

COLES MYER LTD
Form 20-F
December 23, 2005
Table of Contents

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

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

FOR THE FISCAL YEAR ENDED JULY 31, 2005

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

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

Date of event requiring this shell company report

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.

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
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

Edgar Filing: COLES MYER LTD - Form 20-F

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	1,237,160,686
Partly Paid Ordinary Shares paid up to A\$0.01 per share	74,000

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 No

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

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

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

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

Yes No

Table of Contents**TABLE OF CONTENTS**

	Page
	<u>1</u>
<i>Certain Definitions</i>	1
<i>Forward-Looking Statements</i>	1
<i>PART I</i>	
ITEM 1 <u>Identity of Directors, Senior Management and Advisers</u>	2
ITEM 2 <u>Offer Statistics and Expected Timetable</u>	2
ITEM 3 <u>Key Information</u>	2
ITEM 4 <u>Information on the Company</u>	9
ITEM 5 <u>Operating and Financial Review and Prospects</u>	30
ITEM 6 <u>Directors, Senior Management and Employees</u>	52
ITEM 7 <u>Major Shareholders and Related Party Transactions</u>	72
ITEM 8 <u>Financial Information</u>	75
ITEM 9 <u>The Offer and Listing</u>	76
ITEM 10 <u>Additional Information</u>	77
ITEM 11 <u>Quantitative and Qualitative Disclosures about Market Risk</u>	90
ITEM 12 <u>Description of Securities Other than Equity Securities</u>	90
<i>PART II</i>	
ITEM 13 <u>Defaults, Dividend Arrearages and Delinquencies</u>	90
ITEM 14 <u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	91
<i>PART III</i>	
ITEM 15 <u>Controls and Procedures</u>	91
ITEM 16A <u>Audit Committee Financial Expert</u>	91
ITEM 16B <u>Code of Ethics</u>	91
ITEM 16C <u>Principal Accountant Fees and Services</u>	91
ITEM 16E <u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	93
<i>PART IV</i>	
ITEM 17 <u>Consolidated Financial Statements</u>	94
ITEM 19 <u>Exhibits</u>	95

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 31, 2005 is referred to in the text of this Annual Report as 2005, and other fiscal years are referred to in a corresponding manner. In the consolidated financial statements included in Item 17, the financial year 2004-05 is also referred to as 2005, 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 the disposition of certain stores or lines of business, the implementation of strategies for growth in other businesses, and levels of 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 3D.

Table of Contents

ITEM 1 IDENTITY OF DIRECTORS, SENIOR MANAGEMENT & ADVISERS

Not applicable.

ITEM 2 OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3 KEY INFORMATION

A. SELECTED FINANCIAL DATA

The selected income statement data for 2003 through 2005, and the selected balance sheet data at July 25, 2004 and July 31, 2005 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 2001 and 2002 and the selected balance sheet data at July 29, 2001, July 28, 2002 and July 25, 2003 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 principles generally accepted in the United States (U.S. GAAP). A reconciliation to U.S. GAAP is set out in Note 32 of the Notes to the Company's consolidated financial statements.

It should be noted that results for 2005 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.

Table of Contents**Amounts in accordance with Australian GAAP**

	2005 ⁽¹⁾⁽²⁾	2005 ⁽²⁾	2004	2003	2002 ⁽³⁾	2001 ⁽³⁾
	US\$	A\$	A\$	A\$	A\$	A\$
(In millions, except per share amounts)						
Income Statement Data:						
Sales ⁽³⁾	27,479.0	36,185.2	32,082.2	26,875.8	25,688.7	23,779.6
Percent increase/(decrease) from prior year	n/a	12.8%	19.4%	4.6%	8.0%	(1.6)%
Profit from ordinary activities before income tax	670.2	882.5	866.2	608.8	482.2	208.2
Income tax expense	(202.3)	(266.4)	(258.1)	(187.7)	(137.2)	(68.0)
Net profit	467.9	616.1	608.1	421.1	345.0	140.2
Percent increase/(decrease) from prior year	n/a	1.3%	44.4%	22.1%	146.1%	(49.6)%
Dividends ⁽⁴⁾	331.7	436.8	367.5	348.2	346.9	444.5
Per Ordinary Share:						
- Basic earnings	0.35	0.46	0.46	0.32	0.25	0.10
- Diluted earnings	0.36	0.47	0.47	0.33	0.27	0.11
- Cash Dividends ⁽⁴⁾⁽⁵⁾	0.237	0.313	0.265	0.260	0.255	0.355
Balance Sheet Data: (at year end)						
Current assets	3,261.1	4,294.3	4,569.5	4,116.4	4,016.8	3,946.1
Total assets	7,102.2	9,352.4	9,051.7	8,452.8	8,320.6	8,317.8
Short-term debt	164.0	216.0	261.5	10.8	15.3	127.8
Long-term debt	921.4	1,213.3	713.4	1,143.3	1,552.8	1,671.4
Total debt	1,085.4	1,429.3	974.9	1,154.1	1,568.1	1,799.2
Net Assets/Shareholders equity	2,837.1	3,736.0	4,097.6	3,799.2	3,338.8	3,286.3

Refer page 4 for notes relating to above table.

Table of Contents**Amounts in accordance with U.S. GAAP**

	2005 ⁽¹⁾⁽²⁾	2005	2004	2003	2002 ⁽³⁾	2001 ⁽³⁾
	US\$	A\$	A\$	A\$	A\$	A\$
(In millions, except per share amounts)						
Income Statement Data:						
Sales ⁽³⁾	27,479.0	36,185.2	32,082.2	26,875.8	25,688.7	23,779.6
Net profit from continuing operations	389.2	512.5	475.4	444.4	310.7	166.5
- Basic earnings per share	0.32	0.42	0.40	0.34	0.22	0.12
- Diluted earnings per share	0.31	0.41	0.39	0.33	0.22	0.12
Net profit	389.2	512.5	475.4	390.9	310.7	166.5
- Basic earnings per share	0.32	0.42	0.40	0.29	0.22	0.12
- Diluted earnings per share	0.31	0.41	0.39	0.29	0.22	0.12
Per Ordinary Share:						
- Cash dividends ⁽⁴⁾	0.24	0.313	0.265	0.260	0.255	0.355
- Cash dividends in US\$ ^{(4) (5)}	US\$0.24	US\$0.24	US\$0.19	US\$0.18	US\$0.14	US\$0.18
Balance Sheet Data: (at year end)						
Current assets	3,264.3	4,298.5	4,577.7	4,128.0	4,034.8	3,940.2
Total assets	6,93.7	9,170.9	9,109.9	8,422.4	8,218.8	8,181.9
Short-term debt	164.0	216.0	261.5	10.8	15.3	127.8
Long-term debt	921.4	1,213.3	1,397.5	1,143.3	1,552.8	1,671.4
Total debt	1,085.4	1,429.3	1,659.0	1,154.1	1,568.1	1,799.2
Net Assets/Shareholders' equity	2,506.9	3,301.2	3,032.7	3,329.4	3,107.6	3,111.1
Issued capital - value	1,597.0	2,103.0	1,626.1	2,210.3	2,032.3	1,973.7
Millions of shares						
Issued capital - number of outstanding shares ⁽⁶⁾	1,237.2	1,237.2	1,225.5	1,212.5	1,184.7	1,176.8

(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 29, 2005, the last trading day of the fiscal year, of A\$1.00 = US\$0.7594. 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 2005 reflect 53 trading weeks compared to 52 trading weeks for other fiscal years shown.

(3) Sales exclude Goods and Services Tax (GST). Sales for 2002 and 2001 have not been adjusted for the concessional sales change of accounting policy.

(4) Dividends for 2001 and 2002 include the interim and final dividends relating to each respective fiscal year. As a result of the change in accounting policy for providing for dividends, since 2003 dividends for each year include the interim dividend of that year and the final dividend of the prior year (refer Note 7 of the consolidated financial statements included at Item 17).

(5) Based on the Noon Buying Rate for cable transfers in A\$ as at each payment date as certified for customs purposes by the Federal Reserve Bank of New York. The actual rates of exchange used in determining the dollar payments to ADS holders were the exchange rates on the dates payments were made to the Depositary, being November 8, 2004 and May 9, 2005.

Edgar Filing: COLES MYER LTD - Form 20-F

⁽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	2005	2004	2003	2002	2001
	(all figures in US\$ per A\$)				
Average rate ⁽¹⁾	0.7564	0.7181	0.5884	0.5270	0.5262

⁽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 2005	0.7792	0.7498
July 2005	0.7661	0.7403
August 2005	0.7739	0.7469
September 2005	0.7731	0.7537
October 2005	0.7630	0.7468
November 2005	0.7451	0.7267

The exchange rate at December 1, 2005 was A\$1.00 = US\$0.7410.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Edgar Filing: COLES MYER LTD - Form 20-F

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.

Table of Contents

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

Risks Related to Coles Myer

There is a risk that if the Company's strategic plan is not clearly defined and communicated, the Company will be unsuccessful in fulfilling its vision to be the market leader in all the markets it operates in.

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

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

The Group's future plans include expected benefits from greater efficiencies in areas that are common across the Group (in particular Supply Chain and Information Technology) and access to greater economies of scale. There is a risk that the Company may not leverage the benefits and reduce costs, available from the 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.

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

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 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 (i) expanding share within existing markets through differentiated product offers and competitive pricing or (ii) identifying new retail opportunities. In the Food and Liquor business, this includes successfully executing the planned expansion of house brands and increasing fresh food market shares. There is a risk that if the Company does not continue to innovate and improve its customer offer, its market share and future

growth may be impacted.

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 at premium retail sites, the Company's growth may be impaired.

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

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

Table of Contents

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

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

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

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

There is a risk of the loss of key members of the senior management team, which may impede the implementation of the Group's strategies. 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 particularly within distribution centers. Any industrial action may increase costs, impact operations and delay transformation initiatives.

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. Take-over activity amongst existing competitors intensifies competition. There is also the risk of new entrants into the Australian retail market, either by acquisition of an existing retailing company or through greenfields development. Regulatory authorities may constrain the Company from growing existing Brands, particularly within the food and liquor group. As Coles 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 share and trading results.

Myer ownership options risk.

As part of the development of the Company's next strategic plan, the Company is considering ownership options for Myer. Amongst these is the option of selling, de-merging or retaining Myer. At this point in time the outcome of this process is unknown and consequently it is not possible to reasonably identify what risks, if any, may arise from the final ownership decision.

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, adverse publicity and exposure to product liability claims. Such claims may have an adverse impact on the Company's financial performance.

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

As described in Note 1 to the consolidated 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 adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after January 1, 2005. The AASB has issued Australian equivalents to IFRS (A-IFRS). The adoption of A-IFRS will be first reflected in the CML Group's financial statements for fiscal 2006, being the half year ending January 29, 2006 and the year ending July 30, 2006.

Table of Contents

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. The adoption of IFRS may increase the volatility of reported earnings in future periods, or negatively impact reported earnings.

Refer to note 1ae to our consolidated financial statements for further details regarding our adoption of IFRS.

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

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

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

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

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

Coles 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 Australian Competition and Consumer Commission. Compliance with, or changes in, these laws (which may be brought about by interest lobby groups) may reduce the sales and profitability of Coles Myer's operations and may otherwise adversely affect the Company's business, financial condition or results.

Risks Related to Australia

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

Edgar Filing: COLES MYER LTD - Form 20-F

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. Recent unexpected increases in energy costs have impacted the level of disposable income available to consumers to spend in the Company's stores. 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, 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.

In the event of acts of local terrorism, the Company may experience business interruption.

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, Bi-Lo, Coles Express, Coles Online, Liquorland, Village Cellar, Liquor 1 Superstore, Theos, Kmart, Kmart Garden Super Centre, Kmart Tyre & Auto, Tyremaster, Target, Target Country, Myer, Office Works and Harris Technology. In New Zealand, the Company trades as Kmart.

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

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 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 31, 2005, was 87, all of which are incorporated in Australia and New Zealand, apart from one company, which is incorporated in Singapore.

Table of Contents

RECENT DEVELOPMENTS

1. Megamart

The Megamart brand experienced an extremely competitive environment during fiscal 2004. In mid-November 2004 a revised customer offer was developed to improve Megamart's performance. Whilst sales improved, the nine stores did not deliver the required profit improvement. Following a detailed review of the Megamart brand the Company decided to divest the nine Megamart stores. On November 9, 2005 the Company announced a conditional agreement to divest six Megamart stores to Harvey Norman, a listed Australian retailer of furniture and electrical goods, from November 23, 2005. The remaining three stores closed on November 13, 2005 and the Company is pursuing sub-letting of these properties. The Company expects that divestment and closure costs will be covered by the provision of A\$56 million after tax previously announced on August 16, 2005.

2. Myer

As part of the development of Coles Myer's next five-year strategic plan, a process began in September 2005 to consider ownership options for Myer, including retention, de-merger and trade sale. The process will determine which is the best outcome for Myer, Coles Myer and its shareholders. No time frame has been set for the completion of this process.

On November 2, 2005 an Information Memorandum (IM) was provided to approximately 20 interested parties who, in responding to the call for formal expressions of interest, have demonstrated an ability to acquire the Myer brand. All parties receiving the IM have signed confidentiality agreements and have not been publicly identified by the Company.

The IM provides high-level information on Myer to enable prospective buyers to better understand the business, what it has achieved, where it is today and plans for the future. It includes background on the ownership review process, a detailed profile of Myer, its financial performance over recent years, its business strategy, including marketing, loyalty and sponsorship, and its store portfolio.

An integral part of the review process involves reviewing the ownership and development opportunities of the freehold property that the flagship store, Myer Melbourne (Australia's largest department store), is located on. It is in one of the most important and strategic retail locations in Australia. To ensure the Company maximizes the return for itself and Myer, the Company has decided to look at all options for this freehold property.

CML has commissioned consultants, including architects, quantity surveyors and property valuers, to begin exploring development opportunities for this freehold property. The development options will be presented to prospective buyers to assist them to understand the full value of Myer and the freehold property when they are preparing their bids.

At the same time, CML will approach major property developers and other parties to seek their interest in submitting proposals for developing the freehold property.

Edgar Filing: COLES MYER LTD - Form 20-F

The parties had until early December 2005 to submit indicative bids for Myer. The Board met on December 12, 2005 to consider indicative bids submitted for the Myer business. The Board decided that several parties would be invited to participate in the next phase of the process. The parties will conduct due diligence on Myer to enable them to prepare and submit final bids during February 2006. The Board will then be in a position to compare potential shareholder value that could be created by divestment relative to that which would be generated by Myer's retention or de-merger. It is anticipated that a decision on the future ownership of Myer will be made in the first quarter of calendar year 2006.

At this stage, all ownership options for Myer, including sale, de-merger or retention, remain open.

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.

Table of Contents

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 10, 2005, the Company announced 2006 first quarter sales (for the 13 weeks ended October 30, 2005) of A\$9.0 billion, an increase of 5.6%. Specific sales results were:

	First Quarter (13 Weeks)		
	2006	2005	Change
	A\$M	A\$M	%
Food, Liquor & Fuel	6,360	5,917	7.5
Kmart	893	905	(1.4)
Officeworks	291	279	4.3
Myer	663	647	2.4
Megamart	59	61	(4.3)
Target	723	702	3.0
Total sales ⁽¹⁾	8,989	8,511	5.6

⁽¹⁾ Total sales include concession sales.

Earnings guidance

At the Company's 2005 Annual General Meeting on November 17, 2005, the Company reaffirmed that it remains committed to its 2006 full year's earnings goal of A\$769 million (A\$800 million pre-capital management refer below).

5. Management

CEO tenure

On February 11, 2005 the Company announced that Mr. John Fletcher will stay on as CEO after his current contract expires in September 2006. Mr. John Fletcher will continue his employment without a fixed term but subject to 12 months' notice of termination by either the Board or himself.

Senior management changes

Appointments

Mr. Hani Zayadi (previously Managing Director Kmart) was appointed Group Managing Director Food, Liquor and Fuel from December 22, 2004, replacing Mr. Steven Cain who ceased employment with the Company on January 3, 2005.

On February 14, 2005 the Company announced that:

Mr. Larry Davis was moving from his position as Managing Director Target to Managing Director Kmart;

Ms. Launa Inman was moving from her position as Managing Director Officeworks to Managing Director Target;

Mr. Joe Barberis was moving from his position as Managing Director, Coles Express to Managing Director Officeworks.

On March 8, 2005, the Company announced the appointment of Mr. Mick McMahon as Managing Director of Coles Express.

On January 31, 2005 Mr. Tom Lemke was appointed Group General Manager, Marketing and Customer Strategy.

In February 2005, Mr. Peter Merritt was appointed Managing Director, Strategy and Development, Food, Liquor and Fuel.

Table of Contents

On August 1, 2005 the Company announced the appointment of Ms. Fiona Bennett as Group General Manager, Risk and Internal Audit.

Departures

On December 22, 2004, the Company announced that Mr. Steven Cain, Managing Director Food, Liquor and Fuel would be leaving the Company. Mr. Hani Zayadi, then Managing Director Kmart, took over the Food, Liquor and Fuel leadership role.

Brand reorganizations

Restructure of Supermarket Brand (Coles and Bi-Lo) Support Structures

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

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 in August 2004, enabling the Food and Liquor teams to work together more closely.

6. Capital management

Share buy-back

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

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

In total, 82,655,027 shares were purchased and cancelled during the year. Refer Note 21 to the consolidated financial statements at Item 17.

On July 12, 2005 the Company converted 7,000,000 reset convertible preference shares (ReCAPS) into 79,282,822 million fully paid Coles Myer ordinary shares. Refer Note 21 to the consolidated financial statements at Item 17.

7. 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.

Shareholder Discount Card Program

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

Dividend Reinvestment Plan (DRP)

The Company had a DRP under which holders of ordinary shares had previously been able to elect to have their dividend entitlements satisfied by the issue of new fully paid ordinary shares. The DRP was suspended effective from the final dividend for 2004 (paid in November 2004). All dividends are now paid in cash.

Table of Contents

Board Changes

At the Company's 2005 Annual General Meeting in Melbourne on November 17, 2005, Mr. Tony G. Hodgson, Ms. Sandra McPhee and Mr. Michael Wemms were re-elected Directors. Ms. Belinda Hutchinson having been appointed to the Board on September 23, 2005 was elected to the Board.

Capital expenditure

For 2005, capital expenditure was A\$1,135 million in aggregate and was spread across the following areas:

<u>A\$ million</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
New stores / replacements	343	184	236
Refits	213	205	172
Acquisitions	121	129	299
Technology	223	151	168
Property / Other	235	205	117
Total	1,135	874	992

Of this amount, 99.6% 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 and Note B Acquisitions/Disposals in the consolidated financial statements at Item 17.

B. BUSINESS OVERVIEW**Company Retail Operations**

At July 31, 2005, Coles Myer operated 2,650 stores in Australia and New Zealand, and employed in excess of 180,000 people.

The Company operates businesses in Australia and New Zealand, all of which are serviced by a centralized corporate group. Each of these businesses is known as brands and is described below. The brands are primarily stand-alone but increasingly are being supported by a series of

Edgar Filing: COLES MYER LTD - Form 20-F

Retail Support centers that all operate within policies determined by a centralized corporate group. The results of the operating brands are reported under six groups: Food, Liquor & Fuel, Kmart, Officeworks, Myer, Megamart and Target. Sales, segment result, and identifiable asset data are reported for each Coles Myer brand group, and are shown in Note 27 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 brands groups.

Coles Myer s sales and to a greater extent its profits, show a seasonal pattern. Myer, Kmart and Target typically experience stronger sales of higher margin merchandise during the Christmas trading period. Sales for Myer, Kmart and Target in the 27 weeks to January 31, 2005 accounted for 52.9% (2004: 53.0%) of their full year sales and 78.5 % (2004: 70.0%) 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 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.

Table of Contents

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.

State/Territory	Share of National Aggregates as at July 2005			Share of Coles Myer as at July 2005	
	Population %	Retail	Disposable	Sales %	Selling Area %
		Sales %	Income %		
New South Wales / Australian Capital Territory	35.0	35.6	37.3	33.0	32.0
Victoria	24.7	24.1	25.7	26.6	26.3
Queensland	19.4	19.8	17.3	18.9	20.1
South Australia / Northern Territory	8.6	8.3	8.0	8.8	8.6
Western Australia	9.9	10.1	9.7	10.8	11.0
Tasmania	2.4	2.1	2.0	1.9	2.0

Source: Company Records and Australian Bureau of Statistics.

As at July 31, 2005 (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	505		505
Bi-Lo	214		214
Coles Myer Liquor Group	669		669
Coles Express	597		597
Total Food, Liquor & Fuel	1,985		1,985
Kmart			
Kmart	167	13	180
Kmart Tyre & Auto	65		65
Total Kmart	232	13	245
Officeworks			
Officeworks	87		87
Harris Technology	8		8
Total Officeworks	95		95
Myer	61		61

Edgar Filing: COLES MYER LTD - Form 20-F

Megamart	9		9
Target			
Target	142		142
Target Country	113		113
	<u> </u>		<u> </u>
Total Target	255		255
	<u> </u>		<u> </u>
Total	2,637	13	2,650
	<u> </u>	<u> </u>	<u> </u>

Table of Contents

The above store numbers include freestanding Kmart Tyre and Auto and Tyremaster stores. As at July 31, 2005, the Company operated a total of 2,650 stores, an increase of 72 stores on the 2,578 stores at July 25, 2004, which compared with 1,957 stores at July 27, 2003. The Company opened, acquired, closed and divested stores as follows:

	2005			2004			2003		
	Net			Net			Net		
	Opened/ Acquired	Closed/ Divested	Increase/ (Decrease)	Opened/ Acquired	Closed/ Divested	Increase/ (Decrease)	Opened/ Acquired	Closed/ Divested	Increase/ (Decrease)
Food, Liquor & Fuel	84	42	42	652*	33	619	140	14	126
Kmart	21	1	20	5	2	3	10	1	9
Officeworks**	9	1	8	11	9	2	21		21
Myer				1	4	(3)		3	(3)
Megamart				1		1	3		3
Target	11	9	2	9	10	(1)	8	13	(5)
TOTAL	125	53	72	679	58	621	182	31	151

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

** Includes Harris Technology

Strategy*History*

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

Continuous brand improvement

Restoring operational excellence in the Kmart, Target and Myer brands

Growing the Food and Liquor brand

Edgar Filing: COLES MYER LTD - Form 20-F

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 shareholders. 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 of stock 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 expenses in 2005 were A\$43.2 million.

The food and liquor brands - enabled by Supply Chain and Information Technology - continue to transform the way they do business to provide better outcomes for customers, shareholders and team members.

The changes across the food and liquor network are designed to deliver improved on-shelf availability, quality and value for customers and a simpler, cheaper and better model for stores.

In-store changes included the introduction of roll cages and the conversion of merchandise lines into shelf ready packaging, both enabling simpler and more efficient processes for store team members in the handling and replenishment of stock.

Roll cages were introduced into more than 250 supermarket and liquor stores across Victoria. The rollout will continue progressively over 2006.

Returnable plastic crates - taking fresh produce from grower to the supermarket shelf with one touch - have been trialed, with strong feedback supporting the rollout across the network from October, 2005. The containers are used to improve productivity across the value chain, allowing

for delivery of fresher product to customers.

Merchandise delivery is also being transformed as the Company continues to improve the overall effectiveness and costs of the food and liquor supply chain.

During 2005, direct-to-store deliveries from suppliers reduced by 25 deliveries per store per week. This means 15 million fewer cartons delivered directly to stores.

In January 2005, the factory gate pricing model went into operation, with over 2.5 million cartons per month purchased that way. By the end of 2006 the Company anticipates 40 percent of our food and liquor products will be purchased in this manner. The shift to central management of primary freight means more cost effective management of capacity and improved freight utilization within Australia's supply chain.

The food and liquor distribution network rollout commenced in 2005, with tenders being let for the construction of a number of new distribution centers. The new network is designed specifically to fulfill CML's future supply chain requirements. By separating fast and slow moving products into separate distribution centers the Company can ensure better, more efficient management and flow of products into stores.

New systems and processes are being installed in new and existing distribution centers to ensure more efficient stock management and picking, including a new warehouse management system, which is now operational in the network.

Table of Contents

IT Transformation

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

Loyalty

The new Coles Myer Loyalty program combines the Coles Express fuel discount offer, the enhanced FlyBuys™, the Coles Myer Source™ MasterCard and the MYER One Program.

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

The MYER One customer program now has over 775,000 members.

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.

A number of further initiatives were introduced during the course of 2005, including the introduction of company-wide values and behaviors to underpin the Company's strategic goals and make Coles Myer a better place in which to work, shop and invest.

The Group has also initiated a new program to improve the diversity of our workforce to ensure that it better reflects the make-up of our customers and the communities in which we operate. This program is designed to build a working environment in which all team members feel valued, where difference is respected, and to equip us to continue to better understand our customers' needs.

Outlook Strategic review

The CML Group has also begun developing the next five-year strategy so that there is some overlap between the current strategy and the one that will take the CML Group out to 2010. Refer Item 4A HISTORY AND DEVELOPMENT Recent Developments.

Table of Contents

RETAIL OPERATIONS

FOOD, LIQUOR & FUEL GROUP

These brands represent the largest grouping in Coles Myer in terms of sales. At July 31, 2005, the Food, Liquor & Fuel Group operated 1,985 stores. The roll out of our fuel and convenience brand commenced on July 28, 2003, from which point in time the Food & Liquor Group became known as the Food, Liquor & Fuel Group. The group comprises Supermarkets, Coles Myer Liquor Group, Coles Express and Coles Online.

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

Coles supermarkets aim to delight customers with great value and convenience. Coles is committed to giving customers more for their money through competitive everyday prices, supported by strong and relevant promotions.

At July 31, 2005, the brand operated 505 stores across Australia, with 20 new supermarkets opened during the year. The network ranges from small metropolitan stores to large flagship sites, with selling area of approximately 20,000 to 50,000 square feet. The supermarkets offer customers a wide range of fresh food, groceries and general merchandise. Coles' extensive offer includes both national and housebrand products. Coles Supermarkets operates an Internet shopping service called Coles Online.

During the year Coles launched its housebrand strategy, which is designed to optimize choice for customers. The strategy sees customers able to choose housebrand products from three distinct tiers being: \$mart Buys, you'll love Coles and George J Coles.

Fresh produce departments with a market look are now a feature in most stores. Ongoing commitment to innovation and improved value has seen expansion of the fresh range. Product innovation in value-added ready-to-eat products offer customers better choice and convenience.

Bi-Lo

The Bi-Lo aim is to be Australia's leading discount supermarket, offering the cheapest weekly shopping basket of fresh food and groceries to value conscious customers.

Bi-Lo operated 214 stores at July 31, 2005, including 10 new supermarket openings during the year. The average store size is smaller than Coles, with the network focused on local neighborhoods and regional areas.

Edgar Filing: COLES MYER LTD - Form 20-F

Bi-Lo offers everyday grocery items, along with a housebrand range. Through the year Bi-Lo focused on enhancing the quality of fresh food and expanded the housebrand range by introducing or redesigning packaging for more than 400 Bi-Lo products.

Coles Myer Liquor Group

The Coles Myer Liquor Group (CMLG) operates four major brands – Liquorland, Vintage Cellars, Theos and 1ST Choice Liquor Superstore. The inaugural 1ST Choice Liquor Superstore opened in Melbourne in May 2005.

As at July 31, 2005 the brand operated 669 liquor sites, including 30 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 and gaming is regulated in Australia, with each state and territory controlling liquor sale via liquor licensing and gaming via gaming licensing. State Government liquor and gaming authorities and in the case of liquor licensing, statewide police agencies execute the licensing regulations in their regions with each region's regulations reflecting their own unique regional issues. Consequently, the degree of regulation differs from State to State. The Company is not aware of any action or proposed action that would invalidate any of its liquor licenses.

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

Coles Express

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).

Table of Contents

Currently the brand operates 597 fuel and convenience stores across Australia, making it 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.

KMART

Kmart

At July 31, 2005, Kmart operated 180 stores in Australia and New Zealand. Measured by sales, it is Australia's leading discount store business and sells a wide range of items, including sporting goods, toys, electrical appliances and apparel, with a mix of international and national brand names as well as private labels.

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

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

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

In 1994, the Company renewed its License Agreement with KMC, pursuant to which Coles 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 substantial adverse impact on the Company's operations. Besides the License Agreement, Coles Myer has no other affiliation or relationship with KMC.

In New Zealand, the business supplies similar product ranges to Australia. The Company opened its first Kmart store in New Zealand in October 1988, and the chain had 13 stores operating at July 31, 2005.

Kmart Automotive

Kmart Automotive consists of two automotive business units trading under the brand names Kmart Tyre & Auto Service and Tyremaster Wholesale . There are a total of 195 Kmart Tyre & Auto Service outlets of which 130 are either attached or in close proximity to a Kmart store and a further 65 located as stand-alone sites.

Table of Contents

OFFICEWORKS

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 87 Officeworks operating at July 31, 2005. Officeworks operates 3 brands, Officeworks Superstores, Officeworks BusinessDirect and Harris Technology.

Harris Technology

Harris Technology is consolidating its brand after aggressive growth in the past several years. A strategic review was performed in early 2005, the aim of which was to identify where Harris could be most successful. As a result of that review, the brand is refocusing on its traditional customers – the small business sector as well as technology professionals.

TARGET

Target

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

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

Target stores are typically located in suburban and large regional shopping centers and precincts. Target operated 142 stores at July 31, 2005, with store selling areas ranging from approximately 21,000 to 73,000 square feet.

Target Country

A total of 113 stores trading as Target Country were operating at July 31, 2005. These stores are located primarily in rural and regional communities, and offer a smaller range of Target merchandise, predominantly apparel and soft homewares such as manchester and tableware.

MYER

Myer is Australia's largest department store group (measured by sales and store numbers) with stores operating in the states of Victoria, New South Wales, Queensland, South Australia, Tasmania, Western Australia and the Australian Capital Territory.

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 31, 2005. The larger Myer stores are situated in downtown locations, with other stores positioned mainly as anchor tenants in suburban shopping centers and in major regional towns.

In 2005, Myer expanded its merchandise offer by adding new national and international brands together with an ongoing focus on private brands.

Table of Contents

Customer service continued to improve with a strong ongoing focus on service levels and selling skills. All frontline team members received customer service training this year and many managers were further trained in advanced selling techniques. Strong marketing reflects the repositioning. The store environment is also improving, with more open layouts, clear aisle ways and strong visual merchandising.

As part of the development of Coles Myer's next strategic plan, a process began in September 2005 to consider ownership options for Myer, including retention, de-merger and trade sale. The process will determine which is the best outcome for Myer, Coles Myer and its shareholders. No timeframe has been set for the completion of this process. Also refer to Item 4A HISTORY AND DEVELOPMENT RECENT DEVELOPMENTS.

MEGAMART

An electronics and furniture format, Megamart, was launched during 1999. Megamart operated nine stores trading in Victoria, New South Wales, Queensland and Western Australia. The Megamart brand was re-launched in December 2004 with an increased focus on the latest technology and entertainment. While sales improved, the nine stores in four states did not provide the scale needed to deliver the required profit improvement. As a result, Coles Myer has announced that all nine Megamart stores will be divested in the 2006 financial year. Also refer to Item 4A HISTORY AND DEVELOPMENT RECENT DEVELOPMENTS.

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, Treasury, Taxation, Supply Chain, Retail Property, Human Resources, Corporate Affairs, Information Technology, Legal, Risk Management and Compliance, and Customer Strategy and Financial Services.

Finance

Coles 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.

Edgar Filing: COLES MYER LTD - Form 20-F

At July 31, 2005, the Company had no secured liabilities, other than a controlled entity having issued a floating charge over assets, capped at A\$80.0 million as security for payment obligations to a trade creditor. The Company's borrowing structure is flexible and consistent, based on the acceptance by financial institutions of the Standard Coles Myer Negative Pledge (the Negative Pledge) and the Common Provisions Deed Poll (CPDP). The Negative Pledge is in the process of being replaced by the CPDP, which better reflects current market practice for credit support.

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

- (1) **Limitation on Total Liabilities:** The CML Group will at all times maintain Consolidated Total Liabilities at no greater than 80% of Consolidated Total Tangible Assets;
- (2) **Limitation on Secured Debt:** The CML Group will at all times maintain Secured Debt (excluding Indebtedness secured by any encumbrance created or extended in accordance with the CPDP) at no greater than 20% of Consolidated Total Tangible Assets; and
- (3) **Fixed Charges Cover:** The CML Group will at all times ensure that the ratio of the aggregate of EBITDA and Rental Expense to Total Fixed Charges exceeds 1.65 times.

Table of Contents

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

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

The CML Group has been in compliance with its financial covenants contained within the Negative Pledge and CPDP during 2005.

The CPDP has been attached as an Exhibit at Item 19.

At July 31, 2005, 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 50% of core debt hedged at fixed interest rates beyond 12 months in maturity. Core debt represents the Company's long term, non-seasonal debt. See also Item 11 Quantitative and Qualitative Disclosures about Market Risk for a description of the Company's hedging activities.

Credit Cards

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

The Coles Myer credit card portfolio includes two other credit card products, namely the Coles Myer Store Card and the Coles Myer Source™ MasterCard with FlyBuys™ Points EXTRA FAST, which has an annual fee. There are in excess of 1.5 million Coles Myer Branded credit 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 brands have embraced the concept of developing a partnership approach with their suppliers to ensure customers have access to the quality, range and value they demand. The brands are focused on developing mutually beneficial relationships with approximately 32,000

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.

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

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

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

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

Table of Contents

COMPETITION

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

Coles Myer Liquor Group through its major brands, Liquorland, Vintage Cellars, 1ST Choice Liquor Superstore and Theos also competes nationally against the Woolworths chain, which during 2005 acquired ALH (see Item 4A HISTORY AND DEVELOPMENT RECENT DEVELOPMENTS), a large hotel and liquor operator and recently acquired the Taverner Hotel Group. In addition there is competition from independent retail chains, sole-traders and hotels that sell packaged liquor.

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

The Company has a strong position in Australia in the discount 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 also provided by specialty store operators and discount stores.

Competition between the Group's general merchandise and apparel brands is minimized by clear and distinct strategic positioning of each brand.

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

For Harris Technology, competition differs depending on sales channels. In the retail sector, Harvey Norman, Dick Smith Electronics, Domayne are major competitors. In the direct sector (on line and contact centre), e-store, Dell, City Software are the key players.

ADVERTISING AND PROMOTION

Coles Myer and its brands continue to be amongst the largest advertisers in Australia. Advertising expenditure in 2005 was A\$474.5 million, which compares with A\$431.7 million in 2004 reflecting new business initiatives, sales growth and increased competitive activity in our major

markets.

Coles Myer uses the media agency Universal McCann, to plan and buy television, radio, cinema, press, magazines and on-line media in all metropolitan and regional media markets on behalf of all brands.

Each of the brands selects their own advertising agencies and together they develop their own marketing strategy, develop the creative concept and utilize various media to accommodate the range of marketing programs across the Company.

Coles appointed a new strategic and creative agency, Solomon Partnership, and evolved the Save Everyday campaign to focus on the brand's core value and convenience proposition. Coles also successfully trialed a new store visual identity scheme that improved in-store communication to customers and better promoted the value and quality of the merchandise offer. This new scheme will become the store standard in 2006.

Bi-Lo launched a new campaign cementing its discount position in the market and further improving price perceptions of the brand.

A new strategy to grow our liquor brands was developed and launched in March 2005. A major marketing review was completed during 2005, culminating in the definition of key customer behavioral segments, ensuring clear positioning and differentiation for our core liquor brands - Liquorland, Vintage Cellars, Theos and 1 Choice Liquor Superstore.

Table of Contents

Target received a number of national awards for catalogue effectiveness, as well as Young Australian Designer of the Year. Under the award-winning 100% Happy campaign, Target implemented campaigns to further strengthen core brands, including Womenswear, Underwear and Homewares.

Target launched a major denim advertising campaign reinforcing Target as a destination for denim for all the family. This campaign helped reinforce perception that Target offers on-trend, fashionable denim apparel.

Kmart continues to evolve and refresh its marketing communication whilst reinforcing its core price / value driven platform. A new creative advertising agency, Cummins & Partners, was appointed in February 2005. The purpose of this appointment was to create new ideas and campaigns that build customers perception that Kmart has a portfolio of desirable, known brands.

In February 2005 a new sub-brand for Officeworks was launched in the market. Officeworks BusinessDirect was created through the integration of Officeworks Direct and Viking Office Products. Over the past two years the focus has been on bringing the two brands together and the launch marked a significant step in the Officeworks journey. As a result of the integration, Officeworks BusinessDirect is Australia's largest direct marketer of office supplies and the growth of the direct brand will continue to be a key strategic priority for the brand moving forward. Marketing campaigns throughout the year included the regular Christmas, Tax Time, The Works and Back to School promotions. Officeworks marked its tenth birthday with a sales celebration campaign.

Myer once again produced a multi-channel integrated marketing campaign. Myer continued with the My Store, Myer branding throughout its marketing activity.

Highlights for the year included successful and widely acclaimed seasonal fashion launches, the use of the actor Carson Kressley as the face of its Spring Racing Sponsorship and the launch of MYER One (see below).

Loyalty Programs

Myer continued its focus on loyalty programs by introducing the MYER One program in August 2004. The MYER One program is targeted to high value Myer customers and rewards them for shopping and treats them to special events, previews and offers. It is complementary to the existing Coles Myer loyalty programs such as CML Source™ Master Card and Fly Buys™ - as both have mass-market appeal. Since launch, MYER One has attracted over 775,000 members, the majority of whom shop at least monthly.

FlyBuys is the customer loyalty program for the majority of Coles Myer brands. 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.

Edgar Filing: COLES MYER LTD - Form 20-F

The FlyBuys program was re-launched in September 2003 and continues to have very high penetration within Australia with over 2.6 million active member households (average 2.2 cards per household).

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 7B - RELATED PARTY TRANSACTIONS - Transactions with other related parties, for details of Coles Myer's cost of participation.

On June 3, 2005, the Company launched a revamped Coles Myer SourceTM MasterCard with a free loyalty offer. The Coles Myer SourceTM MasterCard is a general purpose credit card for use within all the Coles Myer brands as well as externally wherever a MasterCard is accepted.

Existing Coles Myer SourceTM MasterCard customers have been offered the new credit card product that has no annual fee and offers an additional fuel discount of 2 cents off per litre for a minimum spend of A\$30 at participating Coles Myer Food and Liquor stores. Customers use the additional 2 cents voucher together with the standard (Food & Liquor) 4 cents discount receipt to save 6 cents per litre on fuel at Coles Express. Customers also receive 2 FlyBuysTM points for every A\$5 spent on the Coles Myer SourceTM MasterCard at participating

Table of Contents

Coles Myer stores. 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 4 FlyBuys™ points for each A\$5 of spend. The addition of free petrol discounts and FlyBuys™ points to the Coles Myer Source™ MasterCard is designed to encourage enhanced customer loyalty and drive increased sales on the credit card across all Coles Myer 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. Increasingly the Company utilizes customer data from the point of sale to understand buying patterns and preferences, and thereby modifying assortments to deliver to customer needs.

TRADING HOURS

Coles 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	96 - Most of the 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

Edgar Filing: COLES MYER LTD - Form 20-F

The Australian Government has a pro-market competition policy. Due to its size and the fact 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 provisions reflecting the different constitutional status of each House. The Commonwealth Electoral Act of 1918 implements the Constitutional scheme.

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

Table of Contents

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.

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).

Edgar Filing: COLES MYER LTD - Form 20-F

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 and operational activities of Coles Myer, including the following areas:

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.

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

Table of Contents

contract. This regime also substantially widens the classes of persons who might sue, and extends the definition of manufacturer to include importer as well as supplier in some circumstances.

Consumer Protection

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

Retail Grocery Industry Code of Conduct

Following a parliamentary inquiry into retailing, a voluntary retail grocery industry code of conduct (RGI Code) 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. RGI Code has recently had its first independent triennial review and some recommendations for improvement have been accepted by the Government and are currently being implemented by the Code Administration Committee. It is not anticipated that there will be any additional impact on CML Supermarkets.

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 6 to the consolidated financial statements included in Item 17.

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

INSURANCE

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

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

public and products liability where up to A\$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.

Table of Contents

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

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

Table of Contents

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 34 to the consolidated financial statements included in Item 17. Of these subsidiaries, the following were significant subsidiaries of Coles Myer at July 31, 2005:

Coles Supermarkets Australia Pty. Ltd.

Kmart Australia Ltd.

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

D. PROPERTY, PLANT AND EQUIPMENT

At July 31, 2005, the Company operated a total of 2,650 stores in Australia and New Zealand, with total selling area of approximately 48 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 31, 2005, the Company's owned property portfolio was recorded at A\$740.2 million (2004: A\$425.4 million), held either directly, or indirectly through investments in property joint ventures.

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 2005, resulted in a net increase in the aggregate book value of properties and investments in property trusts by A\$56.1 million. See also Notes 1(i), 1(j), and 11 to the consolidated financial statements included in Item 17.

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 2004 and 2003 have been reclassified to ensure comparability with the current reporting period, and where significant this has been noted.

RETAIL TRADING ENVIRONMENT

2004/2005

In 2004/05, Australia's economic growth for the year to June 2005 was recorded at 2.6%. Although solid, it was down on the 3.3% growth recorded in 2003/04².

Over the past year, the driver of Australia's economic growth has shifted away from consumer spending to business investment. High commodity prices have stimulated investment in the mining sector and in resource related industries³. This is expected to support an increase in the rate of Australia's economic growth into 2006 and 2007.

However, the retail environment remains more subdued reflecting high petrol prices and an end to house price growth. Despite strong income supports via jobs and wage growth, as well as recent tax cuts, real retail turnover is forecast to be 1.8% in 2005/06, down from 3.5% in 2004/05⁵.

After sales growth over the past three years, non-food retailing is expected to moderate. Food retail is expected to continue to grow at rates broadly experienced over the last two to three years.

In 2004/05, non-food retail sales grew by 4.5%, down from 9.0% in 2003/04. Non-food retail sales may trough in mid 2006 before rising again in 2007 as domestic demand picks up and the housing cycle enters its next forecast upswing. The value of food retail sales grew by 4.2% in 2004/05, down from 6.9% growth in 2003/04. In the short-term food sales are expected to remain sluggish but there may not be much more downside and 4.3% growth is forecast in 2005/06⁶.

2003/2004

Australia's economy enjoyed solid growth over the 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 slowed, the unemployment rate which averaged 5.8% over 2004, hit a low of 5.2%, inflation remained contained, and official interest rates have been steady at 5.25% since late 2003.

Australia's economic growth through 2004 was 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 started to lose momentum. After a period of strong growth, investment in housing fell in the September quarter of 2004, while growth in consumer and retail spending also slowed.

Growth in retail turnover remained well above trend, at 5.9% over the year to September 2004 in real (inflation-adjusted) terms, though that was down from the record annual growth rate seen over the year to June 2004. Non-food retailing 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.

¹ Reserve Bank of Australia (November 2005) Statement on Monetary Policy .

² ANZ (December quarter 2005) ANZ Economic Outlook .

³ Reserve Bank of Australia (November 2005) Statement on Monetary Policy .

⁴ ANZ (December quarter 2005) ANZ Economic Outlook .

⁵ Access Economics (August 2005) Economic and Market Planning Guidelines .

⁶ Access Economics (August 2005) Economic and Market Planning Guidelines .

Table of Contents

CRITICAL ACCOUNTING POLICIES

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

The Company's significant accounting policies are described in Note 1 to the consolidated financial statements. 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 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, actuarial assessments, including but not limited to, future inflation, investment return, average claim size and claim administration expenses.

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

Net realizable value of inventory

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

Supplier promotional rebates

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 1(g) to the consolidated financial statements included in Item 17.

Table of Contents

Carrying value of non-current assets

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

Pensions and other post-retirement benefit plans

The 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 2005 amounted to A\$20.3 million (2004 A\$18.2 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 32(g).

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 3,000 remaining members.

Edgar Filing: COLES MYER LTD - Form 20-F

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. 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 increased income from operations over the 2005 fiscal year by A\$1.2 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.

Table of Contents

The asset allocation at the reporting date of the Plan, being July 31, 2005 is as follows:

	<u>Actual</u>	<u>Benchmark</u>
Australian Shares	35.7%	35.0%
Overseas Shares (hedged)	11.1%	11.0%
Overseas Shares (unhedged)	16.3%	16.0%
Property	7.8%	8.0%
Australian Fixed Interest	14.6%	15.0%
Overseas Fixed Interest	9.7%	10.0%
Cash	4.8%	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. Plan assets include fully paid ordinary shares in CML of A\$1.6 million (2004 A\$NIL million, 2003: A\$NIL million).

For the 2005 fiscal year expense, the expected return on assets used by the actuary is 6.5%, which is unchanged from the prior year.

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

<u>Period</u>	<u>Expected Return</u>	<u>Actual Return</u>
2005 fiscal year	6.5%	13.1%
2004 fiscal year	6.5%	15.3%

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 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 7.3 years. Further disclosures on the retirement plans are included in Note 24 to the consolidated financial statements.

International Financial Reporting Standards (IFRS)

The Australian Accounting Standards Board (AASB) is adopting IFRS for application to reporting beginning on or after January 1, 2005. The AASB has issued Australian equivalents to IFRS (A-IFRS). The adoption of A-IFRS will be first reflected in the CML Group's financial statements for fiscal 2006. Further disclosures on the impact of A-IFRS are included in Note 1 to the consolidated financial statements included at Item 17.

Table of Contents**CONSOLIDATED RESULT**

Comparative amounts for 2004 and 2003 have been reclassified to ensure comparability with the current reporting period.

	2005	2004	2003
	53 weeks	52 weeks	52 weeks
	A\$M	A\$M	A\$M
	<u> </u>	<u> </u>	<u> </u>
Sales	36,185.2	32,082.2	26,875.8
Cost of goods sold	(27,286.8)	(23,914.6)	(19,508.9)
	<u> </u>	<u> </u>	<u> </u>
Gross profit	8,898.4	8,167.6	7,366.9
	<u> </u>	<u> </u>	<u> </u>
Other revenue from operating activities	97.3	66.8	48.8
Cumulative effect of change in accounting policy for supplier promotional rebates			(76.5)
Other revenue from non-operating activities	304.2	309.2	275.3
Proceeds from sale of property, plant and equipment, investments and businesses and controlled entities	20.6	131.0	392.5
Net book value of property, plant and equipment, investments and businesses and controlled entities disposed	(68.1)	(146.5)	(416.8)
Borrowing costs	(74.0)	(71.1)	(86.9)
Advertising expenses	(474.5)	(431.7)	(383.8)
Selling and occupancy expenses	(6,308.1)	(5,801.7)	(5,327.5)
Administrative expenses ¹	(1,513.3)	(1,357.4)	(1,183.2)
	<u> </u>	<u> </u>	<u> </u>
Profit from ordinary activities before income tax	882.5	866.2	608.8
Income tax expense	(266.4)	(258.1)	(187.7)
	<u> </u>	<u> </u>	<u> </u>
Net profit	616.1	608.1	421.1
	<u> </u>	<u> </u>	<u> </u>

¹ Includes the Megamart A\$81.5 million divestment charge.

2005 compared with 2004**Sales**

Retail sales for 2005 were A\$36,185.2 million, an increase of 12.8% compared to 2004. Sales increased predominately due to increased volume as a result of key promotional sales, such as the Toy Sale and the Massive Home Sale in general merchandise and apparel, an increase in store numbers, particularly in supermarkets and Coles Express first full year of sales. Major increases in sales were recorded in the segments of Food, Liquor & Fuel (16.7%), Kmart (6.0%), Officeworks (12.4%) and Target (8.8%).

Edgar Filing: COLES MYER LTD - Form 20-F

The Coles Express brand commenced operations during 2004 with stores acquired in tranches, with the rollout of outlets completed during 2005. Excluding Coles Express sales of A\$5,559.5 million for 2005 and A\$3,176.9 million for 2004, retail sales would have been A\$30,625.7 million and A\$28,905.3 million respectively.

Gross Profit

Gross profit increased by 8.9% to A\$8,898.4 million in 2005. This was achieved through continued focus on streamlining the cost of doing business across all segments. Direct sourcing in general merchandise and apparel have delivered greater cost efficiencies and speed to the market.

Other revenue from operating activities

This revenue represents commissions generated by the hotels acquired by the Coles Myer Liquor Group and concession sales. The increase of A\$30.5 million is primarily the result of an increase in concession sales. Refer Note 2 Change in Accounting Policy of the consolidated financial statements at Item 17.

Table of Contents**Other revenue from non-operating activities**

	2005	2004
	A\$M	A\$M
	<u> </u>	<u> </u>
Other revenue from non-operating activities	304.2	309.2

Other non-operating revenue mainly comprises of interest income, property income and other income, which is predominately advertising income. Non-operating revenue decreased by A\$5.0 million. The material movements relate to a decrease of A\$24.9 million in interest income and an increase of A\$15.6 million of other income.

Interest income decreased from A\$57.6 million to A\$32.7 million due to the receipt of interest from the Coles Myer Employee Share Plan Trust of A\$38.0 million in 2004, as a result of the restructuring of the Trust by the trustees, compared to interest received from the Trust of A\$3.6 million in 2005.

For U.S. GAAP reporting purposes this interest income from the Trust has been eliminated from net profit to correspond with the reclassification of the loan (relating to income) to shareholders' equity. Refer Note 32 (f) of the consolidated financial statements at Item 17.

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

	2005	2004
	A\$M	A\$M
	<u> </u>	<u> </u>
Proceeds from sale of property, plant and equipment, investments and businesses and controlled entities	20.6	131.0
Net book value of property, plant and equipment, investments and businesses and controlled entities disposed	(68.1)	(146.5)

During 2005, there were no disposals of businesses and controlled entities. The 2005 sale predominately relates to the disposal of plant and equipment. In 2004, the CML Group disposed of five Newmart supermarket stores and seven Sands & McDougall stationery stores for A\$31.9 million.

Borrowing costs

Borrowing costs increased by A\$2.9 million to A\$74.0 million, which is a reflection of higher average debt levels. Borrowing costs were also affected by an increase in the average finance rate from 6.5% in 2004 to 6.7% in 2005.

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 32 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 2004 to 2005 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 page 24 for additional information.

Table of Contents**Selling and occupancy expenses**

	2005	2004
	A\$M	A\$M
	<u> </u>	<u> </u>
Selling and occupancy expenses	(6,308.1)	(5,801.7)

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

Total selling and occupancy costs increased by 8.7%. This was primarily the result of an increase in employee costs and external rent. Salaries, wages, payroll tax, superannuation and other selling staff costs increased 9.6% from A\$3,510.7 million in 2004 to A\$3,849.2 million in 2005, as a result of wage and salary rate increases and an additional 6,230 staff employed during the year.

External rent and outgoings increased by 9.2% from A\$1,322.8 million in 2004 to A\$1,444.0 million in 2005. This was principally due to an overall net increase of 72 new stores across the segments during 2005.

Administrative expenses

	2005	2004
	A\$M	A\$M
	<u> </u>	<u> </u>
Administrative expenses	(1,513.3)	(1,357.4)

Total administrative expenses increased by 11.5%.

Costs of administrative staff (salaries, wages, payroll tax, superannuation and Fringe Benefits Tax (FBT)) increased by 8.3% from A\$734.3 million in 2004 to A\$795.4 million in 2005. Of the additional 6,230 staff employed during the year, 333 were in the Property and Unallocated segment, which includes head office employees.

Travel, general and other administrative expenses increased by A\$52.1 million or 9.2%, from A\$528.8 million in 2004 to A\$620.6 million in 2005. The major movement relates to costs of A\$81.5 million for the Megamart divestment. Included in this category is depreciation of plant and equipment located in offices, which has remained steady.

Legal, consultants and audit fees increased by 78.2% from A\$54.6 million in 2004 to A\$97.3 million in 2005. This is primarily attributable to transformational activity, in particular various Information Technology initiatives.

Income tax expense

The effective tax rate for 2005 was 30.2% (2004: 29.8%). The differences from the statutory rate of 30% are explained in Note 6 to the consolidated financial statements included at Item 17.

Net profit

The Company's Australian GAAP net profit increased by 1.3% from A\$608.1 million in 2004 to A\$616.1 million in 2005. Segments that primarily contributed to this improvement were the Food, Liquor & Fuel, Officeworks and Target, offsetting decreases in Myer and Megamart.

The Company's U.S. GAAP net profit increased from A\$475.4 million in 2004 to A\$512.5 million in 2005. The difference between the 2005 Australian GAAP net profit and U.S. GAAP net profit is detailed in Note 32 to the consolidated financial statements included at Item 17.

Table of Contents

Dividend

A fully franked final dividend of A\$0.17 per share was declared on all fully paid ordinary shares registered at October 21, 2005 and paid on November 14, 2005. The final dividend, combined with the interim dividend of A\$0.1625 per share, represented an annual dividend of A\$0.3325 per share. This represents an increase of A\$0.0425 per share over the 2004 annual dividend.

2004 compared with 2003

Sales

Retail sales in 2004 increased 19.4% to A\$32,082.2 million from A\$26,875.8 million in 2003.

Sales increases were predominantly driven by increased volume. The Company continued to drive value for customers through reinvesting in price (i.e. operating costs savings 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 (4.2%), Officeworks (22.8%) 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 reflected 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 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

Edgar Filing: COLES MYER LTD - Form 20-F

This revenue represented commissions generated by the hotels acquired by the Coles Myer Liquor Group. The A\$18.0 million increase primarily resulted from a full year's contribution from the late in the 2003 acquisition of Theos.

Other revenue from non-operating activities

	2004	2003
	A\$M	A\$M
	<u> </u>	<u> </u>
Other revenue from non-operating activities	309.2	275.3

Other non-operating revenue mainly comprised of interest income, property income and other income, which was mainly comprised of advertising income. The increase in non-operating income of 12.3% was primarily due to an increase in interest income.

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 was eliminated from net profit to correspond with the reclassification of the loan (the income relates to) to shareholders' equity. Refer Note 32 (e) of the consolidated financial statements at Item 17.

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 that contributed rental income to the CML Group.

Table of Contents**Sale of property, plant and equipment, investments and businesses and controlled entities**

	<u>2004</u>	<u>2003</u>
	A\$M	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, 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.

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 32 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 related to all production costs and fees relating to press, radio, television, and catalogue advertising of merchandise. The increase from 2003 was 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.

Selling and occupancy expenses

Edgar Filing: COLES MYER LTD - Form 20-F

	<u>2004</u>	<u>2003</u>
	A\$M	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.

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 employee costs.

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 was 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 was 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 increased by 5.0% from 2003 to 2004.

Table of Contents**Administrative expenses**

	2004	2003
	A\$M	A\$M
	<u> </u>	<u> </u>
Administrative expenses	(1,357.4)	(1,183.2)

Total administrative expenses increased by 14.7%.

Costs of administrative staff (salaries, wages, payroll tax, superannuation and FBT) increased by 6.8% from A\$687.8 million in 2003 to A\$734.3 million in 2004. Of the additional 13,694 staff employed during the year, approximately 1,000 were in the Property and Unallocated segment, which included head office employees.

Travel, general and other administrative expenses increased by 25.8% from A\$495.4 million in 2003 to A\$623.1 million in 2004. Included in 2004 were 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. This line item included depreciation of plant and equipment located in offices, which 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 6 to the consolidated financial statements included at Item 17.

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, Officeworks and Target.

The Company's U.S. GAAP net profit (before policy changes) increased from A\$390.9 million in 2003 to A\$475.4 million in 2004. The difference between the 2004 Australian GAAP net profit and U.S. GAAP net profit is detailed in Note 32 to the consolidated financial statements included at Item 17.

Dividend

Edgar Filing: COLES MYER LTD - Form 20-F

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 represented an increase of A\$0.03 per share over the 2003 annual dividend.

Table of Contents**RETAIL RESULT****Food, Liquor & Fuel Group***2005 compared with 2004*

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Sales (A\$M)	24,670.2	21,146.8	16.7%
Segment result ¹ (A\$M)	743.4	647.4	14.8%
Stores	1,985	1,943	42.0
Selling area ² (M.sq.ft)	17.230	16.695	3.2%

^{1.} Profit from ordinary activities before income tax and interest

^{2.} Excludes Coles Express locations

At July 31, 2005, Food, Liquor & Fuel comprised Supermarkets (Coles and Bi-Lo), the Coles Myer Liquor Group and Coles Express which collectively accounted for 68.2% of the Company's total sales in 2005 (2004: 65.9%).

Segment sales for this group increased by 16.7% to A\$24,670.2 million (2004: A\$21,146.3 million). The results for Food, Liquor & Fuel includes Coles Express. The Coles Express brand was launched in Victoria in July 2003, with sites acquired in tranches during the 2004 financial year. Excluding Coles Express, segment sales increased by 6.4%, from A\$17,969.9 million to A\$19,110.7 million.

The segment result increased by 14.8% from A\$647.4 million to A\$743.4 million. After adjusting for segment restructuring costs of A\$22.5 million, the segment result was A\$765.9 million for 2005. The 2004 segment result was A\$667.0 million after adjusting for the Coles Myer Liquor Group head office relocation costs and the Bi-Lo Mt Druitt store restructuring costs, representing an increase in 2005 of A\$98.9 million or 14.8% over 2004. Further excluding Coles Express' result of A\$36.8 million for 2005 and A\$20.1 million for 2004, this would have resulted in a 12.7% increase for the segment from A\$646.9 million to A\$729.1 million.

Sales momentum in the Food and Liquor group continued to increase, with growth initiatives focused on ongoing commitment to innovation and improved value in the fresh departments and expansion of the range across poultry and seafood. Volumes in fresh continue to grow, with a strong result in both the fresh produce and meat department. There is also focus on value added ready-to-eat products, offering customers better choice and convenience.

The increase in the Food and Liquor result reflects sales leverage, reduced shrinkage and waste, and continued streamlining of costs through investment in the supply chain transformation.

Edgar Filing: COLES MYER LTD - Form 20-F

The store expansion program continued to plan, with 30 supermarkets and 47 liquor outlets opened during the year.

Coles Express has established the largest, most efficient fuel and convenience network across Australia, with 597 sites, and one of the country's best known and well established fuel offers. The two-year cycle of rolling out the new Coles Express fuel offer was completed this fiscal year. Coles Express contributed A\$36.8 million to the Food, Liquor and Fuel group's 2005 segment result in its first full year of operation.

Table of Contents**2004 compared with 2003**

	<u>2004</u>	<u>2003</u>	<u>Change</u>
Sales (A\$M)	21,146.8	16,565.4	27.7%
Segment result ¹ (A\$M)	647.4	555.5	16.5%
Stores	1,943	1,325	618
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

Retail sales for this group increased by 27.7% to A\$21,146.8 million (2003: A\$16,565.4 million). After adjusting for sales relating to Coles Express (brand commenced operations in 2004), sales increased from A\$16,565.4 million to A\$17,969.9 million, an increase of A\$1,404.5 million or 8.5 %.

The segment result increased by 16.5% to A\$647.4 million (2003: A\$555.5 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\$667.0 million in 2004 and A\$592.0 million in 2003, representing a 12.7% increase. After further adjusting for the result of Coles Express of A\$20.1 million, the result of the Food and Liquor operations would have increased by A\$54.9 million or 9.3% to A\$646.9 million.

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

The increase in the Food and Liquor result reflected sales leverage relative to costs, reduced shrinkage and waste, and continued streamlining of costs. The margin increases occurred despite the short-term impact of double loyalty costs incurred in the second half - both shareholder discount and fuel discount.

The Coles Myer Liquor Group head office was relocated from Sydney to Melbourne ahead of schedule in August 2004, which enabled our Food and Liquor teams to work more closely and benefit from cross-brand career development opportunities.

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

Kmart*2005 compared with 2004*

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Sales (A\$M)	4,025.7	3,799.1	6.0%
Segment result ¹ (A\$M)	96.0	100.8	(4.8%)
Stores	245	225	20
Selling area (M.sq.ft)	10.667	10.439	2.2%

¹ Profit from ordinary activities before income tax and interest

Segment sales increased by 6.0% from A\$3,799.1 million to A\$4,025.7 million. Segment results decreased by A\$4.8 million or 4.8%, from A\$100.8 million to A\$96.0 million. Included in these results are benefits relating to the 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 increased by A\$7.1 million or 8.3%, from A\$85.4 million to A\$92.5 million.

Kmart experienced weaker sales in May and June, following a slowing of consumer spending and reduced sales of winter-related merchandise due to unseasonably warm weather conditions. Categories most impacted included

Table of Contents

electrical and apparel. Given the considerable external challenges, Kmart maintained margin growth and produced a solid earnings increase for the year.

Kmart had an excellent customer reaction to several key initiatives, in particular the Toy Sale in July and the spring season launch. Customers are also responding positively to the improved marketing, and key national brands such as Now, Girl Xpress in young women's, Exchange in menswear, Living with Deborah Hutton in home, World for Kids in toys and Jackeroo in outdoor.

Kmart opened five new stores during the year. Kmart's current network includes 180 stores across Australia and New Zealand with an expected eight new stores in 2006.

2004 compared with 2003

	<u>2004</u>	<u>2003</u>	<u>Change</u>
Sales (A\$M)	3,799.1	3,644.5	4.2%
Segment result ¹ (A\$M)	100.8	67.8	48.7%
Stores	225	222	3
Selling area (M.sq.ft)	10.439	10.349	0.9%

¹ Profit from ordinary activities before income tax and interest

Sales for this group increased from A\$3,644.5 million to A\$3,799.1 million.

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

The segment result increased by 48.7% to A\$100.8 million. Included in these results was a credit of A\$15.4 million relating to a re-measurement of the Kmart New Zealand onerous lease provision in 2004.

The improved result was 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 such as Girl Xpress, Now and Solutions were solid performers.

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

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

Officeworks

2005 compared with 2004

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Sales (A\$M)	1,236.3	1,100.1	12.4%
Segment result ¹ (A\$M)	67.1	51.7	29.8%
Stores	95	87	8
Selling area (M.sq.ft)	1,421	1,275	11.5%

^{1.} Profit from ordinary activities before income tax and interest

Sales increased by 12.4% from A\$1,100.1 million to A\$1,236.3 million. Segment results increased from A\$51.7 million to A\$67.1 million or 29.8%.

Officeworks delivered another strong performance as a result of ongoing business efficiencies and strong sales growth.

Table of Contents

Officeworks continued to strengthen its position as the leading supplier for quality office and technology products for home offices, students and small to medium size businesses by offering a great range, convenience and low prices.

Nine new stores were opened during the year, increasing the network to 87 Officeworks superstores and 8 Harris Technology Business centers.

2004 compared with 2003

	<u>2004</u>	<u>2003</u>	<u>Change</u>
Sales (A\$M)	1,100.1	896.1	22.8%
Segment result ¹ (A\$M)	51.7	41.2	25.5%
Stores	87	85	2
Selling area (M.sq.ft)	1.275	1.153	10.6%

¹ Profit from ordinary activities before income tax and interest

Sales increased from A\$896.1 million to A\$1,100.1 million. Segment results also increased accordingly, from A\$41.2 million to A\$51.7 million or 25.5%. During the year, the Officeworks branded businesses delivered on the long-term goal of passing A\$1.0 billion in sales.

Officeworks delivered another strong performance. The result reflected good sales growth, improved merchandise mix and ongoing business efficiencies. A new focus on housebrands was also initiated, and resulted 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 neared completion with 66 stores offering the service.

Myer**2005 compared with 2004**

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Sales ¹ (A\$M)	2,882.0	2,895.6	(0.5%)
Segment result ² (A\$M)	35.0	54.0	(35.2%)
Stores	61	61	
Selling area (M.sq.ft)	7.893	7.942	(0.6%)

Edgar Filing: COLES MYER LTD - Form 20-F

1. Excludes concession sales
2. Profit from ordinary activities before income tax and interest

Sales, excluding concessions, have decreased by A\$13.6 million or 0.5% to A\$2,882.0 million. Including concessions, sales have increased by A\$65.1 million to A\$3,095.8 million or 2.1%.

Segment results decreased by 35.2% or A\$19.0 million to A\$35.0 million. The 2004 result included Mt Druitt store restructuring costs of A\$14.2 million. After adjusting for this, the segment result would have decreased by A\$33.2 million or 48.7%, from A\$68.2 million to A\$35.0 million.

A softening in discretionary spending, an unseasonably warm winter and the sales spike in the eight weeks prior to the July 2004 removal of the Shareholder Discount Card all impacted comparative sales performance in the second half of 2005, relative to the second half of 2004.

Although the brand was impacted by tough trading conditions in the second half, Myer continued to deliver solid growth in key categories across women's apparel, including Australian and international designer, Miss Shop, accessories, intimate apparel, cosmetics and footwear as well as menswear.

Also refer to Item 4A HISTORY AND DEVELOPMENT RECENT DEVELOPMENTS.

Table of Contents**2004 compared with 2003**

	<u>2004</u>	<u>2003</u>	<u>Change</u>
Sales ¹ (A\$M)	2,895.6	2,849.7	1.6%
Segment result ² (A\$M)	54.0	11.8	357.6%
Stores	61	64	(3)
Selling area (M.sq.ft)	7.942	8.001	(0.7%)

^{1.} Excludes concession sales

^{2.} Profit from ordinary activities before income tax and interest

Sales increased by 1.6% to A\$2,895.6 million.

The segment result increased by A\$42.2 million to A\$54.0 million. After adjusting for restructuring costs for the Mt. Druitt center of A\$14.2 million in 2004, the segment result would have been A\$68.2 million for 2004.

The combination of ongoing enhancements to the merchandise offer, strong customer focus and the strategic marketing program had driven the improved result. Increased margins reflected improved inventory management and well-managed markdown control. Strong performing categories included women's and men's apparel, cosmetics, soft home, accessories and footwear.

Strategic management of the store portfolio during the year also contributed to the result. Store upgrades were completed at Chatswood, Highpoint, Perth and Parramatta, along with the re-opening of the newly refurbished Bondi store in April 2004. Three under-performing stores were closed during the year in Bathurst, Bairnsdale and Mt Druitt.

Megamart**2005 compared with 2004**

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Sales (A\$M)	268.9	288.8	(6.9%)
Segment result ¹ (A\$M)	(117.3)	(11.2)	(947.3%)
Stores	9	9	
Selling area (M.sq.ft)	0.701	0.692	1.3%

Edgar Filing: COLES MYER LTD - Form 20-F

¹. Profit from ordinary activities before income tax and interest includes pre-tax charge of A\$81.5 million.

Sales have decreased by A\$19.9 million or 6.9% to A\$268.9 million.

Whilst some improvement in the sales trend occurred in the second half following the Megamart re-launch in December 2004, furniture sales remained difficult and continued to adversely affect on the result. The general tightening of spending on big ticket items compounded this, together with the removal of the shareholder discount during July 2004.

A review of the performance of the brand since its re-launch at the beginning of the second half of the year, has shown that despite some improvement in the sales trend, Megamart still does not have the size and scale to compete effectively in this extremely competitive market segment. A decision has been taken to divest the nine Megamart stores. A pre-tax charge of A\$81.5 million has been recorded in 2005, primarily comprising the write-down of non-current assets and inventory to recoverable amount and a provision for surplus leased space.

Megamart's trading loss for 2005 was A\$117.3 million. The trading loss includes the divestment costs of A\$81.5 million, excluding this, the segment result would have been a loss of A\$35.8 million. Also refer to Item 4A HISTORY AND DEVELOPMENT RECENT DEVELOPMENTS.

Table of Contents**2004 compared with 2003**

	<u>2004</u>	<u>2003</u>	<u>Change</u>
Sales (A\$M)	288.8	273.2	5.7
Segment result ¹ (A\$M)	(11.2)	(6.8)	(64.7%)
Stores	9	8	1
Selling area (M.sq.ft)	0.692	0.617	12.2%

¹ Profit from ordinary activities before income tax and interest

Sales increased by A\$15.6 million or 5.7% to A\$288.8 million.

Megamart's trading loss increased from a loss of A\$6.8 million to A\$11.2 million.

Megamart experienced an extremely competitive market, with one new store opened in Alexandria in NSW. Various initiatives were adopted to improve Megamart's performance. This included stronger focus on total electrical solutions and technology, new store layouts, improved customer service and a new marketing campaign.

Target**2005 compared with 2004**

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Sales (A\$M)	3,102.1	2,851.8	8.8%
Segment result ¹ (A\$M)	221.3	149.7	47.8%
Stores	255	253	2
Selling area (M.sq.ft)	9.747	8.782	11.0%

¹ Profit from ordinary activities before income tax and interest

Sales have increased by A\$250.3 million or 8.8% to A\$3,102.1 million. Gross margin has increased, whilst costs as a percentage of sales has decreased slightly.

Target delivered a record result following a successful year in 2004. The segment result has increased by A\$71.6 million or by 47.8%, from A\$149.7 million to A\$221.3 million.

Target has once again delivered on its strategy of on-trend, affordable and high quality ranges, coupled with the ongoing development of the Target brand. Target's Massive Home Sale and Toy Sale selling campaigns continue to be well received by customers.

Continued focus on faster access to new, unique and highly differentiated merchandise, often with products designed internally, combined with strong in store execution, has delivered a compelling offer for customers. This has been supported over the year by increasing the level of direct sourcing, which delivered greater cost efficiencies and speed to market.

Target opened 11 stores and closed 9 during the year, with an on going strategy of opening in areas where the Target brand remains underrepresented and expanding the store footprint in key growth areas.

Table of Contents**2004 compared with 2003**

	<u>2004</u>	<u>2003</u>	<u>Change</u>
Sales (A\$M)	2,851.8	2,646.9	7.7%
Segment result ¹ (A\$M)	149.7	89.9	66.5%
Stores	253	254	(1)
Selling area (M.sq.ft)	8.782	8.633	1.7%

¹ Profit from ordinary activities before income tax and interest

Sales increased by 7.7% to A\$2,851.8 million (2003: A\$2,646.9 million). Gross margins increased slightly and costs did not grow as quickly as sales. These factors drove the improvement in the segment result. The segment result increased by 66.5% to A\$149.7 million (2003: A\$89.9 million).

After adjusting for the impact of accounting policy changes the 2003 segment result would have been A\$92.0 million.

Taking these adjustments into account, the segment result would have increased by A\$57.7 million.

Target continued to successfully deliver on its strategy of on-trend, affordable and high quality ranges, combined with excellent store execution and rapid sell-through within each season. The result reflected good management of product sourcing and promotional programs, combined with strong inventory control.

Target lead the Group in increasing the direct sourcing of imported goods, which delivered greater cost efficiencies and faster access to new and differentiated products. Target had also benefited from a strong Australian dollar through this process, which has contributed to stronger gross margins.

Successful seasonal events contributed to the result, along with key promotions such as the Massive Home , Stocktake Sales and Toy Sales . Customers responded well to new private label ranges and product licenses in apparel and homewares.

Target opened five stores during the year, replaced 4 and closed 6, as part of the ongoing strategy of opening stores in key growth areas, closing non-performing stores and increasing store sizes where appropriate.

Property and Unallocated

2005 compared with 2004

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

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

The segment loss had increased by A\$9.0 million to A\$121.7 million. This result includes the supply chain strategy implementation costs of A\$43.2 million for 2005 and A\$47.8 million for 2004. Also included in the 2004 results were the residual proceeds of A\$9.9 million on the sale of Sydney Central Plaza.

Table of Contents***2004 compared with 2003***

Property and Unallocated segment loss increased by 50.8% from A\$79.0 million in 2003 to A\$119.1 million in 2004. Included in this loss were net supply chain transformation costs of A\$47.8 million and additional proceeds of A\$9.9 million relating to Sydney Central Plaza.

Gains from property disposals increased by A\$3.0 million to A\$9.9 million (A\$6.9 million was recorded in 2003). Property operating earnings fell from A\$27.6 million in 2003 to A\$13.9 million in 2004 as a result of the sale of Sydney Central Plaza in 2003. The book value of the property portfolio at year-end was A\$425.4 million (2003: A\$414.1 million).

B. LIQUIDITY AND CAPITAL RESOURCES**Cash Flow information**

	2005	2004
	A\$M	A\$M
Net cash inflow from operating activities	1,157.1	1,338.3
Net cash outflow from investing activities	(1,004.9)	(710.5)
Free cash flow	152.2	627.8
Net cash outflow from financing activities	(553.2)	(680.6)
Net (decrease) in cash held	(401.0)	(52.8)

Net cash inflow from operating activities

Net cash inflow from operating activities decreased by A\$181.2 million. Operating cash flow was affected by the payment of higher tax installments following the Group's entry into consolidated tax regime in 2004. The increase in direct sourcing of merchandise during 2005 has resulted in earlier payments to suppliers.

Net cash outflow from investing activities

Net cash outflow from investing activities of A\$1,004.9 million includes A\$925.0 million (2004: A\$704.1 million) of capital expenditure on property, plant and equipment, and A\$120.0 million (2004: A\$192.0 million) on business acquisitions, predominantly related to the acquisitions of seven Queensland hotel and freehold properties for A\$116.5 million. Disposal of assets realized A\$27.7 million in 2005 compared with A\$122.0 million in 2004. Proceeds in 2005 are mainly attributable to the sale of property, plant and equipment. Proceeds in 2004 were primarily attributable to Newmart and Sands and McDougall.

Net cash outflow from financing activities

Net cash outflow from financing activities of A\$553.2 million, (2004: A\$680.6 million) comprise A\$436.8 million (2004: A\$307.8 million) in cash payments for dividends, the net increase in interest bearing debt of A\$499.9 million (2004: a net reduction of A\$429.9 million), proceeds from the exercise of options of A\$108.0 million (2004: A\$37.1 million) and payments for share buy-backs of A\$704.4 million (2004: A\$NIL).

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

Table of Contents**Capitalization**

	2005	2004
	A\$M	A\$M
Cash	440.9	849.0
Short-term deposits	216.0	234.4
	<u>656.9</u>	<u>1,083.4</u>
Bank overdraft		7.1
Other loans	216.0	254.4
	<u>216.0</u>	<u>261.5</u>
Commercial paper supported by a committed facility, net of unamortized discount A\$100,000	79.9	
Domestic bank loans	350.0	
Foreign currency bonds and notes	296.7	320.6
Bonds and notes under domestic and international facilities	400.0	330.0
Net value of currency swaps hedging foreign currency borrowings	86.7	62.8
	<u>1,213.3</u>	<u>713.4</u>
Shareholders' equity	3,736.0	4,097.6
	<u>5,165.3</u>	<u>5,072.5</u>
Total capitalization*	<u>5,165.3</u>	<u>5,072.5</u>

* Total capitalization consists of short-term debt, long-term debt and shareholders' equity.

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

Net debt

Total long-term debt was A\$1,213.3 million at July 31, 2005, compared with A\$713.4 million at July 25, 2004. Net debt has increased due to the Company's capital management initiatives during 2005 whereby cash and short term deposits and raised debt, were used to fund the A\$700 million buy-back of ordinary shares. The weighted average debt duration at July 31, 2005, was 3.5 years (2004: 1.1 years). For a summary of the maturity profile of long-term liabilities, refer to Note 19 of the consolidated financial statements.

At July 31, 2005, the Company had a net debt (total debt less cash) position of A\$772.4 million (2004: net cash (total cash less debt) position of A\$108.5 million). The gearing ratio of net debt to total capital (being net debt to net debt and equity) at July 31, 2005, was 17.2% compared to (2.7)% at July 25, 2004. Net borrowing costs increased from A\$13.5 million to A\$41.3 million. The average finance rate increased from 6.5% at July 25, 2004, to 6.7% at July 31, 2005.

Table of Contents

Sources of liquidity

Coles Myer Finance Limited (CMFL) operates a number of different borrowing programs. These consist of:

An A\$3,000.0 million Debt Issuance Program with Medium Term Notes on issue equivalent to A\$696.7m million outstanding at year-end. The instruments defining the rights of the security holders of A\$400.0 million of Medium Term Notes issued after May 2005 (the Note Deed Poll and the Guarantee Deed Poll) are included as Exhibits to this Form 20-F. The instruments defining the rights of the security holders of A\$296.7 million of Medium Term Notes issued prior to May 2005 (the Deed of Covenant and Deed of Guarantee) are included as Exhibits to this Form 20-F. An annual update of the program is required.

An unlimited Domestic Commercial Paper program established in October 2000 with A\$79.9 million outstanding at year-end.

A US\$500.0 million Euro Commercial Paper Program, with US\$0.0 million outstanding at year-end.

The following programs were terminated during 2005:

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

US\$1 billion US Medium Term Note Program for Coles Myer Finance (USA) Limited, cancelled effective August 6, 2004.

The following program was terminated in December 2005:

A\$1,000.0 million Domestic Medium Term Note Program.

Coles Myer has relationships with seven major domestic and international banks, which at July 31, 2005 provided A\$430.0 million of committed un-drawn standby facilities. In addition, the Company has a range of relationships with other major banks and investment banks, which provide it with transactional and advisory services.

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

The Company operates a centralized system for management of foreign exchange risk associated with merchandise imports. The impact of currency movements applies largely to goods sourced directly from overseas predominantly in the non-food brands. This system involves the

Edgar Filing: COLES MYER LTD - Form 20-F

Company's centralized treasury function implementing hedges for merchandise imports as soon as a firm order or a highly probable forecast exposure for the merchandise is advised, thereby eliminating the exposure to exchange rate fluctuations. Similarly, foreign exchange risk associated with the importation of non-merchandise and capital equipment is fully hedged.

Exposure to interest rates is actively managed. At July 31, 2005 fixed interest rates applied to 53.9% of net interest bearing debt.

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

Table of Contents

Capital Management Initiatives

On March 17, 2005, the Company announced its intentions to buy back A\$700.0 million of its ordinary shares through an off-market share buy-back and to convert its A\$700.0 million ReCAPS (convertible preference shares) into ordinary shares at the earliest possible date of July 12, 2005.

The off-market share buy-back closed on May 20, 2005, resulting in 70.4 million shares being bought back at a cost of A\$584.6 million. The shares were acquired at A\$8.30 per share. Including transaction costs of A\$4.4 million, the total cost of the off-market buy-back was A\$589.0 million.

All of the buy-back price above A\$3.00 per share acquired off market has been treated for taxation purposes as a fully franked dividend. Accordingly, retained earnings have been reduced by A\$373.3 million and contributed equity by A\$215.7 million. In addition, the Company's dividend franking account has been reduced by A\$174.1 million as a result of the off-market buy-back.

On May 23, 2005, the Company announced an on-market buy-back of up to fifteen million ordinary shares to complete its original intention to buy back A\$700.0 million of ordinary shares. Between June 7, 2005 and July 25, 2005, the Company purchased and cancelled 12.2 million shares.

In total, 82.7 million shares were purchased and cancelled during the year. This represents 6.7% of fully paid ordinary shares outstanding at the start of the year.

On July 12, 2005, seven million ReCAPS were converted into 79.3 million ordinary shares.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES ETC.

Not applicable.

D. TREND INFORMATION

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

E. OFF BALANCE SHEET ARRANGEMENTS

Edgar Filing: COLES MYER LTD - Form 20-F

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

CMS General Trust trust arrangement that owns and operates the Cairns Central Shopping Center.

FlyBuys™ Partnership a customer loyalty program whereby customers accumulate points on their shopping purchases in order to redeem awards such as free travel and accommodation.

Quids Technology Pty. Ltd. a software developer involved in developing software for two of the Company's retail brands.

Refer to Note 11 to the consolidated financial statements included at Item 17, for further details.

Additionally, the Company has contracted, non-cancelable lease expenditure commitments not provided for in the consolidated financial statements included at Item 17. For the purposes of U.S. GAAP, transactions relating to certain of these leases are adjusted. Further details of these commitments are outlined in the Contractual Obligations table below and in Note 26 to the consolidated financial statements included at Item 17.

Table of Contents**F. CONTRACTUAL OBLIGATIONS**

A summary of the Company's contractual obligations, including debt service obligations at July 31, 2005 is set out in the table below:

A\$ million	Less than one year	One to three years	Three to five years	Greater than five years	Total
Long-term debt		323.3	490.0	400.0	1,213.3
Capital expenditure ⁽¹⁾	270.1	0.7			270.8
Operating leases ⁽²⁾⁽³⁾	988.0	1,854.8	1,651.9	4,333.9	8,828.6
Total contractual obligations	1,258.1	2,178.8	2,141.9	4,733.9	10,312.7

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

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

⁽³⁾ The Company subleases property and equipment to external parties. Future minimum lease obligations include any potential exposure arising from default by external parties.

Table of Contents**ITEM 6 DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****A. DIRECTORS AND SENIOR MANAGEMENT**

The Directors of Coles Myer are vested with the management and control of the business and affairs of the Company. The Constitution of Coles Myer provides that there shall be such number of Directors, not less than five nor more than 14, as the Directors may determine. At December 1, 2005, there were ten Directors, of whom one was an Executive Director.

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

The Directors are subject to retirement by rotation with at least one third retiring each year where the number of Directors is more than 5 (after certain exclusions), and with 2 retiring where the number of Directors is less than 5 (after certain exclusions). Eligible retiring Directors may offer themselves for re-election by the shareholders. A Director who is appointed a Managing Director by the Directors is not required to retire by rotation.

The office of a Director is subject to age limits. The Constitution provides that the office of a Director becomes vacant at the conclusion of the Annual General Meeting, which follows, or is held on, the date that he or she reaches the age of 68 years.

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

On September 20, 2004 the Board adopted a new policy relating to the tenure of non-executive Directors, in line with Australian Stock Exchange corporate governance guidelines. Under the new policy, Directors other than the Chairman would normally hold office for no more than 10 years except where special circumstances existed. The Chairman would be expected to serve in that role for a period of at least 5 years.

Board Changes and Composition

Details of the Directors in office at December 1, 2005, were:

<u>Name</u>	<u>Office</u>	<u>Initially elected or appointed</u>	<u>Retires by rotation</u>
Richard H. Allert, AM	Chairman	1995	2006
John E. Fletcher	Managing Director and Chief Executive Officer	2001	n/a ⁽¹⁾

Edgar Filing: COLES MYER LTD - Form 20-F

Patricia (Patty) E. Akopiantz	Director	2001	2007
Ronald K. (Keith) Barton	Director	2003	2006
William (Bill) P. Gurry, AO	Director	2001	2006
Anthony (Tony) G. Hodgson	Director	2003	2008 ⁽²⁾
Belinda J. Hutchinson	Director	2005	2008 ⁽²⁾
Sandra V. McPhee	Director	2003	2008 ⁽²⁾
Martyn K. Myer	Director	1996	2007
John M. (Michael) Wemms	Director	2003	2008 ⁽²⁾

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

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

At the 2005 Annual General Meeting Mr. Anthony (Tony) G. Hodgson, Ms Sandra V. McPhee, and Mr. John M. (Michael) Wemms were re-elected Directors. Ms. Belinda J. Hutchinson, having been appointed to the Board on September 23, 2005, was elected a Director.

In addition to the Directors, the Company has a group of senior managers who are responsible for operational and administrative functions of the business.

Table of Contents

Senior Management of Coles Myer who were not Directors at December 1, 2005, were as follows:

<u>Name</u>	<u>Position</u>	<u>Appointed to current position</u>	<u>Joined Company</u>
Joe Barberis	Managing Director, Officeworks	2005	2003
Fiona Bennett	Group General Manager, Risk and Internal Audit	2005	2005
Pamela Catty	Group General Manager, Corporate Affairs	2002	2002
Ian Clubb	Group General Manager, Human Resources	2002	2002
Larry Davis	Managing Director, Kmart	2005	2002
Tim Hammon	Chief Officer, Corporate & Property Services	2001	1996
Launa Inman	Managing Director, Target	2005	2001
Tom Lemke	Group Managing Director, Marketing and Customer Strategy	2005	2005
Fraser MacKenzie	Chief Financial Officer	2002	2002
Peter Mahler	Chief Information Officer	2002	2002
Gerry Masters	Managing Director, Supermarkets	2001	1973
Peter Merritt	Managing Director, Strategy & Development, Food, Liquor and Fuel	2005	1976
Mick McMahon	Managing Director, Coles Express	2005	2005
Andrew Potter	Group General Manager, Supply Chain	2002	2002
Dawn Robertson	Managing Director, Myer	2002	2002
Peter Scott	Managing Director, Coles Myer Liquor Group	2004	1976
Hani Zayadi	Group Managing Director, Food, Liquor and Fuel	2005	2001

Senior Management serves at the discretion of the Directors.

Details of the Directors and senior management are as follows:

Directors**Richard (Rick) H. Allert, AM¹**

Chairman

FCA Age 62, (Appointed Director 1995, Chairman from October 10, 2002)

Mr. Allert has had a distinguished career as a Chartered Accountant. He is the Chairman of AXA Asia Pacific Holdings Limited and Voyages Hotels and Resorts Pty Ltd. Mr. Allert is a Director of the Australia Business Arts Foundation and a member of the Australia Council's Major Performing Arts Board, and has held positions with a number of government instrumentalities and community organizations over many years. Previous positions include Chairman of the AustralAsia Railway Corporation and Southcorp Limited (Director 1983-2002).

John E. Fletcher

Edgar Filing: COLES MYER LTD - Form 20-F

Managing Director and Chief Executive Officer

FCPA Age 54, (Appointed Director 2001)

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

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

Table of Contents

Patricia (Patty) E. Akopiantz

Non-executive Director

BA (Wellesley), MBA (Harvard) Age 42, (Appointed Director 2001)

Ms Akopiantz has extensive senior management and consultancy experience in retail and consumer industries both in Australia and overseas. As a management consultant with McKinsey, she advised some of Australia's leading companies on strategy and organizational change and helped lead the Retail and Consumer Goods Practice. She is a former General Manager of Marketing at David Jones and Vice President of a US apparel manufacturer. Ms Akopiantz is a Director of Wattyl Limited (from 2005) and a member of the Advisory Council of the Australian Graduate School of Management and Chief Executive Women. She is also a Director of the Foundation for Young Australians and the YWCA-NSW.

Ronald K. (Keith) Barton

Non-executive Director

BSc, PhD (UNSW), FTSE Age 65, (Appointed Director 2003)

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

William (Bill) P. Gurry, AO¹

Non-executive Director

LLB Age 58, (Appointed Director 2001)

Mr Gurry is the immediate former Executive Chairman of one of Australia's foremost investment banks, UBS Warburg. Prior to that he was that firm's Managing Director. He has had a career in the Australian finance sector, being a former Managing Director of Capel Court Corporation, National Mutual Royal Bank Limited and Executive Director of Australian Bank Limited. He is currently a Director of Rabobank Australia Limited, Rabo Australia Limited, Cheviot Bridge Limited (from 2004), The Financial Markets Foundation for Children, New Matilda Pty Ltd, Australian Jesuit Foundation and the St Vincent's and Mercy Private Hospital. Previous positions include Chairman of AIDC Limited, Chairman of Ericsson Australia, Deputy Chairman of the Australian Film Commission, Director of the Australian Film Finance Corporation, Chairman of GS Equity Pty Ltd, and Trustee of the National Gallery of Victoria.

Anthony (Tony) G. Hodgson

Non-executive Director

FCA, FAICD, age 65, (appointed Director 2003)

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

Belinda Hutchinson

Non-executive Director

BEC, FCA, age 52, (appointed Director 2005)

Ms Hutchinson has had a long association with the banking industry and has been associated with Macquarie Bank since 1992 where she was an Executive Director. She was previously a Vice President of Citibank Ltd. Ms Hutchinson is a Director of Telstra Corporation Limited, QBE Insurance Group Limited, St Vincents and Mater Health Sydney Limited, is President of the State Library of New South Wales Council, and is a consultant to Macquarie Bank Limited. She is a former Director of Energy Australia, TAB Limited and Crane Group Limited.

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

Table of Contents

Ms Sandra McPhee

Non-executive Director

DipEd, FAICD, age 59, (appointed Director 2003)

Ms McPhee has over 25 years senior management experience in consumer facing organizations. Ms McPhee has held a variety of executive positions in the international aviation, tourism, and retail industries including most recently ten years with Qantas Airways Limited. She is a non-executive Director of Australia Post, Perpetual Trustees Australia Limited (from 2004), The Art Gallery of NSW and St Vincents and Mater Health. Ms McPhee's previous appointments include Deputy Chair South Australia Water, and Director of Primelife Corporation Limited (2003-2005), CARE Australia and Tourism Council Australia.

Martyn K. Myer

Non-executive Director

BEng, MEng, MSM (MIT), age 48, (appointed Director 1996)

Mr. Myer has extensive experience in financial services, engineering and biotechnology. He is Chairman of Cogstate Ltd (Director from 2000), (a biotech company involved in Alzheimer's disease diagnosis and treatment), a Director of Diversified United Investments Ltd (from 1991), the SP Austnet group of companies, and from 1994 until 2002, Managing Director of Merlyn Asset Management Pty Ltd, a boutique funds management company. Prior to his move to the financial services industry, he had extensive experience with some of Australia's leading manufacturers. Mr Myer has involvement in several philanthropic activities, including President of the Howard Florey Institute at the University of Melbourne and member of the board of The Myer Foundation. Previous appointments include Director of The Myer Family Company Pty Ltd and The Myer Family Investments Pty Ltd.

Michael Wemms

Non-executive Director

BA, MBA, age 65, (appointed Director 2003)

Mr. Wemms has extensive retail and business experience in the United Kingdom. He worked at Tesco from 1972 to 2000 in a range of positions, including Store Manager, Personnel Director and Store Operations Director. He was a Director of Tesco plc from 1989-2000 and a part-time advisor to the company until June 2003. His current non-executive directorships include the international automotive group, Inchcape plc (from 2004) and MAF Holding LLC of Dubai. Mr Wemms is Chairman of House of Fraser plc (Director from 1996) and the British Retail Consortium.

Senior Management

Joe Barberis

Managing Director, Officeworks

Age 46

Joe Barberis was appointed Managing Director of Officeworks on February 14, 2005 with responsibility for 87 Officeworks stores, Officeworks Businessdirect and Harris Technology. Joe joined Coles Myer in July 2003 as Managing Director of Fuel and Convenience with responsibility for overseeing the roll-out of Coles Express Service Stations across Australia. Joe has spent most of his professional career with The Shell Company of Australia. He has held a host of senior positions with Shell that included Managing Director of Shell's Retail businesses across Australia, New Zealand and the Pacific Islands, and was also a member of Shell's Asia-Pacific Retail Management Team and a Director of The Shell Company of Australia Limited.

Fiona Bennett

Group General Manager, Risk and Internal Audit

Age 49

Ms Bennett joined Coles Myer on August 1, 2005 from the Australian Red Cross Blood Service where she was Chief Financial Officer. Prior to this, Ms Bennett held senior finance, audit and operational roles in Health Services, BHP Billiton and KPMG.

Table of Contents

Pamela Catty

Group General Manager, Corporate Affairs

Age 53

Pamela began her career as a journalist in the United Kingdom and Bermuda before moving to Australia in 1980. Between 1981-88, she worked as Media Adviser and then Senior Adviser to the Hon. Peter Anderson who held the positions of NSW Minister for Police, Minister for Community Services and Minister for Health. In 1988, Pamela transferred to Federal politics as Media Adviser and Senior Adviser to the Hon. Neal Blewett, in the portfolios of Community Services and Health, Trade Negotiations and Social Security. Pamela left Government in 1994 to start a career in the corporate world. She was Executive General Manager of Corporate Affairs at Ansett Australia between 1996-2000. She then joined the National Australia Bank as General Manager Group Corporate Affairs. Pamela left the National Australia Bank to join Coles Myer as Group General Manager Corporate Affairs in March 2002. Pamela is the Deputy Chairman of Tourism Victoria.

Ian Clubb

Group General Manager, Human Resources

Age 51

Ian Clubb was appointed Group General Manager Human Resources for Coles Myer in January 2002. He is responsible for leading the human resources function to ensure Coles Myer is an organization which attracts, develops, motivates, rewards and retains the best people to assist the organization achieve its business goals. Ian is responsible for the functional areas of recruitment, learning & development, employee relations, organizational effectiveness, safety, remuneration & benefits, HR Management Systems and HR Support. He has extensive HR experience across a range of industries including finance, construction, information technology and telecommunications. His background includes a significant amount of experience in the Asia Pacific Region, firstly as Human Resources Director with Apple Computer Inc., based in California, and then with the global software company Novell Inc. Prior to joining Coles Myer, Ian spent more than five years creating and leading the HR function for the Sydney Organising Committee for the Olympic Games (SOCOG) which delivered both the Olympic and Paralympic Games for Australia in 2000.

Larry Davis

Managing Director Kmart

Age 62

Larry Davis was appointed Managing Director of Kmart on February 11 2005, with responsibility for the 179 stores throughout Australia and New Zealand and 178 Kmart Tyre and Auto Service centers. Preceding this appointment Larry was Managing Director of Target Australia from September 2001, where he developed the brand into one of Australia's biggest retailers of women's apparel. Larry's career, prior to joining Coles Myer, has been highlighted by 29 years at Sears Roebuck and Company and five years at Kmart US. He began his career in 1965 with Sears as a management trainee and spent the next 15 years in merchandise management and store operations roles. In 1987, Larry was appointed to Regional General Merchandise Manager for the New York region and was promoted to Eastern Regional Manager and then National Marketing Manager. He was then recruited as a retail consultant to the international marketing and advertising agency, Young & Rubicam to utilize his merchandise and retail marketing expertise. Larry joined Kmart US in 1996 and was appointed Senior Vice President Marketing and Advertising, where he led the campaign to reposition the company.

Tim Hammon

Chief Officer, Corporate & Property Services

Age 52

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

Table of Contents

Launa Inman

Managing Director Target

Age 49

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

Tom Lemke

Group General Manager, Marketing and Customer Strategy

Age 57

Tom Lemke was appointed Group General Manager, Marketing and Customer Strategy at Coles Myer on January 31, 2005. His responsibilities include:

Developing a range of innovative products, services and loyalty initiatives to build brand and CML loyalty;

Helping the business to better understand the needs of customers across all CML brands;

Developing marketing initiatives to leverage the scale of all CML businesses across existing customer groups; and

Developing and managing customer research and market intelligence for the Group.

Tom's diverse background includes work in multiple industries including automotive, banking and credit marketing, electronics, fast food, healthcare, insurance, mutual funds, package goods, retail, telecommunications and technology. Prior to Coles Myer, Tom held the position of Vice President, Database Marketing at Kmart (US), where he built the largest consumer database in the retail industry, containing over 85 million individual households. Previously, Tom has also worked for several large advertising agencies in the USA including DDB and BBP. He also held top marketing positions at The Franklin Mint, Harte-Hanks Communications and owned his own marketing consulting company providing strategic marketing solutions, loyalty programs, customer acquisition and retention programs for blue chip companies. Tom holds a Marketing Degree from the University of Wisconsin and was the 2001 recipient of the US Postmaster's Executive of the Year Award and the DDM Excellence in Marketing Award.

Fraser MacKenzie

Chief Financial Officer

Age 54

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

Table of Contents

Peter Mahler

Chief Information Officer

Age 53

Mr Peter Mahler joined Coles Myer Ltd in October 2002 as Chief Information Officer (CIO). Peter's role at Coles Myer is to provide Information Technology vision, strategy and leadership. He has extensive experience in the strategic application of IT systems in organizational turnaround and customer-focused environments in North America and Europe. Between 1979 and 1985 he worked with Air Canada in Market Development and Systems Integration. From 1985 to 1992 Peter was co-owner and consultant with Aeronomics Incorporated, which was one of the innovators in the field of Yield Management and Revenue Optimization. In this capacity he was in charge of the International operations focusing primarily on the Australasian and European markets. In 1992, Peter joined WIC (Western International Communications), the largest media conglomerate in Canada as Vice President, IT, overseeing the consolidation of all IT functions within the 26 different companies. His areas of expertise expanded to Decision Support Systems, Sales Force Automation, and Revenue Management Systems. From 1999 to 2002, Peter moved to Belgium to take over the role of CIO at Belgacom, Belgium's incumbent telecommunications operator, to provide technological leadership and consolidation of the various IT organizations and provide a single strategic focus and vision.

Gerry Masters

Managing Director Supermarkets

Age 49

Gerry Masters was appointed Managing Director, Supermarkets (accountable for Bi-Lo and Coles) in August 2004 following the re-organization of Coles Myers' Food and Liquor Group. Gerry joined Coles Supermarkets in 1973, as an after school casual and then as an executive trainee at the company's Broadmeadows (Victoria) supermarket. He was appointed a Store Manager in 1977 and, following a number of other managerial appointments, was made a District Supervisor in 1980, having roles in both Victoria and NSW. Mr Masters was appointed Operations Manager in Tasmania in 1985 and three years later a Regional Fresh Foods Manager in NSW, and then Grocery Merchandise Manager and later Regional Manager in the same state. Gerry was appointed State Manager for Coles Supermarkets Tasmania in 1991 and then in 1992 he became State Manager for Queensland. He was appointed Managing Director of Bi-Lo in 1996 and continued in this role until May 2001, during this time Bi-Lo was the fastest growing supermarket chain in the country. He then took over as Managing Director Coles Supermarkets until August 2004.

Mick McMahon

Managing Director, Coles Express

Age 42

Mick McMahon was appointed Managing Director of Coles Express in March 2005. Mick brings a wealth of skill and experience in the fuel and convenience retail sector to Coles Myer, having spent the last 18 years with the Shell Group of Companies. Mick's most recent roles have included General Manager Retail Marketing (Strategy & Portfolio) for Shell Europe Oil Products where he was responsible for the development of Shell's fuel and convenience business in 26 European countries, Retail Director & Senior Oil Products Representative for Shell's flagship UK and Ireland retail business, and Vice President Retail Marketing for Shell Retail International. He has held numerous senior roles in marketing, strategy, supply and distribution, and IT here in Australia.

Table of Contents

Peter Merritt

Managing Director, Strategy and Development, Food, Liquor and Fuel

Age 49

Peter Merritt was appointed Managing Director, Strategy and Development in February 2005 to ensure a strong and integrated focus on innovation in products, formats and systems across the FL&F Group. Prior to this, Peter was Managing Director Housebrands for the Coles Myer Supermarkets division where he helped establish key housebrand strategies to delight customers through value and convenience. Peter has also previously held the position of Managing Director, Bi-Lo Supermarkets and prior to that was State Manager, Queensland for Coles Supermarkets. Peter has been with the company for more than 25 years. He joined Coles in 1976 as a trainee executive at the Bunbury store in Western Australia. He was appointed a store manager in 1979 at Albany followed by Kardinya before joining the Coles WA buying department in 1981 as a Dairy Buyer. From 1983 to 1985 Peter was involved in promotions roles as Assistant Promotions Manager in Perth office, Manager Promotions in Coles Queensland office and Promotions Manager at the company's National Office. In 1985 he became Manager and Coordinator of Sales in National Office followed by roles as Manager - Merchandise then Merchandise Controller in the Victorian State Office. He became General Manager - Meat National Office in 1992 and Divisional General Manager - Fresh Foods Buying National Office in 1994 before taking up the role as Coles Queensland State Manager in 1996.

Andrew Potter

Group General Manager, Supply Chain

Age 43

Mr Andrew Potter joined Coles Myer Ltd in October 2002 as Group General Manager of Supply Chain. His responsibilities include overseeing the implementation of an end-to-end Supply Chain strategy with common standards, processes and platforms to optimise the capability and scale of CML's distribution network. This strategy has been designed to lower the cost of operation to each brand. Andrew Potter has had 15 years experience designing, managing and delivering supply chain programs with major companies in Europe, North and South America and Asia. He joined Coles Myer from PwC Consulting in London where he was a Director and member of the PwC UK Leadership team for Supply Chain and Operations Solutions that focuses on best practice supply chain and program management. Prior to consulting, Andrew has held line management roles within Food and Apparel distribution with BOC and Exel Logistics in the UK. He has an Honours Degree from the University of Liverpool and an MBA from the University of Bradford.

Dawn Robertson

Managing Director Myer

Age 50

Ms Dawn Robertson is Managing Director of Myer. Ms Robertson began her retailing career as an executive trainee at Davidson's (a division of R H Macy) in Atlanta, Georgia, in 1977, after graduating from Auburn University with a BA in Fashion Merchandising. Over six years, she progressed through the positions of department manager and group manager to buyer for a number of departments. Ms Robertson moved to The May Company in 1983 and held a number of senior positions across various divisions of the group in the next 13 years. From 1997-98, Ms Robertson was President and CEO of McRae's, a division of Saks Inc. based in Jackson, Mississippi, operating 46 department stores. In this time, Ms Robertson led the opening of six new stores and many renovations, as well as new merchandising and marketing initiatives. Ms Robertson

Edgar Filing: COLES MYER LTD - Form 20-F

joined Federated Department Stores in 1998, as Executive Vice President, Federated Merchandising Group, for men's, kids and home. She was responsible for the merchandising of a substantial portion of Federated's business. In 2000, she was appointed President and Chief Merchandising Officer of Federated Direct. In this role, she has been responsible for overseeing Macy's Direct, which includes Macys.com and Macy's by Mail, and Bloomingdale's Direct, which includes Bloomingdales.com and Bloomingdale's by Mail.

Table of Contents

Peter Scott

Managing Director, Coles Myer Liquor Group

Age 47

Peter Scott was appointed Managing Director of Coles Myer Liquor Group in March 2004. Prior to this role he was Managing Director of Officeworks. He joined Coles in 1976 as an Executive Trainee and following store managerial experience he was promoted to their Head Office Merchandise Department in 1981. He held positions there as Buyer, Promotions Manager, Merchandise Manager and Controller of Merchandise. In December 1990 he assumed responsibility for Grocery Commodity Foods, following the centralization of Coles Buying, and the commencement of Category Management. In 1991, Peter was appointed a General Manager and in 1994 he became General Manager Merchandise and Marketing for Coles Supermarkets. In September 1996 he was appointed General Manager Perishable Merchandise. As a result of this he also assumed responsibility for the Red Rooster Fast Food business. In January 2001 he was appointed to General Manager Strategic Business Development for the Apparel and Home and Myer Grace Bros division of Coles Myer. In April 2001, a restructure within Coles Myer saw the division expanded, with the addition of the company's General Merchandise division to become General Merchandise & Apparel (GM&A) and Peter Scott was appointed to head its Merchandising function. In January 2002 he was appointed Managing Director Officeworks. Peter Scott holds a Certificate in Marketing, a Graduate Diploma in Business and an M.B.A. from Monash, Mt Eliza, Business College.

Hani Zayadi Group

Managing Director of Food, Liquor & Fuel

Age 57

Mr Hani Zayadi was appointed Group Managing Director of Food, Liquor and Fuel in January 2005. Mr Zayadi first joined Coles Myer as Managing Director for Kmart in 2001 from Wal-Mart where he held the position of Senior Vice President Merchandising & Marketing in Canada. Mr Zayadi began his career at apparel fashion chain Dylex in 1970. He progressed rapidly there before leaving to join Canada's oldest company, Hudson's Bay Company, as a Regional Merchandise Manager where he was involved in the restructuring and integration of merchandising activities. He was promoted to General Manager, Quebec region, and led a turnaround of that business, transforming a \$5 million loss into a \$13 million profit. Mr Zayadi later joined Hudson Bay in a senior merchandising position and following a significant reorganization of the Hudson's Bay Company, Mr Zayadi was appointed President & CEO of discount chain Zellers. Mr Zayadi and his team successfully repositioned Zellers as Canada's then leading discount department store. Under his tenure operating profits grew from \$42 million to \$180 million. Mr Zayadi went on to hold executive management positions at Woodward's Limited as President & CEO, and also ran his own highly successful fashion accessories business before joining Wal-Mart.

B. COMPENSATION

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT TEAM

The aggregate amount of remuneration paid by Coles Myer during 2005 to the above Directors and Senior Management and others that held office during the year was A\$24,890,269. This amount excludes option amortization, as it is not accounted for as a cost to the Company.

Edgar Filing: COLES MYER LTD - Form 20-F

At December 1, 2005, there were agreements with P.E. Akopiantz, R.H. Allert, W.P. Gurry and M.K. Myer, which provide for benefits upon cessation of their directorships. Remuneration of non-executive Directors who have entered into retirement agreements includes amounts provided for by the Company in relation to the contractual retirement payment to which the non-executive director will be entitled to upon retirement from office. Retiring non-executive Directors have been paid in accordance with the terms of their retirement agreements. On March 27, 2003, the Company announced that non-executive Directors appointed after that date will not receive retirement benefits. At the Company's Annual General Meeting on November 17, 2005, it was announced that the retirement benefits would be frozen as at that date, and no further accrual would be made. From November 17, 2005 all Directors have been paid according to one scale of fees.

Contributions to superannuation funds and amounts paid in respect of retirement benefits of A\$894,608 are included in the aggregate amount of remuneration referred to above.

Table of Contents

The remuneration of the non-executive Directors is as follows:

	Year	Primary	Post-employment		Other benefits		
		Salary and fees	Superannuation contributions	Retirement benefits ¹		Expense allowance	Total ²
				A\$	A\$		
Richard Allert (Chairman)	2005	\$ 331,975	\$ 29,878	\$ 283,070	\$ 5,825	\$ 650,748	
	2004	\$ 307,500	\$ 27,675	\$ 239,078	\$ 5,825	\$ 580,078	
Patty Akopiantz	2005	\$ 120,700	\$ 10,863	\$ 35,047	\$ 5,825	\$ 172,435	
	2004	\$ 110,625	\$ 9,956	\$ 102,771	\$ 5,825	\$ 229,177	
Keith Barton	2005	\$ 139,633	\$ 12,567		\$ 5,825	\$ 158,025	
	2004	\$ 125,069	\$ 11,256		\$ 5,825	\$ 142,150	
Richard Charlton ³	2005	N/A	N/A	N/A	N/A	N/A	
	2004	\$ 33,333	\$ 3,225	\$ 4,182	\$ 1,952	\$ 42,692	
Bill Gurry ⁴	2005	\$ 115,675	\$ 10,411	(\$ 8,227)	\$ 5,825	\$ 123,684	
	2004	\$ 102,500	\$ 9,225	\$ 52,310	\$ 5,825	\$ 169,860	
Tony Hodgson	2005	\$ 162,706	\$ 14,644		\$ 5,825	\$ 183,175	
	2004	\$ 145,711	\$ 13,114		\$ 5,825	\$ 164,650	
Mark Leibler ⁵	2005	\$ 36,000		\$ 5,818	\$ 1,821	\$ 43,639	
	2004	\$ 110,625		\$ 19,590	\$ 5,825	\$ 136,040	
Sandra McPhee	2005	\$ 139,633	\$ 12,567		\$ 5,825	\$ 158,025	
	2004	\$ 125,069	\$ 11,256		\$ 5,825	\$ 142,150	
Martyn Myer	2005	\$ 120,700	\$ 10,863	\$ 16,012	\$ 5,825	\$ 153,400	
	2004	\$ 110,625	\$ 9,956	\$ 14,930	\$ 5,825	\$ 141,336	
Michael Wemms	2005	\$ 144,243	\$ 12,982		\$ 5,825	\$ 163,050	
	2004	\$ 132,523	\$ 11,927		\$ 5,825	\$ 150,275	
Total	2005	\$ 1,311,265	\$ 114,775	\$ 331,720	\$ 48,421	\$ 1,806,181	
	2004	\$ 1,303,580	\$ 107,590	\$ 432,861	\$ 54,377	\$ 1,898,408	
Total remuneration Specified Directors	2005	\$ 5,130,219	\$ 114,775	\$ 331,720	\$ 48,421	\$ 6,233,616	
	2004	\$ 6,008,194	\$ 115,840	\$ 432,861	\$ 54,377	\$ 7,239,337	

¹ Amounts provided for by the Company during the financial year in relation to the contractual retirement payment to which the non-executive Director will be entitled upon retirement from office. The amount is net of any superannuation contributions.

² In accordance with the Company's Constitution superannuation contributions and retirement benefits are not taken into account for the purpose of the maximum aggregate non-executive Director remuneration approved by shareholders.

³ Mr. Charlton received a payment of A\$346,054 upon retirement from the Board on November 26, 2003. The amount of A\$4,182 shown in the table represents the retirement benefit accrued during the 2004 financial year through to the date of his retirement.

⁴ Mr. Gurry previously received fees for acting as Chairman of the Coles Myer Superannuation Fund. His retirement from this position in 2002 has resulted in a decrease to his anticipated retirement benefit in 2005.

⁵ Mr. Leibler retired from office on November 18, 2004. The amount of A\$5,818 shown in the table represents the retirement benefit accrued during the 2005 financial year through to the date of his retirement. Mr Leibler's fees were paid to Arnold Bloch Leibler, a firm of which he is a partner. Accordingly superannuation contributions were not payable.

⁶ In accordance with Accounting Standard AASB 1046 Director and Executive Disclosures by Disclosing Entities , the total remuneration for Specified Directors includes the remuneration for the Managing Director and Chief Executive Officer, Mr Fletcher. Mr Fletcher s salary includes STI and non-monetary benefits as more fully disclosed below. The total remuneration for Specified Directors includes option amortization of A\$608,481 (2005) and A\$628,065 (2004) for Mr Fletcher.

Table of Contents

The remuneration of the Managing Director and Chief Executive Officer (CEO) and the Specified Executives of the Company was as follows:

	Year	Primary		Post employment		Equity ¹		Other benefits		Total \$A
		Fixed remuneration \$A	STI \$A	Non-monetary benefits ² \$A	Super-annuation benefits ³ \$A	\$A	% of Total remuneration	Termination benefits ⁶ \$A	Other ⁴ \$A	
John Fletcher	2005	\$ 2,267,357	\$ 1,549,218	\$ 2,379		\$ 608,481	13.7%			\$ 4,427,435
	2004	\$ 2,288,953	\$ 2,412,705	\$ 2,956	\$ 8,250	\$ 628,065	11.8%			\$ 5,340,929
Larry Davis	2005	\$ 1,311,225	\$ 800,000	\$ 61,747		\$ 288,590	11.7%			\$ 2,461,562
	2004	\$ 1,052,878	\$ 835,232	\$ 99,786		\$ 443,686	18.2%			\$ 2,431,582
Tim Hammon	2005	\$ 778,849	\$ 430,353		\$ 11,631	\$ 123,990	9.2%			\$ 1,344,823
	2004	\$ 768,988	\$ 800,037		\$ 11,050	\$ 230,842	12.7%			\$ 1,810,917
Launa Inman ⁵	2005	\$ 573,266	\$ 361,671		\$ 37,946	\$ 89,260	8.4%			\$ 1,062,143
Fraser MacKenzie	2005	\$ 778,732	\$ 448,826		\$ 11,631	\$ 104,014	7.7%			\$ 1,343,203
	2004	\$ 717,904	\$ 725,960		\$ 11,967	\$ 178,287	10.9%			\$ 1,634,118
Dawn Robertson	2005	\$ 1,498,048	\$ 377,408	\$ 171,042	\$ 11,631	\$ 362,823	13.5%		\$ 260,992	\$ 2,681,944
	2004	\$ 1,439,585	\$ 806,032	\$ 205,139		\$ 575,409	17.4%		\$ 276,345	\$ 3,302,510
Hani Zayadi	2005	\$ 1,743,852	\$ 821,690	\$ 205,865		\$ 319,219	9.9%		\$ 146,771	\$ 3,237,397
	2004	\$ 1,355,292	\$ 799,726	\$ 208,934		\$ 489,240	16.3%		\$ 146,771	\$ 2,999,963
Steven Cain	2005	\$ 749,518					0%	\$ 2,362,384	\$ 1,500,000	\$ 4,611,902
	2004	\$ 1,414,123	\$ 1,159,110			\$ 664,142	17.8%		\$ 500,000	\$ 3,737,375
Total remuneration Specified Executives	2005	\$ 7,433,490	\$ 3,239,948	\$ 438,654	\$ 72,839	\$ 1,287,896	7.7%	\$ 2,362,384	\$ 1,907,763	\$ 16,742,974
	2004	\$ 6,748,770	\$ 5,126,097	\$ 513,859	\$ 23,017	\$ 2,581,606	16.2%		\$ 923,116	\$ 15,916,465

¹ In accordance with the requirements of Accounting Standards, remuneration includes a proportion of the notional value of equity instruments granted or outstanding during the year. The notional value of equity instruments is determined as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to, or indicative of the benefit (if any), that individual Executives may ultimately realize should the equity instruments vest. The notional value of performance shares for 2005 and options for 2004 as at the date of their grant has been determined in accordance with AASB 1046A Amendments to Accounting Standard 1046. Equity instruments have been valued by independent valuers. Performance shares valued in 2005 have been valued using the Monte-Carlo pricing model, which incorporates market based performance conditions such as TSR. In prior years, options granted have been valued using the Black-Scholes pricing model. Where options are subject to performance conditions, a 50% probability has been applied to the Black-Scholes valuation. Amortization of performance shares and options is included for disclosure purposes only. It is not included in the consolidated income statement, as the amortization does not result in a cost to the Company.

² Non-monetary items include costs relating to motor vehicles, accommodation, travel, insurance, and tax planning that has been paid by the Company on behalf of the Specified Executives.

³ The Company is not required to make superannuation contributions in respect of overseas nationals who hold certain business visas.

⁴ The other benefits figures include sign-on bonuses and payments for continued service. There will be additional benefits in future years if continued service conditions are fulfilled. Other benefits have been presented on an accruals basis in accordance with AASB 1046A. For 2004, other benefits for Mr Cain included sign-on bonuses and payments for continued service presented on an accruals basis. Mr Cain ceased employment on January 3, 2005 and the balance of the sign-on bonus and payment for continued service not previously accrued was recognized in 2005.

Edgar Filing: COLES MYER LTD - Form 20-F

- ⁵ Ms Inman commenced her role as Managing Director Target on February 14, 2005. Prior to this date she was employed as the Managing Director Officeworks. Ms Inman's previous role involved a lesser degree of authority than the current position and, therefore, AASB 1046A did not require the disclosure of Ms Inman's remuneration for 2004. In accordance with the requirements of AASB 1046A the remuneration received by Ms Inman during 2005 whilst Managing Director of Target was A\$281,224 (fixed remuneration), A\$19,980 (superannuation), A\$40,179 (equity) and A\$162,800 (STI).
- ⁶ Mr. Cain, former Group Managing Director Food, Liquor and Fuel, ceased employment on January 3, 2005. His termination benefits include a termination payment of 12 months salary (A\$1,800,000) in lieu of notice. The Company will also pay A\$10,000 for legal fees and \$20,350 for financial advice. In addition, Mr Cain will receive an amount of A\$282,639 in exchange for agreeing to extend his restraint period from 12 months to 18 months. The termination benefit also includes an amount of A\$249,395, being the unamortized portion of options vested.
- ⁷ The total remuneration is for the Specified Executives only and does not include Mr Fletcher. In accordance with Accounting Standards Mr Fletcher's remuneration is included in the Specified Directors disclosures.

Table of Contents

C. BOARD PRACTICES

Board committees have been established to assist the full Board in identifying and managing the various business risks confronting the Company. There are three Committees in place: Audit and Risk Committee, the Nomination and Remuneration Committee and the Corporate Social Responsibility Committee. In order to ensure that the procedures of the Committees are current and comprehensive, the responsibilities of each Committee are reviewed at least annually. Details of each committee are as follows:

Audit and Risk Committee (known as Audit/Governance Committee until November 15, 2005)

The principal responsibilities of the Committee are to assist the Board in fulfilling its responsibilities in relation to the Company's corporate governance framework, the identification of areas of significant business risks and the monitoring of:

The preparation of the Company's consolidated financial statements;

Adherence to the Company's Statement of Corporate Governance Principles;

Maintenance of an effective and efficient internal and external audit;

Effective management of business risks;

Compliance with laws and regulations; and

Business dealings, in particular related party transactions.

The relationship between the Company's external auditors and the Company's Board and Audit and Risk Committee is set out in the following charters and policies:

Audit and Risk Committee Charter; and

Policy on External Auditor Independence.

The Committee is responsible for the appointment, compensation, retention and oversight of the work of the external auditor.

The Committee met four times during 2005. Under the Committee's Charter all members must be independent Directors. Its members currently are: Tony Hodgson (Chair), Patty Akopiantz, Rick Allert, Martyn Myer and Michael Wemms.

Nomination and Remuneration Committee

The principal responsibilities of the Nomination and Remuneration Committee are to:

To advise the Board on directorship appointments, with particular attention to the mix of skills, experience and other qualities of existing Directors;

To advise the Board on the appointment of potential successors to the Chief Executive Officer;

To review Board succession plans;

To review independent experts' advice and then advise the Board annually on Chief Executive Officer's and non-executive Directors remuneration;

To annually review the Board's required mix of skills, experience and other qualities;

To develop and implement a process for the orientation and education of new Directors;

To review and advise the Board annually on the components of remuneration for Executives reporting directly to the Chief Executive Officer;

Review management's recommendations and advise the Board on:

Performance linked compensation packages for management

Executives' retirement, pension and superannuation schemes

Employee equity participation schemes;

To review management's recommendations and advise the Board on succession plans and leadership development plans for key senior positions within the Company;

To review the Company's industrial relations strategy; and

To review strategic human resources matters.

Table of Contents

The Committee met five times during 2005. Its members currently are: Rick Allert (Chair), Keith Barton, Bill Gurry and Sandra McPhee.

Corporate Social Responsibility Committee

The Corporate Social Responsibility Committee was established to advise the Board on issues relating to Corporate Social Responsibility (CSR) specifically the Company's social, environmental and economic commitments to all of its stakeholders.

The Committee met three times during 2005. Its members currently are: Rick Allert (Chair), Patty Akopiantz, John Fletcher and Martyn Myer.

Professional advice to Directors

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

Corporate Governance Standards

The Company's corporate governance standards do not differ significantly from those required of domestic companies under New York Stock Exchange listing standards.

D. EMPLOYEES

	Employee Numbers⁽¹⁾		
	2005	2004	2003
Brand Segments			
Food, Liquor and Fuel ⁽²⁾	98,167	92,391	82,732
Kmart	26,415	26,234	25,932
Officeworks	3,883	3,757	3,598
Myer	20,608	20,707	21,026
Megamart	881	994	932
Target	23,658	23,632	20,861
Property and Unallocated ⁽³⁾	8,726	8,393	7,333
	182,338	176,108	162,414
Geographic segments			
Australia	181,084	174,847	161,275

Edgar Filing: COLES MYER LTD - Form 20-F

New Zealand	1,026	1,089	1,007
Other ⁽⁴⁾	228	172	132
	<u>182,338</u>	<u>176,108</u>	<u>162,414</u>

- (1) Full time, part time and casual employees at July 31, 2005. During 2005 the Company employed on average 88,000 casual employees.
- (2) During 2004, the Company acquired the right to operate certain Shell fuel and convenience outlets. Employees of these brands are included in the Food, Liquor and Fuel segment.
- (3) Includes head office employees.
- (4) Includes employees from branch offices in Asia.

Table of Contents

Employment and Employee Relations

The majority of the Company's employees are covered by federally registered agreements, specific to the circumstances of each brand and which are the result of negotiations with relevant industry unions. The remaining employees are covered either by individual agreements or common law employment contracts.

Relationships between the Company and the union bodies remain constructive in approach and 2005 was characterized by the continued success of negotiated agreements between Coles Myer and the representative unions.

In a market that is characterized by low unemployment, wage growth during 2005 was within budgetary expectations and in line with the Australian retail industry. A continued emphasis on improving the links of performance-reward, succession planning and career development is emerging as a key success factor in rewarding high performing staff.

The Company experienced some effects of short-term industrial action in NSW. Several short stoppages in two distribution centers and some strike action had a minimal impact on deliveries to stores. Contingency stocking minimized this impact.

All brands are moving towards greater permanency of employment. The key benefit for Coles Myer is to attract and retain quality employees.

The Federal Government is about to legislate major reform to the Workplace Relations Act the outcomes are not expected to have a significant effect on the way Coles Myer manages employee relations within its various brands.

Employer Funded Superannuation

A component of the Federal Government's Retirement Income Policy is the Superannuation Guarantee Charge. For 2005, employers were required to make an employer contribution of 9.0% of gross salary into a complying superannuation fund. In line with Legislation, employees were given access to Superannuation choice in July 2005. Less than 1% of those eligible exercised this option.

E. SHARE OWNERSHIP

At December 1, 2005, no individual Director or member of Senior Management held more than 1% of the Company's shares.

Shares in the Company held by each Director as notified to the Australian Stock Exchange, at December 1, 2005 was as follows:

<u>Director</u>	<u>Relevant Interest in Ordinary Shares</u>
P.E. Akopiantz	3,253
R.H. Allert	25,569
R.K. Barton	10,200
J.E. Fletcher	1,204,458
W.P. Gurry	140,000
A.G. Hodgson	6,000
B.J. Hutchinson	5,000
S.V. McPhee	4,139
M.K. Myer	1,000
J.M. Wemms	208

In addition, J.E. Fletcher holds an interest in 2,000,000 options over ordinary shares, in the Company, 375,000 of which are vested. The TSR and EPS performance hurdles attaching to the options granted to the CEO, Mr. J.E. Fletcher, in 2003 following shareholder approval, were alternatives so that satisfaction of either performance hurdle would entitle Mr. Fletcher to exercise those options.

Table of Contents

Mr. Fletcher advised the Board that he believes it would be more appropriate for those options to be exercisable on the same basis as for other Executives in the Senior Executive Performance Share Plan. Following shareholder approval of the Senior Executive Performance Share Plan at the Company's Annual General Meeting on November 18, 2004, Mr. Fletcher advised that he will only exercise 50% of his options if the TSR hurdle is met and 50% if the EPS hurdle is met consistent with the Senior Executive Performance Share Plan. As these hurdles are no longer alternatives, vesting conditions are more difficult to achieve. Mr. Fletcher also holds an interest in 170,000 performance shares, following shareholder approval at the 2005 AGM.

S.V. McPhee holds a relevant interest in 3,400 endowment warrants over CML shares.

Shares in the company held by Specified Executives of the Senior Management team, at July 31, 2005 were as follows:

<u>Executive</u>	<u>Relevant Interest in Ordinary Shares</u>
Larry Davis	
Tim Hammon	1,327
Launa Inman	
Fraser MacKenzie	347,000
Dawn Robertson	
Hani Zayadi	

Information on these shareholdings has been disclosed to shareholders in the Australian Annual Report.

In the period from August 1, 2005 to December 1, 2005 there have been no changes to the Specified Executives' shareholdings.

Each of the remaining members of the senior management team beneficially owns less than 1% of the Company's shares and no information has been disclosed to shareholders about their individual share ownership.

Table of Contents**Option Holdings**

Details of options over ordinary shares of CML provided as remuneration to each Director of CML and each of the Specified Executives of Senior Management are set out below. Further information on options is set out in Note 25 to the consolidated financial statements at Item 17.

	Grant Date	Exercise Price	Balance at July 25, 2004	Granted during the year	Value of grant	Exercised ³	Lapsed during the year	Balance at July 31, 2005	Vested during the year	Vested at July 31, 2005 ⁴
John Fletcher	Sep 01	\$ 6.33	2,500,000			1,000,000		1,500,000	500,000	500,000
	Nov 03	\$ 7.53	1,500,000					1,500,000		
Steven Cain	Aug 03	\$ 7.28	2,500,000				1,786,301	713,699		
	Aug 03	\$ 7.28	500,000				357,260	142,740 ⁶		
Larry Davis	Sep 01	\$ 6.28	1,500,000			900,000		600,000 ⁵	300,000	
	Jun 05	\$ NIL		38,000	\$ 2.46 ¹			38,000		
	Jun 05	\$ NIL		38,000	\$ 8.79 ²			38,000		
Tim Hammon	Dec 98	\$ 4.50	45,000			45,000			45,000	
	Apr 00	\$ 6.46	115,000				115,000			
	Oct 01	\$ 4.50	100,000			100,000				
	Feb 02	\$ 7.66	745,000					745,000	149,000	447,000
Launa Inman	Jun 05	\$ NIL		21,700	\$ 2.46 ¹			21,700		
	Jun 05	\$ NIL		21,700	\$ 8.79 ²			21,700		
	Feb 02	\$ 7.66	170,000			102,000		68,000	34,000	
Fraser MacKenzie	Apr 00	\$ 6.46	50,000				50,000			
	Jul 04	\$ 8.43	210,000					210,000		
	Sep 02	\$ 5.88	860,000			344,000		516,000	344,000	
Dawn Robertson	May 02	\$ 6.44	2,500,000			1,000,000		1,500,000	1,000,000	
Hani Zayadi	Aug 01	\$ 6.21	1,500,000			500,000		1,000,000 ⁵	500,000	
	Jun 05	\$ NIL		38,000	\$ 2.46 ¹			38,000		
	Jun 05	\$ NIL		38,000	\$ 8.79 ²			38,000		
Total			14,795,000	195,400		3,991,000	2,308,561	8,690,839	2,872,000	947,000

- Performance shares granted vest in accordance with TSR performance conditions described in footnote 6 of Note 25, and expire three years after grant.
- Performance shares granted vest in accordance with EPSG performance conditions described in footnote 6 of Note 25, and expire three years after grant.
- Options exercised have been fully paid.
- Vested options are fully exercisable.
- Options are not subject to performance hurdles, however, vesting is contingent upon service conditions.

⁶ Mr Cain ceased employment on January 3, 2005. Subsequent to balance date 13,378 options lapsed.

In the period August 1, 2005 to December 1, 2005 the following movements in option holdings occurred:

Mr. J. E. Fletcher exercised 1,000,000 options with an exercise price of A\$6.33 on October 13, 2005.

Ms. D. Robertson exercised 500,000 options with an exercise price of A\$6.44 on September 28, 2005.

Mr H. Zayadi exercised 500,000 options with an exercise price of A\$6.21 between September 29, 2005 and October 4, 2005.

Mr. T. Hammon exercised 400,000 options with an exercise price of A\$7.66 between October 3 and October 5, 2005 and a further 100,000 options at the same exercise price on October 21, 2005.

OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES

On April 30, 2003 the Australian and Securities Commission issued Class Order (03/184) Employee Share Schemes . The Class Order stipulates that where a scheme or schemes involve a potential issue of shares e.g. options plans and performance share plans, the shares offered, plus the number of shares issued during the previous five years under employee share schemes, must not exceed five percent of the aggregate number of issued shares of Coles Myer at the time of the offer. The Company complies with this requirement.

There were 24.8 million options over ordinary shares at December 1, 2005.

Table of Contents

Disclosure of holdings of options on an individual basis, to the extent required under the Corporations Act 2001 of Australia, is shown at Note 29 to the consolidated financial statements in Item 17.

The total number of ordinary shares that were the subject of options under the Employee Share Option Plan (ESOP) held by Directors and Senior Management of Coles Myer was 3,100,000 at December 1, 2005. The total number of ordinary shares that were the subject of options under the Executive Option Plan 2002 (EOP) held by Directors and Senior Management of Coles Myer was 1,589,000 at December 1, 2005.

Mr. John Fletcher, Chief Executive Officer and Director of the Company held 2.0 million options over ordinary shares in the Company at December 1, 2005. No other Director held options over issued or un-issued shares of the Company.

Executive Share Plan

Coles Myer maintains an Executive Share Plan (ESP), which was introduced in 1983. Under the ESP, Ordinary Shares may be issued (paid as to A\$0.01 or such greater amount as may be specified by the Directors) to Executives (including Directors who are Executives) selected by the Directors. An amount of A\$0.01 (or such greater amount as may be specified by the Directors) is payable to Coles Myer on subscription for each such ESP Share with the balance (currently A\$1.99) callable by Coles Myer under certain circumstances. The ESP Shares do not carry a vote until fully paid (except with respect to a proposal to vary the rights thereof), are not transferable and cannot be paid up unless held for a minimum of two years except in the event of death or retirement. There have been no issues of ESP Shares since 1990.

Upon receiving a valid request made by a holder of ESP Shares for a call to be made, Coles Myer shall do so within 40 days. Once payment is received pursuant to the call, the relevant ESP Shares shall be fully paid and shall convert to fully paid Ordinary Shares.

Holders of ESP Shares are entitled to participate in bonus issues and cash issues of shares on the same basis as holders of fully paid Ordinary Shares. ESP Shares are not listed on the Australian Stock Exchange Limited or other stock exchanges on which the Ordinary Shares are listed until they are fully paid. Until fully paid, the ESP Shares do not rank for dividend entitlements. Subject to the above limitation, the entitlements in the ESP are determined by the Directors.

There were 39,000 ESP shares outstanding at December 1, 2005.

Executive Share Option Plan

The Coles Myer Executive Share Option Plan (ESOP) was established pursuant to a resolution passed at a general meeting of the Company in 1987.

Edgar Filing: COLES MYER LTD - Form 20-F

In 1997, shareholders amended the Rules of the ESOP to confer greater flexibility for the ESOP to be used in a wider range of circumstances. In particular, the Rules of the ESOP were amended so that unallocated shares held by the Trustee of the Coles Myer Employee Share Plan Trust (the Trust) (refer Employee Share Plan page 70) could be used under the ESOP, instead of requiring new issues of shares by the Company on the exercise of options, and so that shares and options to acquire shares can be used with greater flexibility as part of employee remuneration packages. Where options are over issued shares held by the Trust, the Trust's consent is required to make the necessary shares available.

Each option entitles its holder to acquire one fully paid ordinary share and will be exercisable at such price (if any) as is determined by the Directors. The options have a life of up to ten years and will lapse if the holder ceases to be employed other than by way of death, retirement or separation. The ESOP enables options to be exercised only after the expiration of a period or the satisfaction of a performance condition to be determined by the Directors as appropriate for the relevant Executive, or as authorized by the Directors. Performance conditions may include the Executive or a group company or brand achieving a financial performance target, or total shareholder return (share price growth plus dividends) exceeding a nominated share price index or the total shareholder return of a designated group of companies. Shares allotted under the ESOP immediately rank pari passu with fully paid ordinary shares of Coles Myer on issue at the date of allotment.

Table of Contents

During 2005, no options were issued under the ESOP. Details of the options are shown at Note 25 to the consolidated financial statements at Item 17.

Executive Option Plan 2002

The Coles Myer Ltd. Executive Option Plan 2002 (EOP) was established by the Directors during 2002, with the first issue of options under the plan made on March 8, 2002. Options issued under the EOP are over un-issued shares.

The EOP is designed to reward Executives for the creation of sustainable shareholder wealth over a 3-5 year period. The EOP is based on market priced options. In order for Executives (other than middle management) to exercise their options, CML's Total Shareholder Return (TSR) must exceed the median TSR over the same period for securities in the top 100 industrial entities listed on the Australian Stock Exchange, or CML's compound annual earnings per share growth must exceed a set percentage.

During 2005, 2.9 million options were issued under the EOP. Details of the options are shown at Note 25 to the consolidated financial statements at Item 17.

Senior Executive Performance Share Plan

During 2003, the Company commenced a review of its Senior Management Reward Strategy, focusing in particular on its long term incentive (LTI) plan which is based on issuing share options to Executives. The review was conducted with the assistance of external consultants to help ensure that any replacement plan would both meet the objectives of the Company and be consistent with the practice of other major corporations. The review concluded that it would be preferable to replace the Senior Executive Share Option Plan with a Senior Executive Performance Share Plan (SEPSP).

Some key differences from the existing plan are:

The SEPSP is based on annual grants of performance shares (existing option plan provides for one five year grant);

The SEPSP provides for vesting at three years (compared with two years under the existing option plan), such that the SEPSP provides for a three to five year performance horizon for Executives;

There is a further requirement for Executives to hold any vested shares for a minimum period of 12 months following vesting (i.e. four years from grant); and

50% of the performance shares will be exercisable if the TSR hurdle is met and 50% if the EPSG hurdle is met (the existing option plan provides for all options to be exercised if either performance hurdle is met).

Shareholder approval was sought for the SEPSP, consistent with the ASX Corporate Governance Council's Best Practice Recommendations. The new SEPSP was approved at the Company's Annual General Meeting on November 18, 2004, and as a consequence, no further options are being issued under the existing Senior Executive Share Option Plan. At the Company's Annual General Meeting on November 17, 2005, shareholders approved the issue of 170,000 performance shares to the CEO, Mr. John Fletcher, and these performance shares were granted shortly after the meeting.

The SEPSP is designed to provide the Company with a mechanism to encourage the retention of strategically important Senior Executives and to enhance the link between their rewards and increases in shareholder value.

Participation in the SEPSP is limited to Senior Executives selected by the Directors who have strategic and operational importance to the CML group. The SEPSP involves annual grants to the relevant Executives, including Executive Directors. Non-executive Directors will not be eligible for participation. The number of performance shares granted to each Executive is calculated by reference to the level of seniority of the Executive and the market value of the Company's share price at the start of each financial year.

In essence, if the Company satisfies the performance criteria set by Directors under the Plan, the performance shares held by an Executive would become vested (without any payment by the Executive) and thereafter the Executive would hold ordinary shares in the Company. These shares would remain subject to restrictions preventing disposal for 12 months from the date of vesting, subject to the terms of the SEPSP.

Table of Contents

In general, a performance share will vest only after satisfaction of a performance condition specified by the Directors. It is proposed that the vesting of performance shares granted during the financial years ending in 2005 and 2006 will be dependent on performance conditions which are based on the Company's relative total shareholder return (TSR) over a three year period and on earnings per share growth (EPSG) over a similar period, with each condition applying to 50% of the performance shares granted to participants.

Performance shares will vest in accordance with the following vesting scales.

TSR - compared with performance of the top 50 industrial companies in the S&P/ASX top 100 index

<u>Performance</u>	<u>TSR below 51st Percentile</u>	<u>TSR from 51st to 74th Percentile</u>	<u>TSR at or above 75th Percentile</u>
Vesting	Nil	Progressive vesting on a straight line basis from 50% to 99%	100%

EPSG

<u>Performance</u>	<u>EPSG below 12.5%</u>	<u>EPSG at 12.5%</u>	<u>EPSG between 12.5% & 15%</u>	<u>EPSG at 15% & above</u>
Vesting	Nil	50%	Progressive vesting on a straight line basis from 51% to 99%	100%

Once a performance share is vested, the Executive is entitled to an ordinary share in the Company. The Directors will decide at that time whether to purchase the shares required on-market or to issue new shares. This decision will depend on factors such as dilution and cost to the Company.

During 2005, 1,416,925 performance shares were issued under the SEPS. Details of the performance shares issued are shown at Note 25 to the consolidated financial statements at Item 17.

Employee Share Plan

In 1993, shareholders approved the establishment of the Coles Myer Employee Share Plan (the Plan). The Plan involved the establishment of the Coles Myer Employee Share Plan Trust. An independent trustee, Coles Myer Employee Share Plan Limited, acts as Plan Manager under the Plan, and the Company provides finance to the Plan Manager to acquire Coles Myer shares primarily on the ASX. In limited circumstances, Coles Myer may be required to issue new fully paid ordinary shares for the purpose of the Plan. This may arise where the Plan Manager has been unable to acquire sufficient shares on the ASX at a price that is regarded as reasonable to make the required allocations to employees.

Employees who had worked continuously for the Coles Myer Group for 12 months full-time, 12 months part time or 24 months casually were eligible to be invited to participate in the Plan. Eligible employees invited by the Plan Manager to participate acquired the shares interest free from the Plan Manager at the average cost of the shares, or such price as determined by the Plan Manager.

Edgar Filing: COLES MYER LTD - Form 20-F

Employees pay for the shares by applying the dividends on the shares and making voluntary payments. Employees are unable to receive the shares for three years and are protected from any loss on the shares. A maximum of 20 years is allowed for the purchase price to be paid in full. The shares are held by the Plan Manager until the purchase price is paid in full.

The number of shares offered to each employee depended on the employee's position and performance within the Coles Myer Group. No invitation to participate in the Plan has been made since August 14, 1996. There are no Directors or Officers participating in this Plan.

Details of shares held under the Plan are shown at Note 25 to the consolidated financial statements at Item 17.

Table of Contents

Other

The value of any benefits to Directors and Senior Management of entitlements under the ESP, the ESOP, the SEPSP and the Plan are not included in the aggregate amount of remuneration of A\$24,890,269 referred to above, as they are not accounted for as a cost to the Company.

Table of Contents**ITEM 7 MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****A. MAJOR SHAREHOLDERS**

The Company is not directly or indirectly owned or controlled by another corporation, by any government or by any other natural or legal person.

As at December 1, 2005, the following persons were known to the Company to have an interest in more than 5% of any class of Coles Myers voting securities.

	<u>Number of shares</u>	<u>% of fully paid shares</u>
S. Lew Custodians Pty. Ltd. and its associates	69,530,160	5.6%

All fully paid shareholders have the same voting rights.

There are no arrangements, known to the Company, the operation of which may at a subsequent date result in a change in control of Coles Myer.

As at December 1, 2005, a total of 2,433,981 ADSs (equivalent to 19,471,848 Ordinary Shares or approximately 1.56% of the outstanding Ordinary Shares) were outstanding and were held by 24 registered holders.

B. RELATED PARTY TRANSACTIONS

For details of the transactions of all related party transactions of director-related entities for 2005 and 2004, see Note 29 to the consolidated financial statements at Item 17.

During the sixteen-month period July 26, 2004 to December 1, 2005, (2004 sixteen-month period July 28, 2003 to December 2, 2004) the Company had the following related party transactions with director-related entities:

Mr. M.K. Myer

The CML Group had transactions with director related entities of Mr. M.K. Myer. Mr. M.K. Myer has no financial interest in these entities.

Edgar Filing: COLES MYER LTD - Form 20-F

The type of transaction between the director-related entities and the CML Group was:

Leasing property by Armidale No 2 Property Syndicate to the CML Group in the normal day-to-day conduct of its business A\$1,208,533 (2004 A\$1,207,867) net of recoverable expenses. Leasing property by Tram Road Property Holdings Pty Ltd from December 18, 2004 to the CML Group in the normal day to day conduct of its business A\$334,259, net of recoverable expenses.

Nature of terms and conditions: Rents based on market rates, paid net monthly.

Balance of amounts payable to the director-related entity by the CML Group (current) at December 1, 2005 A\$NIL (2004 A\$NIL).

Mr. A. G. Hodgson

The CML Group had transactions with a director related entity of Mr. A. G. Hodgson. Mr. A. G. Hodgson has no financial interest in this entity.

The type of transaction between the director-related entity and the CML Group was:

Goods purchased for resale by the CML Group from Woolardene Partnership in the normal day-to-day conduct of its business A\$16,515 (2004 A\$NIL).

Nature of terms and conditions: Payment subject to normal commercial arrangements.

Balance of amounts payable to the director-related entity by the CML Group (current) at December 1, 2005 A\$NIL (2004 A\$NIL).

Table of Contents

Other directorships

Some Directors of CML are also Directors of public companies that have transactions with the CML Group. The relevant Directors do not believe they have the capacity to control or significantly influence the financial policies of those companies. These companies are therefore not considered to be director-related entities.

Transactions between the CML Group and Directors of controlled entities and their director-related entities

The following information relates to Directors of controlled entities.

All transactions were on terms and conditions that were no more favorable to the director-related entity than those available, or which might reasonably be expected to be available, on similar transactions to non-director-related entities and were on an arm's length basis.

Mr. R.A. Falvey

Mr R. A. Falvey is a Director of Coles Myer New Zealand Holdings Limited, CMNZ Finance Limited and Officeworks Superstores N.Z. Limited (all companies are wholly owned subsidiaries of Coles Myer Ltd.).

The director-related entity of Mr. R.A. Falvey, which had transactions with the CML Group during the period, was Minter Ellison Rudd Watts. Mr. R.A. Falvey is a partner of Minter Ellison Rudd Watts.

The type of transaction between the director-related entity and the CML Group during the period noted above was:

Legal services provided to the CML Group in the normal day-to-day conduct of its business A\$120,047 (2004 A\$249,343), inclusive of reimbursement of external costs.

Nature of terms and conditions: Payment terms net weekly after invoice.

Balance of amounts payable to the director-related entity by the CML Group (current) at December 1, 2005 A\$NIL (2004 A\$NIL).

Other

In addition to the above, transactions with Directors of CML or Directors of its controlled entities and with their director-related entities entered into during the period included transactions which are not specifically described as they:

occurred within a normal employee, customer or supplier relationship;

were on arm's length terms and conditions that were, therefore, no more favorable than those which it is reasonable to expect the CML Group would have adopted if dealing with the Directors or director-related entities at arm's length in the same circumstances;

did not have the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report or the discharge of accountability by the Directors if disclosed in the financial report only by general description; and

were trivial or domestic in nature.

Such transactions included those whereby Directors and their director-related entities made minor retail purchases from the CML Group's retail outlets either on normal commercial terms, or at Executive discount rates.

Table of Contents

Transactions with other related parties

The aggregate amounts brought to account during the sixteen month period July 26, 2004 to December 1, 2005 in respect of the following types of transactions and each class of related party involved were:

Lease rentals, net of recoverable expenses, paid to associated entities by the CML Group A\$5,346,094 (2004 A\$5,466,560) on normal commercial terms and conditions. Balance of amounts payable by the CML Group (current) at December 1, 2005 A\$NIL (2004 A\$NIL).

Distributions received and receivable by the CML Group from an associated entity A\$10,335,404 (2004 A\$9,931,674) and the CML Group's purchase of units in an associated entity A\$1,557,091 (2004 A\$1,693,479) in accordance with Trust Deed and Partnership Agreements. Balance of amounts payable by the CML Group (current) at December 1, 2005 A\$NIL (2004 A\$NIL).

The CML Group's cost of participation with an associated entity customer loyalty programs and services provided, net of recoverable expenses, by the associated entity in relation to those programs A\$77,933,920 (2004 \$56,944,922) in accordance with a service agreement. Balance of amounts payable by the CML Group (current) at December 1, 2005 A\$5,338,183 (2004 A\$3,075,847).

The sale of customer cards to an associated entity on normal commercial terms and conditions A\$34,672,453 (2004 A\$26,500,000). Balance of amounts receivable from an associated entity by the CML Group (current) at December 1, 2005 A\$NIL (2004 A\$1,500,000).

Software development and license fees paid to an associated entity by the CML Group A\$1,071,096 (2005 A\$1,105,140) on normal commercial terms and conditions. Balance of amounts payable by the CML Group (current) at December 1, 2005 A\$NIL (2004 A\$2,041).

Details of associated entities are disclosed in note 11 of the consolidated financial statements.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

Table of Contents

ITEM 8 FINANCIAL INFORMATION

A. FINANCIAL STATEMENTS

The Company's consolidated financial statements are included as Item 17.

Legal Proceedings

Certain companies within the CML Group are party to various legal actions, which have arisen in the normal course of business. It is the opinion of Directors that any liabilities arising from such legal action would not have a material adverse effect on the Company's financial position and results of operations.

The Australian Competition and Consumer Commission (ACCC) instituted legal proceedings against Liquorland in 2003. The allegations related to eight agreements Liquorland entered into with applicants for liquor licenses in NSW from 1997 until 2001. The ACCC alleged that in entering into the agreements, Liquorland made a contract arrangement or arrived at an understanding with the applicants, which contained an exclusionary provision within the meaning of the *Trade Practices Act* (TPA) and had the purpose of substantially lessening competition in the market.

The proceedings were settled in May 2005 on the basis that Liquorland pleaded to five contraventions of the TPA and the ACCC discontinued the remaining three proceedings. Liquorland paid the ACCC a penalty of A\$950,000 per offence (a total of A\$4,750,000) and made a contribution to the ACCC's costs of A\$250,000. Liquorland has cooperated fully with the ACCC concerning these proceedings.

Dividend Policy

Dividends may only be paid out of profits of the Company. The Directors may pay any dividends that, in their judgment, the financial position of the Company justifies. See Item 10.B for a detailed description of the rights of shareholders to share in the Company's profits.

B. SIGNIFICANT CHANGES

No significant changes have occurred since the date of the consolidated financial statements.

Table of Contents**ITEM 9 THE OFFER AND LISTING**

The principal trading market for Coles Myer shares is the Australian Stock Exchange Limited. American Depositary Shares (ADS), each representing eight Ordinary Shares and evidenced by American Depositary Receipts (ADRs), for which Citibank, N.A. is the Depositary, are traded on the New York Stock Exchange.

The following table sets out, for the periods indicated, the highest and lowest sale prices for Coles Myer s Ordinary Shares, reported as the last sale on any trading day on the Australian Stock Exchange Limited and the highest and lowest sale prices for Coles Myer s ADS s, which are traded under the symbol CM. on the New York Stock Exchange. Citibank N.A., 111 Wall Street, New York, New York, 10043, Telephone: (212) 657 7808, acts as depositary for the ADSs.

Period	Ordinary Shares		American Depositary Shares		
	A\$ High	A\$ Low	US\$ High	US\$ Low	
Fiscal Year	2001	7.86	5.96	34.38	24.30
	2002	8.91	6.12	37.40	24.70
	2003	7.42	5.38	38.75	24.70
	2004	9.18	7.20	52.00	37.05
	2005	10.11	8.20	63.40	49.93
Fiscal Year 2004	First Quarter...(Aug-Oct)	8.02	7.20	44.65	37.05
	Second Quarter...(Nov-Jan)	7.82	7.26	47.70	42.75
	Third Quarter...(Feb-Apr)	8.55	7.30	50.65	45.80
	Fourth Quarter...(May-Jul)	9.18	8.22	52.00	45.50
Fiscal Year 2005	First Quarter...(Aug-Oct)	9.59	8.71	56.66	49.93
	Second Quarter...(Nov-Jan)	10.09	9.09	63.40	56.01
	Third Quarter...(Feb-Apr)	9.92	8.51	63.31	53.85
	Fourth Quarter...(May-Jul)	9.67	8.20	59.90	52.55
Fiscal Year 2006	First Quarter...(Aug-Oct)	10.41	9.34	64.02	57.30
Month ended	June 2005	9.67	9.15	59.90	55.50
	July 2005	9.64	8.91	59.10	53.10
	August 2005	9.90	9.34	61.50	57.30
	September 2005	10.41	9.85	64.02	61.30
	October 2005	10.25	9.52	62.84	57.50
	November 2005	10.23	9.78	60.65	57.70

Table of Contents

ITEM 10 ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. CONSTITUTION

The corporate organization and conduct of Coles Myer are governed by its Constitution (the "Constitution"). A full copy of the Company's Constitution and any amendments to it are filed with the SEC. References to "rules" in this document are references to rules set forth in the Company's Constitution.

1. Incorporation

The Company was incorporated on July 1, 1921 in the State of Victoria, Commonwealth of Australia. The Company is registered with the Australian Securities and Investments Commission ("ASIC") and its Australian Business Number ("ABN") is 11 004 089 936.

2. Disclosing Directors' interests

(a) A Director's power to vote on a matter where the Director has a material interest

The Australian Corporations Act 2001 (the "Corporations Act") prohibits a Director of the Company who has a material personal interest in a matter that is being considered at a Directors' meeting from being present while the matter is being considered or voting on the matter unless:

- (i) his/her participation is approved by (a resolution of) the other Directors or by ASIC; or
- (ii) the interest does not need to be disclosed under the Corporations Act.

Directors are required to disclose matters in which they are materially interested unless they are excused from doing so. Section 191(2) of the Corporations Act sets out interests that the Directors do not need to notify and situations where notice has already been given. The relevant provisions of the Company's Constitution are subject to the above provisions of the Corporations Act.

However, Directors may exercise the voting rights given by shares in any corporation held or owned by the Company in any way the Directors decide.

(b) Director s power to vote remuneration in the absence of an independent quorum

A Director who has an interest in a matter being considered at a meeting of Directors may be counted in the quorum at the meeting, unless that is prohibited by the Corporations Act. Section 191(2)(a) of the Corporations Act does not require Directors to disclose interests arising in relation to their remuneration as Directors of the Company. Accordingly, Directors can vote on matters relating to their remuneration and be counted in the quorum at a meeting where their remuneration is considered.

Directors may vote for their remuneration as set out in the Constitution. For their services as Directors they are entitled to such remuneration as the Directors decide. However, the total amount provided to all non-executive Directors for their services as directors in any year must not exceed the amount as the Company determines by ordinary resolution in general meeting (from November 17, 2005 - A\$2,000,000, previously A\$1,500,000). The maximum amount excludes amounts payable under non-executive Directors retirement agreements as members have separately approved those benefits.

In addition, every Director is entitled to be paid all necessary traveling, hotel and other expenses incurred in attending general meetings of the Company, meetings of the Directors or of committees of the Directors.

Table of Contents

(c) Borrowing powers of the Directors

The Directors may exercise all the powers of the Company to:

- (i) borrow, or raise money in any other way;
- (ii) to charge any of the Company's property or business or any of its uncalled capital; and
- (iii) to issue debentures or give any other security for a debt, liability or obligation of the Company or of any person.

These powers can be amended by a special resolution of the shareholders in general meeting.

(d) Age qualification

The office of a Director becomes vacant at the conclusion of the annual general meeting following or held on the date that he or she reaches the age of 68 years.

(e) Share qualification

A Director is not required to hold ordinary shares in the Company as a qualification for office.

3. Rights and restrictions attaching to each class of shares

The Company has two classes of shares: ordinary class and preference shares. No preference shares are currently on issue.

(a) Dividends

The rights attached to both classes of shares include the right to dividends under the terms of issue of the shares, in the event the Directors declare them. Directors may determine that a dividend is payable, fix the amount, the date at which the entitlement accrues and the method of payment.

The dividend on preference shares is preferential to any other class of shares. The dividend may be cumulative if and to the extent the Directors decide.

Edgar Filing: COLES MYER LTD - Form 20-F

The Constitution provides that dividends and other amounts payable in respect of a share, which are not claimed within 11 months of the payment date, may be reinvested by the Directors into additional shares in the Company in the name of the shareholder. This covers payments where the shareholder is uncontactable, where a cheque is not banked or where an electronic transfer to a bank account nominated by a shareholder is rejected.

(b) Voting

The voting right attached to ordinary shares is the right to vote in person, by proxy, attorney or representative in general meeting.

On a show of hands each shareholder (regardless of the number of shares held) has one vote. On a poll, each shareholder may exercise one vote for each fully paid ordinary share held. In respect of partly paid shares, the shareholder has a vote equivalent to the proportion which the amount paid up bears to the total issue price of the share at the date the poll is taken. A shareholder cannot vote if the resolution that convened the meeting specified that the shareholder could not vote.

Holders of preference shares cannot vote at a general meeting of the Company except as follows:

(i) on a proposal:

to reduce the share capital of the Company;

that affects rights attached to the share;

to wind up the Company; or

for the disposal of the whole of the property, business and undertaking of the Company;

(ii) on a resolution to approve the terms of a buy back agreement;

(iii) during a period in which a dividend or part of a dividend on the share is in arrears; or

(iv) during the winding up of the Company.

Table of Contents

To determine voting entitlements at a general meeting, shares are taken to be held by those persons recorded in the register of members at the time and date determined by the Directors under the Corporations Act.

Directors stand for re-election at staggered intervals.

There is no provision in the Constitution for cumulative voting.

(c) Rights to share in the Company's profits

Dividends may only be paid out of profits.

The Directors pay dividends in accordance with the provisions of the Constitution. The Directors may pay any dividends that, in their judgment, the financial position of the Company justifies. Payment of a dividend does not require confirmation by a meeting of the members of the Company. Subject to any rights or restrictions attaching to any shares or class of shares, all dividends must be paid equally on all shares, except that a partly paid share is not entitled to a greater proportion of the dividend than the ratio of the amounts paid, to the amounts paid and payable. The Directors may fix a record date for a dividend, with or without suspending the registration of transfers from that date.

(d) Surplus in the event of liquidation

Any surplus in the event of liquidation must be divided among the shareholders in proportion to the shares they hold, irrespective of the amounts paid or credited as paid on the shares. Holders of preference shares have the right, in the event of liquidation, to payment in cash in priority to any other class of shares of:

- (i) the amount of any dividend accrued but unpaid on the share at the date of liquidation; and
- (ii) any amount paid on the share.

(e) Redemption

Shareholders cannot redeem ordinary shares. Preference shares can, at the option of the Company, be redeemed. Holders of preference shares have the same rights on redemption as those set out under "Surplus in the event of liquidation" above.

(f) Sinking Fund

The Constitution does not contain any sinking fund provisions.

However, the Company may resolve, by special resolution that the whole or any part of its unpaid capital may only be called up if the Company becomes subject to external administration. The Constitution allows the Directors to set aside out of Company profits any reserves or provisions for any purposes that they decide.

(g) Liability to further calls

The holders of fully paid ordinary or preference shares have no further liability to the Company in respect of those shares. The holders of partly paid shares are liable to the Company once a call is made for the payment of the unpaid amount.

(h) Limitations on owning a substantial number of shares

There is no provision in the Constitution that discriminates against an existing or prospective shareholder as a result of that shareholder owning a substantial number of shares.

A foreign person may not acquire a substantial interest in the Company without first notifying the Treasurer of the Australian Federal Government. See [Non-resident and Foreign Shareholders](#) and [Other takeover provisions](#) and [Disclosure of substantial shareholdings](#) below.

Table of Contents

4. Actions necessary to change the rights of holders of shares

The rights and privileges attached to ordinary shares may only be varied if the holders of at least 75% of the issued shares of that class present for that purpose at a special meeting pass a resolution approving the variation. If the necessary majority is not obtained at the special meeting, the variation must be ratified in writing by the holders of at least 75% of the issued shares of that class within two calendar months after the date the special meeting is held.

5. General Meetings of the Company

General meetings may be convened either by a Directors resolution, by shareholders with at least 5% of the votes that may be cast at a general meeting, or as permitted by the Corporations Act.

Annual General Meetings must be held once every calendar year within 5 months of the end of the financial year.

At least 28 days notice of a general meeting must be given.

Notice must be given to all persons set out in the Constitution. Subject to the Corporations Act and the Listing Rules of the ASX, the content of notices of general meetings is decided by the Directors but must state the general nature of the meeting.

All shareholders may attend a general meeting in person, or be represented by the attendance of a representative, attorney or proxy (who need not be shareholders of the Company in their own right).

The chairman of a general meeting, or his or her delegate, may take any action considered appropriate for the safety of persons attending the meeting and the orderly conduct of the meeting. They may refuse admission to any person who is in possession of an article considered to be dangerous, offensive, or liable to cause disruption, or who refuses to permit examination of any article in the person's possession, or who behaves or threatens to behave in a dangerous, offensive or disruptive way.

6. Limitations on the right to own securities

The Constitution does not impose limitations on the right to own securities. However, the Directors may fix the minimum amount of stock transferable and restrict or forbid the transfer of fractions of that minimum. The Directors have a general right to decline to register a transfer of shares if the Company may decline the transfer under the terms of issue of the shares, or where permitted to do so under the ASX Listing Rules.

The Constitution does not contain any rules governing foreign ownership of the Company's shares.

Edgar Filing: COLES MYER LTD - Form 20-F

The Directors may approve the sale of shares that constitute less than a marketable parcel (as defined under the Listing Rules) by following certain procedures. These include certain notice requirements that the Company must comply with prior to selling any shares and the rights of shareholders (who hold less than 500 shares) to exempt their shares from this scheme. A notice can only be given to a shareholder once every 12 months and not during the offer period of a takeover bid.

7. Changes in control of the Company

The Constitution does not contain provisions delaying, deferring or preventing a change in control of the Company or relating to shareholders who seek to acquire a substantial interest in the Company. See [Non-resident and Foreign Shareholders](#) below.

Table of Contents

Non-resident and Foreign Shareholders

The rights of non-resident and foreign shareholders to hold or exercise voting rights on the Company's securities are subject to the *Foreign Acquisitions and Takeovers Act 1975*. The Treasurer of the Australian Federal Government has the power to prohibit the acquisition of a controlling interest in any Australian company by a foreign person or persons, if the Treasurer is of the opinion that the acquisition would be contrary to the national interest. A controlling interest is defined as a shareholding of 15% or more held by a single foreign person or 40% or more held by two or more foreign persons. In each case, the person or persons may hold the shares alone or together with any associate or associates. The Treasurer may also make orders requiring that a foreign person dispose of its shares.

Other takeover provisions

A summary of the main provisions of the Corporations Act in force at the date of this Annual Report is given below. The summary is not exhaustive.

Section 606(1) of the Corporations Act prohibits any person (including a body corporate) from acquiring a relevant interest in issued voting shares in a listed company (or an unlisted company with more than 50 members) if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's, or any other person's voting power increases: (i) from 20% or below to more than 20%; or (ii) from a starting point that is above 20% and below 90%.

A person has a relevant interest in securities, no matter how remote the relevant interest is or how it arises, if they (i) are the holder of securities; or (ii) have power to exercise, or control the exercise of, a right to vote attached to the securities; or (iii) have the power to dispose of, or control the exercise of a power to dispose of, the securities. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

This prohibition is subject to certain exceptions that must be strictly complied with to be applicable.

A person may acquire a relevant interest under one of the exceptions to Section 606(1) of the Law contained in Section 611 of the Corporations Act, some of which include:

An acquisition that results from the acceptance of an offer under a formal takeover bid. Separate takeover bids are required for each class of shares sought.

An acquisition by a person who has voting power in the company of at least 19% in the six months prior to the acquisition, if as a result of the acquisition, the person would not have voting power more than 3 percentage points higher than they had six months before the acquisition.

Edgar Filing: COLES MYER LTD - Form 20-F

An acquisition approved previously by a resolution passed at a general meeting of the company in which the acquisition is made. No votes are to be cast in favor of the resolution by the person proposing to make the acquisition, or the person (and their associates) from whom the acquisition is to be made. The members of the company must be given all the information known by the company or the person (or their associates) proposing to make the acquisition, that is material to the decision on how to vote on the resolution.

Section 50 of the Trade Practices Act 1974 prohibits an acquisition of shares or assets that would have the effect, or be likely to have the effect, of substantially lessening competition in a substantial market for goods or services, unless the acquisition is authorized by the Australian Competition and Consumer Commission.

Table of Contents

8. Disclosure of substantial shareholdings

The Corporations Act imposes certain disclosure requirements on persons who acquire or cease to hold a substantial holding in the Company. The disclosure must be given to the Company and the ASX within the prescribed time. The Constitution does not contain any provision relating to the disclosure of substantial shareholdings.

9. Changes in share capital

The Company may by resolution passed in general meeting from time to time, alter its share capital in one or more of the ways provided for, and in the manner prescribed by, the Corporations Act.

The Company may convert or reclassify shares and reduce its share capital or buy back shares in accordance with the Corporations Act.

C. MATERIAL CONTRACTS

Material contracts entered into or performed in whole or in part for the two years immediately preceding publication of this document, are as follows:

1. Debt Issuance Program Deed of Guarantee and Deed of Covenant (Exhibits 2.1 and 2.2 at Item 19). Refer page 49 for further details. Note Deed Poll and Guarantee Deed Poll (Exhibits 2.3 and 2.4 at Item 19). Refer page 49 for further details. Common Provisions Deed Poll (Exhibit 2.5 at Item 19). Refer page 21 for further details.
2. License Agreements between Kmart Corporation and Kmart Australia Limited and Kmart New Zealand Limited (Exhibits 15.1 and 15.2 at Item 19). Refer page 28 for further details.

Table of Contents

3. Employment agreements we have filed the following employment agreements with the SEC:

Exhibit No.	Contract	Position of Executive	Duration of contract
4.2	Employment Agreement, dated February 1, 2002, between Coles Myer Ltd. and Mr. Tim Hammon	Chief Officer Corporate & Property Services	(1)
4.3	Employment Agreement, dated April 4, 2002, and subsequent amendments dated September 9, 2003 and November 18, 2003 between Coles Myer Ltd. and Ms. Dawn Robertson	Managing Director Myer	(1)
4.4	Employment Agreement dated July 19, 2001, and subsequent amendment dated October 1, 2003, between Coles Myer Ltd. and Mr. Hani Zayadi	Managing Director Kmart	(1)
4.5	Employment Agreement, dated August 15, 2001, and subsequent amendment dated October 1, 2003, between Coles Myer Ltd. and Mr. Larry Davis	Managing Director Target	(1)
4.6	Employment Agreement, dated August 8, 2003, between Coles Myer Ltd. and Mr. Steven Cain	Group Managing Director, Food, Liquor and Fuel	(1)
4.7	Employment Agreement, dated March 19, 2004, between Coles Myer Ltd. and Mr. Fraser MacKenzie	Chief Financial Officer	Fixed term to April 30, 2007
4.8	Agreement to extend term of appointment, dated February 11, 2005, between Coles Myer Ltd. and Mr. John Fletcher	Chief Executive Officer	(1)
4.9	Employment Agreement dated April 15, 2005, between Coles Myer Ltd. and Mr. Hani Zayadi	Group Managing Director Food, Liquor & Fuel	(1)
4.10	Employment Agreement dated February 14, 2005, between Coles Myer Ltd. and Mr. Larry Davis	Managing Director Kmart	(1)
4.11	Employment Agreement dated February 14, 2005, between Coles Myer Ltd. and Ms. Launa Inman	Managing Director Target	(1)
4.12	Settlement and Release Agreement dated July 13, 2005, between Coles Myer Ltd. and Mr. Steven Cain	Former Group Managing Director Food, Liquor & Fuel	(2)

(1) Terminable at will of either the Company or the Executive. The standard notice period required by the Company is 12 months and the standard notice period required by the Executive is 6-12 months.

(2) An 18-month restraint period is applicable from January 3, 2005.

Please refer to Item 6.B for compensation details of each of the Executives listed above.

Table of Contents

D. EXCHANGE CONTROLS

Under existing Australian legislation in force at the date of this Annual Report, the Reserve Bank of Australia does not inhibit the import and export of funds, and no permission is required by Coles Myer for the movement of funds into and out of Australia, except to or on behalf of certain authorities and agencies of the Federal Republic of Yugoslavia or Zimbabwe (or certain persons associated with such authorities or agencies) or property, securities or funds belonging, directly or indirectly to such persons. In addition, other legislation and regulations in Australia also restrict or prohibit payments, transactions and dealings with assets having a proscribed connection with certain countries (which at the date of the Annual Report does not include the United States of America) or proscribed persons or entities subject to international sanctions associated with terrorism and assets derived from or generated by any such assets.

Non-residents are entitled to hold Ordinary Shares in the Company. However, prohibitions and restrictions apply to the size of shareholdings and to takeovers. Prohibitions and restrictions include those found in the Corporations Act 2001, the Foreign Acquisitions and Takeovers Act 1975 (Cth), the Trade Practices Act 1975 (Cth) and the listing rules of the Australian Stock Exchange Limited.

Shareholders, including holders of ADR s, are advised to consult their own advisors as to the source, nature and effect of the prohibitions and restrictions.

E. TAXATION

The following summary contains Australian and United States tax consequences that may result from ownership of ADSs and Ordinary Shares. This summary is not exhaustive of all possible tax considerations and is based on the laws in force as of the date of this Annual Report (some of which may have retroactive effect). Investors are advised to consult their own tax advisers as to the tax consequences under Australian, U.S. Federal, U.S. state, and U.S. local tax laws of the acquisition, ownership and disposition of ADSs and Ordinary Shares.

Australian Taxation

An imputation system operates in Australia in respect of company income tax. The system provides for the relief of double taxation on dividends paid by Australian resident companies. In the absence of an exemption or concession, Australian resident companies are liable for Australian income tax on their taxable income at the corporate tax rate (currently 30%). The payment of Australian income tax by Australian companies generates a franking credit which, when the company pays a dividend to shareholders, generally flows through to Australian shareholders, and to shareholders who are not Australian residents holding the ADSs or Ordinary Shares through an Australian permanent establishment (broadly, an Australian branch). This means that these shareholders who receive assessable franked dividends from a company are generally entitled to a tax offset for the tax paid by the company on its income i.e. to the extent the company has paid tax on the income which underlies the dividend, the shareholder will not also have to pay tax.

Under the current double taxation convention between Australia and the United States, dividends paid by Coles Myer to a United States resident shareholder of Coles Myer, including an ADS holder, who is not deemed to be an Australian resident for tax purposes and does not hold the ADSs or Ordinary Shares through an Australian permanent establishment, will generally be subject to an Australian withholding tax at a maximum rate of 15% on their un-franked amount (the franked amount will not be subject to Australian withholding tax). If the relevant shareholding is at least 10% of Coles Myer s issued shares, then lower withholding tax outcomes may occur under the double tax convention. To the extent that withholding tax is paid, this is a final tax and no other Australian tax would be payable.

Edgar Filing: COLES MYER LTD - Form 20-F

Since the introduction of the imputation system, all dividend distributions made by Coles Myer have been fully franked. Coles Myer has provided and will continue to provide all shareholders with notices that specify the franked and un-franked amount of each dividend and the amount (if any) of dividend withholding tax deducted. The notices will also state the franking percentage.

A shareholder may be denied the benefit of franking credits in certain circumstances; broadly where a shareholder is party to arrangements that substantially eliminate economic risks of share ownership or were entered into to obtain a tax advantage.

Table of Contents

A United States citizen who is a resident of Australia, or a United States corporation which is a resident of Australia (by reason of carrying on business in Australia and having its voting power controlled by shareholders who are residents of Australia, or being managed or controlled in Australia) may be liable to pay Australian income tax in respect of the profit or capital gain (if any) derived upon the disposal of ADSs or Ordinary Shares. Under current Australian tax laws, no tax is payable in respect of the disposal of ADSs or Ordinary Shares held by non-residents of Australia except:

- (a) if the ADSs or Ordinary Shares are trading stock of the holder or if an ordinary incident of the holder's business is the sale of securities for a profit, and, in either case, the profit is sourced in Australia; or
- (b) if the ADSs or Ordinary Shares have been used by the holder in carrying on business through an Australian permanent establishment; or
- (c) if the total number of ADSs or Ordinary Shares beneficially owned by the non-resident or his associates, or the non-resident together with his associates, at any time during the period of five years preceding the disposal represents 10% or more of the issued share capital of Coles Myer (excluding share capital carrying no right to participate beyond a specified amount in a distribution of profits or capital).

Notwithstanding that the profit or gain upon the sale of the ADSs or Ordinary Shares is assessable in Australia in the circumstances of (a) above, if the vendor is a resident of the United States, then depending on the circumstances of the case, relief from double tax may nevertheless be available under the current double taxation convention referred to above.

In addition, under current Australian tax law, no Australian State or Federal estate duty or any other inheritance taxes will be payable in respect of ADSs or Ordinary Shares upon the death of a holder thereof, regardless of the holder's domicile. For capital gains tax purposes, the death of the holder will not be a taxing event, except if the ADSs or Ordinary Shares are held by an Australian resident or are within the scope of (b) or (c) above and are bequeathed to a tax exempt institution (as defined by reference to certain Australian exempting provisions) or the trustee of a complying superannuation entity (as defined in the Australian tax legislation) or if ADSs or Ordinary Shares held by a deceased resident pass to a non-resident who would not be subject to Australian capital gains tax on their disposal (i.e. do not fall within the circumstances outlined in (b) or (c) above). In all other circumstances, the liability for tax on any gain is effectively transferred to the deceased's legal representatives or beneficiaries, subject to those matters referred to above. Such deemed disposal or a disposal subsequently by the beneficiary will have the consequences set out above. An income tax liability can arise on death in some circumstances e.g. where ADSs or Ordinary Shares are trading stock and the business was conducted in Australia or by a resident of Australia.

United States Taxation

The following summary describes the material United States federal income tax consequences relating to an investment in the Ordinary Shares or ADSs. This summary is based on the Internal Revenue Code of 1986, as amended (the Code), its legislative history, existing final, temporary and proposed Treasury Regulations, rulings and judicial decisions, all as currently in effect and all of which are subject to prospective and retroactive rulings and changes. This summary does not purport to address all United States federal income tax consequences that may be relevant to a particular investor and investors are urged to consult their own tax advisor regarding their specific tax situation. The summary applies only to holders who hold Ordinary Shares or ADSs as capital assets (generally, property held for investment) under the Code, and does not address the tax consequences that may be relevant to investors in special tax situations including, for example:

insurance companies;

Edgar Filing: COLES MYER LTD - Form 20-F

regulated investment companies and real estate investment trusts;

tax-exempt organizations;

broker-dealers;

traders in securities that elect to mark to market;

banks or other financial institutions;

investors whose functional currency is not the United States dollar;

United States expatriates;

Table of Contents

investors that hold the Ordinary Shares or ADSs as part of a hedge, straddle or conversion transaction; or

holders that own, directly, indirectly, or constructively 10.0% or more of Coles Myer's total combined voting stock.

Further, this summary does not address the alternative minimum tax consequences of an investment in Ordinary Shares or ADSs or the indirect consequences to holders of equity interests in entities that own the Ordinary Shares or ADSs. In addition, this summary does not address the state, local and foreign tax consequences of an investment in Ordinary Shares or ADSs. Investors should consult their own tax advisor regarding the United States federal, state, local and foreign and other tax consequences of purchasing, owning, and disposing of Ordinary Shares or ADSs in their particular circumstances.

Investors are a U.S. Holder if they are a beneficial owner of Ordinary Shares or ADSs and they are for United States federal income tax purposes:

an individual citizen or resident of the United States;

a corporation, or any other entity taxable as a corporation, created or organized in or under the laws of the United States or any state thereof, including the District of Columbia;

an estate the income of which is subject to United States federal income tax regardless of its source; or

a trust if a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all substantial decisions of the trust, or if the trust has made a valid election to be treated as a United States person.

If a partnership holds Ordinary Shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partners of partnerships holding Ordinary Shares or ADSs should consult their own tax advisors. A Non-U.S. Holder is a beneficial owner of Ordinary Shares or ADSs that is not a U.S. Holder.

For United States federal income tax purposes, a U.S. Holder of an ADS will generally be treated as the owner of the Ordinary Shares represented by the ADS. Accordingly, no gain or loss will be recognized upon the exchange of an ADS for Ordinary Shares. A U.S. Holder's tax basis in the Ordinary Shares will be the same as the tax basis in the ADS surrendered therefore, and the holding period in the Ordinary Shares will include the period during which the holder held the surrendered ADS. However, the United States Treasury has expressed concerns that parties to whom depositary shares are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by the holders of ADSs. Accordingly, the analysis of the creditability of Australian taxes paid with respect to the ADSs could be affected by future actions that may be taken by the United States Treasury.

Distributions on Ordinary Shares or ADSs

Edgar Filing: COLES MYER LTD - Form 20-F

Cash distributions made by Coles Myer to a U.S. Holder with respect to Ordinary Shares or ADSs (including amounts withheld in respect of any Australian withholding taxes) generally will be taxable to such U.S. Holder as ordinary dividend income when such U.S. Holder receives the distribution, actually or constructively, to the extent paid out of Coles Myer's current or accumulated earnings and profits (as determined for United States federal income tax purposes). If these dividends constitute qualified dividend income (QDI), individual U.S. Holders of the Ordinary Shares or ADSs will generally pay tax on such dividends received before 2009 at a maximum rate of 15%, provided certain holding period requirements and other conditions are satisfied. Assuming Coles Myer is not a passive foreign investment company (as discussed below), dividends paid by Coles Myer will be QDI if Coles Myer is a qualified foreign corporation (QFC) at the time the dividends are paid. Coles Myer believes that it is currently, and will continue to be, a QFC so as to allow all dividends paid by it to be QDI for United States federal income tax purposes. Distributions in excess of Coles Myer's current or accumulated earnings and profits will be treated first as a non-taxable return of capital reducing such U.S. Holder's tax basis in the Ordinary Shares or ADSs. Any distribution in excess of such tax basis will be treated as capital gain and will be either long-term or short-term capital gain depending upon whether the U.S. Holder held the Ordinary Shares or ADSs for more than one year. Dividends paid by Coles Myer generally will not be eligible for the dividends-received deduction available to certain United States corporate shareholders.

Table of Contents

Subject to certain limitations, a U.S. Holder may be entitled to a credit or deduction against its U.S. federal income taxes for the amount of any Australian taxes that are withheld from dividend distributions made to such U.S. Holder. The decision to claim either a credit or deduction must be made annually, and will apply to all foreign taxes paid by the U.S. Holder to any foreign country or U.S. possession with respect to the applicable tax year. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For tax years beginning before January 1, 2007, income received with respect to the Ordinary Shares or ADSs will be treated as foreign source income and generally will constitute passive income or, in the case of certain holders, financial services income for United States foreign tax credit limitation purposes, and for tax years beginning after December 31, 2006, will be treated as passive category income or general category income for United States foreign tax credit limitation purposes. The rules regarding the availability of foreign tax credits are complex and U.S. Holders may be subject to various limitations on the amount of foreign tax credits that are available. Coles Myer therefore urges investors to consult their own tax advisor regarding the availability of the foreign tax credit under their particular circumstances.

The amount of any cash distribution paid in Australian dollars will equal the U.S. dollar value of the distribution, calculated by reference to the exchange rate in effect at the time the distribution is received by the depositary (in the case of ADSs) or by the U.S. Holder (in the case of Ordinary Shares held directly by such U.S. Holder), regardless of whether the payment is in fact converted to U.S. dollars at that time. Generally, a U.S. Holder should not recognize any foreign currency gain or loss if such Australian dollars are converted into U.S. dollars on the date received. If the Australian dollars are not converted into U.S. dollars on the date of receipt, however, gain or loss may be recognized upon a subsequent sale or other disposition of the Australian dollars. Such foreign currency gain or loss, if any, will be United States source ordinary income or loss.

Sale or Exchange of Ordinary Shares or ADSs

A U.S. Holder will generally recognize capital gain or loss upon the sale, exchange or other disposition of the Ordinary Shares or ADSs measured by the difference between the U.S. dollar value of the amount received and the U.S. Holder's tax basis (determined in U.S. dollars) in the Ordinary Shares or ADSs. Any gain or loss will be a long-term capital gain or loss if the Ordinary Shares or ADSs have been held for more than one year and will generally be United States source gain or loss. The ability to deduct capital losses is subject to limitations.

For cash-basis U.S. Holders who receive foreign currency in connection with a sale or other taxable disposition of Ordinary Shares or ADSs, the amount realized will be based upon the United States dollar value of the foreign currency received with respect to such Ordinary Shares or ADSs as determined on the settlement date of such sale or other taxable disposition. Accrual-basis U.S. Holders may elect the same treatment required of cash-basis taxpayers with respect to a sale or other taxable disposition of Ordinary Shares or ADSs, provided that the election is applied consistently from year to year. Such election cannot be changed without the consent of the United States Internal Revenue Service. Accrual-basis U.S. Holders that do not elect to be treated as cash-basis taxpayers (pursuant to the Treasury Regulations applicable to foreign currency transactions) for this purpose may have a foreign currency gain or loss for United States federal income tax purposes because of differences between the United States dollar value of the foreign currency received prevailing on the date of such sale or other taxable disposition and the value prevailing on the date of payment. Any such currency gain or loss will generally be treated as ordinary income or loss that is United States source, in addition to the gain or loss, if any, recognized on the sale or other taxable disposition of Ordinary Shares or ADSs.

Passive Foreign Investment Company Rules

U.S. Holders generally will be subject to a special, adverse tax regime that would differ in certain respects from the tax treatment described above if Coles Myer is, or were to become, a passive foreign investment company (PFIC) for United States federal income tax purposes. Although the determination of whether a corporation is a PFIC is made annually and thus may be subject to change, Coles Myer does not believe that it is, nor does it expect to become, a PFIC for United States federal income tax purposes. However, the matter is not free from doubt. Coles

Edgar Filing: COLES MYER LTD - Form 20-F

Myer urges investors to consult their own tax advisor regarding the adverse tax consequences of owning the Ordinary Shares or ADSs of a PFIC and making certain elections designed to lessen those adverse consequences.

Table of Contents

Taxation of Non-U.S. Holders

Non-U.S. Holders generally will not be subject to United States federal income or withholding tax on dividends received from Coles Myer with respect to Ordinary Shares or ADSs, unless such income is considered effectively connected with the Non-U.S. Holder's conduct of a United States trade or business (and, if required by an applicable income tax treaty, the income is attributable to a permanent establishment maintained in the United States).

Non-U.S. Holders generally will not be subject to United States federal income tax on any gain realized upon the sale, exchange or other disposition of Ordinary Shares or ADSs unless:

such gain is considered effectively connected with the Non-U.S. Holder's conduct of a United States trade or business (and, if required by an applicable income tax treaty, the income is attributable to a permanent establishment maintained in the United States); or

if such Non-U.S. Holder is an individual that is present in the United States for 183 days or more during the taxable year of the disposition and certain other conditions are met.

In addition, if you are a corporate Non-U.S. Holder, any effectively connected dividend income or gain (subject to certain adjustments) may be subject to an additional branch profits tax at a rate of 30% (or such lower rate as may be specified by an applicable income tax treaty).

Backup Withholding and Information Reporting

In general, dividends on Ordinary Shares or ADSs, and payments of the proceeds of a sale, exchange or other disposition of Ordinary Shares or ADSs, paid to a U.S. Holder within the United States or through certain United States-related financial intermediaries are subject to information reporting and may be subject to backup withholding at a rate currently equal to 28% unless the holder:

is a corporation or other exempt recipient; or

provides an accurate taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred.

Non-U.S. Holders generally are not subject to information reporting or backup withholding. However, such holders may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries.

Backup withholding is not an additional tax. Investors generally will be allowed a credit of the amount of any backup withholding against their United States federal income tax liability or they may obtain a refund of any amounts withheld under the backup withholding rules that exceed their income tax liability by filing a refund claim with the United States Internal Revenue Service.

U.S. Estate Taxation

An individual holder who is a U.S. citizen or resident (for U.S. estate tax purposes) will have the value of the Ordinary Shares or ADSs included in the individual's gross estate for U.S. estate tax purposes. The individual holder's estate may be entitled to a tax credit against the holder's U.S. estate tax to the extent the individual holder's estate actually pays non-U.S. estate tax on the value of the Ordinary Shares or ADSs; however, investors should consult their own tax advisors regarding both the U.S. and non-U.S. estate tax consequences of their investment.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

Table of Contents

H. DOCUMENTS ON DISPLAY

Documents concerning the Company that are referred to in this Annual Report may be inspected at 800 Toorak Road, Tooronga, Victoria 3146, Australia (Tel +613 9829 3111) attention Company Secretary.

Copies of such materials may also be obtained from the principal office of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. The public may also obtain information from the operation of the SEC's Public Reference Room by calling 1-800-SEC-0330.

Additionally, the SEC maintains a web site at <http://www.sec.gov> that contains reports and other information that registrants file electronically with the SEC through the Electronic Data Gathering, Analysis and Retrieval system (EDGAR). Such materials are available for inspection and copying at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

I. SUBSIDIARY INFORMATION

Refer Note 34 in the consolidated financial statements contained in Item 17 for a complete list of the Company's subsidiaries.

Table of Contents

ITEM 11 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The Coles Myer Group uses a combination of cross currency swaps and forward contracts to manage exchange rate risk associated with foreign currency denominated borrowings. To manage its exposure to movements in interest rates, it uses the derivative classes of interest rate swaps, options, forward rate agreements and futures. Exposures arising from the importation of merchandise, non-merchandise and capital equipment are managed by the use of currency options and forward exchange contracts.

At July 31, 2005 all derivative financial instruments held by the Coles Myer Group were held for the purpose of hedging identifiable exposures to exchange and interest rate fluctuations. As a consequence, market risk, that is, the risk that the value of derivative financial instruments will be adversely affected by changes in the market value of the underlying asset, reference rate or index is not believed to be an exposure for the Coles Myer Group. Credit risk, however, is an exposure that affects the use of derivative financial instruments. Credit risk arises from the possibility that the counterparty to a derivative financial instrument will not adhere to the terms of the contract when settlement becomes due. The Coles Myer Group has a documented system of credit assessment and the setting of dealing limits in place to minimize credit risk.

Derivative financial instruments are only undertaken with financial institutions that have been independently assessed to have a strong capacity to pay interest and repay principal in a timely manner.

It is not the policy of the Coles Myer Group to grant or to seek collateral when entering into derivative transactions.

The Company's net debt and foreign exchange at July 31, 2005, which is recorded at a fair value of A\$771.0 million (July 25, 2004: A\$129.9 million) has exposure to price risk. This risk is defined as the potential opportunity loss in fair value resulting from a hypothetical 10% adverse change in interest and foreign exchange rate movements. Actual results may differ.

A sensitivity analysis that assumes a 10% downward shift in interest rates across all yield curves at July 31, 2005, results in a potential opportunity cost to the Company's net debt portfolio of A\$4.7 million (July 25, 2004: A\$7.3 million). The model used for the sensitivity analysis calculated the net present value of all outstanding cash flows related to the Company's interest rate swap portfolio. A sensitivity analysis was performed on the basis that any movement in interest rates was treated at the same rate of change across the entire yield curve. The impact of a 10% adverse shift on the foreign exchange exposure at July 31, 2005 and July 25, 2004 would not have had a material impact on the Company's results of operations.

See also Notes 30 and 31 to the consolidated financial statements in Item 17 containing financial instruments disclosures and disclosure about fair values of financial instruments.

ITEM 12 DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

ITEM 13 DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

Table of Contents

ITEM 14 MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15 CONTROLS AND PROCEDURES

At the end of the period covered by this Annual Report on Form 20-F, an evaluation was carried out under the supervision and with the participation of our management, including J.E. Fletcher, Chief Executive Officer (principal Executive officer) and J.F. MacKenzie, Chief Financial Officer (principal financial officer), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. No significant changes were made in our internal controls or in other factors that could significantly affect these controls to the date of their evaluation.

ITEM 16A AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors has determined that the financial experts serving on the audit committee are Mr. A.G. Hodgson and Mr. R.H. Allert. All members of the Audit Committee qualify as independent Directors under the Corporate Governance Guidelines and the New York Stock Exchange's corporate governance rules.

ITEM 16B CODE OF ETHICS

The Company has adopted a code of ethics that applies to all employees of the Company. The code of ethics is referred to as the Coles Myer Ltd. Code of Conduct and can be accessed on the Company's website at www.colesmyer.com. No amendments to or waivers of the code of ethics were made or granted during 2005.

ITEM 16C PRINCIPAL ACCOUNTANT FEES AND SERVICES

a) Audit fees for the year ended July 31, 2005 were \$A7,402,000 (2004 A\$6,317,000). Audit fees consist of fees for professional services rendered for the audit of the consolidated financial statements of Coles Myer Ltd. and other services normally provided in connection with statutory and regulatory filings and the implementation of the Sarbanes-Oxley Act, which mainly include the statutory audits of financial statements of Coles Myer Ltd. subsidiaries and the assistance with review of documents filed with the Australian Stock Exchange and the U.S. Securities and Exchange Commission.

b) Audit-related fees for the year ended July 31, 2005 were A\$1,887,000 (2004 A\$1,074,000). Audit-related fees consist of fees for professional services that are traditionally performed by an independent accountant. These services include international financial reporting standards (IFRS) consultations, other consultations concerning financial accounting and reporting standards, internal control reviews, sales certificates required under property lease agreements, other certificates required by Coles Myer Ltd. under various contractual arrangements and due diligence procedures in connection with acquisitions.

Edgar Filing: COLES MYER LTD - Form 20-F

c) Tax Fees for the year ended July 31, 2005 were A\$91,000 (2004 A\$199,000). Tax fees consist of fees expensed for tax planning services and tax advice.

Table of Contents

Audit Committee Pre-approval Policies and Procedures

The Board of Directors has adopted a policy that sets out procedures and conditions for pre-approving audit, audit-related and non-audit related services performed by the Group's independent statutory auditor, responsible for the audit of both the Coles Myer Ltd. consolidated statutory accounts and the statutory accounts of subsidiaries of Coles Myer Ltd. (the Auditor)

The Audit and Risk Committee annually pre-approves services to be provided by the Auditor under each of the categories noted above, along with specific details as to the types of work to be performed within those categories. The pre-approval also establishes pre-approved fee limits for each type of work (the Pre-Approval Framework).

Any proposed services outside the Pre-Approval Framework will require separate pre-approval by the Audit and Risk Committee.

The Audit and Risk Committee may delegate pre-approval authority to one or more of its independent members, and approval by such member or members within the parameters of the policy constitutes approval of the Audit and Risk Committee. The member or members to whom such authority is delegated must report any pre-approval decisions to the Audit and Risk Committee at its next meeting.

The Auditor provides appropriate documentation, which is provided to the Audit and Risk Committee, regarding the specific services to be provided. The Audit and Risk Committee has designated the Company's General Manager Compliance Finance & Administration to assess compliance with independence requirements and the pre-approval policies and procedures.

For the year ended July 31, 2005, all audit-related fees, tax fees or other non-audit fees were approved by the Audit Committee. The de minimus exception to the pre-approval requirement provided by paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X, was not used.

Table of Contents**ITEM 16E PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

The Company announced its intention to repurchase A\$700 million of its ordinary shares via an off-market buy-back on March 17, 2005.

On May 27, 2005 the Company purchased and cancelled 70,433,916 CML fully paid ordinary shares. The shares were acquired at A\$8.30 per share, representing a total cost of A\$584.6 million.

On May 23, 2005 the Company announced its intention to repurchase up to 15 million CML fully paid ordinary shares on-market. Between June 7, 2005 and July 25, 2005 the Company purchased and cancelled 12,221,111 CML fully paid ordinary shares at prices between A\$9.18 and A\$9.63 per share. Contributed equity was reduced by the total cost of A\$115.4 million.

In total, 82,655,027 shares were purchased for A\$700 million.

The Company does not intend to make further repurchases under these plans.

For further details, refer to share buy-back disclosures in Note 21 to the consolidated financial statements at Item 17.

Period	Total number of shares purchased	Average price paid per share A\$	Total number of shares purchased as part of publicly announced Plan	Maximum number shares that may yet be purchased under the Plan
OFF MARKET BUY-BACK				
May 23, 2005	70,433,916	\$ 8.30	70,433,916	n/a
ON MARKET BUY-BACK				
June 6 - June 10, 2005	4,840,041	\$ 9.51	4,840,041	10,159,959
July 12 - 25 July, 2005	7,381,070	\$ 9.37	7,381,070	n/a

Table of Contents

ITEM 17 CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial statements see pages 98 through 174, incorporated herein by reference.

The following consolidated financial statements together with the Report of Independent Auditors thereon, are filed as part of this Annual Report.

<u>Report of Independent Registered Public Accounting Firm</u>	97
<u>Consolidated Income Statements</u>	98
<u>Consolidated Balance Sheets</u>	99
<u>Consolidated Statements of Cash Flows</u>	100
<u>Consolidated Statements of Changes in Issued Share Capital</u>	104
<u>Consolidated Statements of Changes in Reserves and Retained Profits</u>	105
<u>Notes to Consolidated Financial Statements</u>	106
<u>Glossary of Terms</u>	174

Table of Contents

ITEM 19 EXHIBITS

1. Constitution (incorporated by reference to the Company's filing on Form 6-K, dated November 25, 1997), as amended by the amendment to Constitution (incorporated by reference to the Company's filing on Form 6-K, dated September 7, 2001), and as subsequently amended by the amendment to Constitution (incorporated by reference to the Company's filing on Form 6-K, dated November 22, 2005).
- 2.1 Debt Issuance Program - Deed of Guarantee, filed with the 2004 Form 20-F
- 2.2 Debt Issuance Program - Deed of Covenant, filed with the 2004 Form 20-F
- 2.3 Note Deed Poll
- 2.4 Guarantee Deed Poll
- 2.5 Common Provisions Deed Poll
- 4.1 Employment agreement - Ms. Dawn Robertson, filed with the 2002 Form 20-F
- 4.2 Employment agreement - Mr. Tim Hammon, filed with the 2003 Form 20-F
- 4.3 Amendment to Employment agreement - Ms. Dawn Robertson, filed with the 2004 Form 20-F
- 4.4 Employment agreement - Mr. Hani Zayadi, filed with the 2004 Form 20-F
- 4.5 Employment agreement - Mr. Larry Davis, filed with the 2004 Form 20-F
- 4.6 Employment agreement - Mr. Steven Cain, filed with the 2004 Form 20-F
- 4.7 Employment agreement - Mr. Fraser MacKenzie, filed with the 2004 Form 20-F
- 4.8 Agreement to extend term of appointment - Mr. John Fletcher
- 4.9 Employment agreement - Mr. Hani Zayadi
- 4.10 Employment agreement - Mr. Larry Davis
- 4.11 Employment agreement - Ms. Launa Inman
- 4.12 Settlement and Release Agreement - Mr. Steven Cain
8. List of subsidiaries (included herein as Note 34 in the consolidated financial statements).
- 12.1 Certification by Chief Executive Officer, Mr. J.E. Fletcher, dated December 15, 2005
- 12.2 Certification by Chief Financial Officer, Mr. J.F. MacKenzie, dated December 15, 2005
- 13.1 Certification by Chief Executive Officer, Mr. J.E. Fletcher, dated December 15, 2005
- 13.2 Certification by Chief Financial Officer, Mr. J.F. MacKenzie, dated December 15, 2005
- 15.1 License Agreement between Kmart Corporation and Kmart Australia Limited, dated August 1, 1994.
- 15.2 License Agreement between Kmart Corporation and Kmart New Zealand Limited, dated August 1, 1994.

Table of Contents

Signatures

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

COLES MYER LTD.

(Registrant)

/s/ J.F. MACKENZIE
(Signature)

J.F. MacKenzie

CHIEF FINANCIAL OFFICER

Date December 15, 2005

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Coles Myer Ltd.

For purposes of Form 20-F filing with the U.S. Securities and Exchange Commission.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of Coles Myer Ltd. and its subsidiaries at July 31, 2005 and July 25, 2004, and the results of their operations and their cash flows for each of the three years in the period ended July 31, 2005, in conformity with accounting principles generally accepted in Australia. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Note 1 (d) refers to a difference between these financial statements and those presented to shareholders in Australia, in relation to the CML Group's treatment of goodwill arising on acquisition of companies and businesses until July 31, 1988, which treatment was not in conformity with Australian accounting standards. These financial statements have been adjusted to conform to Australian accounting standards.

Accounting principles generally accepted in Australia vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 32 to the consolidated financial statements.

/s/ PricewaterhouseCoopers

PricewaterhouseCoopers

Melbourne, Australia
December 15, 2005

Table of Contents**COLES MYER LTD.****CONSOLIDATED INCOME STATEMENTS**

		2005 53 weeks	2004 52 weeks	2003 52 weeks
	Notes	A\$M	A\$M	A\$M
Sales	2,3	36,185.2	32,082.2	26,875.8
Cost of goods sold	2	(27,286.8)	(23,914.6)	(19,508.9)
Gross profit	2	8,898.4	8,167.6	7,366.9
Other revenue from operating activities	2,3	97.3	66.8	48.8
Cumulative effect of change in accounting policy for supplier promotional rebates				(76.5)
Other revenue from non-operating activities	3	304.2	309.2	275.3
Proceeds from sale of property, plant and equipment, investments and businesses and controlled entities	3	20.6	131.0	392.5
Net book value of property, plant and equipment, investments and businesses and controlled entities disposed		(68.1)	(146.5)	(416.8)
Borrowing costs	4	(74.0)	(71.1)	(86.9)
Advertising expenses		(474.5)	(431.7)	(383.8)
Selling and occupancy expenses		(6,308.1)	(5,801.7)	(5,327.5)
Administrative expenses		(1,513.3)	(1,357.4)	(1,183.2)
Profit from ordinary activities before income tax		882.5	866.2	608.8
Income tax expense	6	(266.4)	(258.1)	(187.7)
Net profit		616.1	608.1	421.1
Net increase/(decrease) in asset revaluation reserve		56.1	(8.2)	83.5
Net decrease in foreign currency translation reserve		(0.6)	(30.4)	(17.1)
Adjustment resulting from change in accounting policy for annual leave entitlements				(6.6)
Total revenues, expenses and valuation adjustments attributable to members of Coles Myer Ltd. recognized directly in equity		55.5	(38.6)	59.8
Total changes in equity other than those resulting from transactions with owners as owners		671.6	569.5	480.9
Basic earnings per share (in A\$)	22	0.46	0.46	0.32
Diluted earnings per share (in A\$)	22	0.47	0.47	0.33

Notes on pages 106 to 174 form part of the financial statements.

Table of Contents**COLES MYER LTD.****CONSOLIDATED BALANCE SHEETS**

	Notes	July 31, 2005 A\$M	July 25, 2004 A\$M
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Current assets:			
Cash		440.9	849.0
Receivables	8	677.5	646.7
Inventories		3,155.0	3,032.7
Other	9	21.0	41.1
		<u>4,294.4</u>	<u>4,569.5</u>
Non-current assets:			
Receivables	10	33.6	50.4
Investments	11	144.9	112.9
Property, plant and equipment, net	12	3,857.0	3,395.7
Intangible assets, net	13	617.0	590.5
Other	14	405.5	332.7
		<u>5,058.0</u>	<u>4,482.2</u>
TOTAL ASSETS		<u>9,352.4</u>	<u>9,051.7</u>
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Accounts payable	15	3,001.4	2,808.6
Borrowings	16	216.0	261.5
Tax liabilities	17	125.2	161.6
Provisions	18	607.4	570.4
		<u>3,950.0</u>	<u>3,802.1</u>
Non-current liabilities:			
Long term debt	19	1,213.3	713.4
Other		56.1	48.3
Provisions	20	397.0	390.3
		<u>1,666.4</u>	<u>1,152.0</u>
Shareholders equity:			
Issued share capital	21	2,083.6	2,306.7
Reserves		485.7	430.2
Retained profits		1,166.7	1,360.7
		<u>3,736.0</u>	<u>4,097.6</u>
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY		<u>9,352.4</u>	<u>9,051.7</u>

Notes on pages 106 to 174 form part of the financial statements.

Table of Contents**COLES MYER LTD.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

		2005 53 weeks	2004 52 weeks	2003 52 weeks
	Notes	A\$M	A\$M	A\$M
Cash flows from operating activities				
Receipts from customers (inclusive of goods and services tax)		39,251.4	34,539.6	28,904.1
Payments to suppliers and employees (inclusive of goods and services tax)		(37,659.7)	(32,905.0)	(27,469.2)
Distributions received from associated entities		10.1	7.0	6.2
Interest received		28.9	55.2	20.0
Borrowing costs paid		(71.1)	(70.0)	(103.6)
Income tax paid		(402.5)	(288.5)	(179.1)
Net cash inflow from operating activities	A	1,157.1	1,338.3	1,178.4
Cash flows from investing activities				
Payments for property, plant and equipment		(925.0)	(704.1)	(625.2)
Cash paid for purchases of businesses and controlled entities	B	(120.0)	(192.0)	(241.7)
Cash paid for purchases of other investments		(2.0)	(1.4)	
Payment for purchase of associated entity		(1.3)	(1.1)	(1.4)
Proceeds on sale of property, plant and equipment		23.8	80.3	37.1
Proceeds on sale of Sydney Central Plaza	B		9.9	372.8
Proceeds on sale of businesses and controlled entities	B	3.9	31.8	
Proceeds on sale of investments				7.6
Loans from other entities		15.7	66.1	13.6
Net cash outflow from investing activities		(1,004.9)	(710.5)	(437.2)
Cash flows from financing activities				
Proceeds from issue of shares		108.0	37.1	
Proceeds from borrowings		3,171.7	1,362.7	279.7
Repayments of borrowings		(2,691.7)	(1,772.6)	(704.6)
Payments for purchases of buyback shares		(704.4)		
Dividends paid		(436.8)	(307.8)	(287.6)
Net cash outflow from financing activities		(553.2)	(680.6)	(712.5)
Net (decrease)/increase in cash held		(401.0)	(52.8)	28.7
Cash at beginning of the year		841.9	894.7	866.0
Cash at end of the year	C	440.9	841.9	894.7

Notes on pages 106 to 174 form part of the financial statements.

Table of Contents**COLES MYER LTD.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	2005 53 weeks A\$M	2004 52 weeks A\$M	2003 52 weeks A\$M
Notes			
A. Reconciliation of net cash provided by operating activities to net profit is as follows:			
Net cash inflow from operating activities	1,157.1	1,338.3	1,178.4
Depreciation and amortization	(558.7)	(536.7)	(512.6)
Changes in assets and liabilities			
Increase in current receivables	58.1	57.4	69.5
Increase/(decrease) in inventories	120.7	124.9	(24.0)
Increase/(decrease) in future income tax benefits	68.6	80.8	(38.3)
(Decrease)/increase in other assets	(19.0)	20.9	(29.6)
Decrease/(increase) in trade creditors	46.9	(139.7)	(105.1)
(Increase) in other liabilities	(161.2)	(135.8)	(55.0)
Decrease/(increase) in provision for income tax	36.4	(148.0)	(20.3)
(Increase) in provisions	(72.6)	(53.6)	(79.2)
Increase in deferred income tax	29.3	66.7	74.4
Net loss on sale of plant and equipment	(50.4)	(45.0)	(31.2)
Net profit on sale of freehold properties	2.6	7.8	1.4
Net profit on sale of Sydney Central Plaza		12.0	
Net profit on sale of businesses and controlled entities	0.3	9.7	5.5
Write-down of non-current assets to recoverable amounts	(42.0)	(51.6)	(12.8)
Net profit	616.1	608.1	421.1

B. Acquisitions/disposals

During 2005, the CML Group acquired seven Queensland hotels and freehold properties for A\$116.5 million.

During 2004, the CML Group 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). In connection with this transaction, other assets and liabilities, including inventories, property, plant and equipment and employee related liabilities have been acquired for a further A\$79.5 million.

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

On May 26, 2003, Liquorland (Australia) Pty Ltd., a wholly owned controlled entity of Coles Myer Ltd., acquired 100% of the issued share capital of Pallas Newco Pty. Ltd. and ALW Newco Pty. Ltd. (Theo s NSW) for A\$179.8 million plus associated inventory for A\$37.4 million and freehold property for A\$14.8 million. The consideration comprises cash, and the issue of 17,857,143 Coles Myer Ltd. ordinary shares. Coles Myer Ltd. has guaranteed a value of A\$7.00 per share throughout a period of three years, commencing May 26, 2003, and will bear any share price risk during that period. Should any additional consideration become payable it will be brought to account as a component of goodwill

Edgar Filing: COLES MYER LTD - Form 20-F

arising on the acquisition under Australian GAAP. Under U.S. GAAP, any additional consideration will be recorded as a reduction to equity. Since May 26, 2003, the share price has remained above A\$7.00 per share and payment of the additional consideration is not probable. At balance date 2005, 2004 and 2003, the share price was A\$9.43, A\$9.16 and A\$7.34, respectively.

As the share price has traded above the guaranteed price of A\$7.00, no liability has been recognized under Australian or U.S. GAAP.

Table of Contents**COLES MYER LTD.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

On January 6, 2003, Officeworks Superstores Pty. Ltd., a wholly owned controlled entity of Coles Myer Ltd., acquired 100% of the issued share capital of Viking Direct Pty. Ltd. and Viking Office Products Pty. Ltd. for A\$38.7 million plus associated inventory for A\$11.1 million and freehold property for A\$17.5 million.

On March 10, 2003, the CML Group sold Sydney Central Plaza 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.

Details of the aggregate cash flows and consideration relating to the acquired businesses and controlled entities, which are accounted for as purchase business combinations, and the aggregate assets and liabilities of the entities at the date of acquisition were as follows:

	Acquisitions*			Disposals		
	2005	2004	2003	2005	2004	2003
	53 weeks A\$M	52 weeks A\$M	52 weeks A\$M	53 weeks A\$M	52 weeks A\$M	52 weeks A\$M
Cash consideration (paid)/received net of cash acquired/disposed	(120.2)	(209.4)	(362.6)	3.9	31.9	372.8
Cash	0.2	17.4	3.2		(0.1)	
Receivables current			17.6			(2.1)
Inventories	2.4	73.9	51.8	(0.8)	(3.0)	
Other assets current			2.4			(1.2)
Property, plant and equipment	65.7	15.0	45.8	(1.9)	(10.2)	(363.0)
Deferred tax assets			2.0			
Intangible assets	52.1	109.2	260.2	(0.9)	(9.3)	
Other assets non-current						
Payables			(19.1)			(1.0)
Provisions current	(0.2)	(6.1)	(1.3)		0.4	
Net assets acquired/(disposed)	120.2	209.4	362.6	(3.6)	(22.2)	(367.3)
Reconciliation of cash flows:						
Consideration	(120.2)	(209.4)	(362.6)	3.9	31.9	372.8
Consideration satisfied by share issue			117.7			
Cash acquired/disposed	0.2	17.4	3.2		(0.1)	
Cash (Outflow)/Inflow	(120.0)	(192.0)	(241.7)	3.9	31.8	372.8

* The purchase method of accounting is applied. Net assets are recorded at fair value.

Table of Contents**COLES MYER LTD.****CONSOLIDATED STATEMENTS OF CASH FLOWS****C. Reconciliation of cash**

For the purposes of the consolidated statements of cash flows, cash includes cash on hand and at bank, net of bank overdrafts. Cash at the end of the year as shown in the consolidated statements of cash flows is reconciled to the relevant consolidated balance sheet items as follows:

	2005	2004	2003
	53 weeks	52 weeks	52 weeks
	A\$M	A\$M	A\$M
	<u> </u>	<u> </u>	<u> </u>
Cash assets	440.9	849.0	905.5
Bank overdrafts		(7.1)	(10.8)
	<u> </u>	<u> </u>	<u> </u>
	<u>440.9</u>	<u>841.9</u>	<u>894.7</u>

D. Non-cash financing and investing activities

Financing CML issued ordinary shares under the Dividend Reinvestment Plan for A\$NIL million (2004 A\$59.3 million, 2003 A\$60.3 million). The Dividend Reinvestment Plan has been suspended.

During 2003, CML issued ordinary shares for A\$117.7 million in connection with the purchase of Pallas Newco Pty. Ltd. and ALW Newco Pty. Ltd.

E. Details of major financing facilities

Credit standby facilities: The CML Group has A\$430.0 million (2004 A\$530.0 million) of committed facilities of which A\$430.0 million (2004 A\$530.0 million) were undrawn at balance date. The facilities have maturity dates ranging between August 2006 and May 2010 (2004 maturity dates ranged between December 2004 and August 2009).

Commercial paper: The CML Group has commercial paper programs based in Australia and Europe. The programs are guaranteed by Coles Myer Ltd. and are supported by the credit standby facilities referred to above. At balance date A\$79.9 million commercial paper was on issue (2004 A\$NIL).

Medium-term notes: The CML Group has issued medium-term notes under a debt issuance program and under medium term note programs in both Europe and Australia. It also operated a medium-term note program in the United States on behalf of Coles Myer Finance (USA) Ltd.

Edgar Filing: COLES MYER LTD - Form 20-F

Medium term notes issued by Coles Myer Finance Ltd. and Coles Myer Finance (USA) Ltd. are unconditionally guaranteed by Coles Myer Ltd. At balance date, A\$696.7 million (2004 A\$670.6 million) equivalent of medium-term notes was on issue.

Other loans: A\$350.0 million (2004 A\$NIL) of domestic bank loans of various maturities were outstanding at balance date.

Table of Contents

COLES MYER LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN
ISSUED SHARE CAPITAL

	Ordinary			
	Fully Paid		Partly Paid A\$0.01	
	millions	A\$M	millions	A\$M
	_____	_____	_____	_____
Balance, July 28, 2002	1,184.6	1,351.7	0.1	
Conversion of partly paid to fully paid				
Dividend reinvestment plan	10.0	60.3		
Issue for acquisition of Pallas Newco Pty. Ltd. and ALW Newco Pty. Ltd.	17.8	117.7		
Balance, July 27, 2003	1,212.4	1,529.7	0.1	
Conversion of partly paid to fully paid				
Dividend reinvestment plan	7.9	59.3		
Exercise of options	5.1	37.1		
Balance, July 25, 2004	1,225.4	1,626.1	0.1	
Conversion of partly paid to fully paid		0.1		
Exercise of options	15.1	107.9		
ReCAPS conversion	79.3	680.6		
Off-market buy-back	(70.4)	(215.7)		
On-market buy-back	(12.2)	(115.4)		
Balance, July 31, 2005	1,237.2	2,083.6	0.1	

	Preference (ReCAPS)	
	Fully Paid	
	millions	A\$M
_____	_____	_____
Balance, July 27, 2003	7.0	680.6
Balance, July 25, 2004	7.0	680.6
Balance, July 31, 2005		

Notes on pages 106 to 174 form part of the financial statements.

Table of Contents

COLES MYER LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN
RESERVES AND RETAINED PROFITS

	2005 53 weeks A\$M	2004 52 weeks A\$M	2003 52 weeks A\$M
Asset revaluation reserve*			
Balance at beginning	477.7	485.9	402.4
Fair value increment/(decrement) of freehold and investment properties	56.1	(8.2)	83.5
	<u>533.8</u>	<u>477.7</u>	<u>485.9</u>

* The asset revaluation reserve includes the net increments and decrements arising from the revaluation of non-current assets in accordance with AASB 1041 Revaluation of Non-current Assets

Foreign currency translation reserve**			
Balance at beginning	(47.5)	(17.1)	
Net exchange differences on translation of foreign controlled entities	(0.6)	(30.4)	(17.1)
	<u>(48.1)</u>	<u>(47.5)</u>	<u>(17.1)</u>

** As an outcome of restructuring the method of financing a self sustaining foreign operation, foreign currency translation losses relating to the CML Group's net investment have been incurred, resulting in A\$17.1 million being recorded in the year ended July 27, 2003 and A\$30.4 million in the year ended July 25, 2004.

Retained profits			
Balance at beginning	1,360.7	1,120.1	904.1
Adjustment resulting from change in accounting policy for providing for dividends			149.7
Adjustment resulting from change in accounting policy for annual leave entitlements			(6.6)
Net profit for the year	616.1	608.1	421.1
Cash dividends	(436.8)	(367.5)	(348.2)
Profits returned to shareholders under the share buy-back	(373.3)		
	<u>1,166.7</u>	<u>1,360.7</u>	<u>1,120.1</u>
Total reserves and retained profits			
Balance at beginning	1,790.9	1,588.9	1,306.5
Adjustment resulting from change in accounting policy for providing for dividends			149.7
Adjustment resulting from change in accounting policy for annual leave entitlements			(6.6)
Net profit for the year	616.1	608.1	421.1
Cash dividends	(436.8)	(367.5)	(348.2)
Profits returned to shareholders under the share buy-back	(373.3)		
Fair value increment/(decrement) of freehold and investment properties	56.1	(8.2)	83.5

Edgar Filing: COLES MYER LTD - Form 20-F

Net exchange differences on translation of foreign controlled entity	(0.6)	(30.4)	(17.1)
	<u>1,652.4</u>	<u>1,790.9</u>	<u>1,588.9</u>

Notes on pages 106 to 174 form part of the financial statements.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

These financial statements are prepared specifically for the purposes of filing an Annual Report on Form 20-F with the United States Securities and Exchange Commission (the SEC), and differ from the Australian financial statements presented to shareholders in the respective years in their treatment of goodwill arising on acquisition of companies and businesses (Refer paragraph d).

The significant accounting policies adopted by Coles Myer Ltd. (the Company, CML) and its controlled entities (the CML Group) are detailed below. The financial statements are prepared in accordance with accounting principles generally accepted in Australia (Australian GAAP). Where these principles differ from those generally accepted in the United States (U.S. GAAP) reference is made by footnote. A reconciliation of the major differences between the accompanying financial statements and U.S. GAAP is included at Note 32.

a Basis of preparation

The financial statements have been prepared as a general purpose financial report, which complies with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001. The financial report is prepared in accordance with the historical cost convention, except for certain assets, which, as noted, are at valuation. The accounting policies adopted are consistent with those of the prior year. Comparative information has been restated where necessary, to present the information on a consistent basis with the current year disclosures.

b Principles of consolidation

The consolidated financial statements have been prepared on an economic entity basis for the CML Group. The effects of all transactions within the CML Group have been eliminated in full. A list of controlled entities at year-end is contained in Note 34. Where control of an entity is obtained during the year, its results are included in the consolidated income statements from the date on which control commences. Where control of an entity ceases during the financial year, its results are included for that part of the year where control existed.

c Accounting for acquisitions

Acquired businesses are accounted for on the basis of the purchase method of accounting which consists of assigning fair values at date of acquisition to all the identifiable underlying assets acquired and to the liabilities assumed.

d Goodwill

Goodwill on acquisitions since July 31, 1988 has been brought to account as an asset and amortized, using the straight line method, over the period in which the benefits are expected to arise, but not exceeding 20 years. The carrying value of goodwill is reviewed at each reporting

Edgar Filing: COLES MYER LTD - Form 20-F

period. For the purposes of U.S. GAAP, goodwill acquired is not amortized but must be tested for impairment at least annually, or when conditions warrant.

In the financial statements submitted to shareholders, directors caused goodwill on acquisitions to July 31, 1988 to be written off as an extraordinary item, this being contrary to the treatment required by the relevant Australian accounting standard. Directors were satisfied all relevant goodwill on acquisitions would generate benefits for the Company for periods of at least twenty years, but preferred immediate write off to amortization over an arbitrarily chosen period of years. However, the SEC requires that financial statements filed with it comply in all material respects with accounting standards in each Company's country of origin.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

Accordingly, in these financial statements prepared for purposes of filing with the SEC, goodwill on acquisitions to July 31, 1988 has been reinstated at cost and amortized, using the straight line method, against profit from operations over 20 years from date of acquisition, unless accelerated amortization is required due to a carrying value exceeding the recoverable amount. As a result, net profit reported in these financial statements has been decreased by A\$8.4 million, (2004 A\$8.4 million, 2003 A\$8.4 million) with the aggregate adjustment arising from all prior years causing shareholders' equity to increase by A\$6.1million (2004 A\$14.4 million).

e Equity accounting of associated companies

The principles of equity accounting have been applied to entities that are not controlled, but over which the CML Group has significant influence. Equity accounting disclosures are not provided as the investments are deemed to be immaterial.

f Receivables

Trade and other debtors are recognized at nominal amounts, as they are due for settlement no more than 30 days from the date of recognition. Provision for doubtful debts is made when collection of the full amount is no longer probable.

g Inventories

At balance date all stock of finished goods on hand or in transit is valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method, after deducting any purchase settlement discount and including logistics expenses incurred in bringing the inventories to their present location and condition.

Volume-related supplier rebates and supplier promotional rebates are recognized as a reduction in the cost of inventory and are recorded as a reduction of cost of sales when the inventory is sold. The only exception is in limited circumstances in relation to the reimbursement of direct advertising costs incurred on behalf of the supplier. These reimbursements are recorded as other revenue from non-operating activities (Note 3).

h Investments

The carrying amounts of all listed investments are stated at the lower of cost and recoverable amount. Dividends from all investments are brought to account when receivable.

i Property, plant and equipment

(i) Cost and valuation

Freehold land and buildings and investment properties are measured at their fair value. Valuations are made with sufficient regularity to ensure the carrying amount of property does not differ materially from its fair value at balance date. Under U.S. GAAP, a number of differences arise from revaluing property. Refer Note 32 for further explanation and a reconciliation to U.S. GAAP.

Annual internal assessments are made, supplemented by independent assessments at least every three years. Potential capital gains tax is not taken into account in determining revaluation amounts unless it is expected that a liability for such a tax will crystallize. Borrowing and other holding and development costs on property under development are capitalized until completion of the development.

Plant and equipment is measured at the lower of cost less accumulated depreciation, and recoverable amount.

(ii) Leasehold improvements

The cost of improvements to or on leasehold properties is amortized on a straight-line basis, over the unexpired period of the lease or the estimated useful life of the improvement, whichever is the shorter.

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)**

(iii) Depreciation and amortization

Depreciation and amortization is provided on a straight-line basis on all property, plant and equipment, other than freehold land and investment properties, over their estimated useful lives. U.S. GAAP also requires investment properties to be depreciated. Refer Note 32 for a reconciliation to U.S. GAAP, where an additional expense has been recognized.

The depreciation rates used for each class of assets are as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Buildings,	1.5%	1.5%	1.5%
Plant and equipment	5% - 33%	5% - 33%	5% - 33%
Computer software	20%	33%	33%

All costs directly incurred in the purchase or development of major computer software, including subsequent upgrades and material enhancements, are capitalised. Costs incurred on computer software maintenance are expensed as incurred.

Effective July 28, 2003, the CML Group changed its accounting estimate with respect to the useful life of computer software. The previous estimate recognized that computer software had a useful life not exceeding three years. The revised accounting estimate recognizes that in all material respects, computer software has a useful life not exceeding five years. The impact of the changes was an increase to profit before tax of A\$12.0 million for the year ended July 25, 2004.

j Recoverable amount of non-current assets

The recoverable amount of a non-current asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets.

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount the asset is written down to its recoverable amount at balance date. The decrement in the carrying amount of assets valued on the cost basis is recognized as an expense in the consolidated income statements in the reporting period in which the recoverable amount write-down occurs. In determining the recoverable amount, expected future cash flows have been discounted to their present value.

Under U.S. GAAP impairment is assessed at an individual store level. Refer Note 32 for further explanation and a reconciliation to U.S. GAAP.

k Identifiable intangible assets

(i) Brand names

Brand names purchased by the CML Group are measured at fair value on acquisition and brought to account as non-current assets. Brand names held at July 31, 2005 have an indefinite life.

(ii) Licenses

Liquor and gaming licenses purchased by the CML Group are measured at fair value and brought to account as non-current assets on acquisition. Gaming licenses purchased during 2003 have an indefinite life. Effective July 29, 2002, the CML Group changed its accounting estimate with respect to the useful life of liquor licenses. The previous estimate recognized that liquor licenses had a useful life not exceeding 20 years.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

The revised accounting estimate recognizes that liquor licenses have an indefinite life where they have unlimited legal lives and are unlikely to become commercially obsolete.

Had a change in estimate of useful life not taken place, an amount of A\$10.3 million relating to amortization expense would have been charged in the year to July 27, 2003.

(iii) Co-branded operating rights

The CML Group holds the right to operate certain Shell fuel and convenience outlets around Australia. An exclusive supply agreement for fuel and lubricant products is in place, which allows for the sites to be branded both Coles Express and Shell. Co-branded operating rights are amortized over 20 years. The carrying value of all intangibles is reviewed at each reporting date.

l Accounts payable

These amounts represent liabilities for goods and services provided to the CML Group prior to balance date and which were unpaid. The amounts are unsecured and are usually paid between 7 and 60 days after recognition.

m Income tax

Income tax is provided using the liability method of tax effect accounting. Income tax expense is calculated on profit from ordinary activities adjusted for permanent differences between taxable and accounting income. The tax effect of cumulative timing differences, which occur where items are included for income tax purposes in a period different from that in the financial statements, is shown in the provision for deferred income tax or future tax benefit, as applicable. The timing differences have been measured using the tax rates expected to apply when the differences reverse. The future income tax benefits arising from tax losses have been recognized only where the realization of such benefits in future years are considered virtually certain.

The CML Group implemented the tax consolidation legislation as of July 29, 2002. Refer Note 6 for further disclosure.

n Foreign exchange

Edgar Filing: COLES MYER LTD - Form 20-F

Foreign currency transactions are translated to Australian currency at the rates of exchange prevailing at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange prevailing on that date. Resulting exchange differences are brought to account as exchange gains or losses in the consolidated income statements in the financial year in which the exchange rates change.

With respect to specific commitments, hedging (as defined under Australian GAAP) is undertaken in order to avoid or minimise possible adverse financial effects of movements in exchange rates. Gains or costs arising upon entry into a hedging transaction intended to hedge the purchase or sale of goods and services, together with subsequent exchange gains or losses resulting from those transactions, are deferred in the consolidated balance sheets from the inception of the hedging transaction up to the date of the purchase or sale and included in the measurement of the purchase or sale. The net amounts receivable or payable under the hedging transaction are also recorded in the consolidated balance sheets. Any gains or losses arising on the hedging transaction after the recognition of the hedged purchase or sale are included in the consolidated income statements.

The assets and liabilities of foreign operations that are self-sustaining are translated at the rates of exchange prevailing at balance date. Equity items are translated at historical rates. The consolidated income statements are translated at a weighted average rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

The assets and liabilities of foreign operations that are integrated are translated using the temporal method. Monetary assets and liabilities are translated into Australian currency at rates of exchange current at balance date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transactions occurred. Exchange differences arising on translation are brought to account in the consolidated income statements.

o Employee benefits

Liabilities for annual leave entitlements are accrued at nominal amounts on the basis of statutory and contractual requirements, including related on-costs. They are measured using rates expected to be paid when the obligations are settled, and are not discounted. Under U.S. GAAP these liabilities are measured at their current rates. The effect of this difference is detailed in Note 32.

Liabilities for long service leave entitlements, which are not expected to be paid or settled within 12 months, are accrued at the present value of expected future payments to be made resulting from services provided by employees up to balance date. Consideration is given to future increases in wage and salary rates, experience of employee departures and periods of service. Expected future payments, including related on-costs, are discounted using the rates attaching to national government guaranteed securities with similar maturity terms. Contributions to superannuation funds are expensed as incurred (Note 24).

A liability for employee entitlements in the form of bonus plans is recognized when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

there are formal terms in the plan for determining the amount of the entitlement;

the amounts to be paid are determined before the time of completion of the financial report; or

past practice gives clear evidence of the amount of the obligation.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

Equity-based compensation benefits are provided to employees via CML's various incentive plans (Note 25). No accounting entries are made until options over unissued shares are exercised at which time the amounts receivable from executives are recognized in the consolidated balance sheets as share capital. Under U.S. GAAP the fair value of options granted are charged against profits over the expected term of the options. The

effect of this difference is described in Note 32.

p Superannuation

The CML Group has a number of superannuation funds, which exist to provide benefits for employees and their dependants on retirement, disability or death. The most recent actuarial reports indicated that the financial position of the defined benefit funds is sufficient to meet projected commitments. The CML Group's commitment in respect of accumulation type funds is limited to making the specified contributions. The CML Group's contributions to the superannuation funds are expensed as incurred in these financial statements, which are prepared under Australian GAAP. The effect of the difference from U.S. GAAP is reflected in Note 32, and U.S. GAAP information in relation to the defined benefit funds (in accordance with FAS 87 and FAS 132) is detailed in Note 24.

q Leases

The CML Group leases real estate, stores, office facilities and warehouses. The provisions of these leases are such that substantially all of the risks and benefits of ownership of the property are retained by the lessors, and accordingly, in the financial statements, they are classified as operating leases.

Payments made under operating leases are expensed as incurred, as this reasonably represents the pattern of benefits derived from the leased assets. Refer Note 26 for details of non-cancelable operating lease commitments. Lease incentives received on entering into operating leases are recognized as liabilities and are amortized over the period of the lease up to the first market rate review.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

The present value of future payments for surplus leased space under non-cancellable operating leases which are not onerous contracts is recognised as a liability, net of sub-leasing revenue, in the period in which it is determined that the leased space will be of no future benefit to the CML Group. The net future lease payments are discounted using the interest rates implicit in the leases. Each lease payment is allocated between the liability and finance charges.

Liabilities for surplus leased space under non-cancelable leases which are onerous contracts are recognized on the basis described in the accounting policy note for onerous contracts (note 1(aa)).

r Lease incentives

From January 30, 1995 lump sum payments received in relation to major lease contracts are deferred and amortized over the period of benefit. In the past such amounts were credited to the consolidated income statements in the year in which they were receivable.

U.S. GAAP requires lease incentives for lease agreements entered into after December 31, 1988 to be recognized on a straight-line basis over the term of the new lease. The effect of this difference is detailed in Note 32.

s Interest bearing liabilities

Borrowings are carried at their principal amounts. Interest is recognized as an expense as it accrues, except where it is included in the cost of qualifying assets. Qualifying assets are assets that necessarily take a substantial period of time to prepare for intended use. Long and medium term borrowing expenses are amortized over the lesser of five years or the term of the relevant borrowing.

t Revenue

Revenue from sale of goods is recognized at the point of sale and is after deducting returns, duties and taxes paid. Revenue from sale of CML customer cards (gift, insurance and refund) is recognized when the card is redeemed and the customer purchases goods by using the card.

u Earnings per share

(i) Basic earnings per share

Basic earnings per share were determined by dividing net profit less non-redeemable reset convertible preference shares (ReCAPS) dividends, by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

v Derivatives

The CML Group is exposed to changes in interest rates and foreign exchange rates from its activities. These risks are hedged by the CML Group primarily through the use of derivatives, which mainly take the form of swaps, futures, forward contracts and options. Interest rate derivatives that are designated and are effective as hedges, are deferred and amortized over the remaining life of the hedged items. Cross currency swaps are revalued at spot rates at balance date and movements are recognized in the consolidated income statements as gains and losses together with the foreign currency gains and losses on the underlying borrowings.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

w Goods and Services Tax (GST)

Revenues, expenses and assets are generally recognized net of the amount of GST. Where GST is incurred on purchases and is not recoverable from the Australian Taxation Office (ATO) it is included as part of the cost of acquisition of an asset or part of an item of expense. Cash flows are included in the statements of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to the ATO are classified as operating cash flows.

x Segment reporting

Individual business segments have been identified on the basis of grouping individual products or services subject to similar risks and returns. The business segments reported are: Food, Liquor & Fuel, Kmart, Officeworks, Myer, Megamart, Target and Property & Unallocated.

y Rounding of amounts

Dollar amounts have been rounded to the nearest tenth of a million dollars. Where the amount is A\$50,000 or less, this is indicated by a dash (-). For the purpose of Notes 25 and 29 a dash indicates a nil balance.

z Dividends

Provision is made for the amount of any dividend declared, determined or publicly recommended by the directors on or before the end of the financial year but not distributed at balance date.

aa 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 recognized is based on the difference between the estimated cash flows to meet the unavoidable costs and the estimated cash flows to be received, having regard to the risks of the activities relating to the contract. The net estimated cash flows are discounted using market yields at balance date on national government guaranteed bonds with terms to maturity and currency that match, as closely as possible, the expected future payments, where the effect of discounting is material.

Under U.S. GAAP this type of provision is not permitted. The effect of the difference from U.S. GAAP is reflected in Note 32.

ab Workers compensation and self-insurance

The CML Group is self-insured for costs relating to workers compensation and general liability claims. Provisions are recognized based on claims reported, and an estimate of claims incurred but not yet reported. These provisions are determined on a discounted basis, utilizing an actuarially determined method which is based on various assumptions including but not limited to future inflation, investment return, average claim size and claim administration expenses.

ac Advertising

Advertising costs are expensed as incurred.

ad Stamp duty

Payments of stamp duty on leased property are deferred and amortized over the life of the lease.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

ae International Financial Reporting Standards (IFRS)

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after January 1, 2005. The AASB has issued Australian equivalents to IFRS (A-IFRS). The adoption of A-IFRS will be first reflected in the CML Group's financial statements for fiscal 2006, being the half-year ending January 2006 and the year ending July 30, 2006.

The transitional rules for adoption of A-IFRS require the restatement of comparative financial statements using A-IFRS, therefore most adjustments required on transition to A-IFRS will be made retrospectively against opening retained earnings as at July 26, 2004.

A project team has been established to manage the transition to A-IFRS. The project team is chaired by the Chief Financial Officer and reports to the Audit/Governance Committee quarterly.

The technical evaluation phase of the project is substantially complete. The project team is currently in the implementation phase, and expects to be in a position to report under A-IFRS for fiscal 2006.

The following disclosures reflect current estimates of the transitional adjustments to opening retained earnings at July 26, 2004. These estimates are based on A-IFRS standards released as at July 31, 2005. These standards are subject to ongoing review, and any amendments or interpretative guidance issued by the AASB or the International Accounting Standards Board could result in changes to these estimates.

The transitional adjustments are based on the project team's interpretation of the standards at the reporting date, and are the project team's current best estimate. Accordingly, these disclosures remain subject to change.

The following areas have been identified as significant for the CML Group:

(i) AASB 1 First time adoption of Australian Equivalents to International Financial Reporting Standards

Under the transitional rules of AASB 1, CML has elected to reset the foreign currency translation reserve to A\$NIL. This election will reduce opening retained earnings by A\$47.5 million.

CML has taken advantage of a number of other exemptions from A-IFRS standards provided by AASB 1 to which reference is made under the analysis of each standard to which each exemption applies.

(ii) AASB 2 Share-based Payment

On adoption of AASB 2, equity instruments issued to employees will be recognized as an expense over the relevant vesting periods. Under the current accounting policy an expense is not recognized for equity instruments issued.

The expense will be determined with reference to the fair value of the equity instruments issued. The determination of fair value is prescribed by the new standard. Under an optional exemption provided by AASB 1 adopted by CML only those equity instruments granted after November 7, 2002 and vesting after January 1, 2005 are accounted for in this manner.

A transitional adjustment of A\$2.4 million will be recorded against opening retained earnings to reflect the amortization of these instruments up to July 26, 2004. For the year ended July 30, 2005, a charge of approximately A\$5.4 million will be recognized as an expense. These adjustments will also result in an increase to an equity compensation reserve within Equity. Accordingly, these adjustments have no impact on net assets or total equity.

The Coles Myer Employee Share Plan Trust (the Trust) administers the Company's share based payment plans. Under A-IFRS the results, financial position and cash flows of the Trust will be consolidated into the CML Group. On transition, net assets will be reduced by A\$35.4 million. For the year ended July 30, 2005, interest income of A\$3.6 million will be eliminated on consolidation.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(iii) AASB 3 Business Combinations

CML has adopted the optional exemption provided by AASB 1 to not re-open acquisition accounting which occurred before the date of transition to A-IFRS.

Under the current accounting policy goodwill is amortized over the period in which the benefits are expected to arise.

Under AASB 3, goodwill is no longer amortized, but instead will be subject to impairment testing at each reporting date.

(iv) AASB 138 Intangible Assets

Under existing policy CML has recognized liquor licences on acquisition. Under A-IFRS whilst liquor licences meet the definition of separable intangible assets, they are not reliably measurable separate from the acquired business or premises. Therefore on transition the balance has been transferred to goodwill under transitional provisions contained in AASB 1.

Liquor licenses recognized since the date of transition will also be transferred to goodwill.

(v) AASB 116 Property, Plant and Equipment and AASB 140 Investment Property

Under CML's current accounting policy freehold land and buildings and investment properties are measured at their fair value.

Under A-IFRS the Company has elected to measure freehold land and buildings at cost and investment properties at fair value.

CML has elected to restate certain freehold properties to their depreciated historical cost on transition. As a result freehold property and the asset revaluation reserve will be reduced by A\$34.9 million.

Other freehold properties will be recorded at their existing AGAAP fair values as deemed cost on transition under an optional election provided by AASB 1. Under A-IFRS, decrements below cost are recognized in the consolidated income statements. For the year ended July 30, 2005, an expense of A\$12.7 million will be recognized.

Under CML's current accounting policy fair value increments and decrements to the extent that they offset a previous increment in the same class of assets, are recorded in the asset revaluation reserve. Under A-IFRS, changes in the fair value of investment properties are recognized in the consolidated income statements on an asset-by-asset basis. For the year ended July 30, 2005, income of A\$27.6 million will be recorded.

Under AASB 140, a property should be classified as an investment property only where an insignificant portion of a property is held for the Company's own use. Accordingly, on transition A\$48.2 million will be reclassified from investment property to freehold property.

(vi) AASB 112 Income Taxes

Under the current accounting policy deferred tax balances are determined using the income statement method. Items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognized directly in equity.

Under AASB 112, deferred tax balances are determined using the balance sheet method, which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the consolidated balance sheets and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognized directly in equity are also recognized directly in equity.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

The CML Group will be required to record additional deferred income tax liabilities in relation to tax base differences on buildings, gaming licenses and brand names. These were not required under the income statement approach. On transition, the CML Group will increase deferred income tax liabilities and reduce opening retained earnings by A\$22.1 million in respect of these items. The tax impact on other items is disclosed separately in this note.

(vii) AASB 117 Leases

Under the current accounting policy lease payments on operating leases are expensed as they are incurred. Under AASB 117, where leases include fixed rental increases the lease payments must be expensed on a straight-line basis over the lease term. Under the current interpretation factors such as the time value of money, anticipated inflation, or expected future revenues cannot be used to allocate scheduled rent increases. In the early years of the lease rental expense will be greater than rental payments, which will result in the accumulation of a liability that will be released to income in the later years of the lease when rental expense is required to be less than rental payments.

On transition to A-IFRS, the CML Group will recognize a liability of A\$112.0 million, a future income tax benefit of A\$33.6 million and opening retained earnings will be reduced by A\$78.4 million. For the year ended July 30, 2005, a post-tax expense of \$8.9 million will be recognized.

Under the current accounting policy lease incentives received from landlords at the inception of leases are deferred and amortized over the period of the lease up to the first market rent review. Under AASB 117 lease incentives will be amortized over the lease term. This will result in incentives being amortized over a longer period.

On transition to A-IFRS, the CML Group will recognize a liability of A\$31.3 million, a future income tax benefit of A\$9.4 million and opening retained earnings will be reduced by A\$21.9 million. For the year ended July 30, 2005, a post-tax expense of \$2.2 million will be recognized.

(vii) AASB 118 Revenue

Under the current accounting policy lay by transactions are recognized at the point of sale. Under AASB 118, lay by transactions are recognized at a later date when the customer satisfies all payment obligations and takes possession of the merchandise. On transition to A-IFRS, any outstanding lay by transactions will be derecognized. The net impact of this is to reduce retained earnings on transition by A\$28.3 million. For the year ended July 30, 2005, the de-recognition of lay by transactions will reduce profit after tax by A\$10.1 million.

Edgar Filing: COLES MYER LTD - Form 20-F

Under the current accounting policy, sales are recognized net of sales returns, however, at the reporting date a provision for sales returns is not recorded. Under AASB 118, a provision for sales returns must be recognized. On transition to A-IFRS, the CML Group will recognize a provision for sales returns of A\$10.8 million, a future income tax benefit of A\$3.2 million and a reduction to opening retained earnings of A\$7.6 million.

(viii) AASB 119 Employee Benefits

Under the current accounting policy an asset or liability is not recognized for the actuarially determined surplus or deficit of the defined benefit superannuation plan.

Under AASB 119 net surpluses or deficits that arise within the defined benefit superannuation plan must be recognized as an asset or liability in the consolidated balance sheets.

An actuarial valuation of the defined benefit superannuation plan has been performed in accordance with AASB 119. On transition to A-IFRS, the CML Group will recognize a defined benefit superannuation asset of A\$9.5 million, a deferred income tax liability of A\$2.9 million, and opening retained earnings will be increased by A\$6.6 million.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

Under AASB 119, CML has elected to recognize actuarial gains and losses directly in retained earnings. Other components of superannuation costs will be recognized in the consolidated income statements.

Under the current accounting policy, liabilities for annual leave entitlements are accrued at nominal amounts and are not discounted. Under AASB 119, leave entitlements are discounted. On transition to A-IFRS, employee provisions will be reduced by A\$9.4 million, the future income tax benefit will be reduced by A\$2.8 million, and opening retained earnings will be increased by A\$6.6 million.

(ix) AASB 136 Impairment of Assets

Under the current accounting policy, the cash generating unit, which determines the level at which asset impairment is assessed, is the brand. In addition an assessment is made of the carrying value of clearly redundant assets using discounted cash-flows. The CML Group's interpretation of AASB 136 is that the cash generating unit (CGU), and the level at which impairment is assessed on store assets, is an individual store. Therefore impairment is assessed by comparing the carrying value of store assets to their recoverable amount.

On transition to A-IFRS, plant and equipment will be reduced by A\$121.4 million, the future income tax benefit will be increased by A\$37.2 million, and retained earnings will be reduced by A\$84.2 million. For the year ended July 30, 2005, profit after tax is increased by A\$81.0 million.

Intangible assets, including goodwill, which are not subject to amortization, will be tested for impairment annually based on a grouping of CGUs.

(x) AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement

CML will take advantage of the optional exemption available under AASB 1 to apply AASB 132 and AASB 139 from August 1, 2005. This allows CML to apply previous AGAAP principles to comparative information of financial instruments within the scope of these standards.

From August 1, 2005 CML will comply with AASB 139. Under AASB 139 derivative financial instruments will be recorded on the balance sheet and measured at fair value. Where hedge effectiveness tests are met, changes in fair value will be recognized directly in equity and recycled through the consolidated income statements when the underlying hedged item is recorded in the consolidated income statements. Ineffectiveness outside the prescribed range precludes the use of hedge accounting, in which case the fair value changes are recognized directly

Edgar Filing: COLES MYER LTD - Form 20-F

in the consolidated income statements. The impact on retained earnings at August 1, 2005 has not yet been determined.

CML had on issue 7,000,000 ReCAPS that were treated as equity. On July 12, 2005 the ReCAPS were converted to ordinary shares. Under AASB 132 the ReCAPS would have been reclassified as debt, and dividends paid would have been recorded as interest expense. AASB 132 and AASB 139 are not applicable until August 1, 2005; accordingly, there is no impact on the treatment of the ReCAPS.

The above is intended to be indicative of significant adjustments to opening retained earnings. It should not be regarded as a complete list of changes that will result from the transition to A-IFRS nor is it inconceivable that numbers may change.

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****2. CHANGE IN ACCOUNTING POLICY****Change in accounting policy for concession sales**

During 2005, the CML Group changed its accounting policy with respect to concession sales. Under the previous policy the gross value of the transaction was recorded as Sales and the amount paid to the supplier was recorded as Cost of goods sold, resulting in the net amount retained by the CML Group being recorded as Gross profit. Under the revised accounting policy the net amount retained by the CML Group is recorded as Other operating income. The table below summarizes the reclassifications in the consolidated income statements resulting from this change in accounting policy.

	2005			2004			2003		
	A\$m			A\$m			A\$m		
	Unadjusted for accounting policy change	Impact of accounting policy change	Adjusted for accounting policy change	Unadjusted for accounting policy change	Impact of accounting policy change	Adjusted for accounting policy change	Unadjusted for accounting policy change	Impact of accounting policy change	Adjusted for accounting policy change
Sales									
Food, Liquor & Fuel	24,814.3	(144.1)	24,670.2	21,191.6	(44.8)	21,146.8	16,587.5	(22.1)	16,565.4
Myer	3,095.8	(213.8)	2,882.0	3,030.7	(135.1)	2,895.6	2,965.0	(115.3)	2,849.7
Megamart	274.5	(5.6)	268.9	291.7	(2.9)	288.8	274.9	(1.7)	273.2
Officeworks	1,239.7	(3.4)	1,236.3	1,101.9	(1.8)	1,100.1	897.8	(1.7)	896.1
Kmart	4,025.7		4,025.7	3,799.1		3,799.1	3,644.5		3,644.5
Target	3,102.1		3,102.1	2,851.8		2,851.8	2,646.9		2,646.9
Total sales	36,552.1	(366.9)	36,185.2	32,266.8	(184.6)	32,082.2	27,016.6	(140.8)	26,875.8
Cost of goods sold	(27,587.6)	300.8	(27,286.8)	(24,059.5)	144.9	(23,914.6)	(19,618.6)	109.7	(19,508.9)
Gross profit	8,964.5	(66.1)	8,898.4	8,207.3	(39.7)	8,167.6	7,398.0	(31.1)	7,366.9
Other operating income	31.2	66.1	97.3	27.1	39.7	66.8	17.7	31.1	48.8
Revenue									
Food, Liquor & Fuel	24,937.7	(120.6)	24,817.1	21,326.9	(35.8)	21,291.1	16,639.2	(17.6)	16,621.6
Myer	3,129.5	(173.6)	2,955.9	3,075.1	(106.1)	2,969.0	3,013.1	(89.8)	2,923.3
Megamart	279.6	(4.7)	274.9	296.3	(2.0)	294.3	278.3	(1.3)	277.0

Edgar Filing: COLES MYER LTD - Form 20-F

Officeworks		1,243.5	(1.9)	1,241.6	1,107.6	(1.0)	1,106.6	896.7	(1.0)	895.8
Kmart		4,076.6		4,076.6	3,846.8		3,846.8	3,663.0		3,663.0
Target		3,144.4		3,144.4	2,882.0		2,882.0	2,661.8		2,661.8
Property & Unallocated		64.1		64.1	141.8		141.8	449.7		449.7
<hr/>										
Segment revenue	27	36,875.4	(300.8)	36,574.6	32,676.5	(144.9)	32,531.6	27,601.9	(109.7)	27,492.2
Interest income	3	32.7		32.7	57.6		57.6	23.7		23.7
<hr/>										
Group revenue	3	36,908.1	(300.8)	36,607.3	32,734.1	(144.9)	32,589.2	27,625.6	(109.7)	27,515.9
<hr/>										

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****3. REVENUE**

	2005	2004	2003
	53 weeks A\$M	52 weeks A\$M	52 weeks A\$M
Revenue from operating activities:			
Sales	36,185.2	32,082.2	26,875.8
Other income	97.3	66.8	48.8
Cumulative effect of change in accounting policy for supplier promotional rebates			(76.5)
Proceeds from disposal of:			
Property, plant and equipment	20.6	89.2	19.7
Sydney Central Plaza		9.9	372.8
Businesses and controlled entities		31.9	
	<u>20.6</u>	<u>131.0</u>	<u>392.5</u>
Other revenue from non-operating activities:			
Interest income*	32.7	57.6	23.7
Rental income	27.2	25.9	30.8
Other income	244.3	225.7	220.8
	<u>304.2</u>	<u>309.2</u>	<u>275.3</u>
Total revenue	<u>36,607.3</u>	<u>32,589.2</u>	<u>27,515.9</u>

* Includes interest from the Coles Myer Employee Share Plan Trust of A\$3.6 million (2004 A\$38.0 million, 2003 A\$3.7 million).

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****4. OPERATING PROFIT**

	2005	2004	2003
	53 weeks	52 weeks	52 weeks
	A\$M	A\$M	A\$M
	<u> </u>	<u> </u>	<u> </u>
Profit from ordinary activities before income tax expense includes the following net gains and expenses:			
Gains/(losses):			
Net gain/(loss) on disposal of			
Freehold property	2.6	7.8	1.4
Plant and equipment	(50.4)	(45.0)	(31.2)
Sydney Central Plaza		12.0	5.5
Businesses and controlled entities	0.3	9.7	
	<u> </u>	<u> </u>	<u> </u>
	(47.5)	(15.5)	(24.3)
	<u> </u>	<u> </u>	<u> </u>
Expenses:			
Borrowing costs			
Other persons	70.1	68.3	86.2
Other costs of finance	3.9	2.8	0.7
	<u> </u>	<u> </u>	<u> </u>
	74.0	71.1	86.9
	<u> </u>	<u> </u>	<u> </u>
Depreciation			
Freehold buildings	0.4	0.7	0.7
Leasehold improvements	53.8	52.1	49.4
Plant and equipment	447.3	438.1	418.2
	<u> </u>	<u> </u>	<u> </u>
	501.5	490.9	468.3
	<u> </u>	<u> </u>	<u> </u>
Amortization			
Co-branded operating rights	5.1	3.5	
Goodwill	18.4	19.2	16.2
Computer software	30.8	20.1	25.3
Stamp duty	2.9	3.0	2.8
	<u> </u>	<u> </u>	<u> </u>
	57.2	45.8	44.3
	<u> </u>	<u> </u>	<u> </u>
Write-down of non-current assets to recoverable amounts			
Property, plant and equipment	42.0	45.9	12.8
Goodwill		5.7	
	<u> </u>	<u> </u>	<u> </u>
	42.0	51.6	12.8
	<u> </u>	<u> </u>	<u> </u>
Bad and doubtful debt	6.2	4.7	3.8
	<u> </u>	<u> </u>	<u> </u>

5. SIGNIFICANT ITEMS

Profit from ordinary activities includes the following items, whose disclosure is relevant in explaining the financial performance of the CML Group. All amounts stated are before income tax.

Megamart divestment costs

Write-down of non-current assets and inventory to recoverable amount, and provision for surplus leased space.

81.5

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****6. INCOME TAX EXPENSE**

	2005	2004	2003
	53 weeks	52 weeks	52 weeks
	A\$M	A\$M	A\$M
	<u> </u>	<u> </u>	<u> </u>
The Australian statutory tax on profit is reconciled to the income tax expense as follows:			
Profit before income tax	882.5	866.2	608.8
	<u> </u>	<u> </u>	<u> </u>
Statutory rate of taxation	30%	30%	30%
Tax calculated at the statutory rate on profit before income tax (from)/to which is (deducted)/added the tax effect of:			
Non-deductible depreciation and amortization	264.8	259.9	182.6
Realization of unrecognized timing differences	2.9	6.4	2.5
Investment property tax depreciation	(3.1)	(5.5)	(5.5)
Lease termination payments			(2.1)
(Over)/under provision from prior year	1.1	4.3	
Non-allowable goodwill amortization and write off	(4.8)	(6.6)	2.0
(Profit)/loss on property sales not subject to tax	2.5	2.6	2.6
Other items not subject to tax		(5.9)	0.6
Other assessable income	(2.3)	(2.7)	(0.6)
Other non-deductible expenditure	2.9		
Difference between accounting and tax profits from partnerships and trusts	3.2	6.5	6.6
	(0.8)	(0.9)	(1.0)
	<u> </u>	<u> </u>	<u> </u>
Income tax expense	266.4	258.1	187.7
	<u> </u>	<u> </u>	<u> </u>
The components of income tax expense are:			
Income tax expense credited to current tax provision	365.5	436.2	199.3
The net tax effect of temporary differences:			
Fixed assets and software temporary differences	(73.2)	(58.0)	(26.7)
Co-branded operating rights	(1.1)	28.1	
Employee entitlements	(4.3)	(3.9)	(12.7)
Prepayments	4.2	(0.9)	(0.4)
Provisions	(5.9)	(35.2)	(4.4)
Income received in advance	0.3	0.9	(1.6)
Income received from partnerships			(1.6)
Foreign exchange translation, hedge and other finance costs	0.3	(13.6)	33.0
Inventory valuation	(17.7)	(65.6)	(24.4)
Other	(1.7)	(29.9)	27.2
	<u> </u>	<u> </u>	<u> </u>
Income tax expense	266.4	258.1	187.7
	<u> </u>	<u> </u>	<u> </u>

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****6. INCOME TAX EXPENSE (continued)**

The significant temporary differences which give rise to deferred tax assets and liabilities are as follows:

	July 31, 2005		July 25, 2004	
	Deferred	Future	Deferred	Future
	income tax	income tax	income tax	income tax
	liabilities	benefits	liabilities	benefits
	A\$M	A\$M	A\$M	A\$M
Fixed assets and software depreciation		46.4	(32.8)	6.0
Foreign exchange translation, hedge and other finance costs	(4.8)		(4.9)	
Employee entitlements		169.1		164.8
Prepayments	(20.0)		(15.9)	
Income received in advance	(7.1)		(6.7)	
Inventory valuation		85.2		67.5
Provisions and accruals	(20.1)	56.8	(20.0)	50.7
Lease incentives		13.8		13.7
Co-branded operating rights	(27.1)		(28.1)	
	<u>(79.1)</u>	<u>371.3</u>	<u>(108.4)</u>	<u>302.7</u>
Included in:				
Provisions (non-current)	(79.1)		(108.4)	
Other assets (non-current)*		371.3		302.7
	<u>(79.1)</u>	<u>371.3</u>	<u>(108.4)</u>	<u>302.7</u>

* Potential future income tax benefits of A\$7.1 million (2004 A\$7.1 million, 2003 A\$7.1 million) attributable to tax losses of A\$23.8 million (2004 A\$23.8 million, 2003 A\$23.8 million) have not been recognized as realization of the losses is not virtually certain under Australian GAAP. Under U.S. GAAP, these tax losses would not be recognized, as realization of the losses is not probable.

These financial statements have been prepared on the basis that the CML Group implemented the tax consolidation legislation as of July 29, 2002. The Commissioner of Taxation has been notified of this decision and a tax sharing and a tax funding agreement between members of the tax-consolidated group are in place. As a consequence of implementing the consolidation legislation, CML, as the head Company in the tax-consolidated group, recognizes current and deferred tax amounts relating to transactions, events and balances in the tax consolidated group as if those transactions, events and balances were its own in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under an accounting tax sharing arrangement with the tax-consolidated subsidiaries are recognized separately as inter-company tax-related amounts receivable or payable. Expenses and revenues arising under the tax allocation arrangement are recognized as a component of income tax expense or revenue.

Edgar Filing: COLES MYER LTD - Form 20-F

In the opinion of the directors, the tax sharing agreement is a valid agreement under the tax consolidation legislation and limits the joint and several liabilities of the entities in the tax consolidated group.

The financial effect of the tax consolidation legislation has been recognized in these financial statements, with no material impact on the consolidated income statements or balance sheets.

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****7. DIVIDENDS**

	2005	2004	2003
	53 weeks	52 weeks	52 weeks
	A\$M	A\$M	A\$M
	<u> </u>	<u> </u>	<u> </u>
Ordinary shares:			
Final dividend for the year ended July 25, 2004 of 15.0 cents (2003 12.5 cents, 2002 12.0 cents) paid per share November 8, 2004. Fully franked at 30% tax rate (2003 30%).	184.6	151.6	142.1
Interim ordinary dividend for the year ended July 31, 2005 of 16.25 cents (2004 14.0 cents, 2003 13.5 cents) per share paid on May 9, 2005. Fully franked at 30% tax rate (2004 30%, 2003 30%).	201.5	170.3	160.6
Non-redeemable reset convertible preference shares (ReCAPS):			
Dividend of A\$3.2589 (2004 A3.2589, 2003 A3.2589) per share paid on November 30, 2004. Fully franked at 30% tax rate (2004 30%, 2003 30%).	22.8	22.8	22.8
Dividend of A\$3.2411 (2004 A\$3.2589, 2003 A\$3.2411) per share paid May 31, 2004. Fully franked at 30% tax rate (2004 30% 2003 30%).	22.7	22.8	22.7
Final dividend of A\$0.7479 per share paid July 12, 2005. Fully franked at 30% tax rate.	5.2		
	<u> </u>	<u> </u>	<u> </u>
Total dividends	436.8	367.5	348.2
	<u> </u>	<u> </u>	<u> </u>

Dividends not recognized at year end:

In addition to the above dividends, since year-end the directors have declared a final dividend of 17.0 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on November 14, 2005 out of retained profits at July 31, 2005, but not recognized as a liability at year-end.

210.3	206.6	151.6
-------	-------	-------

The final dividends declared after July 31, 2005 will be fully franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending July 30, 2006.

Dividend franking account:

This amount represents the balance of the dividend franking account after allowing for current tax paid and provided for, dividend provisions, dividend payments and franking credits the CML Group is prevented from distributing, based on a tax rate of 30% (2004 30%).

411.8	412.9	141.4
-------	-------	-------

During 2003, franking credits of A\$118.2 million were transferred from wholly owned entities to the parent entity at the time these entities entered the tax-consolidated group.

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****8. RECEIVABLES (CURRENT)**

	July 31, 2005	July 25, 2004
	A\$M	A\$M
Trade debtors	440.1	390.9
Allowance for doubtful accounts	(12.6)	(9.5)
	<u>427.5</u>	<u>381.4</u>
Other debtors	35.2	32.3
Allowance for doubtful debts	(1.2)	(1.4)
	<u>34.0</u>	<u>30.9</u>
Short-term deposits	216.0	234.4
	<u>677.5</u>	<u>646.7</u>

Short-term deposits are due for maturity within one month and pay interest at 6.94% (2004 5.90%)

9. OTHER ASSETS (CURRENT)

Prepayments	21.0	41.1
-------------	------	------

10. RECEIVABLES (NON-CURRENT)

Loan to employee share plan Note 25	16.0	29.7
Term deposits and advances	16.9	18.1
Loans to associated unit trust and partnership	0.7	2.6
	<u>33.6</u>	<u>50.4</u>

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****11. INVESTMENTS**

	July 31, 2005	July 25, 2004
	A\$M	A\$M
Interests in bonds (market value 2005 A\$11.0 million, 2004 A\$9.1 million)*	11.0	9.1
Unlisted securities, at cost**	19.3	19.3
	<u>30.3</u>	<u>28.4</u>
Other:		
Interest in shopping center unit trusts, At fair value ***	112.6	82.5
Interest in partnerships	2.0	2.0
	<u>114.6</u>	<u>84.5</u>
	<u>144.9</u>	<u>112.9</u>

* Bonds have maturity dates extending to May 2009

** The CML Group has a 2% interest in GlobalNetXchange Ltd. (GNX). GNX is an international retail alliance, which offers hosted software solutions for retail applications.

*** Fair value represents the estimated market selling price of the underlying property less any estimated selling costs. Capital gains tax has not been taken into account in determining the revalued amount.

Interest in associated trusts and partnerships:

	Investment		Interest	
	July 31, 2005	July 25, 2004	July 31, 2005	July 25, 2004
	A\$M	A\$M	%	%
Unit trusts				
CMS General Trust ⁽¹⁾				
- Property ownership	112.6	82.5	50	50
	<u>112.6</u>	<u>82.5</u>		

	2019	2018		
Partnership				
Fly Buys Partnership ⁽²⁾				
- Loyalty program	2.0	2.0	50	50
	<u>2.0</u>	<u>2.0</u>		
Proprietary Company				
Quids Technology Pty Ltd ⁽¹⁾				
- Software development			50	50
	<u> </u>	<u> </u>		

⁽¹⁾ Balance date is June 30

⁽²⁾ Balance date is December 31

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****12. PROPERTY, PLANT AND EQUIPMENT**

	July 31, 2005	July 25, 2004
	A\$M	A\$M
	<u> </u>	<u> </u>
Freehold properties		
Land		
At fair value	354.9	213.7
Buildings		
At fair value	39.1	35.9
Less: Accumulated depreciation	(9.5)	(9.1)
	<u> </u>	<u> </u>
	29.6	26.8
	<u> </u>	<u> </u>
Total freehold properties	<u>384.5</u>	<u>240.5</u>
Leasehold improvements		
At cost	745.2	705.3
Less: Accumulated depreciation	(379.0)	(333.5)
	<u> </u>	<u> </u>
Total leasehold improvements	<u>366.2</u>	<u>371.8</u>
Investment properties		
At fair value	145.4	77.5
	<u> </u>	<u> </u>
Total properties	<u>896.1</u>	<u>689.8</u>
Plant and equipment		
At cost	5,849.4	5,667.7
Less: Accumulated depreciation	(3,550.1)	(3,326.7)
	<u> </u>	<u> </u>
Total plant and equipment	<u>2,299.3</u>	<u>2,341.0</u>
Computer software		
At cost	268.1	160.2
Less: Accumulated depreciation	(115.8)	(85.5)
	<u> </u>	<u> </u>
Total computer software	<u>152.3</u>	<u>74.7</u>
Capital work in progress, at cost	<u>509.3</u>	<u>290.2</u>
Total property, plant and equipment	<u>3,857.0</u>	<u>3,395.7</u>

Edgar Filing: COLES MYER LTD - Form 20-F

The basis of valuation of freehold and investment properties is fair value, being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction. The latest assessments of fair value as at July 31, 2005 are primarily based on independent assessments.

Freehold and investment properties are recorded at current estimated market valuations (assuming continuation of the properties existing or intended use), as permitted by Australian GAAP. The effect of this variation from U.S. GAAP is shown in Note 32.

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****12. PROPERTY, PLANT AND EQUIPMENT (continued)**

Reconciliations of the carrying amount of each class of property, plant and equipment are set out below:

CML Group 2005	Freehold properties:							Total
	Land	Buildings	Leasehold improvements	Investment properties	Plant and equipment	Computer software	Capital work in progress	
A\$ million								
Carrying amount at the start of the year	213.7	26.8	371.8	77.5	2,341.0	74.7	290.2	3,395.7
Additions	59.7	1.8	44.7	69.0	389.5	67.8	377.7	1,010.2
Disposals	(3.9)	(1.1)	(4.2)		(58.2)	(0.5)	(0.2)	(68.1)
Acquisitions of entities or operations	58.4				7.8			66.2
Fair value increments/(decrements)	12.7			14.6				27.3
Write-down to recoverable amounts			(2.9)		(36.7)	(2.4)		(42.0)
Depreciation expense		(0.4)	(53.8)		(447.3)	(30.8)		(532.3)
Transfers (to)/from another class	14.3	2.5	10.6	(15.7)	103.2	43.5	(158.4)	
Carrying amount at the end of the year	354.9	29.6	366.2	145.4	2,299.3	152.3	509.3	3,857.0

13. INTANGIBLES

	July 31, 2005	July 25, 2004
	A\$M	A\$M
Goodwill, at cost	468.4	468.8
Accumulated amortization	(350.2)	(332.3)
	118.2	136.5
Licenses, at cost	407.8	358.6
Accumulated amortization	(26.7)	(27.4)
	381.1	331.2
Co-branded operating rights, at cost	103.7	103.7
Accumulated amortization	(8.6)	(3.5)
	95.1	100.2

Edgar Filing: COLES MYER LTD - Form 20-F

Brand names, at cost	22.6	22.6
	<u> </u>	<u> </u>
	617.0	590.5
	<u> </u>	<u> </u>

14. OTHER ASSETS (NON-CURRENT)

Future income tax benefits	371.3	302.7
Other	34.2	30.0
	<u> </u>	<u> </u>
	405.5	332.7
	<u> </u>	<u> </u>

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****15. ACCOUNTS PAYABLE**

	July 31, 2005	July 25, 2004
	A\$M	A\$M
Trade creditors	2,020.9	2,067.8
Other creditors and accruals	980.5	740.8
	<u>3,001.4</u>	<u>2,808.6</u>

16. BORROWINGS (CURRENT)

Bank overdraft		7.1
Other loans	216.0	254.4
	<u>216.0</u>	<u>261.5</u>

Other loans are predominantly due for repayment within one month of balance date with an interest rate of 7.29% (2004 6.38%). Refer Note 19 for details of the Company's Negative Pledge.

17. TAX LIABILITIES (CURRENT)

Provision for income tax	125.2	161.6
	<u>125.2</u>	<u>161.6</u>

18. PROVISIONS (CURRENT)

Employee entitlements	481.2	477.1
Self-insured risks	46.3	44.0
Workers' compensation	59.3	48.7
Surplus leased space	20.6	
New Zealand onerous contracts		0.6
	<u>607.4</u>	<u>570.4</u>

Movements in provisions

Movements in each class of provision during the financial year, other than employee entitlements, are set out below:

CML Group 2005	New Zealand				
A\$ million	Self-insured risks	Workers compensation	Surplus leased space	onerous contracts	Total
Carrying amount at the start of the year	44.0	48.7		0.6	93.3
Additional provisions recognized	19.8	99.6	20.6		140.0
Payments/utilized	(11.2)	(68.2)		(0.6)	(80.0)
Provision no longer required due to					
re-measurement	(6.3)	(12.5)			(18.8)
Transfer between current & non-current		(8.3)			(8.3)
Carrying amount at the end of the year	46.3	59.3	20.6		126.2

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****19. LONG-TERM DEBT**

	July 31, 2005	July 25, 2004
	A\$M	A\$M
5.7% Commercial paper supported by a committed facility, net of unamortized discount A\$100,000 (2004 A\$NIL) due in 2005*	79.9	
6.1% bonds and notes issued under domestic and international facilities due in 2012	400.0	330.0
0.5% - 3.9% unsecured international bonds and notes due 2005 - 2006	296.7	320.6
6.0% - 6.1% Bank loans due to 2008 - 2010	350.0	
	1,126.6	650.6
Net value of currency swaps supporting foreign currency facilities	86.7	62.8
	1,213.3	713.4

* These liabilities are part of long-term committed facilities under which floating rate funding is made available, and under which the Company has the right to draw or repay amounts at short-term intervals at its discretion.

At balance date, all foreign currency borrowings were fully hedged. The CML Group's borrowing structure is flexible and consistent, based on the acceptance by lenders of the Standard Coles Myer Negative Pledge (the Negative Pledge) and Common Provisions Deed Poll (CPDP). The Negative Pledge is in the process of being replaced by a Common Provisions Deed Poll that reflects current market practice for credit support. A controlled entity has issued a floating charge over assets, capped at A\$80.0 million, as security for payment obligations to a trade creditor.

In addition, an undertaking is given not to provide security over CML Group assets to parties to the Negative Pledge or parties with the benefit of the CPDP, without providing security to all parties to the Negative Pledge, or CPDP, as appropriate. The CML Group has been in compliance with its financial covenants contained within the Negative Pledge and CPDP during the financial year.

	July 31, 2005	July 25, 2004
	A\$M	A\$M
Liabilities covered by the above mature as follows:		
2005/2006		292.7
2006/2007	86.6	167.9
2007/2008	150.0	50.0
2008/2009	90.0	90.0
2009/2010	400.0	50.0
2011/2012	400.0	

Edgar Filing: COLES MYER LTD - Form 20-F

	1,126.6	650.6
	<u> </u>	<u> </u>
Long-term foreign currency loans included above consist of:		
United States dollars	26.4	27.9
Japanese yen	270.3	292.7
	<u> </u>	<u> </u>
	296.7	320.6
	<u> </u>	<u> </u>

Unused firmly committed long-term financing facilities of A\$430.0 million (2004 A\$530.0 million) were available at year-end. All borrowings are generally subject to, or consistent with, terms and conditions of the Standard Coles Myer Negative pledge.

To limit its exposure to movements in foreign exchange rates the CML Group has entered into agreements to exchange Australian dollars and foreign currencies, predominantly the exchange of Australian dollars for United States dollars. At year end the total face value of contracts entered into was A\$938.5 million (2004 A\$633.8 million). Of these, A\$383.4 million (2004 A\$383.4 million) related to the principal exchanges under currency swaps for terms of up to 5 years, and A\$555.1 million (2004 A\$250.4 million) related to foreign currency contracts for terms of up to 14 months.

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****20. PROVISIONS (NON-CURRENT)**

	July 31, 2005	July 25, 2004
	A\$M	A\$M
Employee entitlements	84.5	74.6
Workers compensation	209.6	201.3
Deferred income tax	79.1	108.4
Surplus leased space	23.8	
New Zealand onerous contracts		6.0
	<u>397.0</u>	<u>390.3</u>

Movements in provisions

Movements in each class of provision during the financial year, other than employee entitlements and deferred income tax, are set out below:

CML Group 2005	New Zealand			
A\$ million	Workers compensation	Surplus leased space	onerous contracts	Total
Carrying amount at the start of the year	201.3		6.0	207.3
Provisions recognized		23.8		23.8
Provision utilized			(2.5)	(2.5)
Provision no longer required			(3.5)	(3.5)
Transfer between current & non-current	8.3			8.3
Carrying amount at the end of the year	<u>209.6</u>	<u>23.8</u>	<u>6.0</u>	<u>233.4</u>

21. SHARE CAPITAL

	July 31, 2005	July 25, 2004
	A\$M	A\$M
Issued and paid up		

Edgar Filing: COLES MYER LTD - Form 20-F

Ordinary fully paid	1,237,160,686 shares (2004 1,225,410,546)	2,083.6	1,626.1
Ordinary partly paid	74,000 shares paid to A\$0.01 (2004 114,000)		
ReCAPS fully paid	NIL shares (2004 7,000,000)		680.6
		2,083.6	2,306.7

Changes in issued share capital during the year were:

the issue of NIL (2004 7,937,954) ordinary shares under the Dividend Reinvestment Plan for A\$NIL (2004 A\$59.3 million);

the conversion of 40,000 (2004 10,000) partly paid ordinary shares to fully paid ordinary shares, for A\$0.1 million (2004 A\$NIL);

the issue of 15,082,345 (2004 5,038,675) ordinary shares, for A\$107.9 million (2004 A\$37.1 million) upon the exercise of options;

the conversion of 79,282,822 (2004 NIL) ReCAPS to fully paid ordinary shares for A\$680.6 million (2004 A\$NIL);

the off-market buy-back of 70,433,916 (2004 NIL) fully paid ordinary shares for A\$215.7 million (2004 A\$NIL); and

the on-market buy-back of 12,221,111 (2004 NIL) fully paid ordinary shares for A\$115.4 million (2004 A\$NIL).

Ordinary class shares

Ordinary shares entitle the holder to participate in the dividends of the Company and the proceeds on winding up of the Company, subject to entitlements of the non-redeemable reset convertible preference shares. Fully paid ordinary class shares entitle the holder to one vote, except on a poll, where each share is entitled to one vote. Partly paid shares do not have any voting rights, until fully paid (except with respect to any proposal to vary the rights of these shareholders). At July 31, 2005, there were 74,000 (2004 114,000) partly paid shares on issue, of which a further A\$1.99 per share is uncalled.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21. SHARE CAPITAL (continued)

Dividend reinvestment plan

The Company has a dividend reinvestment plan 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 plan has been suspended. All future dividends will be paid in cash.

Share buy-back

On May 27, 2005 the Company purchased and cancelled 70,433,916 CML fully paid ordinary shares under an off-market buy-back. The shares were acquired at A\$8.30 per share. Including transaction costs of A\$4.4 million, the total cost of the off-market buy-back was A\$589.0 million.

As announced in the CML Share Buy-Back offer document on March 17, 2005, all of the Buy-Back Price above A\$3.00 per ordinary CML share acquired off-market has been treated for taxation purposes as a fully franked dividend. Accordingly, retained earnings have been reduced A\$373.3 million and contributed equity has been reduced by A\$215.7 million. In addition, the Company's dividend franking account has been reduced by A\$174.1 million as a result of the off-market buy-back.

On May 23, 2005 the Company announced its intention to buy back up to 15 million CML fully paid ordinary shares on-market. Between June 7, 2005 and July 25, 2005 the Company purchased and cancelled 12,221,111 CML fully paid ordinary shares at prices between A\$9.18 and A\$9.63 per share. Contributed equity was reduced by the total cost of A\$115.4 million.

In total, 82,655,027 shares were purchased and cancelled during the year. This represents 6.7% of fully paid ordinary shares outstanding at the start of the year.

Non-redeemable reset convertible preference shares (ReCAPS)

On December 18, 2000 the Company allotted 7,000,000 ReCAPS with an issue price of A\$100 per share. On July 12, 2005 at the option of the Company, all ReCAPS were converted to ordinary shares. An additional 79,282,822 fully paid ordinary shares were allotted under the terms of the ReCAPS. Shareholders received a preferential, non-cumulative dividend of at least 6.5% per annum until the time of conversion. ReCAPS dividends were paid in priority to any dividends declared on ordinary shares. ReCAPS shareholders were not entitled to vote at any general meetings, except in the following circumstances:

- a) on a proposal:
 - i. to reduce the share capital of the Company;
 - ii. that affected rights attached to the ReCAPS;
 - iii. to wind up the Company;
 - iv. for the disposal of the whole of the property, business and undertakings of the Company;
- b) on a resolution to approve the terms of a buy-back agreement;
- c) during a period in which a dividend or part of a dividend on the ReCAPS was in arrears;
- d) during the winding up of the Company.

In the event of the winding up of the Company, ReCAPS would have ranked ahead of the ordinary shares. Under U.S. GAAP, ReCAPS have been reclassified from equity to debt. The impact of this is described in Note 32.

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****22. EARNINGS PER SHARE**

	July 31, 2005	July 25, 2004
	<u> </u>	<u> </u>
Basic earnings per share (A\$)	0.46	0.46
Diluted earnings per share (A\$)	0.47	0.47
Weighted average number of shares (000s) used as the denominator		
Weighted average number of shares used as the denominator in calculating basic earnings per share	1,225,620	1,216,260
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	1,314,098	1,304,470
Reconciliation of earnings used in calculating earnings per share (A\$ 000)		
Basic earnings per share:		
Net profit	616,122	608,117
Dividends on reset convertible preference shares	(50,700)	(45,600)
	<u> </u>	<u> </u>
Earnings used in calculating basic earnings per share	565,422	562,517
	<u> </u>	<u> </u>
Diluted earnings per share:		
Net profit	616,122	608,117
	<u> </u>	<u> </u>
Earnings used in calculating diluted earnings per share	616,122	608,117
	<u> </u>	<u> </u>

23. AUDITOR S REMUNERATION

	July 31, 2005	July 25, 2004
	<u> </u>	<u> </u>
	A\$000	A\$000
	<u> </u>	<u> </u>
Amounts received or due and receivable by auditors for:		
Audit	6,338	5,849
	<u> </u>	<u> </u>
Other assurance services		
IFRS accounting services	1,184	
Acquisitions/divestments		118
Sales certificates under leases	452	422
Advice on accounting standards	251	385
Related party transaction review		30
U.S. regulatory assistance	1,064	438
Other		149
	<u> </u>	<u> </u>
	2,951	1,542
Taxation advice	91	199
	<u> </u>	<u> </u>

Total PricewaterhouseCoopers	9,380	7,590
------------------------------	-------	-------

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24. RETIREMENT BENEFITS

The CML Group sponsors several retirement plans covering a substantial proportion of permanent employees, including both defined benefit and defined contribution plans. The CML Group's contribution to retirement plans for all Company sponsored plans as recognized in these consolidated financial statements under Australian GAAP was A\$69.6 million in 2005, A\$63.9 million in 2004 and A\$61.2 million in 2003.

Prior to March 12, 2003, the assets of both plans were held in the Coles Myer Superannuation Fund (CMSF). On March 12, 2003, the Company decided that retirement benefits would best be provided through a master trust agreement rather than a standalone fund. The Mercer Super Trust was selected and the members and assets were transferred to the Coles Myer Super Plan (CMSP), a sub plan of the Mercer Super Trust.

Prior to the transfer to the CMSP the accrued pension liability was calculated based on the status of the aggregated plans held in the CMSF. For the first time in 2004, the accrued pension liability has been calculated based on the status of the defined benefit portion of the CMSP only. There was no material adjustment required as a result of this change. Disclosures for 2003 have been restated to ensure comparability with the 2004 and 2005 disclosures.

The effect of the differences in accounting for retirement benefits under Australian GAAP and U.S. GAAP is reflected in Note 32.

Defined benefit plans

Defined benefit plans, covering the majority of salaried employees and a relatively small proportion of hourly paid permanent employees, provide lump sum benefits on retirement that are based on the employee's compensation during defined periods within the three years before retirement, as well as lump sum death, disablement and resignation benefits. It is the CML Group's policy to contribute to the plans at rates determined by the actuary as being necessary and sufficient to ensure the stability and financial soundness of each plan, subject to its rights to reduce, suspend or terminate contributions as specified in the relevant trust deeds. The assets of these plans are invested in government securities, equity shares, property and a variety of other securities as determined by professional investment managers appointed by the trustees.

Retirement benefit expense, actuarial assumptions, and the funded status of the defined benefit plans under Statement of Financial Accounting Standards No. 87 (SFAS 87) are as follows:

	2005	2004	2003
	53 weeks	52 weeks	52 weeks
	A\$M	A\$M	A\$M

Edgar Filing: COLES MYER LTD - Form 20-F

Net periodic retirement benefit expense (Note a):			
Service cost	17.2	19.4	23.0
Interest cost on projected benefit obligation	25.6	25.1	30.8
Expected return on assets	(30.8)	(28.8)	(37.8)
Net amortization and deferral	(2.1)		0.2
Curtailement gain	(11.1)		
	(1.2)	15.7	16.2
Discount rate	5.50%	5.25%	6.00%
Rate of increase in compensation levels	4.25%	4.00%	4.50%
Expected long-term rate of return on assets	6.50%	6.50%	7.00%

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****24. RETIREMENT BENEFITS (continued)**

	July 31,	July 25,
	2005	2004
	A\$M	A\$M
	<u> </u>	<u> </u>
Projected benefit obligation, beginning of year	498.0	568.3
Service cost	17.2	19.4
Interest cost	25.6	25.1
Contributions by plan participants	11.4	9.3
Actuarial losses/(profits)	31.6	(53.2)
Benefits paid	(75.7)	(70.9)
Net transfer in /(out)	0.1	
Curtailment	(2.9)	
	<u> </u>	<u> </u>
Projected benefit obligation, end of year	505.3	498.0
	<u> </u>	<u> </u>
Funded status of plans:		
Plan assets at fair value, beginning of year	496.0	484.5
Actual return on plan assets	65.0	74.6
Contributions (employer and employee)	31.6	27.5
Benefits and expenses paid	(75.7)	(70.9)
Adjustment to assets at beginning of year	0.1	(19.7)
	<u> </u>	<u> </u>
Plan assets at fair value, end of year (Note b)	517.0	496.0
Projected benefit obligation	(505.3)	(498.0)
	<u> </u>	<u> </u>
Projected benefit/(shortfall) obligation less than plan assets	11.7	(2.0)
Unrecognized net loss/(gain) from past experience different from that		
assumed (Note c)	(57.7)	(65.5)
	<u> </u>	<u> </u>
Accrued pension cost (Note d)	(46.0)	(67.5)
	<u> </u>	<u> </u>

Notes:

- a) As discussed above, the net periodic retirement benefit expense and accrued pension cost have not been recognized in these consolidated financial statements, which have been prepared under Australian GAAP and which record the expense for the year as the CML Group's contributions payable to the plans. The amount of the contributions payable is determined by the terms of the respective trust deeds. The effect on the CML Group's reported financial position and results of operations is reflected in Note 32.

Edgar Filing: COLES MYER LTD - Form 20-F

- b) Plan assets include fully paid ordinary shares in the Company of A\$1.6 million (2004 A\$NIL).
- c) These are gains or losses in the plans that are deferred and recognized over future periods under U.S. GAAP. They represent the cumulative gain from changes in the value of either plan assets or the projected benefit obligation resulting from actual experience being different from that assumed when performing SFAS 87 calculations.
- d) Accrued pension cost has been recorded in other non-current liabilities for the purposes of the U.S. GAAP reconciliation refer Note 32.

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****25. EMPLOYEE SHARES, OPTIONS AND PERFORMANCE SHARES****Coles Myer Employee Share Plan**

CML has established a general employee share plan, the Coles Myer Employee Share Plan (the Plan), and the Coles Myer Employee Share Plan Trust (the Trust). The Trust acquired CML fully paid ordinary shares (shares) and then invited eligible employees to purchase them. At CML's discretion employees who had worked continuously for the CML Group for 12 months full-time, 12 months part-time, or 24 months casually, were eligible to purchase shares on the following bases:

Shares were purchased from the Trust at the average cost of the shares available for sale or such price as determined by the Trust;

Employees pay for the shares by applying dividends on the shares and making voluntary payments;

No interest is charged on the outstanding purchase price;

Employees who left the CML Group within three years of acquiring shares under the Plan forfeited their shareholding; and

A maximum of 20 years is allowed for the purchase price to be paid in full.

The number of shares offered to each employee depended on the employee's position and performance within the CML Group. At balance date, the following shares were on issue:

Issue date	Type	Price A\$	No. of shares offered per employee	No. of employees		Total shares on issue	
				2005	2004	2005	2004
May 6, 1994	G	4.93	200 to 2,500	14,701	16,321	8,984,200	10,086,800
June 15, 1995	P	4.78	50 to 2,000	1,320	1,463	266,125	305,150
January 12, 1996	P	4.54	50 to 2,500	1,472	1,656	311,310	355,420
August 14, 1996	P	4.61	100 to 1,100	725	818	263,795	296,215
						9,825,430	11,043,585

G = General issue

P = Performance issue

Price = Average cost (including stamp duty and brokerage) of the shares to the Trust

During 2004 the trustees restructured the Trust. The trustees disposed of 11 million CML shares. The Trust used the proceeds to repay part of the loan from CML that related to the sold shares and to pay accrued loan interest of A\$35.3 million.

At balance date the Trust held no shares (2004 1,765,071) and a loan of A\$16.0 million (2004 A\$29.7 million) was receivable from the Trust (refer Note 10). The exercise of all other options will be satisfied by the issue of new shares by CML.

The market value of CML ordinary shares at balance date was A\$9.43.

Coles Myer Executive Share Option Plans

CML established Executive Share Option Plans, under which options over un-issued shares, and over issued shares held by the Trust, may be issued to executives at CML's discretion. Options are issued for A\$NIL consideration. Each option is over one share. Options have no voting rights until exercised. The holders of options are entitled to participate in bonus share issues. Where options are over issued shares held by the Trust, the Trust's consent is required to make the necessary shares available.

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****25. EMPLOYEE SHARES, OPTIONS AND PERFORMANCE SHARES (continued)**

Details of options granted under the Coles Myer Executive Share Option Plans to July 31 2005 are:

Date of grant	Expiry date	Exercise price A\$	Hurdle conditions (page 137)	Number at July 25 2004	Number	Number	Number	Number	Number
					issued during period	exercised during period	lapsed during period	Number at July 31 2005	vested at July 31 2005
Dec 98	Oct 05	4.50	1	44,000		22,000		22,000	22,000
Dec 98	Oct 06	4.50	1	66,000		44,000		22,000	22,000
Dec 98	Oct 07	4.50	1	85,000		62,000		23,000	23,000
Apr 00	Jun 07	6.46	2	2,730,000			2,730,000		
Aug 01	**	6.21	NIL	1,500,000		500,000		1,000,000	500,000
Sep 01	**	6.28	NIL	1,500,000		900,000		600,000	
Sep 01	**	6.33	3	2,500,000		1,000,000		1,500,000	500,000
Oct 01	Apr 07	4.50	NIL	66,000		66,000			
Oct 01	Apr 08	4.50	NIL	66,000		66,000			
Oct 01	Apr 09	4.50	NIL	68,000		68,000			
Feb 02	Nov 06*	7.66	3	915,000		102,000		813,000	447,000
Mar 02	Nov 06*	7.66	3	15,428,996		5,946,150	944,489	8,538,357	3,311,400
May 02	Nov 07*	6.44	3	2,500,000		1,000,000		1,500,000	
Jun 02	Nov 06*	8.32	3	430,000		258,000		172,000	
Jun 02	Nov 06*	7.66	NIL	10,730,619		3,231,959	453,374	7,045,286	3,159,250
Jul 02	May 07*	8.26	3	400,000		80,000		320,000	160,000
Jul 02	May 07*	8.26	NIL	258,000		76,455	13,545	168,000	72,000
Sep 02	Nov 07*	5.88	3	860,000		344,000		516,000	
Dec 02	Nov 07*	6.59	3	440,000		80,000	143,288	216,712	56,000
Dec 02	Nov 07*	5.88	3	860,000		344,000		516,000	
Dec 02	Nov 07*	6.59	NIL	90,000		24,000		66,000	12,000
Feb 03	Nov 07*	6.59	3	470,000		188,000		282,000	
Feb 03	Nov 07*	6.59	NIL	90,000		37,332	14,668	38,000	2,000
May 03	May 08*	6.42	3	1,290,000		322,882	346,644	620,474	150,000
May 03	May 08*	6.42	NIL	120,000		4,340	10,660	105,000	42,000
Jun 03	May 08*	6.42	3	720,000		210,000		510,000	78,000
Jun 03	May 08*	6.42	NIL	275,392		74,602	56,790	144,000	36,000
Aug 03	Nov 08*	7.28	3	2,500,000			1,786,301	713,699	
Aug 03	Nov 08*	7.28	4	500,000			357,260	142,740	
Oct 03	Nov 08*	7.26	3	1,483,000			469,586	1,013,414	
Oct 03	Nov 08*	7.26	NIL	390,000		3,558	86,442	300,000	
Nov 03	**	7.53	7	1,500,000				1,500,000	
Dec 03	Nov 08*	7.12	3	430,000				430,000	
Jan 04	Nov 08*	7.26	3	1,100,000		14,000	239,203	846,797	
Jan 04	Nov 08*	7.26	NIL	420,000		12,808	137,192	270,000	
Apr 04	May 09*	7.43	3	440,000				440,000	

Edgar Filing: COLES MYER LTD - Form 20-F

Apr 04	May 09*	7.43	NIL	120,000			120,000		
Jul 04	May 09*	7.43	3	770,000		197,466	572,534		
Jul 04	May 09*	7.43	NIL	180,000	259	29,741	150,000		
Jul 04	Nov 09*	8.43	3	210,000			210,000		
Oct 04	Nov 09	8.92	3		1,050,000		1,050,000		
Oct 04	Nov 09	8.94	NIL		120,000		120,000		
Mar 05	Nov 09	8.94	3		1,250,000		1,250,000		
Mar 05	Nov 09	8.94	NIL		510,000		510,000		
Total				54,546,007	2,930,000	15,082,345	8,016,649	34,377,013	8,592,650

* See legend on page 137

** See legend on page 137

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****25. EMPLOYEE SHARES, OPTIONS AND PERFORMANCE SHARES (continued)**

At July 31, 2005, 4,600,000 options were outstanding that expire upon cessation of employment. Of the remaining options outstanding the weighted average remaining life was 2 years 4 months.

At July 25, 2004, there were 12,837,437 vested options. During 2004, 10,243,000 options were issued with exercise prices between A\$7.12 and A\$8.43 (weighted average A\$7.35), 5,560,675 options were exercised with prices between A\$4.50 and A\$8.26 (weighted average A\$7.24), and 4,457,318 options lapsed with exercise prices between A\$4.50 and A\$8.25 (weighted average A\$7.35).

Options exercised during the financial year and the number of shares provided to executives on the exercise of options:

Exercise date+	Fair value of shares at issue date+	2005	2004
	(AUD)	Number	Number
September 2003	\$7.74		500,000
October 2003	\$7.69		22,000
December 2003	\$7.53		7,582
March 2004	\$8.10		340,940
April 2004	\$8.33		159,800
May 2004	\$8.41		137,600
June 2004	\$8.46		97,746
July 2004	\$8.70		4,295,007
August 2004	\$8.77	169,200	
September 2004	\$9.37	1,456,860	
October 2004	\$9.26	4,919,538	
November 2004	\$9.84	3,020,968	
December 2004	\$9.75	2,056,349	
January 2005	\$9.68	912,267	
February 2005	\$9.47	83,444	
March 2005	\$9.71	1,408,689	
April 2005	\$9.28	247,473	
May 2005	\$8.98	80,820	
June 2005	\$9.46	219,452	
July 2005	\$9.47	507,285	
Total		15,082,345	5,560,675

Edgar Filing: COLES MYER LTD - Form 20-F

Aggregate proceeds received by CML from employees on the exercise of options over unissued shares was A\$107,893,543 (2004 A\$37,060,328), and the fair value of those shares at issue date were A\$143,682,286 (2004 A\$43,438,748)

Aggregate proceeds received by the Trust from employees on the exercise of options over issued shares was A\$NIL (2004 A\$3,204,000), and the fair value of those shares at issue date was A\$NIL (2004 A\$4,039,180).

Coles Myer Senior Executive Performance Share Plan

CML has established a Senior Executive Performance Share Plan. A performance share is a right to acquire an ordinary share in CML for no consideration. Performance shares are issued for A\$NIL consideration. Performance shares have no voting rights until vested. The holders of performance shares are entitled to participate in bonus share issues.

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****25. EMPLOYEE SHARES, OPTIONS AND PERFORMANCE SHARES (continued)**

Details of performance shares granted under the Senior Executive Performance Share Plan to July 31, 2005 are:

Date of grant	Expiry date	Exercise price A\$	Hurdle conditions (below)	Number at July 25 2004	Number issued during period	Number exercised during period	Number lapsed during period	Number at July 31 2005	Number vested at July 31 2005
Jan 05	Sept 07	NIL	6		819,000			819,000	
Jun 05	Sept 07	NIL	6		597,925			597,925	
Total					1,416,925			1,416,925	

Legend:

* Expiry date is shown as the expected month only. The actual last exercise date is 60 days after the announcement of the results of the CML Group.

** Cessation of employment + 1 year.

+ Exercise dates are grouped by month, and the fair value of the shares at issue date is based on the weighted average of fair values on each issue date for that month.

The performance hurdle conditions attaching to each tranche of options are as follows:

1 Net profit for the CML Group must exceed specified targets set for any one of the financial years ending July 2000, 2001 and 2002; or

Total shareholder return (TSR) over any one of the periods October 16 1998 to October 15 2000, October 15 2001 or October 15 2002 must equal or exceed the median return over the same period of a set list of top 100 industrial companies listed on the Australian Stock Exchange (ASX).

The profit hurdle was met for the financial year ended July 2000 and thus all options are exercisable.

- 2 TSR over any one of the periods March 1, 2000 to February 28, 2003, February 29, 2004, or February 28, 2005 must equal or exceed the median return over the same period of a set list of top 100 industrial companies listed on the ASX.

The hurdles were not met and the options lapsed during 2005.

- 3 TSR must equal or exceed the median return over the relevant period of a list of top 50 industrial companies; or earnings per share growth (EPSG) expressed as a compound annual growth rate must equal or exceed 12.5% over the relevant period.
- 4 TSR must equal or exceed the median return over the relevant period of a list of top 50 industrial companies; or EPSG expressed as a compound annual growth rate must equal or exceed 15% over the relevant period.
- 5 TSR must exceed the median return over the relevant period of a list of top 50 industrial companies; or EPSG expressed as a compound annual growth rate must equal or exceed 12.5% over the relevant period.

For hurdles 3, 4 and 5, the options will progressively vest according to the level of TSR or EPSG achieved each year. To the extent that TSR or EPSG is not achieved, the non-vested options will be carried forward to be re-tested in following years.

- 6 50% of the performance rights issued to individuals are subject to TSR. TSR for the three years ending July 29, 2007 must exceed the median return of a list of the top 50 industrial companies.

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****25. EMPLOYEE SHARES, OPTIONS AND PERFORMANCE SHARES (continued)**

The performance hurdle conditions attaching to each tranche of options are as follows (continued):

50% of the performance rights are subject to EPSG. EPSG expressed as a compound annual growth rate must equal or exceed 12.5% for the three years ending July 29, 2007 when compared to the earnings per share achieved for the year ending July 25, 2004.

- 7 When originally granted, these options were subject to the performance hurdle conditions described in footnote 5. During 2005, these hurdles were changed to those described in footnote 6, however, the test period is the three years ending July 30, 2006.

The directors have discretion to disregard any changes in net profit, TSR or EPSG due to an anomaly, distortion or other event which is not directly related to the financial performance of any Company or entity or which would lead to an incorrect comparison.

26. COMMITMENTS AND CONTINGENT LIABILITIES

	July 31, 2005	July 25, 2004
	A\$M	A\$M

Capital commitments

Contracted capital expenditure commitments not provided for in these financial statements, which principally relate to building and fixture contracts for new stores and shopping centers are as follows:

Not later than one year	270.1	190.0
Later than one year but not later than five years	0.7	3.4
	<u>270.8</u>	<u>193.4</u>

Commitments

The CML Group leases both property and equipment under operating leases. Future minimum lease obligations are detailed below.

Operating leases:

Due not later than one year	988.0	934.1
Due later than one year and not later than five years	3,506.7	3,402.4
Due later than five years	4,333.9	4,571.1

Total future minimum lease obligations*	8,828.6	8,907.6
---	---------	---------

* The CML Group subleases property and equipment to external parties. Future minimum lease obligations include any potential exposure arising from default by external parties.

	2005	2004	2003
	53 weeks	52 weeks	52 weeks
	A\$M	A\$M	A\$M
Base rental incurred	1,016.9	929.2	832.6
Percentage rental incurred	97.8	88.7	86.3
Rental received	27.2	25.9	30.8

The CML Group conducts the majority of its operations from leased premises. The leases are classified as operating leases. At the end of the initial term of most of the leases the Company can renew the arrangements for 5 to 10 year periods. The majority of lease payments for leased stores are based on a minimum rental plus a percentage of each store's sales in excess of stipulated amounts. Management expects, that in the normal course of business, leases will be renewed or replaced by other leases.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Contingent liabilities

	July 31, 2005	July 25, 2004
	A\$M	A\$M
Contingent liabilities at balance date, not otherwise provided for in these financial statements, are categorized as arising from:		
Guarantees:		
Trading guarantees	341.3	340.2

CML has unconditionally guaranteed the obligations of Coles Myer Finance Ltd. and Coles Myer Finance (USA) Ltd., both of which are controlled entities.

CML has unconditionally guaranteed the debts of certain controlled entities under the terms of an Australian Securities and Investments Commission class order, thereby eliminating the need to prepare statutory financial statements for those entities.

Other:

CML has entered into an agreement with Coles Myer Employee Share Plan Trust to provide funds for the purchase of CML shares, allot new shares in CML and make contributions to ensure the solvency of the Trust. Refer Note 25.

Certain companies within the CML Group are party to various legal actions that have arisen in the normal course of business. It is the opinion of directors that any liabilities arising from such legal actions would not have a material adverse effect on the consolidated financial statements.

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****27. SEGMENT INFORMATION**

Under Australian GAAP, the CML Group is considered to operate predominantly within the retailing industry and predominantly in Australia.

During 2005, segment reporting was restructured resulting in Kmart and Officeworks being reported separately. Coles online and Harris Technology were previously reported in Emerging Businesses, which will no longer be reported as a separate segment. In addition, Myer and Megamart are now reported separately. Certain administrative costs are now reported in Food, Liquor & Fuel, having previously been reported in Property & Unallocated. Intra-group sales were previously disclosed in the respective segments and eliminated at the group revenue level. Intra-group sales are now excluded from segment revenue disclosures. The 2004 and 2003 comparatives have been amended accordingly.

Industry Segments

	2005 53 weeks A\$M	2004 52 weeks A\$M	2003 52 weeks A\$M
Revenue			
Total Sales			
Food, Liquor & Fuel	24,670.2	21,146.8	16,565.4
Kmart	4,025.7	3,799.1	3,644.5
Officeworks	1,236.3	1,100.1	896.1
Myer	2,882.0	2,895.6	2,849.7
Megamart	268.9	288.8	273.2
Target	3,102.1	2,851.8	2,646.9
	<u>36,185.2</u>	<u>32,082.2</u>	<u>26,875.8</u>
Other revenue			
Food, Liquor & Fuel	146.9	144.3	56.2
Kmart	50.9	47.7	18.5
Officeworks	5.3	6.5	(0.3)
Myer	73.9	73.4	73.6
Megamart	6.0	5.5	3.8
Target	42.3	30.2	14.9
Property and Unallocated	64.1	141.8	449.7
	<u>389.4</u>	<u>449.4</u>	<u>616.4</u>
Total segment revenue			
Food, Liquor & Fuel	24,817.1	21,291.1	16,621.6

Edgar Filing: COLES MYER LTD - Form 20-F

Kmart	4,076.6	3,846.8	3,663.0
Officeworks	1,241.6	1,106.6	895.8
Myer	2,955.9	2,969.0	2,923.3
Megamart	274.9	294.3	277.0
Target	3,144.4	2,882.0	2,661.8
Property and Unallocated	64.1	141.8	449.7
	<u>36,574.6</u>	<u>32,531.6</u>	<u>27,492.2</u>

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****27. SEGMENT INFORMATION (continued)**

	2005	2004	2003
	53 weeks	52 weeks	52 weeks
	A\$M	A\$M	A\$M
Segment result management reporting			
Food, Liquor & Fuel	769.4	670.5	595.5
Kmart	92.5	85.4	62.6
Officeworks	67.1	51.7	46.3
Myer	38.7	71.9	32.0
Megamart	(35.8)	(11.2)	(6.8)
Target	222.5	150.9	92.0
Property and Unallocated	(78.5)	(74.8)	(93.0)
Total Segment result management reporting	1,075.9	944.4	728.6
Segment result Australian GAAP			
Food, Liquor & Fuel	743.4	647.4	555.5
Kmart	96.0	100.8	67.9
Officeworks	67.1	51.7	41.2
Myer	35.0	54.0	11.8
Megamart	(117.3)	(11.2)	(6.8)
Target	221.3	149.7	89.9
Property and Unallocated	(121.7)	(112.7)	(87.5)
Total Segment result Australian GAAP	923.8	879.7	672.0
Net borrowing costs	(41.3)	(13.5)	(63.2)
Profit before tax	882.5	866.2	608.8
Income tax expense	(266.4)	(258.1)	(187.7)
Net profit	616.1	608.1	421.1
Segment assets			
Food, Liquor & Fuel	4,249.0	3,990.0	3,566.6
Kmart	1,108.4	1,133.5	1,103.4
Officeworks	319.0	321.7	315.3
Myer	965.9	913.2	955.6
Megamart	50.5	87.1	80.6
Target	835.4	805.9	793.8
Property and Unallocated	1,452.9	1,497.6	1,415.6
Tax assets	8,981.1	8,749.0	8,230.9
	371.3	302.7	221.9
Total assets	9,352.4	9,051.7	8,452.8

¹ Segment results are calculated as profit before interest and tax. Management reporting excludes goodwill amortization for acquisition prior to July 1998, and is adjusted for other non-recurring items that management do not consider to be reflective of the underlying operations of the business.

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****27. SEGMENT INFORMATION (continued)**

	2005	2004	2003
	53 weeks	52 weeks	52 weeks
	A\$M	A\$M	A\$M
	<u> </u>	<u> </u>	<u> </u>
Segment liabilities			
Food, Liquor & Fuel	(1,886.9)	(1,795.5)	(1,568.4)
Kmart	(387.0)	(434.0)	(411.8)
Officeworks	(140.6)	(151.2)	(146.5)
Myer	(379.2)	(363.7)	(378.8)
Megamart	(71.6)	(27.2)	(18.5)
Target	(370.1)	(352.1)	(340.5)
Property and Unallocated	(2,176.7)	(1,560.4)	(1,600.4)
	<u> </u>	<u> </u>	<u> </u>
	(5,412.1)	(4,684.1)	(4,464.9)
Tax liabilities	(204.3)	(270.0)	(188.7)
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	(5,616.4)	(4,954.1)	(4,653.6)
	<u> </u>	<u> </u>	<u> </u>
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets			
Food, Liquor & Fuel	470.0	513.9	634.8
Kmart	62.4	47.5	41.2
Officeworks	17.4	27.0	79.1
Myer	67.2	64.1	44.8
Megamart	5.0	3.3	8.6
Target	50.1	53.2	41.5
Property and Unallocated	462.6	164.3	142.3
	<u> </u>	<u> </u>	<u> </u>
	1,134.7	873.3	992.3
	<u> </u>	<u> </u>	<u> </u>
Depreciation and amortization expense			
Food, Liquor & Fuel	315.8	291.4	261.4
Kmart	52.8	56.2	59.0
Officeworks	19.2	16.6	10.7
Myer	62.2	65.6	70.1
Megamart	3.5	3.4	2.9
Target	52.4	52.5	55.7
Property and Unallocated	52.8	51.0	52.8
	<u> </u>	<u> </u>	<u> </u>
	558.7	536.7	512.6
	<u> </u>	<u> </u>	<u> </u>
Other non-cash expenses			
Food, Liquor & Fuel	13.1	28.1	62.4
Kmart	0.6	4.5	12.7
Officeworks	1.6	1.1	11.2
Myer	(2.7)	2.1	17.4
Megamart	82.9	(0.9)	0.4

Edgar Filing: COLES MYER LTD - Form 20-F

Target	3.6	2.7	4.1
Property and Unallocated	11.5	73.2	75.0
	<u>110.6</u>	<u>110.8</u>	<u>183.2</u>

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****27. SEGMENT INFORMATION (continued)****Geographic regions**

	2005 53 weeks A\$M	2004 52 weeks A\$M	2003 52 weeks A\$M
Sales to external customers			
Australia	36,016.2	31,928.8	26,728.2
New Zealand	169.0	153.4	147.6
	<u>36,185.2</u>	<u>32,082.2</u>	<u>26,875.8</u>
Acquisition of non-current assets			
Australia	1,130.6	869.2	988.3
New Zealand	2.1	2.4	0.3
Other *	2.0	1.7	3.7
	<u>1,134.7</u>	<u>873.3</u>	<u>992.3</u>
Assets			
Australia	8,658.3	8,433.6	8,120.3
New Zealand	291.1	293.3	91.3
Other *	31.7	22.1	19.3
	<u>8,981.1</u>	<u>8,749.0</u>	<u>8,230.9</u>

* Other geographic regions consist of various legal entities principally in China.

Business segments

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

Food, Liquor & Fuel	Retail of grocery, liquor and fuel products
Kmart	Retail of apparel and general merchandise
Officeworks	Retail of office supplies
Myer	Retail of apparel and general merchandise

Edgar Filing: COLES MYER LTD - Form 20-F

Megamart	Retail of furniture and electrical goods
Target	Retail of apparel and general merchandise
Property & Unallocated	Management of the CML property portfolio and unallocated or corporate functions.

Geographical segments

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

The CML Group's business segments operate geographically as follows:

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

Inter-segment transfers

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

The CML Group has certain investments in associates. Segments disclosures relating to these investments have not been included as they are not considered to be material.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28. RELATED PARTY INFORMATION

Directors and director-related entities

Disclosures relating to directors and specified executives are set out in Note 29.

Transactions with entities in the wholly owned group

CML is the ultimate chief entity in the CML Group.

CML advanced and repaid loans, received loans and provided accounting, taxation and administrative assistance to other entities in the CML Group during the current and previous financial years. These transactions were on normal commercial terms and conditions.

Dividends, interest and lease rental details are disclosed in Notes 3, 4 and 26. Details of ownership interests in controlled entities are disclosed in Note 34. Amounts owing by/to controlled entities are disclosed in Notes 10 and 19.

Transactions with other related parties

The aggregate amounts brought to account in respect of the following types of transactions and each class of related party involved were:

Lease rentals, net of recoverable expenses, paid to associated entities by the CML Group A\$3,935,810 (2004 A\$4,032,285) on normal commercial terms and conditions. Balance of amounts payable by the CML Group (current) at balance date A\$NIL (2004 A\$NIL).

Distributions received and receivable by the CML Group from associated entities A\$8,169,525 (2004 A\$7,445,915) and the CML Group's purchase of units in an associated entity A\$1,292,563 (2004 A\$1,129,568) in accordance with Trust Deed and Partnership Agreements. Balance of amounts payable by the CML Group (current) at balance date A\$NIL (2004 A\$NIL).

Edgar Filing: COLES MYER LTD - Form 20-F

The CML Group's cost of participation with an associated entity in customer loyalty programs and services provided, net of recoverable expenses, by the associated entity in relation to those loyalty programs A\$52,894,621 (2004 A\$43,726,000) in accordance with a service agreement. Balance of amounts payable by the CML Group (current) at balance date A\$5,329,268 (2004 A\$10,488,000).

The sale of customer cards to an associated entity on normal commercial terms and conditions A\$24,773,406 (2004 A\$18,000,000). Balance of amounts receivable from an associated entity by the CML Group (current) at balance date A\$NIL (2004 A\$NIL).

Software development and license fees paid to an associated entity by the CML Group A\$934,084 (2004 A\$794,417) on normal commercial terms and conditions. Balance of amounts payable by the CML Group at balance date A\$NIL (2004 A\$25,423).

Details of associated entities are disclosed in Note 11.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. DIRECTOR AND EXECUTIVE DISCLOSURES

Directors

The following persons were directors of CML during the financial year:

Chairman non-executive

Richard Allert

Executive director

John Fletcher

Non-executive directors

Patricia Akopiantz

Keith Barton

William Gurry

Anthony Hodgson

Mark Leibler (retired November 18, 2004)

Sandra McPhee

Martyn Myer

Michael Wemms

Edgar Filing: COLES MYER LTD - Form 20-F

Specified executives (other than executive director, John Fletcher) with the greatest authority for strategic direction and management

The following persons were the executives with the greatest authority for the strategic direction and management of the CML Group (specified executives) during the financial year:

Current executives:

Larry Davis	Managing Director, Target (until February 14, 2005) Managing Director, Kmart (appointed February 14, 2005)
Tim Hammon	Chief Officer, Corporate & Property Services
Launa Inman	Managing Director, Target (appointed February 14, 2005)
Fraser MacKenzie	Chief Financial Officer
Dawn Robertson	Managing Director, Myer
Hani Zayadi	Managing Director, Kmart (until December 22, 2004) Group Managing Director, Food, Liquor and Fuel (appointed December 22, 2004)

Former executives:

Steven Cain	Group Managing Director, Food, Liquor and Fuel (until December 22, 2004)
-------------	--

Directors fees

Non-executive directors fees, including committee fees, are set by the Board within the maximum aggregate amount of A\$1,500,000 last approved by shareholders in November 1997. At the Company's Annual General Meeting on November 17, 2005, the maximum aggregate amount was increased to A\$2,000,000. Fee levels reflect the size and complexity of the Coles Myer Group.

The Board has a Nomination and Remuneration Committee that is responsible for reviewing non-executive directors fees. Details of the membership of the Nomination and Remuneration Committee and its responsibilities are set out in Item 6C Board Practices. In reviewing non-executive director fee levels, the Nomination and Remuneration Committee, which makes recommendations to the Board, takes into account:

the Company's existing remuneration policies;

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)**

independent professional advice;

fees paid by comparable companies;

the general time commitment required from directors and the risks associated with discharging the duties attaching to the role of director; and

the level of remuneration necessary to attract and retain directors of a suitable caliber.

A standard letter of engagement has been developed for non-executive directors. In accordance with the Company's constitution, non-executive directors are subject to periodic re-election by shareholders. In addition the Company has adopted a tenure policy for non-executive directors, refer to Item 6A Directors and Senior Management.

Fees payable to non-executive directors as at the date of this report are set out below.

Directors' base fees

	Board		Audit /Governance Committee		Nomination and Remuneration Committee		Corporate Social Responsibility Committee	
	Chairman	Member	Chairman	Member	Chairman	Member	Chairman	Member
	\$A	\$A	\$A	\$A	\$A	\$A	\$A	\$A
Fee	337,900 ¹	149,800 ²	30,700	10,200	10,200	5,100	10,200	5,100

¹ The Chairman currently serves on all Board committees however does not receive additional fees for doing so.

² Directors appointed prior to March 27, 2003 receive lower annual fees of A\$112,600 (exclusive of superannuation) to reflect their entitlement to retirement benefits as discussed below.

Edgar Filing: COLES MYER LTD - Form 20-F

The Board determined that non-executive directors' fees would be increased in line with increases in the Consumer Price Index (All Groups) on an annual basis from May 1, 2004. This decision resulted in a fee increase of 2.4% in May 2005. The Board will continue to review its approach to non-executive director remuneration to ensure it remains in line with general industry practice and best practice principles of corporate governance.

Directors are reimbursed for the cost of traveling on Company business. Non-executive directors also receive an annual expense allowance of A\$5,825 in respect of expenses incurred in maintaining a home office, including telephone and fax costs.

Retirement benefits

The Company has a policy that it will not offer retirement benefits to non-executive directors appointed after March 27, 2003. However, non-executive directors who were appointed prior to March 27, 2003 retain their contractual entitlement to a retirement benefit on the terms approved by shareholders at the 1989 annual general meeting. The contracts provide for a retirement benefit equal to the aggregate of remuneration received by the director over the last three years of service, plus 5% of that amount for each year of service in excess of three years, but not exceeding 15 years. In any benefit paid on retirement, termination or death is reduced by the amount of any superannuation benefit received.

At the Company's Annual General Meeting on November 17, 2005, it was announced that the retirement benefits would be frozen as at that date, and no further accrual would be made. From November 17, 2005 all Directors have been paid according to one scale of fees.

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)**

The accrued retirement benefit for each non-executive director entitled to receive one is set out below. The benefits shown are net of superannuation benefits payable:

Table: Accrued retirement benefit as at July 31, 2005:

Non-executive directors entitled to retirement benefits*	Years of service	Accrued retirement benefit (A\$)
Richard Allert (Chairman)	9	1,078,619
Patty Akopiantz	3	315,232
Bill Gurry	4	322,469
Martyn Myer	8	370,287
		2,086,607

* In addition, Mark Leibler received a payment of A\$374,560 upon retirement from office on November 18, 2004.

Executive director and senior executive remuneration

In accordance with the Corporations Act and Accounting Standards, the Company has provided specific disclosures in relation to the remuneration for the Managing Director and Chief Executive Officer, Mr John Fletcher, and for each of the following persons, who were the executives with the greatest authority for the strategic direction and management of the Company and the Group, and who include the five most highly remunerated senior executives during the financial year. In this Remuneration Report these executives are referred to as Specified Executives .

The Specified Executives include Steven Cain, the former Group Managing Director of Food, Liquor and Fuel. Mr Cain ceased acting as Group Managing Director Food, Liquor and Fuel on December 22, 2004 and ceased employment with the Company on January 3, 2005.

Policy Rewarding individual and Company performance

Edgar Filing: COLES MYER LTD - Form 20-F

Over the past four years the Company's executive remuneration strategy has evolved to reflect the requirements of both shareholders and the Company in the delivery of performance objectives. It has progressively moved away from emphasis on short-term performance towards a best practice approach designed to align executive reward and performance with the creation of value for shareholders.

The key principles of the Company's remuneration policy:

include payment of incentive-based rewards dependent upon achieving demanding performance hurdles that are consistent with shareholder interests;

take into account the performance of both the Company and the individual in determining reward outcomes;

ensure an appropriate balance between fixed and at-risk components of remuneration reflecting market conditions at each job and seniority level:

the fixed component is set at the median for markets against which the Company assesses executive remuneration. Comparator markets include private sector companies with a turnover in excess of A\$800 million per annum;

the at-risk component rewards executives for the achievement of long-term and short-term performance targets;

reflect the remuneration levels in the home countries of executives recruited from overseas;

incorporate performance measures structured to operate soundly throughout the business cycle; and

limit termination payments to pre-agreed amounts that do not expose the Company to unjustified payments in the event of executive non-performance.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

The total remuneration (both fixed and at-risk) for the CEO and for those executives reporting to the CEO is determined by the Board. When reviewing the remuneration packages each year, the Board takes into account recommendations from the Nomination and Remuneration Committee. The Board also considers independent, external advice with respect to the market competitiveness of senior executive remuneration packages. This includes comparison with the remuneration of the senior executives of peer group corporations. The CEO's package is also compared with the remuneration packages for the CEOs of other top 20 Australian corporations by market capitalization, to ensure appropriate market relativity.

The Board aims to ensure that the Company's remuneration policy is regularly reviewed to align executive rewards with desired behaviors and performance.

Remuneration structure A significant portion of remuneration is at risk

Remuneration for the Company's senior executives is made up of the following components:

1) Fixed remuneration; and

2) At-risk remuneration, comprising:

 Short term incentives (STI) based on individual and operational performance over 12-month periods; and

 Long-term incentives (LTI) based on sustained shareholder value creation.

The mix between fixed remuneration and at-risk remuneration depends on the level of seniority of the executive. For more senior executives, the at-risk remuneration is a greater proportion of the total reward potential. The information provided in the table below is intended to be a guide only as percentage levels will vary at different executive levels.

Table: The target mix between fixed and at-risk remuneration:

% of total remuneration (annualized)

	Fixed remuneration		At-risk remuneration			
			STI *		LTI *	
CEO	35%		45%		20%	
Direct reports to the CEO	40%	50%	35%	40%	15%	20%
Other executives	53%	63%	24%	32%	12%	18%

* Assumes stretch performance measures are achieved

Fixed remuneration

Fixed remuneration is made up of base salary, Company superannuation contributions and benefits, including fringe benefits tax. A salary packaging approach is followed, which allows each executive to select the level of superannuation and up to two motorcars as part of this package. All executive remuneration, including that of the CEO, is governed by the same package policy. Details of certain benefits made available to the CEO and the Specified Executives are outlined in the summary of the Service Agreements set out on page 153.

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)****At-risk remuneration – short term incentive (STI)**

The STI program involves linking specific annual performance measures with the opportunity to earn cash rewards based on a percentage of fixed remuneration. The STI is specifically designed to reward executives for the successful achievement of individual, business unit, business group and Company performance measures over the financial year.

The STI performance measures for the CEO and the executives reporting directly to him are determined annually by the Board to reflect the strategic business objectives of the Company. Performance measures for other senior executives in the senior leadership team are approved by the CEO.

The Company and business unit STI performance measures contain threshold, target and stretch objectives. Threshold objectives must be met for any reward to be payable. To secure maximum STI reward, stretch objectives must be met.

The amount of STI which can be potentially earned by executives is set out in Table: Amounts of STI which can be earned. It shows the percentage of fixed remuneration which may be earned under the STI if relevant performance measures are met.

Table: Amount of STI, which can be earned:

	% of fixed remuneration					
	Threshold		Target		Stretch	
	Performance		Performance		performance	
CEO	30%		60%		120%	
Direct reports to the CEO	20%	25%	40%	50%	80%	100%
Other executives	10%	15%	20%	30%	40%	60%

Performance measures under the STI

Edgar Filing: COLES MYER LTD - Form 20-F

The STI performance measures have been selected to provide a financial incentive to executives to improve the Company's performance and its productivity. The measures vary depending on the individual executive's position, and include both financial and non-financial measures.

Financial Measures:

Underlying Company profit after tax;

Underlying business unit earnings before interest and tax;

Underlying return on investment;

Business efficiency; and

Comparative store sales growth.

Non-Financial Measures:

Team values and performance;

Strategic initiatives relating to individual functional areas; and

Safety.

Assessment of performance measures under the STI

The satisfaction of STI performance measures for the CEO and for direct reports to the CEO is assessed by the Board. In the case of other executives the STI performance measures are approved by the CEO. Financial performance measures are assessed based on the Company's financial results for the full financial year.

Safety performance is assessed at the end of each financial year on the basis of lost time injury frequency rate results. Team values are assessed by way of feedback based on confidential survey results from both peers and direct reports.

Performance against strategic initiatives is reviewed against internal strategic benchmarks.

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)**

Specific information relating to the percentage of the STI which was paid and the percentage that was forfeited for the CEO and Specified Executives are set out in below.

Table: STI paid for the 2005 financial year:

CEO & Specified Executives	Actual STI	Actual STI	% of stretch
	payment¹	payment as	payment not
	A\$	% of stretch	achieved
John Fletcher	1,549,218	57%	43%
Larry Davis ²	800,000	74%	26%
Tim Hammon	430,353	66%	34%
Launa Inman	361,671	70%	30%
Fraser MacKenzie	448,826	59%	41%
Dawn Robertson	377,408	32%	68%
Hani Zayadi	821,690	58%	42%
Former executives:			
Steven Cain ³		0%	100%

¹ STI constitutes a cash bonus granted during the 2005 financial year, determined following close of the 2005 financial year results and paid on October 15, 2005.

² As a result of Mr Davis changing role from Managing Director Target to Managing Director Kmart, his new Service Agreement provides for a guaranteed minimum STI payment of A\$800,000 for the 2005 financial year.

³ Mr Cain ceased employment on January 3, 2005 and was not entitled to an STI payment for the 2005 financial year.

At-risk remuneration long term incentive (LTI)**Performance Share Plan**

Edgar Filing: COLES MYER LTD - Form 20-F

The Senior Executive Performance Share Plan (SEPS), approved by shareholders at the 2004 annual general meeting, is designed to link long-term executive reward with the growth in shareholder value. It is also designed to provide the Company with a mechanism to encourage the retention of strategically important senior executives.

The SEPS provides for annual grants of performance shares to executives. A performance share is a right to acquire an ordinary share in the Company for no consideration. The performance shares vest if performance hurdles are achieved.

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

Summary of SEPS

How often are offers to be made under the SEPS?

Annually.

What are the applicable vesting principles?

No vesting in the first three years, then vesting to the extent that performance hurdles are satisfied. No opportunity for re-testing if performance hurdles are not met.

What is the performance measurement testing period?

The test period is a period of three financial years commencing on the first day of the financial year of the grant.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

What are the performance hurdles?

Relative total shareholder return (TSR) and earnings per share (EPS) growth over the three-year test period. Each hurdle applies to 50% of the performance shares granted to each participant.

For 100% of the performance shares to vest, both the TSR and EPS hurdles must be satisfied to the maximum extent.

What is TSR?

TSR measures changes in the market value of the Company's shares over the three-year test period and the value of dividends on the shares (dividends are treated as if they were re-invested).

Why was a TSR performance hurdle chosen?

The use of a TSR based hurdle:

ensures an alignment between comparative shareholder return and reward for the executive; and

provides a relative, external market performance measure, having regard to those companies with which the Company competes for capital, customers and talent.

What is the TSR performance hurdle?

The Company's TSR performance will be compared with the TSR performance of the top 50 industrial companies in the S&P/ASX Top 100 index over the three-year period.

What is the TSR performance hurdle vesting schedule?

Edgar Filing: COLES MYER LTD - Form 20-F

Refer to the TSR hurdle vesting schedule table below.

What is EPS?

Earnings per share is calculated by dividing the Company's earnings by the number of shares on issue to show the profit earned in terms of each share.

Why was an EPS performance hurdle chosen?

The EPS based hurdle:

is a fundamental indicator of financial performance, both internally and externally; and

links directly to the Company's long-term objective of growing earnings.

What does the EPS growth performance hurdle involve?

A comparison between the underlying earnings per share of the Company at the end of the three-year period tested against underlying earnings per share for the financial year prior to the grant of the performance shares.

What is the EPS growth performance hurdle vesting schedule?

Refer to EPS hurdle vesting schedule table below.

What holding requirement applies to shares?

Twelve months following vesting.

What rights attach to performance shares prior to vesting?

No right to participate in dividends or, in general, in new issues of shares by the Company.

Will shares be purchased on-market or new shares issued?

This will be decided at the time the performance shares vest, however the preference is to acquire the shares on market.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

Vesting schedules

Performance shares subject to the TSR performance hurdle (TSR performance shares) will vest in accordance with the following table:

Table: TSR hurdle vesting schedule

<u>TSR target</u>	<u>% of TSR performance shares that vest</u>
TSR below 51st percentile	Nil
TSR from 51st to 74th percentile	Progressive vesting on a straight line basis from 50% to 99%
TSR at or above 75th percentile	100%

The TSR hurdle is measured on an annual basis by Mercer Consulting Group.

Performance shares subject to the EPS performance hurdle (EPS performance shares) will vest in accordance with the following table:

Table: EPS hurdle vesting schedule

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

Performance shares will lapse:

Edgar Filing: COLES MYER LTD - Form 20-F

if a participant ceases to be employed for any reason (except for death, disability, retrenchment or retirement) prior to the three-year testing date for a performance hurdle;

if a participant has, in the opinion of the Board, acted fraudulently or dishonestly in the conduct of his or her duties; or

if the performance hurdles are not met.

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

Executive Share Option Plan

Prior to the introduction of the SEPS, the Company operated the Executive Share Option Plan (ESOP), which provided for market-price options to be issued to senior executives. As some options granted under the ESOP still remain on issue (including those granted to the CEO), a description of the ESOP is set out below.

ESOP summary

How often were offers made under the ESOP?

Executives generally received one grant, which vests progressively over a five-year period. Supplementary grants were given to executives who were promoted.

What are the applicable vesting principles?

Subject to meeting performance hurdles, options will become exercisable in five annual tranches of 20% each. In general there is no vesting during the first two years at which point 40% may vest, followed by 20% for each of the next three years.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

What is the performance measurement period?

Two to five years.

What were the performance hurdles?

TSR and EPS growth hurdles. The EPS hurdle is the same as described in the table: EPS hurdle vesting schedule. The TSR hurdle provides for progressive vesting between the 50th and 65th percentiles. Either of the performance hurdles may be achieved to meet the performance requirements under the ESOP.

For the 1,500,000 options approved by shareholders in November 2003 for the CEO, 50% are subject to a TSR hurdle and 50% to an EPS hurdle. The TSR hurdle for these options is in accordance with the schedule shown in table: TSR hurdle vesting schedule.

What was the exercise price of the options issued?

The market price of a share in the Company at the time of issue of the option. Market price is the weighted average market sale price of the Company's shares on the ASX for ten consecutive trading days, prior to the day of issue.

Options lapse if performance targets are not achieved or if executives resign prior to completion of the required vesting periods. In cases where executives leave the Company as a result of death, disability, retirement or retrenchment, they are, subject to performance hurdles being met, entitled to options on a pro rata basis to the date of their departure.

At July 31, 2005, in general the TSR Performance hurdles for the ESOP were not met, however the EPS Performance hurdles were met in full.

Service Agreements

The remuneration and other terms of employment for the CEO and the Specified Executives are formalized in Service Agreements.

Edgar Filing: COLES MYER LTD - Form 20-F

Except as detailed below, the Service Agreements for the Specified Executives provide for the following:

termination on 12 months notice from the Company (or payment in lieu of notice) and 6 months notice of termination from the executive;

in the event of termination of employment for any reason, the Specified Executives (other than the Chief Executive Officer) are prohibited from engaging in activity that would compete with the Company for a period of 12 months;

entitlement to CML point-of-sale discount benefits;

payment by the Company for other common expatriate costs such as taxation advice and return trips to the Specified Executive's home country in the first few years of employment with the Company, as well as reasonable costs of relocating back to their home country upon cessation of employment;

termination of the contract by the Company without notice in circumstances warranting summary dismissal;

participation in the Company's STI program dependent on continued service with the Company; and

grant of options and/or performance shares.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

John Fletcher

Mr. Fletcher's current Service Agreement is for a minimum fixed term to September 9 2006. On February 11 2005, the Board extended the term of his appointment so that after September 9 2006 his employment will continue until terminated by either Mr Fletcher or the Company giving 12 months' written notice. In addition, Mr Fletcher may terminate his employment immediately in the event of a fundamental change to his role (such as ceasing to be the most senior executive in the Group, ceasing to be the Managing Director, a substantial diminution in his responsibilities or authority or a demonstrable inability to work with the Board of the Company). In conjunction with the extension of his Service Agreement on February 11 2005, Mr. Fletcher has agreed not to give notice that would result in his employment terminating before September 9 2007.

If Mr. Fletcher's employment ceases in the first half of a financial year, no STI will be payable in respect of that full financial year. If his employment ceases in the second half of a financial year, STI will be payable in respect of that full financial year to the extent the relevant performance conditions are met and will be paid on a pro rata basis having regard to the portion of that financial year that has elapsed.

On commencement of his employment, Mr Fletcher was granted 2,500,000 options. These options are exercisable in five tranches in September each year, subject to the satisfaction of at least one of the performance hurdles as described on page 153. In November 2003, shareholders approved Mr Fletcher being granted an additional 1,500,000 options, exercisable in two equal tranches in September 2005 and September 2006. The performance hurdles applying to these particular options were changed during the 2005 financial year to make them consistent with those applying to the performance shares (see Tables: TSR hurdle vesting schedule and EPS hurdle vesting schedule). There was no impact on his remuneration as a result of this change. Unless the Board decides otherwise, the CEO's options expire one year after the date Mr Fletcher ceases employment with the Company.

At the Company's Annual General Meeting on November 17, 2005, shareholders approved the issue of 170,000 performance shares to the CEO, Mr. John Fletcher, and these performance shares were granted shortly after the meeting.

Larry Davis

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

As a result of Mr Davis changing roles from Managing Director Target to Managing Director Kmart, his new Service Agreement provides for a guaranteed minimum STI payment of A\$800,000 for the 2005 financial year, conditional on continued service with the Company.

Mr Davis is entitled to six business class return airfares to the United States each year up until September 2005.

Mr Davis is entitled to reasonable costs of relocating from Geelong to Melbourne.

Fraser MacKenzie

Mr MacKenzie's Service Agreement is for a minimum fixed term to April 30, 2007. The Company is able to terminate his employment but must pay the balance of the contract period from the date of notice of termination to April 30, 2007.

If Mr. MacKenzie's employment ceases on April 30, 2007 due to retirement, he will be entitled to a pro rata STI bonus for the 2007 financial year.

Mr MacKenzie is also entitled to reasonable relocation costs back to Sydney upon termination of employment.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

Launa Inman

Ms Inman's Service Agreement includes reasonable costs of locating to Geelong if Ms Inman chooses to do so (the Target head office is located in Geelong).

Minimum STI bonus for the 2005 financial year was based on the full year's results for Officeworks (Ms Inman was the Managing Director of Officeworks until February 14, 2005).

Dawn Robertson

The Service Agreement for Ms Robertson includes a retention payment of US\$200,000 payable on June 1 2007, and a pro rata STI payment on termination.

Ms Robertson is entitled to three business class return airfares to the United States for herself and each of her dependent children each year until December 2006. Ms Robertson is required to give the Company 12 months notice of termination.

Hani Zayadi

Mr. Zayadi's options are subject to service hurdles only as a retention mechanism and were based on a need to replicate similar conditions that applied in North America in relation to share option plans.

Mr Zayadi will be paid an amount not less than 50% of his STI entitlement on termination, unless termination is for poor performance which has not been rectified.

As a result of Mr Zayadi changing roles from Managing Director Kmart to Group Managing Director, Food Liquor and Fuel, his new service agreement provides for a guaranteed minimum STI payment of A\$800,000 for the 2005 financial year, conditional on continued service with the Company.

Mr Zayadi was entitled to a retention payment of US\$150,000, payable on August 1, 2005. Mr. Zayadi is also entitled to six business class return airfares to Canada each year until August 2005.

Options and performance shares provided as remuneration

Details of options and performance shares provided as remuneration to each director of CML and each of the specified executives of the CML Group are set out below. Further information on options and performance shares is set out in Note 25.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

	Grant date	Exercise price	Balance at	Granted during the	Value of	Lapsed	Balance	Vested	Vested
		\$	July 25	year	Grant	during the	at	at	at
		AUD	2004		AUD	year	July 31	July 31	July 31
					Exercised ³		2005	2005 ⁴	2005 ⁴
John Fletcher	Sep 01	\$ 6.33	2,500,000			1,000,000	1,500,000	500,000	500,000
	Nov 03	\$ 7.53	1,500,000				1,500,000		
Steven Cain	Aug 03	\$ 7.28	2,500,000				1,786,301	713,699	
	Aug 03	\$ 7.28	500,000				357,260	142,740 ⁶	
Larry Davis	Sep 01	\$ 6.28	1,500,000			900,000	600,000 ⁵	300,000	
	Jun 05	\$ NIL		38,000	\$ 2.46 ¹		38,000		
	Jun 05	\$ NIL		38,000	\$ 8.79 ²		38,000		
Tim Hammon	Dec 98	\$ 4.50	45,000			45,000		45,000	
	Apr 00	\$ 6.46	115,000				115,000		
	Oct 01	\$ 4.50	100,000			100,000			
	Feb 02	\$ 7.66	745,000				745,000	149,000	447,000
	Jun 05	\$ NIL		21,700	\$ 2.46 ¹		21,700		
	Jun 05	\$ NIL		21,700	\$ 8.79 ²		21,700		
Launa Inman	Feb 02	\$ 7.66	170,000			102,000	68,000	34,000	
	Apr 00	\$ 6.46	50,000				50,000		
	Jul 04	\$ 8.43	210,000				210,000		
Fraser MacKenzie	Sep 02	\$ 5.88	860,000			344,000	516,000	344,000	
Dawn Robertson	May 02	\$ 6.44	2,500,000			1,000,000	1,500,000	1,000,000	
Hani Zayadi	Aug 01	\$ 6.21	1,500,000			500,000	1,000,000 ⁵	500,000	
	Jun 05	\$ NIL		38,000	\$ 2.46 ¹		38,000		
	Jun 05	\$ NIL		38,000	\$ 8.79 ²		38,000		
Total			14,795,000	195,400		3,991,000	2,308,561	8,690,839	2,872,000
								947,000	

1. Performance shares granted vest in accordance with TSR performance conditions described in footnote 6 of Note 35, and expire 3 years after grant.

2. Performance shares granted vest in accordance with EPSG performance conditions described in footnote 6 of Note 35, and expire 3 years after grant.

3. Options exercised have been fully paid.

4. Vested options are fully exercisable.

Edgar Filing: COLES MYER LTD - Form 20-F

5. Options are not subject to performance hurdles, however, vesting is contingent upon service conditions.
6. Mr Cain ceased employment on January 3, 2005. Subsequent to balance date 13,378 options lapsed.

Directors and specified executives share holdings

The numbers of ordinary shares in CML held during the year by each director of CML and each of the specified executives of the CML Group, including their personally-related entities, are set out below.

	Balance at			Balance at
	July 25	Options	Net Change	July 31
	2004	Exercised	Other	2005
Directors				
Patty Akopiantz	3,253			3,253
Richard Allert	30,006			30,006
Keith Barton	10,200		3,398	13,598
John Fletcher	28,099	1,000,000	1,359	1,029,458
Bill Gurry	106,169		40,000	146,169
Tony Hodgson	6,000		500	6,500
Mark Leibler ¹	45,600		(45,600)	
Sandra McPhee ²	4,139			4,139
Martyn Myer	49,440		14,252	63,692 ⁵
Michael Wemms	208			208

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)**

	Balance at July 25 2004	Options Exercised	Net Change Other	Balance at July 31 2005
Specified Executives				
Steven Cain ³		900,000	(900,000)	
Larry Davis	651	145,000	(144,324)	1,327
Tim Hammon		102,000	(102,000)	
Launa Inman ⁴	3,000	344,000		347,000
Fraser MacKenzie		1,000,000	(1,000,000)	
Dawn Robertson		500,000	(500,000)	
Hani Zayadi				
Total Directors and Specified Executives	286,765	3,991,000	(2,632,415)	1,645,350

1. Mr Leibler retired on November 18, 2004. At this time Mr Leibler held 45,100 ordinary shares in CML.

2. Ms McPhee also holds 3,400 (2004 3,400) endowment warrants.

3. Mr Cain ceased being a specified executive on December 22, 2004.

4. Ms Inman became a specified executive on February 14, 2005.

5. Included in this balance are 15,294 shares held nominally at July 31, 2005.

Included in the above movements is the conversion of ReCAPS to ordinary shares that occurred on July 12, 2005. At July 25, 2004, ReCAPS were held by Keith Barton (300), John Fletcher (120) and Martyn Myer (900).

Other transactions with directors and specified executives

The CML Group has a comprehensive statement of Corporate Governance principles. This Statement incorporates detailed policies with respect to director-related party transactions. The major elements of the policy are:

Edgar Filing: COLES MYER LTD - Form 20-F

Directors must advise the Company of all director-related entities.

Where there are total transactions between the CML Group and a director's related entities exceeding A\$1 million in any month, then the director must supply CML with details of these transactions.

The following proposed contracts between the CML Group and director-related entities must be approved by the Audit/Governance Committee prior to committing the CML Group:

Contracts for the supply of goods and/or services, which extend beyond one year, or where the total value of goods and/or services supplied under the contract, will exceed A\$5.0 million in any one year,

All agreements to lease and/or leases of property, and

All agreements for the purchase or sale of freehold and/or leasehold property except where the sale is by genuine public auction.

In relation to merchandise and/or services supplied to the CML Group, directors will ensure access to the books and records of their director-related entities to enable an independent review by CML's external auditor. No such review occurred in 2005.

All transactions are to be subject to review by internal audit with periodic reports to the Audit/Governance Committee.

All transactions were on terms and conditions that were no more favorable to the director-related entity than those available, or which might reasonably be expected to be available, on similar transactions to non-director-related entities and were on an arm's length basis.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

Retirement agreement

On March 27, 2003, CML announced that non-executive directors appointed after that date will not receive retirement benefits. CML has an agreement with those non-executive directors appointed prior to March 27, 2003 for the provision of an allowance to be paid to each director on his or her retirement or death.

Nature of terms and conditions: The agreement is in accordance with the provisions of the Constitution and the approval given at the Annual General Meeting held on November 21, 1989. The approval provides for the payment of a retirement allowance equal to the aggregate of remuneration received by the director over the last three years of service or part thereof, plus 5% of that amount for each year of service in excess of three years but not exceeding a total of 15 years. Any benefit paid on retirement, termination or death is reduced by the amount of any superannuation benefit received.

At the Company's Annual General Meeting on November 17, 2005, it was announced that the retirement benefits would be frozen as at that date, and no further accrual would be made. From November 17, 2005 all Directors have been paid according to one scale of fees.

Mr M.K. Myer

The CML Group had transactions with director related entities of Mr. M.K. Myer. Mr. M.K. Myer has no financial interest in these entities.

The type of transaction between the director-related entity and the CML Group was:

Leasing property by Armidale No 2 Property Syndicate to the CML Group in the normal day-to-day conduct of its business A\$906,400 (2004 A\$906,400) net of recoverable expenses. Leasing property by Tram Road Holdings Pty Ltd from December 18, 2004 to the CML Group in the normal day-to-day conduct of its business A\$217,592, net of recoverable expenses. Nature of terms and conditions: Rents based on market rates, paid net monthly.

Balance of amounts payable to the director-related entity by the CML Group (current) at balance date A\$NIL (2004: A\$NIL).

Other directorships

Some directors of CML are also directors of public companies, which have transactions with the CML Group. The relevant directors do not believe they have the capacity to control or significantly influence the financial or operating policies of those companies. The companies are therefore not considered to be director-related entities for the purpose of the disclosure requirements of AASB 1046.

Indemnity of officers

Article 70 of CML's Constitution obliges CML to indemnify, to the full extent the law permits, each person to whom the article applies for all losses and liabilities incurred by them as an officer of CML or of a related body corporate. This expressly covers costs and expenses in defending proceedings. The article applies to each person who is or has been a director or secretary and to any officer or former officer of CML or related body corporate as the directors decide in each case.

The article does not limit the power of CML to grant indemnities on different terms (subject to the limit imposed by law) and does not apply to a liability incurred before April 15, 1994. The article does not confer rights on a person who ceased to be a director or secretary before November 20, 1997.

CML has also entered into a Good Faith Protection and Access Deed (the Deed) with its directors following shareholder approval to do so at the November 18, 1999 Annual General Meeting. On October 21, 2003, CML entered into a Deed with Messrs Barton, Hodgson and Wemms and Ms McPhee.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

Additionally, on October 21, 2003, CML entered into a supplemental deed with each of Messrs Allert, Charlton (retired November 26, 2003), Fletcher, Liebler (retired November 18, 2004), Myer and Gurry and Ms Akopiantz which contained a number of supplemental provisions to update the Deed for developments in the law and to ensure consistency with the form of the Deed entered into with directors appointed during the 2003 year. The Deeds provide for indemnification of the directors to the maximum extent permitted under law. They do not indemnify for any liability involving a lack of good faith.

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

30. FINANCIAL INSTRUMENTS DISCLOSURE

A derivative financial instrument is a contract or agreement where value depends on the value of an underlying asset, reference rate or index. Derivatives are primarily used by the CML Group as a means of hedging interest rate and exchange rate risk. The CML Group uses a combination of cross currency swaps and forward contracts to eliminate exchange rate risk associated with foreign currency denominated borrowings. To manage its exposure to movements in interest rates, it uses all of the derivative classes detailed below, that is, interest rate swaps, options, forward rate agreements and futures. Exposures arising from merchandise imports of the CML Group are managed by the use of currency options and forward exchange contracts.

At balance date, all derivative financial instruments held by the CML Group were held for the purpose of hedging identifiable exposures to exchange and interest rate fluctuations. As a consequence, market risk, that is, the risk that the value of derivative financial instruments will be adversely affected by changes in the market value of the underlying asset, reference rate or index is not an exposure for the CML Group. Credit risk, however, is an exposure that affects the use of derivative financial instruments. Credit risk arises from the possibility that the counterparty to a derivative financial instrument will not adhere to the terms of the contract when settlement becomes due. The CML Group has a documented system of quarterly credit assessment and the setting of dealing limits in place to substantially eliminate credit risk.

Derivative financial instruments are only undertaken with financial institutions that have been independently assessed to have a strong capacity to pay interest and repay principal in a timely manner.

Derivatives are generally separated into three classes:

a Swaps

Edgar Filing: COLES MYER LTD - Form 20-F

Interest rate swap transactions undertaken by the CML Group generally involve the exchange of fixed and floating interest payment obligations, based on a notional principal amount. A cross currency swap is an agreement to exchange one currency for another and to re-exchange the currencies at the maturity of the swap, using the same exchange rate, with the exchange of interest payments throughout the swap period.

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****30. FINANCIAL INSTRUMENTS DISCLOSURE (continued)**

Under the interest rate swaps and cross currency swaps, the CML Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed-rate and floating-rate interest amounts calculated by reference to the agreed notional principal amounts. At July 31, 2005 the fixed interest rates vary from 1.1% to 7.4%. The terms and notional principal amounts of the CML Group's outstanding contracts at balance date were:

	Average rate			
	July 31, 2005	July 25, 2004	July 31, 2005	July 25, 2004
	%	%	A\$M	A\$M
Less than one year	4.49	5.90	756.0	525.0
One to two years	5.26	4.13	237.5	775.4
Two to three years	5.61	4.99	240.0	187.5
Three to four years		5.64		140.0
Later than five years	6.17		400.0	
			1,633.5	1,627.9

b Forward Contracts**Currency Contracts**

The CML Group enters into forward exchange contracts to buy and sell specified amounts of various foreign currencies in the future at a pre-determined exchange rate to hedge its foreign currency assets, borrowings and purchase of goods and services. The settlement dates, dollar amounts to be received/(paid) and contractual exchange rates of the CML Group's major outstanding contracts at balance date were:

	Average rate			
	July 31, 2005	July 25, 2004	July 31, 2005	July 25, 2004
	currency/A\$	currency/A\$	A\$M	A\$M
United States dollars				
Less than 3 months	0.77	0.71	342.3	232.2
3 to 12 months	0.76	0.70	194.7	4.3

			537.0	236.5
New Zealand dollars				
Less than 3 months		1.11		(3.1)
Pounds Sterling				
Less than 3 months	0.43	0.39	0.3	1.2
Hong Kong dollars				
Less than 3 months	5.90	5.36	0.1	0.1
Euro				
Less than 3 months	0.61	0.58	10.9	9.2
3 to 12 months	0.61	0.57	6.8	0.1
			17.7	9.3
			555.1	244.0

c Options

Options are contracts that grant the holder of the option the right, but not the obligation, to purchase or sell a financial instrument at a specified price and within a specified period. They require the seller to pay the purchaser at specified future dates, the amount, if any, by which a specified market interest rate exceeds the fixed cap rate or falls below the fixed floor rate, based on a notional principal. The CML Group regularly uses foreign currency options to hedge amounts payable in respect of foreign currency purchases of goods and services.

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****30. FINANCIAL INSTRUMENTS DISCLOSURE (continued)****Currency**

The settlement dates, amounts contracted for and contractual exchange rates of the CML Group's major outstanding foreign currency option contracts at balance date were:

	Average rate		July 31, 2005 A\$M	July 25, 2004 A\$M
	July 31, 2005 currency/A\$	July 25, 2004 currency/A\$		
United States dollars				
Less than 3 months		0.73		38.1
3 to 12 months		0.71		3.1
				<u>41.2</u>

The net deferred gain on hedges of anticipated future transactions hedged by the use of foreign currency options and contracts were A\$6.3 million as at July 31, 2005 (2004 A\$2.5 million loss).

Interest rate risk

The CML Group's exposure to interest rate risk and the effective interest rates on financial instruments at balance date were:

Weighted average effective interest rate %	Floating interest rate A\$M	Fixed interest rate maturing			Non interest bearing A\$M	Total A\$M
		1 year or less A\$M	1 to 5 years A\$M	Later than 5 years A\$M		

Edgar Filing: COLES MYER LTD - Form 20-F

At July 31, 2005

Assets

Cash and deposits	6.22	287.5			369.4	656.9
Trade and other debtors					479.1	479.1
Employee Share Plan	5.10	16.0				16.0
Government and semi-government stocks and bonds	5.78		2.0	9.0		11.0
Shares and investments in unit trusts					133.9	133.9
Total financial assets		303.5	2.0	9.0	982.4	1,296.9

At July 31, 2005

Liabilities

Trade creditors and accrued liabilities					3,001.4	3001.4
Commercial paper - domestic	5.68	79.9				79.9
Medium-term notes - domestic	6.14			400.0		400.0
Medium-term notes - international	1.23	61.6	235.1			296.7
Other domestic loans	6.06	350.0				350.0
Other foreign currency loans	7.29	216.0				216.0
Interest rate swaps*	4.80	20.1	(60.1)	440.0	(400.0)	
Cross currency swaps	6.42	86.7				86.7
Employee entitlements					565.7	565.7
Total financial liabilities		814.3	175.0	440.0	3,567.1	4,996.4

* Notional principal amounts

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****30. FINANCIAL INSTRUMENTS DISCLOSURE (continued)**

	Weighted average effective interest rate %	Floating interest rate A\$M	Fixed interest rate maturing			Non interest bearing A\$M	Total A\$M
			1 year or less A\$M	1 to 5 years A\$M	Later than 5 years A\$M		
At July 25, 2004							
Assets							
Cash and deposits	5.52	729.4			354.0	1,083.4	
Trade and other debtors					433.0	433.0	
Employee Share Plan	4.92	29.7				29.7	
Government and semi-government stocks and bonds	6.29		5.5	3.6		9.1	
Shares and investments in unit trusts					103.8	103.8	
Total financial assets		759.1	5.5	3.6	890.8	1,659.0	
At July 25, 2004							
Liabilities							
Trade creditors and accrued liabilities					2,808.6	2,808.6	
Medium term notes domestic	7.03		350.0			350.0	
Medium term notes international	1.00	66.1		254.5		320.6	
Other foreign currency loans	6.25	234.4				234.4	
Overdrafts	8.95	7.1				7.1	
Interest rate swaps*	4.66	(35.5)	175.0	(139.5)			
Cross currency swaps	5.82	62.8				62.8	
Employee entitlements					551.7	551.7	
Total financial liabilities		334.9	525.0	115.0	3,360.3	4,335.2	

* Notional principal amounts

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31. DISCLOSURE ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions are used to estimate the fair value of each class of financial instrument at July 31, 2005 for which it is practicable to estimate that value in accordance with FAS 107 Disclosures about Fair Value of Financial Instruments :

Cash and short-term deposits and bank overdrafts

The carrying amount approximates fair value due to the short maturity of these instruments.

Receivables (non-current)

The carrying amount approximates fair value.

Investments

The fair values of listed investments were based on quoted market prices. The fair values of other investments were determined based on the underlying net asset position of each investment.

Short-term loans

The carrying amount approximates fair value.

Long-term debt

The fair value of the CML Group's long-term debt has been based on current interest rates offered for similar maturity and types of borrowing arrangements.

The fair value of cross currency interest rate swap agreements, futures contracts and forward rate agreements, interest rate swap agreements, forward contracts and options has been based on the present value of similar instruments, taking into account current interest rates and the current credit worthiness of the counterparties.

Net fair values of government and semi-government stocks and bonds are included in Note 11.

Credit risk

The carrying amounts of financial assets included in the consolidated financial statements represent the CML Group's exposure to credit risk in relation to these assets. The credit exposure of interest rate swaps and forward foreign exchange contracts are represented by the net fair value of the contracts, as disclosed.

The CML Group does not have any significant exposure to any individual counterparty or major concentrations of credit risk that arise from the CML Group's financial instruments.

The estimated fair values of the CML Group's financial instruments at July 31, 2005 are as follows:

	July 31, 2005		July 25, 2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	A\$M	A\$M	A\$M	A\$M
Cash	440.9	440.9	849.0	849.0
Short-term deposits	217.2	217.2	236.5	236.5
Investments	144.9	144.9	112.9	112.9
Receivables (non-current)	33.6	33.6	50.4	50.4
Bank overdraft			(7.1)	(7.1)
Long-term debt and other loans	(1,347.7)	(1,347.1)	(910.8)	(918.8)
Cross currency interest rate swap agreements *	(90.0)	(90.8)	(65.0)	(66.4)
Interest rate swap agreements *	0.1	0.2	0.4	6.3
Forward contracts	8.6	8.6	(1.6)	(1.6)
Futures contracts and forward rate agreements *			(0.1)	
Currency options			0.9	1.6

The above estimates are not necessarily indicative of the amounts the CML Group might pay or receive in a current market exchange.

* These financial instruments have been used to hedge long-term debt.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

32. RECONCILIATION TO U.S. GAAP

A description of the more significant differences between Australian GAAP, as followed by Coles Myer Ltd., and U.S. GAAP are as follows:

a Goodwill

For the purposes of U.S. GAAP, goodwill acquired is not amortized but must be tested for impairment at least annually, or when conditions warrant.

b Other intangibles

Under U.S. GAAP, other intangibles which are considered to have indefinite lives, are not amortized but must be tested for impairment at least annually, or when conditions warrant by comparing the fair value of those assets with their recorded amounts. Subsequent to 2002 the useful lives of licenses and brand names have been assessed as indefinite for Australian financial reporting, and accordingly there is no adjustment in 2005, 2004 and 2003.

c Revaluation/depreciation of property

1. Certain property has been revalued by the Company under Australian GAAP (refer Note 1(i)). The amount of such revaluation increments and decrements is included in reserves, which form part of total equity.

For U.S. GAAP purposes, impairments in value of non-current assets are charged to profit. Any impairments relating to individual assets, which have been charged to the asset revaluation reserve, have been adjusted in the reconciliation of net profit to U.S. GAAP.

2. The accounting convention of revaluing property and certain investments under Australian GAAP also causes differences in reported gains/losses on the sale of revalued properties and investments as the reported gain/loss is based on consideration received, less revalued net book value.

For U.S. GAAP purposes, gains/losses are determined as the difference between the consideration and the net book value based on historical cost and would be reported as gains/losses in the year realized, and thus have been adjusted in the reconciliations of shareholders' equity to U.S. GAAP.

3. Depreciation expense is based on the carrying value of the property rather than the historical cost of the property and therefore the depreciation expense is higher under Australian GAAP in the year of revaluation and subsequent years. Since U.S. GAAP does not permit property to be valued above historical cost, the depreciation charge has been adjusted to reflect historical cost depreciation in the reconciliations of net profit and shareholders' equity to U.S. GAAP.

4. Under Australian GAAP, the Group does not depreciate properties that it regards as investment properties. U.S. GAAP requires all properties to be depreciated and therefore an additional depreciation expense has been recognized.

d Sales of properties

Gains/losses on properties sold are recorded in the consolidated income statements. In some instances, the CML Group has leased back the property, or part thereof, under operating leases. U.S. GAAP requires such transactions to be accounted for as a sale-leaseback whereby the gain/loss on the sale is deferred and amortized. This is reflected in the reconciliations of net profit and shareholders' equity to U.S. GAAP.

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****32. RECONCILIATION TO U.S. GAAP (continued)****e Employee Share Plan**

1. The Company has issued shares to employees under the Employee Share Plan (refer Note 25 for details). Any difference between market value and the issue price of the shares issued under such plans is not required to be accounted for under Australian GAAP.

U.S. GAAP requires that the difference between the market value and the issue price (adjusted for any dividends) of the shares issued to the employees, be accounted for at measurement date as deemed compensation, and be charged against the profits of the Company. At balance date, the market value of such shares exceeded the issue price (adjusted for dividends) and compensation expense has been recognized as this is a variable plan.

2. Coles Myer Ltd. provides finance to the Coles Myer Employee Share Plan to acquire shares issued to employees. Under U.S. GAAP, the outstanding balance of the loan provided is required to be deducted from shareholders' equity, rather than classified as an asset. The effect of this adjustment is reflected in the reconciliation of shareholders' equity to U.S. GAAP. In 2005 and 2004, the elimination of interest income on this loan is reflected in the reconciliations of net profit and shareholders' equity to U.S. GAAP.

f Executive Performance Shares and Option Plans

The Company has issued options and performance shares to employees under various equity incentive plans (refer to Item 6E). Any benefit derived by employees as a result of issues of equity instruments is not required to be accounted for under Australian GAAP. From 1999 the Company adopted U.S. Statement of Financial Accounting Standards No. 123 - Accounting for Stock Based Compensation (SFAS 123) which requires that the fair value of equity instruments at date of grant be accounted for as deemed compensation and be charged against profits over the expected term of the options. The effect of this adjustment is reflected in the reconciliations of net profit and shareholders' equity to U.S.

	2005	2004	2003
	---	---	---
Weighted average:			
Fair value of equity instrument granted (A\$)	3.18	1.62	1.12
Expected dividend yield (%)	3.50	3.00	3.73
Expected stock price volatility (%)	21.7	25.0	27.5
Risk-free interest rate (%)	5.34	5.60	4.94
Expected life of equity instrument (months)	37	34	37

g Retirement benefits

Edgar Filing: COLES MYER LTD - Form 20-F

The CML Group's retirement benefit expense in relation to defined benefit plans included in these financial statements is based on the contributions payable to the retirement plans for the year, at rates determined by the actuary as being necessary and sufficient to ensure the stability and financial soundness of each plan.

For U.S. GAAP purposes SFAS 87 requires accounting for defined benefit retirement plan expense to be on an accrual basis, rather than based on contributions payable to the retirement plan for the year. The effect of adopting this method of accounting is reflected in the reconciliations of net profit and shareholders' equity to U.S. GAAP. The disclosure required under SFAS 87 is incorporated in Note 24.

Post retirement benefits, other than pensions, paid by the CML Group are not material.

h Income tax

The CML Group has adopted FAS 109 for U.S. GAAP purposes. Given FAS 109 requires a liability approach to accounting for income taxes, which is very similar to that adopted under Australian GAAP, the differences between the two are immaterial.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

32. RECONCILIATION TO U.S. GAAP (continued)

i Lease incentives

The CML Group has received certain incentives to enter into lease agreements, which under Australian GAAP it has recognized in profit in the year receivable, up to January 30, 1995. From that date onwards lease incentives are deferred and amortized over the period of benefit.

U.S. GAAP requires lease incentives to be recognized in profit over the term of the new lease. Whilst U.S. GAAP and Australian GAAP are now equivalent a reconciliation difference exists for the relevant leases entered into prior to January 30, 1995. The effect of this adjustment is reflected in the reconciliations of net profit and shareholders' equity to U.S. GAAP.

j Finance leases

The CML Group leases both property and equipment. Under Australian GAAP, the property leases are classified as operating leases. In applying U.S. GAAP, certain property leases are deemed finance/capital leases, however the effect of capitalization is immaterial to the CML Group's results and has not been adjusted in the reconciliation of net profit to U.S. GAAP.

Certain equipment leases are deemed finance/capital leases under both Australian GAAP and U.S. GAAP, however the effect on the CML Group's reported financial position and results of operations is immaterial.

k Onerous New Zealand contracts

Under Australian GAAP a provision for onerous New Zealand contracts was raised in 2001. The balance of this provision was A\$NIL (net of tax effect A\$NIL million) and A\$6.6 million (net of tax effect A\$NIL) at July 31, 2005 and July 25, 2004, respectively. Under U.S. GAAP, the raising of this type of provision is not permitted. The effect of this adjustment is reflected in the reconciliations of net profit and shareholders' equity to U.S. GAAP.

l Annual leave entitlements

Under Australian GAAP liabilities for annual leave are measured at their nominal amounts, using the rates expected to be paid when the obligations are settled, and are not discounted. Under U.S. GAAP, the Company accrues a liability for accumulated annual leave entitlements in accordance with FASB Statement No. 43 Accounting for Compensated Absences (FAS 43). FAS 43 is silent on the issue of whether the liability should be measured at current rates of pay or using an actuarial method that projects the rates of pay that will apply when the liability is settled and discounts for the time value, although common practice is to use current rates of pay without discounting. In this regard, the Company has consistently measured the liability for annual leave at current rates of pay.

Although the Company changed its Australian GAAP policy to comply with a new standard, which required the liability to be measured at projected rates of pay without discounting, the Company elected not to change the US policy.

The balance of this adjustment to the provision at July 31, 2005 was A\$4.6 million, net of tax effect A\$1.9 million. The effect of this adjustment is reflected in the reconciliation of shareholders' equity to U.S. GAAP.

m Hedging instruments

The CML Group uses derivatives as a means of hedging interest rate and exchange rate risk (refer Note 30 for details). Under Australian GAAP, such derivatives are carried at cost. U.S. GAAP requires that the CML Group's derivatives be recorded at fair value. Changes in fair value of the instrument are charged against profits of the Company. The effect of this adjustment is reflected in the reconciliations of net profit and shareholders' equity to U.S. GAAP.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

32. RECONCILIATION TO U.S. GAAP (continued)

n ReCAPS

Under Australian GAAP, the ReCAPS are classified as equity (refer Note 21). Under U.S. GAAP, SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (FAS 150), was adopted for the first time in 2004. Under the new rules an instrument that will be settled with a variable number of shares should be classified as a liability if the monetary value at inception is a fixed known amount. Accordingly the ReCAPS have been reclassified from equity to debt. In reclassifying the ReCAPS to liabilities, the associated dividends, transaction costs and conversion discount have been recorded as interest expense, thereby impacting net profit.

These reclassifications and adjustments have been reflected in the reconciliations of net profit and shareholders' equity to U.S. GAAP.

o Megamart divestment costs

Under Australian GAAP, a provision of A\$34.1 million (net of tax effect A\$14.6 million) was raised in 2005 for surplus leased space and other divestment costs. Under U.S. GAAP, the raising of this type of provision is not permitted. The effect of this adjustment is reflected in the reconciliations of net profit and shareholders' equity to U.S. GAAP.

p Asset impairment

Under Australian GAAP, the cash generating unit (CGU), which determines the level at which asset impairment is assessed, is the brand. In addition, an assessment is made of the carrying value of clearly redundant assets using discounted cash flows.

Under U.S. GAAP, impairment is assessed at an individual store level, however, the assessment is required when events or circumstances indicate that the store's carrying amount may not be recoverable.

As a result of the transition to A-IFRS, during fiscal 2005 Company management assessed the carrying amount of all stores in the CML Group. For this purpose each store is evaluated as a CGU, which is comparable to the asset group concept in U.S. GAAP. The IFRS review provided a trigger for a review of the recoverability of all store assets under U.S. GAAP. For those stores where the sum of undiscounted future cash flows was less than the carrying amount, each impaired store was written down to its fair value. The circumstances and events that led to this impairment relate to the underlying performance of individual stores within the CML Group. As a result, under U.S. GAAP, a charge of A\$76.0 million (net of tax effect A\$32.5 million) has been recorded against plant and equipment across all segments in the current year.

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****32. RECONCILIATION TO U.S. GAAP (continued)****INCOME STATEMENTS**

	Notes	2005 53 weeks A\$M	2004 52 weeks A\$M	2003 52 weeks A\$M
Net profit, as reported in the Consolidated Income Statements		616.1	608.1	421.1
Adjustments required to accord with U.S. GAAP:				
- Goodwill amortization adjustment	a	18.4	19.2	16.2
- Revaluation of properties	c	(10.5)	(16.4)	(12.5)
- Building depreciation charged on investment properties	c	(0.8)	(1.3)	(1.6)
- Gains on sales of properties which are leased back	d	15.3	(0.2)	13.3
- Compensation benefit/(expense) on share issues to employees	e	(6.1)	(24.5)	(12.5)
- Interest on Employee Share Plan loan	e	(3.6)	(38.0)	
- Compensation expense on option issues to employees	f	(12.5)	(19.4)	(21.6)
- Adjustment to retirement benefit expense	g	15.1	9.9	(0.9)
- Lease incentive income	i	1.9	1.9	1.9
- Onerous New Zealand contracts	k	(6.6)	(10.2)	(12.5)
- Hedging instruments	m	(3.7)	3.2	
- Adjustment to annual leave entitlement	l	(2.0)		
- Effect of change in accounting policy for ReCAPS	n	(66.6)	(56.9)	
- Megamart divestment costs	o	34.1		
- Impairment of assets	p	(76.0)		
Net income, according to U.S. GAAP		512.5	475.4	390.9
- Cumulative effect of change in accounting policy for supplier promotional rebates, net of tax of A23.0 million				53.5
Net income from continuing operations, according to U.S. GAAP		512.5	475.4	444.4

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****32. RECONCILIATION TO U.S. GAAP (continued)****SHAREHOLDERS EQUITY**

		July 31, 2005	July 25, 2004
	Notes	A\$M	A\$M
Shareholders equity as reported in the consolidated balance sheets		3,736.0	4,097.6
Cumulative adjustments required to accord with U.S. GAAP:			
- Goodwill amortization adjustment	a	54.9	36.5
- Accumulated amortization of other intangibles adjustment	b	2.9	2.9
- Revaluation of properties	c	(135.5)	(67.3)
- Building depreciation charged on investment properties	c	(10.0)	(9.2)
- Gains on sales of properties which are leased back	d	(168.4)	(183.7)
- Compensation expense on share issues to employees	e	(74.0)	(76.7)
- Employee Share Plan loan	e	(16.0)	(29.7)
- Compensation expense on option issue to employees	f	(3.0)	(5.1)
- Accrued retirement cost of A\$46.0 million (2004 - A\$67.5 million), net of tax effect A\$13.8 million (2004 - A\$20.2 million), calculated under U.S. GAAP	g	(32.2)	(47.3)
- Lease incentive income	i	(15.7)	(17.6)
- Onerous New Zealand contracts	k		6.6
- Adjustment to annual leave entitlements	l	4.6	6.6
- Hedging instruments	m	(0.5)	3.2
- ReCAPS	n		(684.1)
- Megamart divestment costs	o	34.1	
- Impairment of assets	p	(76.0)	
Shareholders equity, according to U.S. GAAP		3,301.2	3,032.7

FINANCIAL POSITION

	July 31, 2005	July 25, 2004
	A\$M	A\$M
Material adjustments to accord with U.S. GAAP would cause the following line items appearing in the balance sheets to be disclosed as:		
- Receivables (non-current)	17.6	20.7

Edgar Filing: COLES MYER LTD - Form 20-F

- Property, plant and equipment	3,603.0	3,319.2
- Intangible assets, net	674.8	736.9
- Long-term debt	1,213.3	1,397.5
- Other liabilities (non-current)	343.0	372.5
- Provisions (non-current)	374.9	493.5
- Reserves and retained profits*	1,198.2	1,406.6

* Included in reserves in 2005 is other comprehensive income of A\$0.6 million (2004 A\$30.4 million) in relation to the foreign currency translation reserve.

Table of Contents**COLES MYER LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****32. RECONCILIATION TO U.S. GAAP (continued)****EARNINGS PER SHARE - U.S. GAAP**

	2005	2004	2003
	53 weeks A\$M	52 weeks A\$M	52 weeks A\$M
Net income from continuing operations	512.5	475.4	444.4
Net income	512.5	475.4	390.9
Basic earnings per share (in A\$):			
Net income from continuing operations	0.42	0.40	0.34
Net income	0.42	0.40	0.29
Diluted earnings per share (in A\$):			
Net income from continuing operations	0.41	0.39	0.33
Net income	0.41	0.39	0.29
Weighted average number of common shares and common share equivalents for basic calculations (millions)	1,225.6	1,204.3	1,192.1
Number of shares for diluted calculations (millions)	1,239.4	1,208.8	1,192.6

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

33. RECENTLY ISSUED U.S. ACCOUNTING STANDARDS

In November 2004, the FASB issued SFAS No. 151 Inventory costs an amendment of ARB No 43, Chapter 4 (FAS 151) , becoming effective for interim periods commencing on or after June 15, 2005. As such the Company will be required to adopt FAS 151 for the financial year ending July 30, 2006.

Under FAS 151, abnormal amounts of inventory related costs are recorded as period costs, rather than capitalized as inventory. At this time it is not possible to determine the impact of FAS 151.

In December 2004, the FASB issued SFAS No. 123(R) Share-Based Payment , becoming effective for interim periods commencing on or after June 15, 2005. As such the Company will be required to adopt FAS 123(R) for the financial year ending July 30, 2006. SFAS No. 123(R) requires companies to recognize an expense for the issue of employee stock options and similar awards. Under U.S. GAAP the Company has already adopted the original version of SFAS No. 123, Accounting for Stock Based Compensation refer Notes 32 (f) and (g). At this time it is not possible to determine the impact of SFAS No. 123(R).

In December 2004, the SEC issued D-108 Use of the Residual Method to Value Acquired Assets other Than Goodwill , becoming effective for fiscal years commencing after December 15, 2004. As such the Company will be required to adopt D-108 for the financial year ending July 30, 2006. For intangible assets that were previously valued using the residual method, D-108 requires those assets to be assessed for impairment using the direct method. At this time it is not possible to determine the impact of D-108.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

34. LIST OF SUBSIDIARIES

Coles Myer Ltd.

Bi-Lo Pty Ltd

Barrier Investments Pty Ltd

CMFL Services Ltd

Financial Network Card Services Pty Ltd

CMPQ (CML) Pty Ltd

Coles Myer Ansett Travel Pty Ltd (97.5% owned)

Coles Myer Asia Pty Ltd

Coles Myer Deposit Services Pty Ltd

Coles Myer Finance Ltd

Coles Myer Finance (USA) Ltd

Coles Myer International Pty Ltd

Coles Myer New Zealand Holdings Ltd ⁽¹⁾

CMNZ Finance Ltd ⁽¹⁾

Retail Investments Pty Ltd

CMNZ Investments Pty Ltd

Sanco Insurance Pte Ltd ⁽²⁾

Coles Myer Logistics Pty Ltd

Coles Myer Properties Holdings Ltd

Australian Grocery Holdings Pty Ltd

Clarkson Shopping Centre Pty Ltd

CMPQ (PEN) Pty Ltd

CMTI Pty Ltd

Coles Myer Properties Pty Ltd

Coles Myer Property Developments Ltd

Fulthom Pty Ltd

ht (colesmyer) Pty Ltd

Morley Shopping Centre Pty Ltd

Myer Melbourne Ltd

Myer Properties W.A. Ltd

Orzo Pty Ltd

Procurement Online Pty Ltd

Tooronga Shopping Centre Pty Ltd

Coles Supermarkets Australia Pty Ltd

Charlie Carter (Norwest) Pty Ltd

Eureka Operations Pty Ltd

Newmart Pty Ltd

Tooronga Holdings Pty Ltd

e.colesmyer Pty Ltd

colesmyer.com Pty Ltd

e.tailing (colesmyer) Pty Ltd

Coles Online Pty Ltd

Liquorland Direct Pty Ltd

Direct Fulfilment Group Pty Ltd

e.trading (colesmyer) Pty Ltd

Harris Technology (NZ) Pty Ltd

Multimedia Services Pty Ltd

now.com.au Pty Ltd

Grace Bros. Pty Ltd (formerly Grace Bros. Holdings Pty Ltd)

Grocery Holdings Pty Ltd

Edgar Filing: COLES MYER LTD - Form 20-F

General Merchandise and Apparel Group Pty Ltd

Harris Technology Pty Ltd

Katies Fashions (Aust.) Pty Ltd

G.J. Coles & Coy. Pty Ltd

172

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

34. LIST OF SUBSIDIARIES (continued)

Kmart Australia Ltd

Arana Hills Properties Pty Ltd

Tyremaster (Wholesale) Pty Ltd

W4K. World 4 Kids Pty Ltd

Liquorland (Australia) Pty Ltd

Australian Liquor Group Ltd

Knox Liquor Australia Pty Ltd

Osmond Hotel Pty Ltd

Outfront Liquor Services Pty Ltd

Guidel Pty Ltd

Sorcha Pty Ltd

Philip Murphy Melbourne Pty Ltd

Philip Murphy Niddrie Pty Ltd

Philip Murphy Toorak Pty Ltd

Philip Murphy Wine and Spirits Pty Ltd

Theo s Liquor Pty Ltd (formerly Pallas Newco Pty Ltd)

ALW Newco Pty Ltd

Pacific Liquor Wholesalers Pty Ltd

Liquorland (Qld.) Pty Ltd

Mycar Automotive Pty Ltd

Myer Ltd (formerly Myer Stores Ltd)

Officeworks Superstores Pty Ltd

Officeworks Superstores N.Z. Ltd ⁽¹⁾

Viking Direct Pty Ltd

Officeworks Businessdirect Pty Ltd (formerly Viking Office Products Pty Ltd)

Penneys Pty Ltd

Price Point Pty Ltd

Target Australia Pty Ltd

Fosseys (Australia) Pty Ltd

Tickoth Pty Ltd

Tyremaster Pty Ltd

Comnet Pty Ltd

The Myer Emporium Ltd

Controlled entities liquidated 2005

CMFL Holdings Pty Ltd

Coles KMR Pty Ltd

Coles Myer Investments Pty Ltd

Coles Myer Property Investments Pty Ltd

Charlot Pty Ltd

Except where shown, controlled entities are wholly owned and incorporated or established in Australia. The 2.5% of capital in Coles Myer Ansett Travel Pty. Ltd. not owned by the CML Group gives rise to outside equity interests of A\$NIL. The balance date of all controlled entities was July 31, 2005.

Controlled entities carry on business in their countries of incorporation except Coles Myer Asia Pty. Ltd., which carries on business in China.

⁽¹⁾ Incorporated in New Zealand.

⁽²⁾ Incorporated in Singapore.

Table of Contents

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

GLOSSARY OF TERMS

To assist U.S. readers in understanding unfamiliar terms, the following glossary is presented.

Australian terminology

Shareholders' equity
Authorised capital
Ordinary shares
Reserve (forms part of shareholders' equity)
Provision

Retained profits
Investment allowance
Future income tax benefit
Listed securities
Bonus share issue
Controlled entity
Foreign currency translation reserve

United States equivalent

Stockholders' equity
Authorized capital stock
Common stock
Appropriated surplus of retained earnings
Accrued liability or reserve - (can represent either accrued liability or estimated depletion in the cost of an asset)
Retained earnings
Investment tax credit
Deferred tax asset
Marketable equity securities
Stock dividend
Subsidiary
Cumulative translation adjustment

Table of Contents

ITEM 19 EXHIBITS

1. Constitution (incorporated by reference to the Company's filing on Form 6-K, dated November 25, 1997), as amended by the amendment to Constitution (incorporated by reference to the Company's filing on Form 6-K, dated September 7, 2001), and as subsequently amended by the amendment to Constitution (incorporated by reference to the Company's filing on Form 6-K, dated November 22, 2005).
- 2.1 Debt Issuance Program - Deed of Guarantee, filed with the 2004 Form 20-F
- 2.2 Debt Issuance Program - Deed of Covenant, filed with the 2004 Form 20-F
- 2.3 Note Deed Poll
- 2.4 Guarantee Deed Poll
- 2.5 Common Provisions Deed Poll
- 4.1 Employment agreement - Ms. Dawn Robertson, filed with the 2002 Form 20-F
- 4.2 Employment agreement - Mr. Tim Hammon, filed with the 2003 Form 20-F
- 4.3 Amendment to Employment agreement - Ms. Dawn Robertson, filed with the 2004 Form 20-F
- 4.4 Employment agreement - Mr. Hani Zayadi, filed with the 2004 Form 20-F
- 4.5 Employment agreement - Mr. Larry Davis, filed with the 2004 Form 20-F
- 4.6 Employment agreement - Mr. Steven Cain, filed with the 2004 Form 20-F
- 4.7 Employment agreement - Mr. Fraser MacKenzie, filed with the 2004 Form 20-F
- 4.8 Agreement to extend term of appointment - Mr. John Fletcher
- 4.9 Employment agreement - Mr. Hani Zayadi
- 4.10 Employment agreement - Mr. Larry Davis
- 4.11 Employment agreement - Ms. Launa Inman
- 4.12 Settlement and Release Agreement - Mr. Steven Cain
8. List of subsidiaries (included herein as Note 34 in the consolidated financial statements).
- 12.1 Certification by Chief Executive Officer, Mr. J.E. Fletcher, dated December 15, 2005
- 12.2 Certification by Chief Financial Officer, Mr. J.F. MacKenzie, dated December 15, 2005
- 13.1 Certification by Chief Executive Officer, Mr. J.E. Fletcher, dated December 15, 2005
- 13.2 Certification by Chief Financial Officer, Mr. J.F. MacKenzie, dated December 15, 2005
- 15.1 License Agreement between Kmart Corporation and Kmart Australia Limited, dated August 1, 1994.
- 15.2 License Agreement between Kmart Corporation and Kmart New Zealand Limited, dated August 1, 1994.