 2004 is referred to in the text of this Annual Report as 2004 , and other fiscal years are referred to in a corresponding manner. In the Consolidated Financial Statements included in Item 18, the financial year 2003-04 is also referred to as 2004, and similarly for other years, except where otherwise stated. See also Glossary of Terms for descriptions of certain terms used in this Annual Report.

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

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 20-F contains certain forward-looking statements, including statements regarding the expected outlook for the retail-trading environment in Australia, expectations as to future store openings, refurbishments and anticipated capital expenditures. Coles Myer can give no assurances that the actual results will not differ materially from the statements contained herein. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Coles Myer, which may cause actual results to differ materially from those expressed in the statements contained herein. Any such forward-looking statements speak only as of the date of this annual report. In the absence of a specific legal obligation to the contrary, Coles Myer undertakes no responsibility to publicly announce the result of any revisions to any forward-looking statements contained herein to reflect future developments or events.

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

ITEM 1 IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2 OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3 KEY INFORMATION

A. SELECTED FINANCIAL DATA

The selected income statement data for 2002 through 2004, and the selected balance sheet data at July 27, 2003 and July 25, 2004 set forth below (other than percentages) are derived from the audited consolidated financial statements of Coles Myer included in this Annual Report. They should be read in conjunction with, and are qualified in their entirety by reference to, those statements, including the Notes thereto. The selected income statement data for the years 2000 and 2001 and the selected balance sheet data at July 30, 2000, July 29, 2001 and July 28, 2002 set forth below (other than percentages) are derived from audited consolidated financial statements of Coles Myer which are not included herein. Coles Myer s consolidated financial statements are prepared in accordance with accounting principles generally accepted in Australia (Australian GAAP), which vary in certain material respects from accounting

1

Table of Contents

principles generally accepted in the United States (U.S. GAAP). A reconciliation to U.S. GAAP is set out in Note 31 of the Notes to the Company s Consolidated Financial Statements.

It should be noted that results for 2000 reflect 53 trading weeks compared to 52 trading weeks for the other fiscal years indicated. This is because the Company s fiscal year ends on the last Sunday in July each year, and as a result, approximately every six years an extra trading week is included in the Company s consolidated results for that fiscal year.

Amounts in Accordance with Australian GAAP

	2004[1]	**2004**	**2003**	**2002**	**2001**	**2000[2]**
	US$	**A$**	**A$**	**A$**	**A$**	**A$**
	(In millions, except per share amounts)					
Income Statement Data:						
Sales [3]	22,915.9	32,266.8	27,016.6	25,688.7	23,779.6	24,159.9
Percent increase/(decrease) from prior year		19.4%	5.2%	8.0%	(1.6)%	7.7%
Profit from ordinary activities before income tax	615.2	866.2	608.8	482.2	208.2	414.5
Income tax expense	(183.3)	(258.1)	(187.7)	(137.2)	(68.0)	(136.2)
Net profit	431.9	608.1	421.1	345.0	140.2	278.3
Percent increase/(decrease) from prior year		44.4%	22.1%	146.1%	(49.6)%	(29.1)%
Dividends [4]	261.0	367.5	348.2	346.9	444.5	313.9
Per Ordinary Share:						
- Basic earnings	0.33	0.46	0.32	0.25	0.10	0.24
- Diluted earnings	0.33	0.47	0.33	0.27	0.11	0.24
- Cash Dividends [4][5]	0.19	0.265	0.260	0.255	0.355	0.270
Balance Sheet Data:						
(at year end)						
Current assets	3,245.3	4,569.5	4,116.4	4,016.8	3,946.1	3,709.8
Total assets	6,428.5	9,051.7	8,452.8	8,320.6	8,317.8	8,187.0
Short-term debt	185.7	261.5	10.8	15.3	127.8	44.1
Long-term debt	506.7	713.4	1,143.3	1,552.8	1,671.4	2,031.1
Total debt	692.4	974.9	1,154.1	1,568.1	1,799.2	2,075.2
Net Assets/Shareholders equity	2,910.1	4,097.6	3,799.2	3,338.8	3,286.3	2,828.9

Refer page 3 for notes relating to above table.

Table of Contents

Amounts in Accordance with U.S. GAAP

	2004[1] US$	2004 A$	2003 A$	2002 A$	2001 A$	2000[2] A$
	(In millions, except per share amounts)					
Income Statement Data:						
Sales [3]	22,915.9	32,266.8	27,016.6	25,688.7	23,779.6	24,159.9
Net profit from continuing operations	337.6	475.4	444.4	310.7	166.5	308.1
- Basic earnings per share	0.28	0.40	0.34	0.22	0.12	0.27
- Diluted earnings per share	0.28	0.39	0.33	0.22	0.12	0.27
Net profit	337.6	475.4	390.9	310.7	166.5	308.1
- Basic earnings per share	0.28	0.40	0.29	0.22	0.12	0.27
- Diluted earnings per share	0.28	0.39	0.29	0.22	0.12	0.27
Per Ordinary Share:						
- Cash dividends [4]	0.19	0.265	0.260	0.255	0.355	0.270
- Cash dividends in US$ [4] [5]	US$0.19	US$0.19	US$0.18	US$0.14	US$0.18	US$0.16
Balance Sheet Data:						
(at year end)						
Current assets	3,251.1	4,577.7	4,128.0	4,034.8	3,940.2	3,709.8
Total assets	6,469.9	9,109.9	8,422.4	8,218.8	8,181.9	8,065.0
Short-term debt	185.7	261.5	10.8	15.3	127.8	44.1
Long-term debt	992.5	1,397.5	1,143.3	1,552.8	1,671.4	2,031.1
Total debt	1,178.2	1,659.0	1,154.1	1,568.1	1,799.2	2,075.2
Net Assets/Shareholders equity	2,153.8	3,032.7	3,329.4	3,107.6	3,111.1	2,620.6
Issued capital - value	1,154.9	1,626.1	2,210.3	2,032.3	1,973.7	1,213.8
	Millions of shares					
Issued capital - number of outstanding shares [6]	1,225.5	1,225.5	1,212.5	1,184.7	1,176.8	1,164.5

(1) Merely for the convenience of the reader, certain selected financial data has been converted into US dollars at the Noon Buying Rate on July 23, 2004, the last trading day of the fiscal year, of A$1.00 = US$0.7102. These translations should not be construed as representations that the A$ amounts actually represent such US$ amounts or could be converted into US$ at the rate indicated. For a more recent A$/US$ exchange rate, refer below.

(2) Results for 2000 reflect 53 trading weeks compared to 52 trading weeks for other fiscal years shown.

(3) Sales for 2000 include Wholesale Sales Tax (WST). Sales for 2001 to 2004 exclude Goods and Services Tax (GST).

(4) Dividends for 2000 to 2002 include the interim and final dividends relating to each respective fiscal year. As a result of the change in accounting policy for providing for dividends, (refer Notes 2 and 6 of the consolidated financial statements included at Item 18), dividends for 2003 include the 2002 final dividend and the 2003 interim dividend and dividends for 2004 include the 2003 final dividend and the 2004 interim dividend.

(5) Based on the Noon Buying Rate for cable transfers in A$ as at each payment date as certified for customs purposes by the Federal Reserve Bank of New York. The actual rates of exchange used in determining the dollar payments to ADS holders were the exchange rates on the dates payments were made to the Depositary, being November 10, 2003 and May 10, 2004.

(6) Balance excludes number of Reset Convertible Preference Shares (ReCAPS) and includes partly paid shares.

Table of Contents

Exchange Rates

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

Fiscal Year	2004	2003	2002	2001	2000
	(all figures in US$ per A$)				
Average rate [(1)]	0.7181	0.5884	0.5270	0.5262	0.6184

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

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

Months	High	Low
	(all figures in US$ per A$)	
June 2004	0.7067	0.6855
July 2004	0.7334	0.6980
August 2004	0.7238	0.7001
September 2004	0.7244	0.6880
October 2004	0.7478	0.7207
November 2004	0.7903	0.7447

The exchange rate at December 2, 2004 was A$1.00 = US$0.7773

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

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

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

Risks Related to Coles Myer

There is a risk that the Company may not fully realize benefits expected from better leverage of the Group s operations which may affect its future competitive position.

The Group s future plans include expected benefits from greater efficiencies in areas that are common across the Group and access to greater economies of scale, for example by upgrading the supply chain and reducing the duplication of back office structures in Coles and Bi-Lo. There is a risk that the Company may not leverage the benefits available from its scale, depth and breadth of its retail capability. If the Company is not able to realize these benefits, its future ability to reduce costs and remain competitive may be reduced.

There is a risk that the Company may put too much focus on Group change management to the detriment of the retail operations.

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

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

Coles Myer s stated vision is to be the number one retailer in its brands, most of which operate in relatively mature retail markets. The Company must regularly evaluate its customer proposition for each of its brands in a dynamic and competitive marketplace. Growth initiatives are based on expanding share within existing markets through differentiated product offers and competitive pricing. In the Food and Liquor business, this includes planned expansion of house brand and fresh food market shares. There is a risk that if the Company does not continue to innovate and improve its customer offer relative to its competitors, its market share and future growth may be impacted, which may negatively affect future profitability.

There is a risk that Coles Myer does not achieve expected reductions in operating expenses which may affect future profitability.

One of the Company s strategies for improving future profitability is the reduction in operating expenses through initiatives including Supply Chain and Information Technology. If Coles Myer is unable to decrease its operating expenses on a sustainable basis it may not be able to compete effectively in the market and improve profitability.

There is a risk that Coles Myer may not achieve the expected growth in House Brand lines in the Food and Liquor business which may affect future sales growth.

The Company believes that house brands in Food and Liquor represent a growth opportunity, both in terms of a differentiated product offering and increased profit margins. There is a risk that Coles Myer is unable to execute its house brand strategy due to an inappropriate offer, sourcing difficulties with suppliers or lack of customer acceptance of house brand products, which may affect future profitability.

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

The Company s growth strategy includes the opening of new stores, together with the enhancement of existing stores. Coles Myer s ability to open new stores is dependent on identifying and entering into leases on commercially reasonable terms for properties that are suitable for its needs. If Coles Myer fails to identify and enter into leases on premium retail sites on a timely basis for any reason, including its inability due to competition from other companies seeking similar sites, the Company s growth may be impaired because it may be unable to open new stores as anticipated.

The Company s retail businesses are dependant upon their ability to source merchandise.

The Company s ability to find qualified vendors and access products in a timely and efficient manner is a critical deliverable for the business. Political or financial instability, trade restrictions, tariffs, transport capacity and other factors relating to foreign trade are beyond the Company s control and may impact the Company s performance. If the Company is unable to source the merchandise it requires, its retail operations may under-perform.

There is a risk that the Company s retail businesses may be affected if its retail offer does not cater to customer demands.

Continued growth of retail brand profitability is influenced by well-judged customer propositions and successful marketing programs. The ability of Coles Myer to successfully gauge and satisfy consumer preferences is critical to Coles Myer maintaining its competitive position. Failure to do so may adversely affect Coles Myer s business and trading results.

There is a risk that if the Company is unable to implement its new Information Technology (IT) systems, or if its investment in this IT strategy is inadequate, the future performance of the Group may be affected.

The Company s growth strategy includes significant investment in new IT systems covering all retail brands and Supply Chain initiatives. There are risks inherent in the implementation of new IT systems, including timely installation, functionality, integrity of information and process efficiency, and adequate investment.

Coles Myer has a large number of systems, and there is a risk that if CML does not adequately implement the IT strategy and investment to support improvement and efficiency across the business, its future profitability may be affected.

There is a risk that the Company s initiatives to improve its Supply Chain may not achieve the expected benefits.

The transformation of the Supply Chain is a major initiative for the Company, and is intended to result in doing business better for customers, simpler for stores and cheaper for Coles Myer. However, the initiative is complex, with risks including delays and interruptions that may result in the Company not achieving the expected benefits within expected timeframes.

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

There is a risk of the loss of members of the senior management team which may impede the implementation of the Group s strategies. The loss of key personnel, or insufficient management or leadership skills may mean that the Company s growth strategy does not meet expectations.

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

Coles Myer has traditionally had a stable industrial relations environment within its operations. However, there is a risk of industrial unrest or interruption. Any industrial action may increase costs, impact operations and delay transformation initiatives.

Table of Contents

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

There is significant competition in the Australian and New Zealand markets in which Coles Myer s businesses operate. Retail chains generally compete on the basis of location, quality of products, service, price, product variety and store condition. There is also the risk of new entrants into the Australian retail market, either by acquisition of an existing retailing company or through greenfields development. As Coles Myer operates in a broad range of retail sectors (food and liquor, discount stores, department stores, etc) it is exposed to competition in almost all retail sectors of the Australian market. These competitive conditions may adversely impact Coles Myer s market shares and trading results.

As a result of selling food products, Coles Myer faces the risk of exposure to product liability claims and adverse publicity.

The packaging, marketing, distribution and sale of food products entail an inherent risk of product liability, product recall and resultant adverse publicity. Such products may contain contaminants that may be inadvertently distributed by Coles Myer. Even an inadvertent shipment of adulterated products may lead to an increased risk of exposure to product liability claims. Such claims may have an adverse impact on the Company s financial performance should the Company s insurance not be adequate to cover all liabilities it may incur.

The transition to International Financial Reporting Standards (IFRS) may affect the Company s operating results.

As described in Note 1 to the financial statements, CML complies with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), Urgent Issues Group Consensus Views and the Corporations Act 2001. The AASB is implementing the Financial Reporting Council s policy of adopting the Standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005. Currently, Australian Accounting Standards are applied and although the AASB has been harmonizing the Australian Standards with IFRS for a number of years, some differences still exist. The AASB is using the IASB Standards as the foundation Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment. Additions are made, where necessary, to broaden the content to cover sectors not addressed by an IASB Standard and domestic, regulatory or other issues.

The impact of transitioning to IFRS is difficult to predict with any certainty at this time given that the IASB has only recently finalized certain standards. The adoption of IFRS may increase the volatility of reported earnings in future periods, or negatively impact reported earnings. The transitional rules for adoption of IFRS require the restatement of comparative financial statements using Australian equivalents of IFRS, except for AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement . Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as at July 26, 2004.

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

Improving the Health and Safety record is a major management focus in Coles Myer through the Safety Right Now program. This program focuses on creating a safe environment for staff, customers and visitors to all business locations. There is a risk that if the Company is not able to maintain its improving Health and Safety record, the costs associated with workers compensation may increase and affect the future competitive position of the Company. The Lost Time Injury Frequency Rate (LTIFR) for 2004 was 24.8 ** (29.5 in 2003).

** Equates to the number of lost time injuries per 1 million person-hours worked

Table of Contents

There is a risk that exchange rate fluctuations may impact the costs of imported merchandise and place pressure on profit margins.

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

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

Coles Myer is subject to many laws and regulations including, but not limited to, trade practices, corporations law, employment laws, workers compensation and rehabilitation, occupational health and safety, tax and accounting legislation including the Financial Services Act, State, Territory and local government legislation and regulations that govern property planning issues, liquor licensing, tobacco retailing, retail trading hours and other operational matters, environmental regulation and the ACCC. Compliance with, or changes in, these laws may reduce the sales and profitability of Coles Myer s retail operations and may otherwise adversely affect the Company s business, financial condition or results of operations. Non-compliance may result in financial penalties being levied against the Company.

Risks Related to Australia

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

The retail trading environment is subject to general economic conditions in the Australian and global markets. Any adverse changes in such economic conditions can be expected to affect the retail-trading environment in general. Any adverse developments in economic conditions during the first half of the fiscal year of Coles Myer, particularly the Christmas trading period when its sales and profitability are typically strongest, may have a negative impact on Coles Myer s trading results.

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

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

Acts of terrorism in Australia may affect the Company either directly if the Company s operations are targeted or indirectly if the Australian economic system suffers.

Australia and Australians have been the targets of recent international terrorist attacks. To date there has not been a major terrorist attack in Australia. In the event of acts of local terrorism, the Company may experience a significant business interruption. It is difficult to predict when acts of terrorism may occur or may terminate and to what extent these acts may affect the operating results.

Table of Contents

ITEM 4 INFORMATION ON THE COMPANY

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

A. HISTORY AND DEVELOPMENT

GENERAL

Coles Myer Ltd. is an Australian-based retailer, owning and operating stores in most sectors of the Australian retail market, in the general merchandise sector of the New Zealand retail market and on the Internet. The Company supplies a wide range of food and non-food items in supermarkets, discount stores, department stores, liquor stores, office supplies stores, automotive service centers, fuel outlets and online. Coles Myer Ltd. predominantly trades under the names of Coles , Coles Express , Coles Online , Bi-Lo , Liquorland , Vintage Cellars , Quaffers Kmart , Kmart Garden Super Centre , Kmart Tyre & Auto , Tyremaster , Officeworks , Target , Target Country , Myer , Megamart , Technology . In New Zealand, the Company trades as Kmart . Grace Bros stores were rebranded to Myer in February 2004.

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

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

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

Coles Myer Ltd. is the holding company. The number of subsidiaries/consolidated entities in the Coles Myer Group at July 25, 2004, is 92, all of which are incorporated in Australia and New Zealand, apart from one company, which is incorporated in Singapore.

RECENT DEVELOPMENTS

1. Acquisitions:

Coles Express

During the 2004 financial year, the Company acquired from Shell multi-site franchisees, the right to operate 585 fuel and convenience outlets and eight standalone convenience stores for A$103.7 million (including transaction costs).

Coles Myer has entered into a supply agreement with Shell for fuel and lubricant products, and operating leases for the service station sites. The sites will be branded both Coles Express and Shell.

Coles, Bi-Lo and Liquorland customers who make purchases over a certain amount will receive a cents per liter fuel discount when they present their receipts at a Coles Express/Shell service station.

Table of Contents

Commencing in 2004 Coles Express is included within the Food, Liquor and Fuel group.

2. Divestments:

Newmart and Sands and McDougall Stores

During 2004 the CML Group disposed of five Newmart stores and seven Sands and McDougall stores for A$31.9 million.

Sale of Sydney Central Plaza

On March 10, 2003, the CML Group sold the Sydney Central Plaza freehold property for A$372.8 million, net of transaction and sale related costs of A$17.2 million. During 2004, additional proceeds of A$9.9 million were received.

3. Public Takeover Offers

Australian Leisure and Hospitality Group Limited (ALH)

In October 2004, the Company and Macquarie Bank Limited (MBL) undertook a public offer to acquire ALH, a hotel and liquor operator. Under the proposal, ALH would be acquired by CMM Hotel & Retail Investments Pty Limited (CMM), a joint venture vehicle with equity funding of 60 per cent from MBL and 40 per cent from CML. The offer price was A$3.35 a share. Another party, Bruandwo Pty. Ltd., had previously made an offer to acquire ALH and was continuing to raise the offer. As a result, the Company revised its original proposal to A$3.75 per share. At this time the other party made a further offer of A$3.76 a share. The Company and MBL decided not to further increase their offer, as it was not in the best interests of the Company s shareholders.

4. Financial Updates

1st Quarter Sales

On November 11, 2004, the Company announced 2005 first quarter sales (for the 13 weeks ended October 24, 2004) of A$8.5 billion, an increase of 20.7%. This is a pleasing result given the removal of the shareholder discount. Specific sales results were:

	First Quarter (13 Weeks)		
	2005	**2004**	**Change**
	A$M	**A$M**	**%**

Food & Liquor	4,574	4,291	6.6
Fuel & Convenience	1,331	314	323.9[1]
Kmart [2]	905	831	8.9
Officeworks [2]	223	207	7.7
Myer & Megamart	708	712	(0.5)
Target	702	635	10.5
Emerging Businesses	74	66	12.1
Intra-group sales	(6)	(5)	
Total sales	8,511	7,051	20.7

For 2005, the Group is expected to achieve double-digit sales growth.

[1] Includes Fuel and Convenience store rollout during 2004.

[2] Kmart and Officeworks reported separately for the first time.

Earnings guidance

At the Company s Annual General Meeting on November 18, 2004, the Company provided earnings guidance of A$670 million - A$680 million net profit after tax for

10

2005, subject to satisfactory Christmas trading. This keeps the Company on track to achieving its goal of A$800 million in 2006. The 2005 outlook is after accounting for the net cost of the supply chain transformation (refer page 16), restructuring costs of the organizational change in Supermarkets (refer below), implementation costs of the new MYER one card (refer below) and the relaunch of Megamart (refer below).

5. Management

Senior management changes

Appointments

On August 11, 2003, the Company announced the appointment of Mr. Steven Cain as Group Managing Director Food, Liquor and Fuel.

On May 17, 2004 the Company announced the appointment of Ms. Launa Inman as Managing Director of Officeworks.

On March 10, 2004 the Company announced that Mr. Peter Scott was moving from his current position of Managing Director Officeworks to Managing Director of the Coles Myer Liquor Group.

Departures

Mr. Alan Williams, Chief Operating Officer Food & Liquor, retired from the Company on October 17, 2003.

Mr. Craig Watkins, Managing Director, Coles Myer Liquor Group retired from the Company on March 26, 2004.

On December 22, 2004 the Company announced that Mr. Steven Cain, Managing Director Food, Liquor and Fuel would be leaving the Company in the New Year. Mr. Hani Zayadi, currently Managing Director Kmart, will take over the Food, Liquor and Fuel leadership role. A formal selection process will be undertaken to fill the role of Managing Director.

Supermarket Business (Coles and Bi-Lo) Support Structures Restructure

In September 2004, the Supermarkets businesses support structures were restructured to remove duplication and bring the management team closer (organizationally) to stores and customers. The Coles and Bi-Lo support structures have moved into one integrated supermarket team. Freed resources have been reinvested into the strategic areas of fresh food and house brands.

6. Other

MYER one

MYER one, a new loyalty card exclusive to Myer was launched on August 2, 2004. It is a strategic initiative to enhance relationships with customers. Myer one can be used in conjunction with FlyBuys™ and CML Source™ MasterCard.

Megamart

The Megamart business experienced an extremely competitive environment market during 2004. In mid-November 2004 a revised customer offer was developed to improve Megamart s performance.

Coles Myer Liquor Group relocation

The Coles Myer Liquor Group head office structure was reorganized to increase operational efficiencies. This included the relocation of the head office from Sydney to Melbourne, enabling the Food and Liquor teams to work more closely on innovative ways to delight customers,

Mt Druitt Center

In June 2004, it was announced the Mt Druitt shopping center would be redeveloped to include a new full-line Target and an upgraded Coles supermarket. The existing Myer and Bi-Lo stores would close and the existing Kmart store remains unaffected.

Table of Contents

Shareholder Discount Card Program

The Coles Myer Shareholder Discount Card Program ceased on July 31, 2004.

Dividend Reinvestment Plan (DRP)

The Company has a DRP under which holders of ordinary shares have previously been able to elect to have their dividend entitlements satisfied by the issue of new fully paid ordinary shares. The DRP has been suspended effective for the final dividend for 2004. All future dividends will be paid in cash.

Board Changes

The Company held its 2004 Annual General Meeting (AGM) in Melbourne on November 18, 2004. At this meeting Mr. Martyn K. Myer and Ms. Patty E. Akopiantz were re-elected directors for a further three years. Mr. Mark M. Leibler retired effective November 18, 2004.

Capital expenditure

For 2004, capital expenditure was A$874 million in aggregate and was spread across the following areas:

A$ million	2004	2003	2002
New stores / replacements	184	236	183
Refits	205	172	162
Acquisitions	129	299	60
Technology	151	168	110
Property / Other	205	117	103
Total	874	992	618

Of this amount, 99.7% was spent on the Company s Australian operations, with the remainder spent in New Zealand.

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

Also see Consolidated Statements of Cash Flows (p.100) and Note B Acquisitions/Disposals (p.101) in the Consolidated Financial Statements at Item 18.

Launch of Coles Myer Source™ MasterCard

In October 2003, the Company launched the Coles Myer Source™ MasterCard. GE Capital Finance Australia will issue and administer the card. Linked to the FlyBuys™ program, the card provides customers with attractive rewards (refer page 22).

B. BUSINESS OVERVIEW

Company Retail Operations

At July 25, 2004, Coles Myer operated 2,559 stores in Australia and New Zealand, and employed in excess of 176,000 people.

The Company operates businesses in Australia and New Zealand, all of which are serviced by a centralized corporate group. Each of these businesses is described below. The businesses are primarily stand-alone but increasingly are being supported by a series of Retail Support centers that all operate within policies determined by a centralized corporate group. The operating businesses are organized into five major groups: Food, Liquor & Fuel, Kmart and Officeworks,

Table of Contents

Myer and Megamart, Target and Emerging Businesses. Sales, Segment result, and identifiable asset data are reported for each Coles Myer business group, and are shown in Note 26 to the Coles Myer Consolidated Financial Statements contained herein. The table on page 14 provides details of the stores that fall within each group and Item 5, Operating and Financial Review and Prospects , provides a discussion of the results of operations for each of Coles Myer s business groups.

Coles Myer s sales and to a greater extent its profits, show a marked seasonal pattern. Myer and the discount store businesses typically experience stronger sales of higher margin merchandise during the Christmas trading period. Sales for Myer and the discount store businesses in the 26 weeks to January 25, 2004 accounted for 53.0% (2003: 53.3%) of their full year sales and 70.0 % (2003: 76.6%) of their full year profits. Aggregate sales of food and liquor through supermarkets, fuel and other outlets are not as subject to major seasonal influences.

The following table discloses segment information by category of activity and geographic market for the three years 2002-2004. For more detailed financial information on the segments, refer Note 26 to the Coles Myer Consolidated Financial Statements.

	Sales to external customers [1]		
	2004 A$M	2003 A$M	2002 A$M
Industry segments			
Food, Liquor & Fuel [2]	21,146.3	16,557.6	15,908.8
Kmart and Officeworks	4,679.9	4,368.6	3,903.6
Myer & Megamart	3,322.4	3,239.9	3,243.2
Target	2,851.8	2,646.9	2,422.4
Emerging Businesses	266.4	203.6	210.7
	32,266.8	27,016.6	25,688.7
Geographic segments			
Australia	32,113.4	26,869.0	25,565.3
New Zealand	153.4	147.6	123.4
	32,266.8	27,016.6	25,688.7

(1) Does not include the Property and Unallocated segment, as it does not have any sales to external customers.

(2) Coles Express sales contributed A$3,176.9 million during 2004.

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

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

Table of Contents

	Share of National Aggregates as at July 2004			Share of Coles Myer as at July 2004	
	Population %	Retail Sales %	Disposable income %	Sales %	Selling Area %
State/Territory					
New South Wales / Australian Capital Territory	35.1	35.9	37.1	33.1	32.0
Victoria	24.7	24.0	26.0	27.4	26.4
Queensland	19.3	19.8	17.0	18.3	19.6
South Australia / Northern Territory	8.6	8.3	8.1	8.8	8.8
Western Australia	9.9	9.8	9.8	10.7	11.1
Tasmania	2.4	2.1	2.0	1.9	2.0

Source: Company Records and Australian Bureau of Statistics.

As at July 25, 2004 (the end of the Company s last completed fiscal year), the number and location of stores trading were:

	Australia	New Zealand	Total
Food, Liquor & Fuel			
Coles	491		491
Bi-Lo	209		209
Coles Myer Liquor Group	626		626
Coles Express	598		598
Total Food, Liquor & Fuel	1,924		1,924
Kmart & Officeworks			
Kmart	163	12	175
Kmart Tyre & Auto	50		50
Officeworks	78		78
Total Kmart & Officeworks	291	12	303
Target			
Target	141		141
Target Country	112		112
Total Target	253		253
Myer & Megamart			
Myer	61		61
Megamart	9		9
Total Myer & Megamart	70		70

Emerging Businesses [1]	9		9
Total	2,547	12	2,559

(1) Being Harris Technology stores.

Table of Contents

The above store numbers include freestanding Kmart Tyre and Auto and Tyremaster stores. As at July 25, 2004, the Company operated a total of 2,559 stores, an increase of 621 stores on the 1,938 stores at July 27, 2003, which compared with 1,787 stores at July 28, 2002. The Company opened, acquired, closed and divested stores as follows:

	2004			2003			2002		
	Opened/ Acquired/	Closed/ Divested	Net Increase/ Decrease	Opened/ Acquired/	Closed/ Divested	Net Increase/ Decrease	Opened/ Acquired/	Closed/ Divested	Net Increase/ Decrease
Food, Liquor & Fuel	652**	33	619	140	14	126	86	267*	(181)
Kmart & Officeworks	14	9	5	27	1	26	11	14	(3)
Target	9	10	(1)	8	13	(5)	6	9	(3)
Myer & Megamart	2	4	(2)	3	3		2	3	(1)
Emerging Businesses	2	2		4		4	1	6	(5)
TOTAL	679	58	621	182	31	151	106	299	(193)

* primarily disposal of Red Rooster business

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

Strategy

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

- Continuous business improvement
  - Restoring operational excellence in the Kmart, Target and Myer brands
  - Growing the Food and Liquor business
  - Improving efficiencies
  - Further strengthening the balance sheet

Sustainable growth

- Strong store network expansion 300+ new stores within the five year plan
- Rewarding loyalty for all customers
- Supply chain and information technology improvements building efficiencies and investing for the future

Group culture

- Recruiting and developing the best people
- Clear accountability management rewarded on Company-wide success
- Succession planning to identify future leaders
- Enhanced customer focus
- All brands working together to leverage Group scale

Safety

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

On September 25, 2003, the Company announced a program of strategic whole of company initiatives to leverage the unique competitive advantage of the Group, to drive better value and service for customers and better financial returns for shareholder. The initiatives encompass transformation of CML s supply chain, IT systems, organizational culture and loyalty offering.

Table of Contents

Supply Chain

The Company s initiatives to transform its supply chain involve significant one off, up front capital expenditure costs (up to A$600 million) in the five years to 2008. These costs will largely be incurred in the financial years 2005-2007.

Transformation of the supply chain is intended to result in doing business better for customers, simpler for stores and cheaper for Coles Myer Ltd.

Key features include:

- Better systems to improve on-shelf availability for customers;
- Improved technology to simplify processes and reduce costs for suppliers and CML;
- Streamlined deliveries into stores; and
- More efficient distribution network, including the reduction of distribution centers to best practice levels.

Supply chain transformation costs in the 2004 financial year were A$47.8 million. The benefits achieved during 2004 were:

- Refurbishments of several general merchandise Distribution Centers (DCs) were completed and two DCs were closed;
- Commenced implementation of a standardized shipping system across all brands with the aim of improving efficiencies;
- Multiple trials of new packaging and handling units undertaken with the aim of reducing double-handling and the easier filling of fixtures. Shelf-ready and one-touch packaging has already commenced implementation in Coles and Bi-Lo;
- Factory gate pricing pilot was commenced which aims to reduce the costs of inbound freight; and
- Reduction identified in direct-to-store deliveries. Ultimate aim is to reduce these deliveries from 24% of sales to 5%.

Anticipated net costs for 2005 are A$50 million. At the end of the transformation, the Company aims to have restructured its supply chain to the most efficient process, involving two national distribution centers supported by key regional DCs.

Loyalty

The new CML Loyalty program combines the Coles Express fuel discount offer, the enhanced FlyBuys™, the CML Source™ MasterCard and the MYER one Program, as discussed above.

IT Transformation

The IT transformation strategy focuses on removing complexity, duplication, effort and cost of systems, through the introduction of common technology across the brands. The strategy will see an increased emphasis on innovation to deliver IT business solutions to enable the businesses to serve the customer better. The systems changes are a prerequisite to the transformation of the supply chain.

Cultural change

Fostering the right culture is a critical part of achieving the Company s goals. The four elements of the strategy are recruiting and developing the best people, building leadership, aligning performance and reward with the strategic goals, and providing a safe working and shopping environment.

16

Table of Contents

RETAIL OPERATIONS

FOOD, LIQUOR & FUEL GROUP

These businesses represent the largest grouping in Coles Myer in terms of sales. At July 25, 2004, the Food, Liquor & Fuel Group operated 1,924 stores. The roll out of our fuel and convenience business commenced on July 28, 2003, from which point in time the Food & Liquor Group became known as the Food, Liquor & Fuel Group.

Coles

The Coles chain of supermarkets offers customers a wide range of fresh food and groceries, at great value, in an easy and convenient shopping environment.

At July 25, 2004, the business operated 491 stores across Australia, with 15 new supermarkets opened during the year and 39 store refurbishments. The network ranges from small metropolitan stores to large flagship sites, with selling area of approximately 20,000 to 50,000 square feet. Coles extensive offer includes both national and house brand products. Coles has one of the largest ranges of house brands in the Australian market, and it is intended that this successful range will continue to be expanded.

New fresh produce departments with a market look are now a feature in most stores. Growth initiatives have been reinforced by the Save Everyday marketing campaign, which promotes Coles very competitive prices, wide range, quality and value.

Bi-Lo

Bi-Lo is a discount supermarket retailer in Australia. Bi-Lo offers fresh food and groceries to value conscious customers.

Bi-Lo operated 209 stores at July 25, 2004, including 14 new supermarkets openings during the year and 11 store refurbishments. The average store size is smaller than Coles, with the network focused on local neighborhoods and rural areas.

Bi-Lo offers everyday grocery items, along with a house brand range. Through the year Bi-Lo focused on enhancing the quality of fresh food and expanded the house brand range with the introduction of 348 new products and the repackaging of 280 others.

Coles Myer Liquor Group

The Coles Myer Liquor Group (CMLG) operates under four major brands Liquorland, Vintage Cellars, Theo s and Quaffers. As at July 25, 2004, the business operated 626 liquor sites, including 23 hotels, with representation in all states except Tasmania. Approximately one third of stores are located adjacent to a Coles Myer supermarket, with the majority being freestanding stores.

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

Table of Contents

The Coles Myer Liquor Group has expanded its liquor retailing over the past four years through a combination of acquisitions and organic store growth. Major acquisitions include The Leda Hotels Group, Australian Liquor Group (ALG), and most recently the Theo s Liquor Group.

Coles Express

The Company introduced the Coles Express mini supermarkets into metropolitan areas in 1997. These supermarkets have been rebranded to Coles Central and the Coles Express Brand now refers to the Company s fuel and convenience store offer.

During 2004, the Company acquired from Shell multi-site franchisees, the right to operate 585 fuel and convenience outlets and eight standalone convenience stores for A$103.7 million (including transaction costs). Currently the business operates 598 fuel and convenience stores across Australia, making the nation s largest fuel and convenience retail operation.

Coles Myer entered into a supply agreement with Shell for fuel and lubricant products, and operating leases for the service station sites. The sites are branded both Coles Express and Shell.

Coles, Bi-Lo and Liquorland customers who make purchases over a certain amount receive a cents per liter fuel discount when they present their receipts at a Coles Express service station.

Red Rooster

As a result of Red Rooster becoming a non-performing, non-core business, on May 27, 2002, CML sold the business to Australian Fast Foods Pty Ltd for A$65.0 million.

At the time of sale, CML operated 247 Red Rooster stores throughout Australia.

Table of Contents

KMART & OFFICEWORKS

Kmart

At July 25, 2004, Kmart operated 175 stores in Australia and New Zealand. Measured by sales, it is Australia s leading discount store business and sells a wide range of items, including sporting goods, toys, electrical appliances and apparel, with a mix of international and national brand names as well as private labels.

Kmart is positioned as a low cost, discount department store for the entire family. Kmart stores typically range in size from 50,000 to 85,000 square feet. They are mostly located in suburban shopping centers in major cities and in larger regional shopping centers, and cater for the needs of a wide range of customers by offering an extensive variety of goods at competitive prices.

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

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

In 1994, the Company renewed its License Agreement with KMC, pursuant to which Coles Myer has the exclusive right to use the Kmart name in Australia and New Zealand. Coles Myer does not believe that there is a significant risk of the License Agreement being terminated in a manner that would have a materially adverse impact on the Company s operations.

In New Zealand, the business supplies similar product ranges to Australia. The Company opened its first Kmart store in New Zealand in October 1988, and the chain had 12 stores operating at July 25, 2004.

Kmart Automotive

Kmart Automotive consists of automotive brands that trade under the names Kmart Tyre & Auto Service and Tyremaster Wholesale . Kmart Tyre & Auto outlets are often attached to a Kmart store, but are also situated on 50 stand-alone sites and are in addition to the 175 Kmart stores mentioned above. These businesses sell a range of automotive accessories and parts, and offer servicing and maintenance to fleets and private vehicles.

Officeworks

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

Officeworks is well represented in all major Australian cities, as well as many regional areas. The first store was opened in 1994, with 78 Officeworks branded stores operating at July 25, 2004. The strategic acquisition of Viking Office Products in January 2003, has positioned the business to focus on growing its direct channel through the integration of Viking Office Products and Officeworks Direct.

Table of Contents

TARGET

Target

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

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

Target stores are typically located in suburban and large regional shopping centers and precincts. Target operated 141 stores at July 25, 2004, with store selling areas ranging from approximately 21,000 to 73,000 square feet.

Target Country

A total of 112 stores trading as Target Country were operating at July 25, 2004. These stores are located primarily in rural and regional communities, and offer a smaller range of Target merchandise, predominantly apparel and soft homewares such as manchester and tableware.

MYER & MEGAMART

Myer

Myer is Australia s largest department store group (measured by sales and store numbers) operating in the states of Victoria, New South Wales (NSW), Queensland, South Australia, Tasmania, Western Australia and the Australian Capital Territory. In 2004, department stores in the state of New South Wales were re-badged from Grace Bros. to Myer with minimal customer concern. Myer operates full range department stores with selling areas ranging from around 130,000 square feet up to around 550,000 square feet in the Myer Melbourne (Victoria) flagship store.

Myer is positioned as a brand-focused, value driven department store, providing a range of well-known national, international and private brands and good service in a pleasurable store environment. Myer operated 61 stores as at July 25, 2004. This included the newest lock store, Myer Bondi, which re-opened after refurbishment in Sydney s exclusive eastern suburbs in April 2004. The larger stores are situated in downtown locations, with other stores positioned mainly as anchor tenants in suburban shopping centers and in major regional towns.

In 2004, Myer expanded its merchandise offer with new national and international brands, refocused and rebalanced its private brands and introduced a more responsive buying program. Customer service was improved with a strong focus on service levels and selling skills. Strong marketing reflects the repositioning. The store environment is also improving, with more open layouts, clear aisle ways and strong visual merchandising.

Megamart

An electronics and furniture format, Megamart, was launched during 1999. At July 25, 2004, there were nine Megamart stores trading in Victoria, New South Wales (NSW), Queensland and Western Australia. The Megamart brand is being relaunched in 2005.

EMERGING BUSINESSES

Emerging Businesses is responsible for the direct selling (catalogue and e-commerce) businesses of Coles Online (predominantly groceries) and Harris Technology (computer retailing). In December 2002, Coles Online outsourced its fulfillment function to Australia Post, encompassing pick, pack and delivery services. Coles Online retains control of ranging, marketing and customer service. In June 2003, Coles Online acquired Australia s largest online grocery retailer Shopfast. This acquisition is expected to enable Coles Online to leverage additional volume against Coles buying capacity and Australia Post s fulfillment.

Harris Technology continues to expand its presence into the commercial markets it serves and opened branch offices in Perth and Adelaide, with additional stores opened in Sydney and Melbourne. In September 2003 Harris Technology acquired another reseller (Portable Computer Systems). This acquisition will assist in developing Harris s push into the corporate and government markets as well as provide a strong platform for its development of services into the mix of business.

RETAIL SUPPORT

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

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

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

Finance

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

At July 25, 2004, the Company had no secured liabilities, other than a controlled entity having pledged A$80.0 million of assets as security over obligations to a trade creditor. The Company s borrowing structure is flexible and consistent, based on the acceptance by financial institutions of the Standard Coles Myer Negative Pledge (the Negative Pledge), and acceptance by investors of complementary Trust Deeds for public issues of bonds and notes.

The Negative Pledge is the basis of an unsecured borrowing structure, providing financial ratio restrictions of total liabilities to total tangible assets at 80%, and the ratio of secured liabilities to total tangible assets at 40%. In addition, a pledge is given not to provide security over Company assets, in contravention of the terms of the Negative Pledge, without providing equivalent security to parties to the Negative Pledge. Similar ratio restrictions are included in Trust Deeds to provide a standard borrowing structure.

At July 25, 2004, all foreign currency borrowings were hedged to cover exposure to adverse exchange rate movements. Coles Myer s interest rate risk management strategy is to have approximately 60% of core debt hedged at fixed interest rates beyond 12 months in maturity. Core debt represents the Company s long term, non-seasonal debt. See also Item 11 Quantitative and Qualitative Disclosures about Market Risk for a description of the Company s hedging activities.

Table of Contents

Credit Card Operations

On October 23, 2003, the Company launched the Coles Myer Source™ MasterCard, a general purpose credit card for use within all the Coles Myer businesses as well as externally wherever a MasterCard is accepted.

Existing Coles Myer store card holders have been sent an invitation to upgrade to the Coles Myer Source™ MasterCard and choose either the MasterCard with a loyalty offering or a low interest, no fee, no loyalty MasterCard. Customers opting for the Coles Myer Source™ MasterCard loyalty option receive 1 FlyBuys™ point for every A$1 spent on the Coles Myer Source™ MasterCard regardless of whether the purchase is within a Coles Myer brand or not. This means that customers shopping within a participating Coles Myer brand, who present their FlyBuys™ card with their Coles Myer Source™ MasterCard when paying for the purchase will receive up to 7 FlyBuys™ points for each A$5 of spend, one of the most attractive loyalty offerings in the market. New customers can sign up in any Myer, Target or Kmart store and shop on the same day, or they can apply via the Internet or by mail.

The launch of the Coles Myer Source™ MasterCard has been successful. Coles Myer was awarded the 2004 MasterCard Asia Pacific Regional Award for Marketing Excellence. There are currently in excess of 500,000 cards issued.

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

PURCHASING AND SUPPLIERS

All Coles Myer businesses have embraced the concept of developing a partnership approach with their suppliers to ensure customers have access to the quality, range and value they demand. The businesses are focused on developing mutually beneficial relationships with suppliers. This approach has an objective that involves sharing plans and sales information, technologies and skills, and developing trust and cooperation with approximately 40,000 active suppliers.

While the Company generally does not enter into long-term purchasing agreements, it has entered into a ten-year supply agreement in relation to petroleum products from the Shell Company of Australia.

Agreements are entered into for the supply of a large range of products. Orders are placed with suppliers depending on the sales and stock levels of the product. This method allows the Company to retain maximum flexibility to adjust to changes in retail markets.

No segment of the Company is substantially dependent on a single supplier or purchasing contract. Coles Myer purchases substantial lines of Australian-made goods, but supplements its ranges with imported goods. The Australian Government formerly imposed tariffs on a wide variety of imported goods, however, these tariffs have been progressively reduced and from 1995 only selected imported goods remain subject to import duty.

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

Table of Contents

COMPETITION

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

Coles Myer Liquor Group through its brands, Liquorland, Vintage Cellars, Quaffers and Theo s also competes nationally against the Woolworths chain, which operates nationwide and against independent retail chains, sole-traders and hotels that sell packaged liquor.

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

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

The department store Myer faces national competition from David Jones, Harvey Norman and Harris Scarfe, as well as a number of largely regional competitors. General competition is provided by specialty store operators and discount stores.

Competition between the Groups general merchandise and apparel Brands is minimized by clear and distinct strategic positioning of each Brand.

ADVERTISING AND PROMOTION

Coles Myer and its brands are amongst the largest advertisers in Australia and in 2004 appointed a new media agency, Universal McCann, to plan and buy television, radio, cinema, press, magazines and on-line media in all metropolitan and regional media markets.

Advertising expenditure in 2004 was A$431.7 million, which compares with A$383.8 million in 2003 reflecting new business initiatives, sales growth and increased competitive activity in major markets.

Each of the brands selects their own advertising agencies to develop the creative concept and a variety of different strategies and media are utilized to accommodate the range of marketing programs across the Company.

One of the main marketing initiatives for 2004 was the launch of a new business called Coles Express and the supermarket shopper discount fuel scheme. Customers can now obtain 4 cents per liter off the pump price of Shell petrol on an ongoing basis when a qualifying purchase over A$30 is made in either Coles, Bi-Lo or Liquorland.

Coles Supermarkets launched a suite of advertisements featuring a famous Australian actress Lisa McCune as an endorsement technique. She explains the value message, and also fresh fruit and vegetables, house brands and local product ranges to cater for different ethnic groups. The second stage of the campaign extended the fresh message into retail-ready meat and explains the direct link with the beef producer.

Bi-Lo s Why pay more price oriented campaign continued this year with great success in managing to deliver to lower price perceptions for the Bi-Lo brand. The campaign was pitched at the budget conscious shopper to combat the entry of ALDI (discussed above).

The Coles Myer Liquor Group has been reviewing future marketing and advertising strategies.

Target was named Australian Brand Advertiser of the Year for the second year for innovative and creative work. In addition to new advertising for the 100% Happy campaign, they also launched separate advertisements for merchandise categories within the business, including ladies underwear.

Kmart s discount store campaign led with the proposition around price leadership Cutting the cost of living . In the second stage of the campaign this year it evolved to include the customer proposition so you get more out of life .

Officeworks launched a new advertising campaign called The Works . The brand relaunch resulted in harmonization of the advertising campaign, which now also translates to sub-brands and housebrand packaging, such as Techworks and Printworks.

In 2004, department stores in the state of New South Wales were re-badged from Grace Bros. to Myer with minimal customer concern.

In August 2004, Coles Myer launched electronic gift cards to both the consumer and corporate markets. The Coles Myer Gift Card was launched with the tagline Thousands of stores, millions of gifts and allows customers to choose not only the card design but also the amount they want to spend from A$5 to A$500. The new gift cards replaced older paper-based vouchers.

In 2004 the Company continued to centralize some key components of the advertising process to take advantage of economies of scale and new technology solutions. Coles Myer conducted Requests for Tender for Catalogue Paper Supply and Print Manufacture as well as Catalogue Distribution and continued implementation of a catalogue production capability called PMPOne.

Coles Myer Design Services, an on-site team of designers continued the development of the private label brand and packaging initiatives for Coles, Bi-Lo, Kmart and Officeworks as well as various corporate, staff and customer communications.

One of the main marketing initiatives for 2004 included the reshaping of the Coles Myer Loyalty Programs. In September 2003, the Company upgraded and improved its FlyBuys™ loyalty program. Launched in 1994 (and modified in 1998), FlyBuys™ has over 2.6 million active member households (average 2.2 cards per household) as at October 31, 2004 and is a source of behavioural and demographic customer information. To accompany this enhanced value proposition, the FlyBuys brand was refreshed with a new corporate identity.

In October 2003, the Company launched the Coles Myer Source™ MasterCard in conjunction with GE Capital Australia. This program uses FlyBuys™ as its reward program and creates a strategic asset for use across the Company. This complements the existing private label credit card the Coles Myer Card program.

Analysis of the Coles Myer Card and FlyBuys™ customer attributes and other customer activity continues to provide opportunities for growth through better-targeted product and service delivery.

FlyBuys™ is a customer loyalty program. Membership of FlyBuys™ is free to customers, with members issued a card to present at point of sale when shopping. Each customer holds a discrete account and points are automatically credited to the account, based on eligible expenditure. When enough points have been accumulated, they can be exchanged for free air travel, Coles Myer shopping vouchers or other benefits. Points expire after three years.

Table of Contents

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

Under the terms of a service agreement between Coles Myer and the FlyBuys™ partnership, Coles Myer (and other participants) pay the partnership for points allocated as a result of eligible purchases. The partnership uses this revenue to pay for the air travel and other awards. See also Item 7 B RELATED PARTY TRANSACTIONS-Transactions with other related parties, for details of Coles Myer s cost of participation.

The high penetration of the Company s loyalty programs and credit cards also provides a source of information for customer relationship management initiatives and the targeting of customer communications across the group of brands.

RESEARCH & ANALYSIS

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

The Company strives to understand consumers and their current and future needs and to identify appropriate opportunities to meet these needs in our stores. The research unit utilizes a wide variety of research methods to identify consumer needs including qualitative methods such as focus groups, accompanied shopping trips, ethnography, immersions, and quantitative studies such as brand, advertising and satisfaction tracking.

In keeping with our objective of being a customer-focused organization, in 2003 the Company commissioned an ongoing customer sentiment and brand positioning study that spanned the business units and their major competitors. Results from this study in 2004 showed an overall improvement in customer satisfaction.

Table of Contents

TRADING HOURS

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

Restrictions on Sunday trading affect the following number of stores in Perth:

Coles	55
Kmart	13
Target	10
Myer	4
Officeworks	6
Liquor Stores	Most of the 96 stores are affected

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

REGULATION

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

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

The Australian Constitution requires periodic elections for both federal Houses of Parliament, with separate provision reflecting the different constitutional status of each House. The Commonwealth Electoral Act of 1918 provides the detail.

While the calling of an election is partly a matter of political judgment and timing, a constitutional and legislative framework governs the electoral timetables and processes.

A general election in Australia was held on October 9, 2004. The Australian Liberal Party in coalition with the National Party was re-elected. The term of the next (the 41st) Federal Parliament of Australia will expire exactly three years after its first sitting after the election. The following election for the House of Representatives must be held on a Saturday, not more than 68 days after the expiry of the parliament s term.

Government Regulation

Due to its size and the markets in which it operates, including fuel, grocery and liquor, Coles Myer is subject to a range of laws and regulations in Australia and New Zealand.

Table of Contents

Australian Regulation

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

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

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

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

As one of Australia s largest employers, Coles Myer is subject to Federal and State laws and regulations covering, but not limited to:

- employment practice standards for workers;
- discrimination and equal opportunities in employment; and
- workers compensation, workers compensation self-insurance and relevant Occupational Health and Safety regulations.

The Trade Practices Act 1974 (the Act) is the Australian Federal legislation which impacts most directly and widely on the retail activities of Coles Myer, including the following areas:

Product Liability

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

Restrictive Trade Practices

In 1993, the Act was amended to prohibit acquisitions of shares or assets, which have the effect of substantially reducing competition, unless such acquisitions are authorized by the Australian Competition and Consumer Commission utilizing public benefit criteria.

A further amendment was an increase in penalties for contravention of Part IV (the Restrictive Trade Practices) of the Trade Practices Act. The penalties increased to a maximum of A$10 million for a body corporate, per offense, and a maximum of A$500,000 per offense for individuals.

Unconscionable Conduct

In 1998, the Act was further amended to introduce a specific prohibition against unconscionable conduct in business transactions . This amendment was introduced to provide small businesses with further protection in their commercial dealings with large corporations. This provision sets out several factors, which a Court must consider in determining whether unconscionable conduct has occurred. The provision originally only applied to transactions under A$1 million. However, in July 2001 the transactional limit was increased to A$3 million, which extends the coverage considerably.

Consumer Protection

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

Retail Grocery Industry Code of Conduct

Following a parliamentary inquiry into retailing, a voluntary retail grocery Industry Code of Conduct was established in August 2000, to apply to vertical relationships in the retail grocery industry. Coles Myer supports the introduction and application of this Code and is a signatory.

New Zealand Regulation

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

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

Changes to Business Taxation

The Company has implemented the tax consolidation legislation as of July 29, 2002 with no material impact on the consolidated financial statements. The primary impact of the new legislation for Coles Myer is that the Company now files a consolidated income tax return with the Australian Tax Office with respect to subsidiaries in the tax consolidated group, instead of filing separate income tax returns for all subsidiary companies. The transition to the tax consolidation legislation provided Australian companies with the opportunity to reset tax bases of assets and liabilities, however no material impacts were recorded. See also Note 5 to the consolidated financial statements included in Item 18.

Under tax consolidation rules, franking credits currently held within wholly owned Australian resident subsidiaries will be pooled and will be available to frank Coles Myer Ltd. s dividends. All franking credits that arise after tax consolidation will belong to Coles Myer Ltd. and will be available to frank its dividends.

Changes have been made to the imputation system, and subject to certain conditions, Coles Myer Ltd is now able to determine the amount of franking credits that it will allocate to its dividends. Previously, dividends had to be franked to the maximum extent possible.

In practice, it is expected that Coles Myer Ltd. will continue to frank its dividends to the maximum extent possible.

See also Item 10 E. Taxation for further information on the dividend imputation system.

Table of Contents

INSURANCE

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

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

- public and products liability where up to A$500,000 per claim is self-insured,
- workers compensation in most Australian states where the Company self-insures up to A$1 million per event,
- property insurance where the Company self-insures up to A$4 million in any one year.

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

TRADEMARKS AND LICENSES

Trademarks

The Company is entitled, by virtue of a License Agreement with Kmart Corporation (KMC), to the exclusive right to use the Kmart name, service marks, and trade-marks in Australia and New Zealand. The license extends until 2018 with unlimited further renewals for five years at a time at the Company s election. In consideration for the license, the Company pays an annual fee to KMC based on gross sales revenue per fiscal year, but not exceeding A$5 million for Australia and NZ$1 million for New Zealand. The two License Agreements with KMC (one with Kmart Australia Ltd and one with Kmart New Zealand) have been attached as Exhibits at Item 19.

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

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

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

Licenses

Liquor retailing and the operation of hotels in Australia are regulated by the respective State and Territory Governments. Strict licensing regimes operate in each state and territory, which require the CMLG brands (Liquorland, Vintage Cellars, Theo s, Quaffers and Liquorland Hotels) to hold liquor licenses for each of their locations.

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

C. ORGANIZATIONAL STRUCTURE

The Coles Myer Group consists of Coles Myer and its subsidiaries, which conduct business in Australia and New Zealand. A complete list of subsidiaries and their details can be found at Note 33 to the consolidated financial statements. Of these subsidiaries, the following were significant subsidiaries of Coles Myer at July 25, 2004:

Coles Supermarkets Australia Pty. Ltd.

Kmart Australia Ltd.

Myer Stores Ltd.

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

D. PROPERTY, PLANT AND EQUIPMENT

At July 25, 2004, the Company operated a total of 2,559 stores in Australia and New Zealand, with total selling area of approximately 45.8 million square feet. Properties include locations in downtown shopping areas, regional and minor shopping centers, strip retail locations, and freestanding stores.

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

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

At July 25, 2004, the Company s owned property portfolio was recorded at A$425.4 million (2003: A$414.1 million), held either directly, or indirectly through investments in property joint ventures. The largest assets in this portfolio are the Cairns Central shopping center and the flagship Myer store in Melbourne.

It is the Company s policy to undertake revaluations of freehold and investment properties with sufficient regularity to ensure that the carrying amount of property does not differ materially from its fair value at balance date. This is in accordance with Australian Accounting Standards. The latest valuation, undertaken during 2004, resulted in a net decrease in the aggregate book value of properties and investments in property trusts by A$8.2 million. This decrement was primarily attributable to Myer Melbourne, which was revalued for annual reporting at July 25, 2004. See also Notes 1(i) and (j), and 11 to the consolidated financial statements included in Item 18.

Table of Contents

ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

The discussion below contains certain forward-looking information. See comments regarding Forward-Looking Statements on page 1 of this Annual Report. Comparative amounts for 2003 and 2002 have been reclassified to ensure comparability with the current reporting period, and where significant this has been noted.

RETAIL TRADING ENVIRONMENT

2003/2004

Australia s economy has enjoyed solid growth over the past year. Real GDP growth over the year to September 2004 was 3.0%, a solid rate, though down on the 4%+ annual growth recorded earlier in 2004.

While the rate of output growth has slowed, the unemployment rate which averaged 5.8% over 2004, has recently hit a generational low of 5.2%, inflation remains contained, and official interest rates have been steady at 5.25% since late 2003.

Australia s economic growth through 2004 has been supported by the strong performance of the global economy, high levels of activity in Australia s housing sector, strong growth in consumer spending, and a high rate of business investment.

Some of those economic supports are now starting to lose momentum. After a period of strong growth, investment in housing fell in the September quarter of 2004, and is likely to ease further, while growth in consumer and retail spending has also slowed.

Growth in retail turnover remains well above trend, at 5.9% over the year to September 2004 in real (inflation-adjusted) terms, though that is down from the record annual growth rate seen over the year to June 2004. Non-food retailing has performed particularly well, with growth in real non-food retail turnover of 8.5% over the year to September 2004, compared with 4.8% growth for real food retail turnover.

Looking forward, while the Reserve Bank expects solid economic growth to continue, it does note that strong gains in house prices have increased household wealth significantly, and that as wealth effects diminish in line with the easing in house prices since late 2003, households may become more restrained in their spending.[1] The Australian Government Treasury also notes in 2004-05 household consumption growth is forecast to remain robust, albeit easing from recent strong rates [2].Key risks include household debt and oil prices.

Access Economics forecasts the rate of growth in real retail sales will continue to slow. The stalling of house price growth is now a clear negative for retail spending growth, as stalled housing prices are an impetus for some rebuilding of household savings, while overall demand conditions may be less buoyant in 2005-06 and 2006-07. Real retail turnover is projected to grow

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[1] Reserve Bank of Australia, Statement on Monetary Policy, November 2004, p. 26.

[2] Australian Government Treasury, Pre-Election Economic and Fiscal Outlook 2004, September 2004, p. 2.

by a healthy 4.7% in 2004-05, but with that easing to 2.1% in 2005-06 and 0.9% in 2006-07 as demand drivers turn down and households focus on rebuilding savings.[1]

2003/2002

The Australian economy performed well during the 2003 financial year. However, the impact of a weak global economy and the drought in Australia over the first half of 2003 constrained overall growth.

The domestic economy was strong [2] as low interest rates supported strong consumer spending and a housing price boom over the last two years.[3]

Household consumption was a key driver of economic growth in 2002/03 supported by income growth, historically low interest rates and a solid increase in household wealth associated with rising house prices.[4] Consumer sentiment in Australia increased steadily from the Iraq war lows in March 2003. In November 2003, consumer sentiment in Australia remained strong to be 18.5% higher than in March 2003, despite a rise in interest rates.[5]

In 2002/03 nominal retail sales for food and non-food were up 6.3% and 6.4% respectively. [6] Food retailing rose strongly, assisted by strong demand-side price pressures resulting from the drought in Australia. Non-food retailing also had a strong period.

Real retail turnover rose 4.6% in the year to June 2003, easing from the 5.3% recorded in the previous year [7], reflecting higher fuel prices and effects on consumer sentiment from factors such as the Bali bombing, Iraq and the SARS epidemic. However, the slowdown was mild reflecting good job growth, strong housing activity and the run down of savings by consumers.

The strength in the domestic economy was reflected in the Company s result for 2003. Nominal retail sales continued to grow, with nominal sales growth of 5.3% in the Food & Liquor group (excluding exited businesses), and 7.2% across the traditional non-food brands.

CRITICAL ACCOUNTING POLICIES

During December 2001, the SEC issued disclosure guidance for critical accounting policies , meaning those that require application of management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and that may change in subsequent periods.

The Company s significant accounting policies are described in Note 1 to the consolidated financial statements. Not all of these significant policies require management to make difficult, subjective or complex judgments or estimates. The following disclosure is intended to provide an enhanced level of understanding of the policies that could be deemed to be critical, and their impact on Coles Myer s consolidated financial statements. These judgments involve assumptions or estimates in respect of future events, which can vary from what is forecast. However, the Company believes that its consolidated financial statements and its ongoing review of the estimates and assumptions utilized in

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[1] Access Economics, Retail Forecasts, November 2004, p. 4-6

[2] Reserve Bank of Australia (10 November 2003) Statement on Monetary Policy , p. 19.

[3] BIS Shrapnel (September 2003) Long Term Forecasts Overview , p. iii.

[4] Treasury (Spring 2003) Economic Roundup: 2002/03 in review: continued growth despite global weakness .

[5] Westpac-Melbourne Institute (November 2003) Consumer Sentiment Index .

[6] Access Economics (August 2003) Economic and Market Planning Guidelines , p. 21.

[7] Access Economics (August 2003) Economic and Market Planning Guidelines , p. ii. Real data has the effect of inflation removed.

Table of Contents

preparing those consolidated financial statements, is appropriate to provide a true and fair view of Coles Myer s financial performance and position over the relevant period.

The following are considered critical accounting policies of Coles Myer:

Accounting for provisions

Employee entitlements

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

Onerous contracts

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

Workers compensation and self-insurance

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

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

Net realizable value of inventory

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

Carrying value of non-current assets

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

Table of Contents

Volume rebates

Effective July 29, 2002, the CML Group has revised its policy of accounting for supplier promotional rebates such that accounting for all forms of rebates is reflective of guidance given by the Emerging Issues Task Force in the U.S. (EITF Issue No. 02-16, Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor). Refer Note 2 to the consolidated financial statements included in Item 18.

Pensions and other post-retirement benefit plans

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

The CML Group is obliged to ensure that contributions are made to the defined benefit plan at the rate assessed by an actuary, subject to its rights to reduce, suspend or terminate contributions as specified in the relevant trust deed. The obligation of the CML Group to make contributions to the fund at the actuarially determined rate is legally enforceable up to the date on which the CML Group gives notice to suspend or terminate contributions as provided in the agreement governing the plan. Under Australian GAAP, the CML Group expenses contributions to the defined benefit plan as they become due and payable and there is no present obligation with respect to future contributions. Accordingly, a liability is not recorded where there is a deficiency of fund assets over accrued benefits.

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

Employer contributions to this defined benefit fund during 2004 amounted to A$18.2 million (2003 A$13.3 million). Vested benefits are benefits, which are not conditional upon continued membership of the fund or any factor, other than resignation from the fund.

For U.S. reporting, the company has applied the principles of FASB Statement No. 87 *Employers Accounting for Pensions* (FAS 87). As a result, a reconciling item from Australian GAAP to U.S. GAAP is recorded at Note 31 (h).

The defined benefit pension plan pays benefits to employees at retirement using formulae based on participants years of service and compensation. The defined benefit plan has been closed to new members since 1996. All new employees since that date must become members of the defined contribution plans. At balance date the defined benefit plan had approximately 15,000 remaining members.

Contributions to the defined benefit plan are based on rates determined by the actuary as being necessary and sufficient to ensure the stability and financial soundness of the plan. The funding objectives are:

- to target assets of 100% of total actuarial reserves; and

- for assets to exceed total vested benefits by a margin sufficient to reduce the likelihood of assets falling below vested benefits to an acceptable level.

The contribution rate is formally reviewed every three years as part of the triennial actuarial investigation of the Plan. As a result of the last triennial investigation in July 2003, the actuary recommended the contribution rate increase to 9.5% of salaries, from 8.9%, in respect of all members.

Table of Contents

This increase took effect from August 1, 2004. This movement is not expected to have any material impact on the Company s liquidity. The net periodic pension cost has reduced income from operations over the 2004 fiscal year by A$15.7 million in respect of defined benefit members.

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

The asset allocation at the reporting date of the Plan, being June 30, 2004 is as follows:

	Actual	Benchmark
Australian Shares	35.6%	35.0%
Overseas Shares (hedged)	9.3%	11.0%
Overseas Shares (unhedged)	16.2%	16.0%
Property	8.4%	8.0%
Australian Fixed Interest	15.1%	15.0%
Overseas Fixed Interest	10.2%	10.0%
Cash	5.2%	5.0%

The in-house rule under Superannuation law in Australia restricts a Superannuation Plan from holding more than 5% in total assets of the sponsoring company s shares. Accordingly, Plan assets include fully paid ordinary shares in CML of A$NIL million (2003 A$NIL million, 2002: A$1.9 million).

For the 2004 fiscal year expense, the expected return on assets used by the actuary is 6.5%, as opposed to the 7.0% used for the 2003 fiscal year expense. This change was due to a reduction in the expectation of future investment returns for each asset class during 2004. The impact of this change on the 2004 fiscal year expense was to increase the expense by A$2.2 million.

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

Period	Expected Return	Actual Return
2004 fiscal year	6.5%	15.3%
2003 fiscal year	7.0%	-0.3%

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

The defined benefit plan has an unrecognized pension gain of A$65.5 million at June 30, 2004. There was an unrecognized pension loss of A$2.1 million at the 2003 fiscal year end. The unrecognized gain at the reporting date has arisen due mainly to market trading conditions being significantly better than assumed in the 2003 fiscal year.

The plan determines its discount rate assumption by reference to the 10 year AA rated corporate bond rate in the Australian market. A deduction for income tax on Plan earnings at 15% has also been made. The assumed average future service of members expected to receive benefits is 7.4 years. Further disclosures on the retirement plans are included in Note 23 to the consolidated financial statements.

Table of Contents

CONSOLIDATED RESULT

	2004 52 weeks A$M	2003 52 weeks A$M	2002 52 weeks A$M
Sales	32,266.8	27,016.6	25,688.7
Cost of goods sold	(24,059.5)	(19,618.6)	(19,419.9)
Gross profit	8,207.3	7,398.0	6,268.8
Other revenue from operating activities	27.1	17.7	650.6
Cumulative effect of change in accounting policy for supplier promotional rebates		(76.5)	
Other revenue from non-operating activities	309.2	275.3	286.3
Proceeds from sale of property, plant and equipment, investments and businesses and controlled entities	131.0	392.5	111.8
Net book value of property, plant and equipment, investments and businesses and controlled entities disposed	(146.5)	(416.8)	(123.9)
Borrowing costs	(71.1)	(86.9)	(102.9)
Advertising expenses	(431.7)	(383.8)	(323.0)
Selling and occupancy expenses	(5,801.7)	(5,327.5)	(5,159.2)
Administrative expenses	(1,357.4)	(1,183.2)	(1,126.3)
Profit from ordinary activities before income tax	866.2	608.8	482.2
Income tax expense	(258.1)	(187.7)	(137.2)
Net profit	608.1	421.1	345.0

2004 compared with 2003

Sales

Retail sales in 2004 increased 19.4% to A$32,266.8 million from A$27,016.6 million in 2003.

Sales increases were predominantly driven by increased volume. The Company continues to drive value for customers through reinvesting in price (ie. operating costs savings are used to maintain or decrease selling prices), underpinned by our ongoing efficiencies.

Major increases were recorded in the segments of Food, Liquor & Fuel (27.7%), Kmart and Officeworks (7.1%) and Target (7.7%) whilst Myer sales remained steady. Coles Express contributed A$3,176.9 million in sales to the Food, Liquor & Fuel segment. Excluding Coles Express, the Food and Liquor segment recorded a sales increase of 8.5%.

Gross Profit

Gross profit increased 10.9% for the year ended July 25, 2004. The Food, Liquor & Fuel segment achieved higher gross profit and reflects sales leverage relative to costs, reductions in shrinkage and waste, continued streamlining of costs and strong growth of the higher margin house-branded goods in the supermarkets.

Another area of improvement for the company in 2004 was in the Target segment. Target s better management of product sourcing and promotional programs during 2004 combined with strong inventory control had a positive impact on gross profit. Myer also made significant progress against

Table of Contents

its rebuild program of combining a focus on enhancing the merchandise offer, with a strong customer focus and strategic marketing to drive higher quality sales and results. Kmart continued its rebuild through improving its product offer, competitive pricing and improved marketing.

Other revenue from operating activities

This revenue represents income and commissions generated by the hotels acquired by the Coles Myer Liquor Group. The A$9.4 million increase primarily results from a full year s contribution from the late in the 2003 acquisition of Theo s.

	2004 A$M	2003 A$M
Other revenue from non-operating activities	309.2	275.3

Material changes relate to:

Interest income increased from A$23.7 million to A$57.6 million due to the receipt of interest from the Coles Myer Employee Share Plan Trust of A$38.0 million (2003 A$3.7 million), comprising A$2.7 million received in the first half of the financial year, and A$35.3 million received in the second half of the financial year as a result of the restructuring of the Trust by its trustees. For U.S. GAAP reporting purposes this interest has been eliminated from net profit to correspond with the reclassification of the loan (the income relates to) to shareholders equity. Refer Note 31 (f) of the consolidated Financial Statements at Item 18.

Rental income decreased from A$30.8 million to A$25.9 million as a result of the disposal in 2003 of Sydney Central Plaza, a major retail property which contributed rental income to the CML Group.

Sale of property, plant and equipment, investments and businesses and controlled entities

	2004 A$M	2003 A$M
Proceeds from sale of property, plant and equipment, investments and businesses and controlled entities	131.0	392.5
Net book value of property, plant and equipment, investments and businesses and controlled entities disposed	(146.5)	(416.8)

During 2004, the CML Group disposed of five Newmart supermarket stores and seven Sands and McDougall stationery stores for A$31.9 million. In 2003, the CML Group sold Sydney Central Plaza for A$372.8 million and additional proceeds of A$9.9 million were received during 2004.

Borrowing costs

Borrowing costs decreased from A$86.9 million in 2003 to A$71.1 million in 2004 as the Company benefited from reduced average net debt levels. This was partially offset by the average finance rate increasing from 6.4% in 2003 to 6.5% in 2004.

37

Table of Contents

Advertising expenses

U.S. GAAP requires the advertising income (provided by suppliers to offset advertising costs) and expenses to be netted and disclosed as one item. This is expressly prohibited under Australian GAAP reporting and each item must be disclosed on a gross basis.

The reconciliation at Note 31 between Australian and U.S. GAAP is performed at the net income level, at which point there are no differences between the two regulations.

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

Overall, advertising expenses have increased from 2002 to 2004 as sales have increased, competition in major markets has increased and the Company has undertaken new business initiatives such as the fuel offer and upgrading of the loyalty offer (enhanced FlyBuys™ and Coles Myer Source MasterCard). Refer to more detailed comments on page 23.

	2004 A$M	2003 A$M
Selling and occupancy expenses	(5,801.7)	(5,327.5)

Selling and occupancy expenses are necessarily incurred to operate the Company s stores and other offices and sites. Management, with an aim to keep these costs down to remain competitive, monitors these costs very closely. Material changes relate to:

Total selling and occupancy costs increased by 8.9%. If Coles Express were excluded from the 2004 numbers the increase would be 5.3%. Major items that contributed to the movement were:

External rent and outgoings increased by 9.8% from A$1,204.7 million in 2003 to A$1,322.8 million in 2004. This is principally due to the addition of 598 Coles Express outlets and a net 29 new stores opened by the Company in 2004.

Salaries, wages, payroll tax, superannuation and other selling staff costs increased 9.2% from A$3,215.5 million in 2003 to A$3,510.7 million in 2004. Wages and salary rates increased and an additional 13,694 staff were employed during the year. The majority of staff were in the Food, Liquor & Fuel segment. This is principally due to the addition of 598 Coles Express outlets and a net 29 new stores opened by the Company in 2004.

This line item includes depreciation of plant and equipment in stores, which has increased by 5.0% from 2003 to 2004.

	2004 A$M	2003 A$M
Administrative expenses	(1,357.4)	(1,183.2)

Total administrative expenses increased by 14.7%. If Coles Express were excluded from the 2004 numbers the increase would be 11.5%. Material changes relate to:

Costs of administrative staff (salaries, wages, payroll tax, superannuation and other) increased by 11.4% from A$687.8 million in 2003 to A$766.5 million in 2004. Of the additional 13,694 staff employed during the year, approximately 1,000 were in the Property and Unallocated segment, which includes head office employees.

Table of Contents

Travel, general and other administrative expenses increased by 21.2% from A$293.7 million in 2003 to A$355.9 million in 2004. Included in 2004 are the costs of relocating the Coles Myer Liquor Group head office from Sydney to Melbourne, and the Mt Druitt restructure costs, being costs of closing CML Group stores in the Mt Druitt (NSW) shopping centre.

Legal, consultants and audit fees increased by 55.4% from A$59.4 million in 2003 to A$92.3 million in 2004. This is primarily attributable to transformational activity, in particular Information Technology.

This line item includes depreciation of plant and equipment located in offices, which has remained steady from 2003 to 2004.

Income tax expense

The effective tax rate for 2004 was 29.8% (2003: 30.8%). The differences from the statutory rate of 30% are explained in Note 5 to the consolidated financial statements included at Item 18.

Net profit

The Company s Australian GAAP net profit increased from A$421.1 million in 2003 to A$608.1 million in 2004 (44.4% increase). Areas within the Company that primarily contributed to this improvement were the Food, Liquor & Fuel segment, Kmart and Officeworks and Target.

The Company s U.S. GAAP net profit (before policy changes) increased from A$390.9 million in 2003 to A$475.4million in 2004. The difference between the 2004 Australian GAAP net profit and U.S. GAAP net profit is detailed in Note 31 to the consolidated financial statements included at Item 18.

Dividend

A fully franked final dividend of A$0.15 per share was declared on all fully paid ordinary shares registered at October 15, 2004, and paid on November 8, 2004. The final dividend, combined with the interim dividend of A$0.14 per share, represented an annual dividend of A$0.29 per share. This represents an increase of A$0.03 per share over the 2003 annual dividend.

2003 compared with 2002

Sales

Sales for 2003 were up 5.2% over 2002. These were predominantly driven by increased volume rather than increased selling prices across the group. The Company has maintained an initiative that any savings in operating costs will largely be passed back to the customer through lower prices.

The major areas of improvement for the Company were in the segments of Kmart and Officeworks and Target. These sales increased 11.9% and 9.3% from the prior year. Both Kmart and Target had heavily promoted toy sales during the year, which contributed to the improved result.

Gross Profit

Gross profit increased 18.0% for the year ended July 27, 2003. The Food and Liquor segment achieved higher margins as a result of reductions in shrinkage and waste, reduced product cost and strong growth of the higher margin house-branded goods in the supermarkets.

Table of Contents

Another area of improvement for the Company in 2003 was in the Target segment. Target was able to improve their stock-turn from 3.8 times in 2002 to 4.3 times in 2003. This higher flow and faster movement of inventory had a positive impact on gross profit.

In 2003, the Company revised its policy of accounting for supplier promotional rebates. Under this guidance, virtually all forms of rebates (including some which under previous accounting guidance were able to be taken directly to income) are treated as a reduction in the cost of inventory, deferring the recognition of the income to as and when the inventory is sold. As a result from 2003, rebates previously recorded as other revenue from operating activities, are now disclosed as a reduction in cost of goods sold.

	2003 A$M	2002 A$M
Other revenue from operating activities	17.7	650.6

Other revenue from operating activities predominantly included income from the hotels owned by the Coles Myer Liquor Group business, and other small items in 2003. In 2002 supplier promotional rebates were included. Refer below for further details on supplier promotional rebates.

Cumulative effect of change in accounting policy for supplier promotional rebates

Rebates that were previously recorded as other revenue from operating activities were recorded in 2003 as a reduction in inventory deferring the recognition of the income to when the inventory is sold, at which time it is recorded as a reduction in cost of goods sold. The impact of this adjustment was a reduction to profit before interest and tax by A$79.3 million in 2003. The impact on adoption of the change at July 29, 2002 was A$76.5 million.

Sale of property, plant and equipment, investments and businesses and controlled entities

	2003 A$M	2002 A$M
Proceeds from sale of property, plant and equipment, investments and businesses and controlled entities	392.5	111.8
Net book value of property, plant and equipment, investments and businesses and controlled entities disposed	(416.8)	(123.9)

The sale of Sydney Central Plaza Shopping Center (SCP) was finalized during March 2003. Proceeds in relation to this sale were A$372.8 million. For Australian GAAP, the property was sold and removed from the Company s balance sheet, with a A$5.5 million profit booked.

The Company had previously revalued the property in accordance with Australian GAAP. Each revaluation adjustment was included as a reconciling item in the U.S. GAAP Revaluation of property as assets are not permitted to be revalued under U.S. GAAP. The profit on sale according to U.S. GAAP was A$100.4 million.

Under U.S. GAAP, the property was considered to be a sale and leaseback. Accordingly, for U.S. reporting, the A$100.4 million profit on sale has been deferred and amortized over the life of the lease in accordance with FASB Statement No. 98 Accounting for Leases (FAS 98). This amount was included in Note 31 (d) Gains on sale of properties which have been leased back .

Table of Contents

The Company disposed of other plant and equipment during 2003, primarily due to store refurbishments and closures. This realized a net loss of A$31.2 million compared with a net loss of A$27.0 million in 2002.

Borrowing costs

Borrowing costs decreased from A$102.9 million in 2002 to A$86.9 million in 2003, with the Company benefiting from reduced debt levels and lower interest rates. This was partially offset by the average finance rate, which increased to 6.4% in 2003 from 6.2% in 2002.

Advertising expenses

U.S. GAAP requires the advertising income and expenses to be netted and disclosed as one item. This is expressly prohibited under Australian GAAP reporting and each item must be disclosed on a gross basis.

The reconciliation at Note 31 between Australian and U.S. GAAP is performed at the net income level, at which point there are no differences between the two regulations.

These expenses predominantly relate to all production costs and fees relating to press, radio, television, and catalogue advertising of merchandise. The increase from 2002 is in line with the company s aim of maintaining market share in all its trading businesses in an increasingly competitive environment. Other factors contributing to the increase are sales increases and new business initiatives.

	2003 A$M	2002 A$M
Selling and occupancy expenses	(5,327.5)	(5,159.2)

Selling and occupancy expenses are necessarily incurred to operate the Company s stores and other offices and sites. Management, with an aim to keep these costs down to remain competitive, monitors these costs very closely. Total selling and occupancy expenses increased by 3.3%.

Salaries, wages, payroll tax, superannuation and other selling staff costs increased 2.4% from A$3,139.5 million in 2002 to A$3,215.5 million in 2003. This is principally due to wages and salaries increases and a net increase of 151 additional stores operated by the company in 2003.

	2003 A$M	2002 A$M

Administrative expenses	(1,183.2)	(1,126.3)

Total administrative expenses increased by 5.1% in 2003. Material changes relate to:

Salaries, wages, payroll tax, superannuation and other administrative staff costs increased by 8.7% from A$632.8 million in 2002 to A$687.8 million in 2003. An additional 294 staff were employed within the property and unallocated segment, which includes head office employees. Additional staff in conjunction with wages and salary increases is the primary reason for the increase.

Workers compensation increased from A$64.6 million in 2002 to A$101.2 million in 2003. The company self-insures for workers compensation. The Company commenced self-insuring in NSW in February 2002. Workers Compensation laws are designed to ensure that employees who are injured or disabled on the job are provided with fixed monetary awards, eliminating the need for litigation. These laws also provide benefits for dependents of those workers who are killed because of work-related accidents or illnesses. The self-insurance liability is determined actuarially, based on claims filed and an estimate of claims incurred but not yet reported. The company has undertaken an intensive, internal Safety Right Now initiative, in an attempt to improve employee safety and reduce these expenses.

Offsetting the above was a decrease in general administrative expenses such as depreciation of office plant and equipment.

Income tax expense

The effective tax rate for 2003 was 30.8% (2002: 28.5%). The differences from the statutory rate of 30% are explained in Note 5 to the consolidated financial statements included at Item 18.

Net profit

The Company s Australian GAAP net profit increased 22.1% from A$345.0 million in 2002 to A$421.1 million in 2003. Areas within the Company that contributed to this improvement were:

Myer segment returned a profit in 2003 after two consecutive years of losses. This improvement was mainly due to operational savings and margin improvement, as sales were consistent with 2002.

Food and Liquor segment earnings grew faster than their sales partly due to the expansion of the higher margin house brands products and improvement in cost of goods

Target s result was up 73.9% from 2002. Closing non-performing stores during 2003, improving the merchandise mix and management of promotional programs achieved this result.

The Company s U.S. GAAP net profit increased from A$310.7 million in 2002 to A$390.9 million in 2003. The difference between the 2003 Australian GAAP net profit and U.S. GAAP net profit is detailed in Note 31 to the consolidated financial statements included at Item 18.

There were three accounting policy related changes that impacted the 2003 result:

Supplier promotional rebates

As a result of the change in accounting policy for supplier promotional rebates, other revenues from operating activities fell from A$650.6 million in 2002 to A$17.7 million in 2003. Rebates that were previously recorded as other revenue from operating activities have now been recorded as a reduction in inventory deferring the recognition of the income to when the inventory is sold, at which time it is recorded as a reduction in cost of goods sold. The impact of this adjustment was a reduction to profit before interest and tax by A$79.3 million in 2003. The impact on adoption of the change at July 29, 2002 was A$76.5 million.

Logistics expenses

Consistent with other logistics expenses, logistics administration expenses were capitalized into inventory in 2003, deferring the expense to when the inventory is sold. Previously, these costs were expensed as incurred. The impact of this adjustment was an increase to profit before interest and tax by A$5.0 million in 2003.

Amortization of liquor licenses

Liquor licenses are now considered to have an indefinite life, and as a consequence no amortization was charged in 2003. Previously, liquor licenses had been amortized over 20 years. The impact of this adjustment was an increase to profit before interest and tax by A$10.3 million in 2003. The effect of the change on Earnings Per Share was less than one cent.

Table of Contents

Dividends

A fully franked final dividend of A$0.125 per share was declared on all fully paid ordinary shares registered as at October 17, 2003, and paid on November 10, 2003. The final dividend, combined with the interim dividend of A$0.135 per share, represented an annual dividend of A$0.26 per share. This represented an increase of A$0.005 per share over the 2002 annual dividend.

RETAIL RESULT

Food, Liquor & Fuel Group

2004 compared with 2003

	2004	2003	Change
Sales (A$M)	21,146.3	16,557.6	27.7%
Segment result[1] (A$M)	674.5	562.0	20.0%
Stores	1,924	1,305	619
Selling area[2] (M.sq.ft)	16.695	16.235	2.8%

1. Profit from ordinary activities before income tax and interest

2. Excludes Coles Express locations

At July 25, 2004, the Food, Liquor & Fuel operations comprised Supermarkets (Coles and Bi-Lo), the Coles Myer Liquor Group (including Liquorland, Quaffers, Vintage Cellars, ALG, Theo s and Liquorland Direct) and Coles Express which collectively accounted for 65.5% of the Company s total sales in 2004 (2003: 61.3%). The 2003 numbers have been restated to include Liquorland Direct, which was previously included in Emerging Businesses.

Retail sales for this group increased by 27.7% to A$21,146.3 million (2003: A$16,557.6 million). After adjusting for sales relating to Coles Express (business commenced operations in 2004), sales increased from A$16,557.6 million to A$17,969.4 million, an increase of A$1,411.8 million, or 8.5%.

The segment result (profit before interest and tax) increased by 20.0% to A$674.5 million (2003: A$562.0 million). After adjusting for the Coles Myer Liquor Group head office relocation costs of A$14.6 million in 2004 and the Mt Druitt restructure costs of A$5.0 million in 2004, and accounting policy changes of A$34.0 million and losses from exited businesses of A$2.5 million in 2003, the segment result would have been A$694.1 million in 2004 and A$598.5 million in 2003, representing a 16.0% increase. After further adjusting for the profit of Coles Express of A$20.1 million, the result of the Food and Liquor operations would have increased by A$75.5 million or 12.6% to A$674.0 million.

Sales momentum in the Food and Liquor group increased over the year, with fourth quarter Food and Liquor growth of 9.4%. This is a reflection of the new fuel and fresh food offers. New fresh produce departments with their market look are now a feature in the majority of Coles stores, supported by better product quality. Fresh food improvements have also benefited customer traffic, assisting sales growth across the store. Fuel discounts are a key part of the Group s loyalty program and are being used in different and innovative ways to delight customers. This recently included the FlyBuys for fuel offer, where Coles Myer Source MasterCard holders could redeem FlyBuys points for Coles Express fuel.

The increase in the Food and Liquor result reflects sales leverage relative to costs, reduced shrinkage and waste, and continued streamlining of costs. The margin increases occurred despite the short-term

Table of Contents

impact of double loyalty costs incurred in the second half both shareholder discount and fuel discount.

The Liquorland head office was relocated from Sydney to Melbourne ahead of schedule in August 2004, which will enable our Food and Liquor teams to work more closely on innovative ways to delight the customer and to benefit from cross-brand career development opportunities.

The store expansion program continued during the year, with 29 new supermarkets and 21 new liquor outlets.

Coles Express was launched in Victoria in July 2003, with the progressive national roll-out completed by March 2004. The total network of 598 sites provides the Group with leadership in both the fuel and convenience retailing channels, leveraging off its quality Shell fuel offer, prime locations and well established convenience stores.

2003 compared with 2002

	2003	2002	Change
Sales (A$M)	16,557.6	15,909.7	4.1%
Segment result[1] (A$M)	562.0	541.6	3.8%
Stores	1,305	1,179	126
Selling area (M.sq.ft)	16.235	15.244	6.5%

1. Profit from ordinary activities before income tax and interest

At July 27, 2003, the Food and Liquor operations comprised Supermarkets (Coles and Bi-Lo), and the Coles Myer Liquor Group (including Liquorland, Quaffers, Vintage Cellars, ALG, and Theo s) which collectively accounted for 61.3% of the Company s total sales in 2003 (2002: 61.9%). The 2003 and 2002 numbers have been restated to include Liquorland Direct, which was previously included in Emerging Businesses.

Retail sales for this group (including intersegment sales of A$0.9 million in 2002) increased by 4.1% to A$16,557.6 million (2002: A$15,909.7 million). After adjusting for sales relating to Red Rooster (business exited in May 2002), sales increased by 5.3% from A$15,728.4 million to A$16,557.6 million.

The segment result (profit before interest and tax) increased by 3.8% to A$562.0 million (2002: A$541.6 million). After adjusting for accounting policy changes of A$34.0 million in 2003 relating to liquor licenses, rebates and logistics, and losses from exited business of A$2.5 million in 2003 and A$11.3 million in 2002, the segment result would have been A$598.5 million for 2003 and A$552.9 million in 2002, representing an increase of A$45.6 million, or 8.2%.

While sales were impacted by our major competitor s intensified fuel discounts during 2003, sales growth momentum increased in the fourth quarter. This reflected the early impacts of customer initiatives in price perception, fresh produce and house brands, most of which are yet to be fully implemented.

Continued focus on efficiency initiatives has underpinned and enabled solid growth, with both our supermarket and liquor businesses improving their margins over the year. The result reflects improvements in shrinkage and waste, reduced product cost and strong growth of our higher margin house brands in both Coles and Bi-Lo. These initiatives, together with reinvestment of the shareholder discount reduction, have enabled the Brands to further improve price competitiveness.

The store expansion program continued during the year, with 42 new supermarkets, 92 new liquor stores and six new hotels. This included the strategic acquisition of Theo s Liquor in NSW, which was settled on May 26.

Table of Contents

Kmart and Officeworks

2004 compared with 2003

	2004	2003	Change
Sales (A$M)	4,681.0	4,369.5	7.1%
Segment result[1] (A$M)	151.0	103.8	45.5%
Stores	303	298	5
Selling area (M.sq.ft)	11.674	11.470	1.8%

1. Profit from ordinary activities before income tax and interest

At July 25, 2004, Kmart and Officeworks included Kmart, Kmart Garden Super Centers, Kmart Tyre and Auto, Tyremaster, Officeworks, Officeworks Direct and Viking.

Sales for this group, including inter-segment sales of A$1.1 million in 2004 and A$0.9 million in 2003, increased by 7.1% to A$4,681.0 million (2003: A$4,369.5 million).

Increased sales have been achieved at the same time as some improvements in gross margins. This combined with the ability to contain costs has led to the improved segment result.

The segment result increased by 45.5% to A$151.0 million (2003: A$103.8 million). Included in these results is a credit of A$15.4 million relating to a re-measurement of the Kmart New Zealand onerous lease provision, which has resulted from improved trading conditions in New Zealand. After adjusting for the impact of this re-measurement, the segment result would have been A$135.6 million.

As detailed below, after adjusting for the impact of accounting policy changes and the re-measurement of the Kmart New Zealand onerous lease provision, the 2003 segment result would have been A$103.6 million.

Taking these adjustments into account, the segment result would have increased by A$32.0 million, or 30.9%.

The improved result is evidence that customers have responded to Kmart s product offer, competitive prices and improved marketing in both general merchandise and apparel. Highlights in general merchandise were new ranges in the home offer and sustained growth in toys, leisure and entertainment. In apparel, new brands included Hilary Duff and Sista, and house brands including Girl Xpress, Now and Solutions were solid performers.

The success of the Easter, Stocktake and Mother s Day Sales, along with our Mega Electrical and Toy Sales also contributed to the improved results.

Kmart opened five new stores during the year, bringing the network to 175 stores. The store refurbishment plan continued with lower fixtures and wider aisles, improving the shopping experience for customers and making it easier for them to move through the store.

Officeworks delivered another good performance. The result reflects good sales growth, improved merchandise mix and ongoing business efficiencies. A new focus on house-brands was also initiated, resulting in new packaging and clearer price points. Officeworks opened nine new stores in the year, increasing the network to 78. Another 20 stores were updated with major refurbishments. Twelve new in-store technology centers were opened, bringing the total to 22, while the rollout of the digital printing program is nearing completion with 66 stores now offering the service.

Table of Contents

2003 compared with 2002

	2003	2002	Change
Sales (A$M)	4,369.5	3,904.4	11.9%
Segment result[1] (A$M)	103.8	62.4	66.3%
Stores	298	272	26
Selling area (M.sq.ft)	11.470	10.687	7.3%

1. Profit from ordinary activities before income tax and interest

At July 27, 2003, Kmart and Officeworks included Kmart Garden Super Centers, Km