

COLES MYER LTD
Form 20-F/A
March 23, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F/A

(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 25, 2004

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission file number: 1-10083

COLES MYER LTD.

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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

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

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

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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

EXPLANATORY NOTE

The Registrant hereby amends Item 18 of the Annual Report on Form 20-F for the above-noted fiscal year, which was filed with the Securities and Exchange Commission on December 27, 2004 (the Form 20-F). The sole amendment made to Item 18 relates to the wording of the Report of the Independent Registered Public Accounting Firm (the auditors report). The change to wording is required, as the original auditors report did not make reference to the standards of the Public Accounting Oversight Board (United States). No changes have been made to the Consolidated Financial Statements.

This Form 20-F/A consists of a cover page, this explanatory note, the signature page, Item 18, and the required certifications of the principal executive officer and principal financial officer.

Other than as set forth above, this Form 20-F/A does not, and does not purport to, amend, update or restate the information in any other Item of the Form 20-F or reflect any events that have occurred after the Form 20-F was filed.

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

Date March 18, 2005

CHIEF FINANCIAL OFFICER

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of changes in shareholders' equity present fairly, in all material respects, the financial position of Coles Myer Ltd. and its subsidiaries at July 25, 2004 and July 27, 2003, and the results of their operations and their cash flows for each of the three years in the period ended July 25, 2004, in conformity with accounting principles generally accepted in Australia. These financial statements are the responsibility of Coles Myer Ltd.'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 31 to the consolidated financial statements.

/s/ PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers

Melbourne, Australia

December 22, 2004

COLES MYER LTD.

CONSOLIDATED INCOME STATEMENTS

		2004	2003	2002
		52 weeks	52 weeks	52 weeks
	Notes	A\$M	A\$M	A\$M
Sales	3	32,266.8	27,016.6	25,688.7
Cost of goods sold		(24,059.5)	(19,618.6)	(19,419.9)
Gross profit		8,207.3	7,398.0	6,268.8
Other revenue from operating activities	3	27.1	17.7	650.6
Cumulative effect of change in accounting policy for supplier promotional rebates			(76.5)	
Other revenue from non-operating activities	3	309.2	275.3	286.3
Proceeds from sale of property, plant and equipment, investments and businesses and controlled entities	3	131.0	392.5	111.8
Net book value of property, plant and equipment, investments and businesses and controlled entities disposed		(146.5)	(416.8)	(123.9)
Borrowing costs	4	(71.1)	(86.9)	(102.9)
Advertising expenses		(431.7)	(383.8)	(323.0)
Selling and occupancy expenses		(5,801.7)	(5,327.5)	(5,159.2)
Administrative expenses		(1,357.4)	(1,183.2)	(1,126.3)
Profit from ordinary activities before income tax		866.2	608.8	482.2
Income tax expense	5	(258.1)	(187.7)	(137.2)
Net profit		608.1	421.1	345.0
Net (decrease)/increase in asset revaluation reserve		(8.2)	83.5	(4.2)
Net decrease in foreign currency translation reserve		(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		(38.6)	59.8	(4.2)
Total changes in equity other than those resulting from transactions with owners as owners		569.5	480.9	340.8
Basic earnings per share (in A\$)		0.46	0.32	0.25
Diluted earnings per share (in A\$)		0.47	0.33	0.27

Notes on pages 106 to 168 form part of the financial statements.

COLES MYER LTD.

CONSOLIDATED BALANCE SHEETS

	Notes	July 25, 2004 A\$M	July 27, 2003 A\$M
	—	—	—
ASSETS			
Current assets:			
Cash		849.0	905.5
Receivables	7	646.7	346.0
Inventories		3,032.7	2,836.8
Other	8	41.1	28.1
		<u>4,569.5</u>	<u>4,116.4</u>
Non-current assets:			
Receivables	9	50.4	121.5
Investments	10	112.9	105.8
Property, plant and equipment, net	11	3,395.7	3,340.6
Intangible assets, net	12	590.5	516.8
Other	13	332.7	251.7
		<u>4,482.2</u>	<u>4,336.4</u>
TOTAL ASSETS		<u>9,051.7</u>	<u>8,452.8</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	14	2,815.7	2,476.3
Borrowings	15	261.5	10.8
Tax liabilities	16	161.6	13.6
Provisions	17	563.3	540.8
		<u>3,802.1</u>	<u>3,041.5</u>
Non-current liabilities:			
Long term debt	18	713.4	1,143.3
Other		48.3	49.3
Provisions	19	390.3	419.5
		<u>1,152.0</u>	<u>1,612.1</u>
Shareholders' equity:			
Issued share capital	20	2,306.7	2,210.3
Reserves		430.2	468.8
Retained profits		1,360.7	1,120.1
		<u>4,097.6</u>	<u>3,799.2</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>9,051.7</u>	<u>8,452.8</u>

Commitments and contingent liabilities

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Notes on pages 106 to 168 form part of the financial statements.

COLES MYER LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		2004	2003	2002
		52 weeks	52 weeks	52 weeks
	Notes	A\$M	A\$M	A\$M
Cash flows from operating activities				
Receipts from customers		34,539.6	28,904.1	27,540.3
Payments to suppliers and employees		(32,905.0)	(27,469.2)	(26,259.9)
Distributions received from associated entities		7.0	6.2	5.6
Interest received		55.2	20.0	15.0
Borrowing costs paid		(70.0)	(103.6)	(105.9)
Income tax paid		(288.5)	(179.1)	(77.1)
Net cash inflow from operating activities	A	1,338.3	1,178.4	1,118.0
Cash flows from investing activities				
Payments for property, plant and equipment		(704.1)	(625.2)	(507.7)
Cash paid for purchases of businesses and controlled entities	B	(192.0)	(241.7)	(70.4)
Cash paid for purchases of other investments		(1.4)		
Payment for purchase of associated entity		(1.1)	(1.4)	(0.1)
Proceeds on sale of property, plant and equipment		80.3	37.1	31.1
Proceeds on sale of Sydney Central Plaza	B	9.9	372.8	
Proceeds on sale of businesses and controlled entities	B	31.8		57.8
Proceeds on sale of investments			7.6	2.3
Loans from other entities		66.1	13.6	41.6
Net cash outflow from investing activities		(710.5)	(437.2)	(445.4)
Cash flows from financing activities				
Proceeds from issue of shares		37.1		
Proceeds from borrowings		1,362.7	279.7	924.4
Repayments of borrowings		(1,772.6)	(704.6)	(1,022.4)
Payments for shares bought back				(1.4)
Dividends paid		(307.8)	(287.6)	(285.3)
Net cash outflow from financing activities		(680.6)	(712.5)	(384.7)
Net (decrease)/increase in cash held		(52.8)	28.7	287.9
Cash at beginning of the year		894.7	866.0	578.1
Cash at end of the year	C	841.9	894.7	866.0

Notes on pages 106 to 168 form part of the financial statements.

COLES MYER LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2004	2003	2002
	52 weeks	52 weeks	52 weeks
	A\$M	A\$M	A\$M
Notes			
A. Reconciliation of net cash provided by operating activities to net profit is as follows:			
Net cash inflow from operating activities	1,338.3	1,178.4	1,118.0
Depreciation and amortization	(536.7)	(512.6)	(493.4)
Changes in assets and liabilities			
Increase in current receivables	57.4	69.5	27.0
Increase/(decrease) in inventories	124.9	(24.0)	(104.1)
Increase/(decrease) in future income tax benefits	80.8	(38.3)	28.4
Increase/(decrease) in other assets	20.9	(29.6)	17.9
(Increase) in trade creditors	(139.7)	(105.1)	(213.8)
(Increase)/decrease in other liabilities	(135.8)	(55.0)	90.4
(Increase) in provision for income tax	(148.0)	(20.3)	(28.1)
(Increase) in provisions	(53.6)	(79.2)	(44.9)
(Decrease)/increase in deferred income tax	66.7	74.4	(29.9)
Net loss on sale of plant and equipment	(45.0)	(31.2)	(27.0)
Net profit/(loss) on sale of freehold properties	7.8	1.4	15.0
Net profit/(loss) on sale of businesses and controlled entities	21.7	5.5	(0.1)
Write-down of non-current assets to recoverable amounts	(51.6)	(12.8)	(10.4)
Net profit	608.1	421.1	345.0

B. Acquisitions/disposals

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 \$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 \$79.5 million.

During 2004, the CML Group disposed of five Newmart stores and seven Sands and McDougall stores for \$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 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 F2003 the share price was A\$7.34 and at balance date F2004 the share price was A\$9.16. 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.

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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.

COLES MYER LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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.

During 2002 Coles Supermarkets (Australia) Pty. Ltd. and Bi-Lo Pty. Ltd., both wholly owned controlled entities of Coles Myer Ltd., acquired 35 ex-Franklins stores for A\$59.3 million.

On May 27, 2002, Coles Myer Ltd. sold 100% of its investment in the issued capital of Amalgamated Food & Poultry Pty. Ltd. for A\$65.0 million.

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		
	2004	2003	2002	2004	2003	2002
	52 weeks	52 weeks	52 weeks	52 weeks	52 weeks	52 weeks
	A\$M	A\$M	A\$M	A\$M	A\$M	A\$M
Cash consideration (paid)/received net of cash acquired/disposed	(209.4)	(362.6)	(70.4)	31.9	372.8	66.5
Cash	17.4	3.2		(0.1)		(8.7)
Receivables current		17.6			(2.1)	(1.9)
Inventories	73.9	51.8	12.9	(3.0)		(4.1)
Other assets current		2.4			(1.2)	(0.2)
Property, plant and equipment	15.0	45.8	25.4	(10.2)	(363.0)	(64.6)
Deferred tax assets		2.0	1.4			(3.4)
Intangible assets	109.2	260.2	37.0	(9.3)		(13.4)
Other assets non-current						(0.3)
Payables		(19.1)	(1.3)		(1.0)	18.9
Provisions current	(6.1)	(1.3)	(4.5)	0.4		6.2
Interest bearing liabilities non-current			(0.5)			
Provisions non-current						1.1
Net assets acquired/(disposed)	209.4	362.6	70.4	(22.2)	(367.3)	(70.4)
Reconciliation of cash flows:						
Consideration	(209.4)	(362.6)	(70.4)	31.9	372.8	66.5
Consideration satisfied by share issue		117.7				
Cash acquired/disposed	17.4	3.2		(0.1)		(8.7)

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Cash (Outflow)/Inflow	(192.0)	(241.7)	(70.4)	31.8	372.8	57.8
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* The purchase method of accounting is applied. Net assets are recorded at fair value.

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:

	2004	2003	2002
	52 weeks	52 weeks	52 weeks
	A\$M	A\$M	A\$M
Cash assets	849.0	905.5	866.0
Bank overdrafts	(7.1)	(10.8)	
	<u>841.9</u>	<u>894.7</u>	<u>866.0</u>

D. Non-cash financing and investing activities

Financing CML issued ordinary shares under the Dividend Reinvestment Plan for A\$59.3 million (2003 A\$60.3 million, 2002 A\$60.0 million).

Investments 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.

During 2002, the CML Group disposed of its investments in Power Investment Funding Pty. Ltd., Investment Funding Pty. Ltd., and Label Developments Pty. Ltd. for \$NIL consideration. As a result, current receivables decreased A\$115.3 million, current loans decreased A\$115.3 million, non-current receivables decreased A\$17.2 million, non-current loans decreased A\$17.2 million and investments decreased \$NIL on disposal.

E. Details of major financing facilities

Credit standby facilities: The CML Group has A\$530.0 million (2003 A\$580.0 million) of committed facilities of which A\$530.0 million (2003 A\$580.0 million) were undrawn at balance date. The facilities have maturity dates ranging between December 2004 and August 2009 (2003 maturity dates ranged between October 2003 and August 2008).

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 no commercial paper was on issue (2003 \$NIL).

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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. 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\$670.6 million (2003 A\$1,052.4 million) equivalent of medium term notes were on issue.

Other loans: A\$NIL (2003 A\$7.5 million) equivalent of loans, denominated in Japanese yen, were outstanding at balance date with a maturity date of July 2004.

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 29, 2001	1,176.6	1,293.1	0.2	
Conversion of partly paid to fully paid				
Dividend reinvestment plan	8.2	60.0		
Shares bought back on-market	(0.2)	(1.4)		
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	
	_____	_____	_____	_____
		Preference (ReCAPS)		
		Fully Paid		
	_____	_____		
Balance, July 28, 2002	7.0	680.6		
Balance, July 27, 2003	7.0	680.6		
Balance, July 25, 2004	7.0	680.6		
	_____	_____		

Notes on pages 106 to 168 form part of the financial statements.

COLES MYER LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN
RESERVES AND RETAINED PROFITS

	2004 52 weeks A\$M	2003 52 weeks A\$M	2002 52 weeks A\$M
Asset revaluation reserve*			
Balance at beginning	485.9	402.4	406.6
Fair value increment/(decrement) of freehold and investment properties	(8.2)	83.5	(4.2)
	<u>477.7</u>	<u>485.9</u>	<u>402.4</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	(17.1)		
Net exchange differences on translation of foreign controlled entity	(30.4)	(17.1)	
	<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	1,120.1	904.1	906.0
Adjustment resulting from change in accounting policy for providing for dividends (Note 2)		149.7	
Adjustment resulting from change in accounting policy for annual leave entitlements (Note 2)		(6.6)	
Net profit for the year	608.1	421.1	345.0
Cash dividends	(367.5)	(348.2)	(346.9)
	<u>1,360.7</u>	<u>1,120.1</u>	<u>904.1</u>

Total reserves and retained profits			
Balance at beginning	1,588.9	1,306.5	1,312.6
Adjustment resulting from change in accounting policy for providing for dividends (Note 2)		149.7	
Adjustment resulting from change in accounting policy for annual leave entitlements (Note 2)		(6.6)	
Net profit for the year	608.1	421.1	345.0
Cash dividends	(367.5)	(348.2)	(346.9)
Fair value (decrement)/increment of freehold and investment properties	(8.2)	83.5	(4.2)
Net exchange differences on translation of foreign controlled entity	(30.4)	(17.1)	
	<u>1,790.9</u>	<u>1,588.9</u>	<u>1,306.5</u>

Notes on pages 106 to 168 form part of the financial statements.

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 31.

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 33. 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

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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

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

of origin. 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, (2003 A\$8.4 million, 2002 A\$8.8 million) with the aggregate adjustment arising from all prior years causing shareholders' equity to increase by A\$14.4 million (2003 A\$22.8 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 (Note 2). 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

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(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 31 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.

COLES MYER LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(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.

(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 31 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>2004</u>	<u>2003</u>	<u>2002</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 recognised that computer software had a useful life not exceeding three years.

The revised accounting estimate recognises that in all material respects, computer software has a useful life not exceeding five years. The impact of the change was an increase to profit before tax of A\$12.0 million for the year ended July 25, 2004. The impact on Basic and Diluted earnings per share was A\$0.01 per share 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, reasonable 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.

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 25, 2004 have an indefinite life.

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(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. Effective July 29, 2002, the CML Group changed its accounting estimate with respect to the useful life of liquor licenses. The previous estimate recognised that liquor licenses had a useful life not exceeding twenty years.

The revised accounting estimate recognises that liquor licenses have an indefinite life where they have unlimited legal lives and are unlikely to become commercially obsolete. Gaming licenses purchased during 2003 have an indefinite life. As a consequence, no amortization of licenses was charged for the year ended July 27, 2003.

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.

(iv) 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 amortised over twenty 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.

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The CML Group implemented the tax consolidation legislation as of July 29, 2002. Refer Note 5 for further disclosure.

n Foreign exchange

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

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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.

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 (Note 2). Under U.S. GAAP these liabilities are measured at their current rates. The effect of this difference is detailed in Note 31.

Liabilities for long service leave entitlements which are not expected to be paid or settled within twelve 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 23).

A liability for employee entitlements in the form of bonus plans is recognised 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.

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Liabilities for bonus plans are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

Equity-based compensation benefits are provided to employees via the Executive Share Option Plan (Note 24). 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 31.

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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 31, and U.S. GAAP information in relation to the defined benefit funds (in accordance with FAS 87 and FAS 132) is detailed in Note 23.

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 on a straight-line basis over the term of the lease. Refer Note 25 for details of non-cancelable operating lease commitments.

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 31.

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, includes concession sales and is after deducting returns, duties and taxes paid.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

u Earnings per share

The CML Group has applied the revised AASB 1027 Earnings Per Share (issued June 2001) for the first time from July 30, 2001.

(i) Basic earnings per share

Basic earnings per share is 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.

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, Emerging Businesses and Property & Unallocated.

y Rounding of amounts

Dollar amounts have been rounded to the nearest tenth of a million dollars. Where the amount is \$50,000 or less, this is indicated by a dash (-). For the purpose of Notes 24 and 28 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 (Note 2).

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aa Onerous contracts

A provision for onerous contracts is recognised 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 recognised.

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 to their present value.

Under U.S. GAAP this type of provision is not permitted. The effect of the difference from U.S. GAAP is reflected in Note 31.

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 amortised over the life of the lease.

ae International Financial Reporting Standards (IFRS)

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

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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 26 July 2004. An IFRS project team has been established to manage the transition to Australian equivalents of IFRS. The project team is chaired by the Chief Financial Officer and reports to the Audit/Governance Committee every six months.

Most of the Australian equivalents to IFRS have been evaluated and a number of key differences have been identified with Australian GAAP. The completion of this analysis is expected during fiscal 2005, enabling the implementation of required changes ahead of fiscal 2006 relative to Australian GAAP. No attempt has yet been made to examine how these changes might be reviewed under U.S. GAAP and no commentary is included in these accounts in this regard.

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The following IFRS areas have been identified as significant for the CML Group relative to Australian GAAP:

(i) AASB 2 Share-based Payment

CML has established an Executive Share Option Plan, under which options are issued to employees. Under the current accounting policy an expense is not recognised for options issued (refer Note 1o).

On adoption of AASB 2, options issued to employees will be recognised as an expense over the relevant vesting periods. The expense will be determined with reference to the fair value of the options issued. The determination of fair value is prescribed by the new standard. An adjustment will be recorded against opening retained earnings at 26 July 2004 to reflect the fair value, so determined, of any options granted after 7 November 2002, but before 26 July 2004 that are not vested at 1 January 2005.

(ii) AASB 3 Business Combinations

Under the current accounting policy goodwill is amortised over the period in which the benefits are expected to arise (refer Note 1d).

Under AASB 3, goodwill is no longer amortised, but instead will be subject to impairment testing at each reporting date.

(iii) AASB 116 Property, Plant and Equipment and AASB 140 Investment Property

Under the current accounting policy freehold land and buildings and investment properties are measured at their fair value (refer Note 1i). Increments and decrements are offset, and the net movement in the valuation is recognised in the asset revaluation reserve.

Under AASB 140, where an insignificant portion of a property is held for the company's own use it is classified as an investment property. Accordingly, it is unlikely that properties currently classified as investment properties will continue to meet the definition under IFRS. Properties that are not classified as investment properties under AASB 140 can be measured under either the revaluation model or the cost model prescribed by AASB 116.

Under the cost model the property is carried at its cost less accumulated depreciation and impairment losses. Under the revaluation model any gains arising from changes in fair value are recognised in the asset revaluation reserve. However, the gain shall be recognised in the net profit or loss to the extent that it reverses a revaluation decrement previously recognised in the net profit or loss. Losses are recognised in the net profit or

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loss except where the decrement reverses a previous revaluation increment in the reserve.

In addition, under IFRS increments and decrements within an asset class cannot be offset. Properties must be considered individually, which could result in greater volatility in the Statements of Financial Performance.

At this stage there has been no decision on which policy will be applied.

(iv) 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 recognised directly in equity.

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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 Statements of Financial Position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

It is expected that AASB 112 may require the CML Group to carry higher levels of deferred tax assets and liabilities. However, at this stage a significant transitional adjustment has not been identified.

(v) AASB 119 Employee Benefits

Under the current accounting policy an asset or liability is not recognised for the actuarially determined surplus or deficit of the defined benefit superannuation plan (refer Note 23).

Under AASB 119 net surpluses or deficits that arise within the defined benefit superannuation plan must be recognised as an asset or liability in the Statements of Financial Position. The annual movements in those surpluses or deficits must be recorded in the Statements of Financial Performance, which could result in greater volatility.

Upon adoption, an actuarial valuation of the defined benefit superannuation plan will be performed in accordance with AASB 119, and an adjustment will be recorded against opening retained earnings at 26 July 2004.

(vi) AASB 136 Impairment of Assets

Under the current accounting policy the recoverable amount of assets is determined by reference to cash flows generated by a group of assets.

Under AASB 136 recoverable amount is assessed for each cash generating unit, which is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets.

At this stage the determination of the CML Group's cash generating units has not been finalised.

(vii) AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement

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CML has on issue 7,000,000 ReCAPS that are currently treated as equity (refer Note 20). Under AASB 132 the ReCAPS will be reclassified as debt, and dividends paid (refer Note 6) will be recorded as interest expense.

Under AASB 139 foreign exchange contracts held for hedging purposes will be recorded in the Statements of Financial Position at fair value. Changes in fair value will be recognised directly in equity where hedge effectiveness tests are met. Ineffectiveness outside the prescribed range precludes the use of hedge accounting, in which case the fair value changes are recognised in the Statements of Financial Performance.

AASB 132 and AASB 139 are not applicable until 1 August 2005. The impact on retained earnings at 1 August 2005 will depend on the value of foreign exchange contracts at that date.

The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to Australian equivalents of IFRS. In addition, some decisions have not yet been made where choices of accounting policies are available. For these reasons it is not yet possible to quantify the impact of the transition to Australian equivalents to IFRS on the CML Group's financial position and reported results.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. CHANGES IN ACCOUNTING POLICY

Changes in accounting policy for inventory costing

(a) Supplier promotional rebates

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

Under this guidance, virtually all forms of rebates (including some which under previous accounting guidance were able to be taken directly to income) are treated as a reduction in the cost of inventory, deferring the recognition of the income to as and when the inventory is sold. As a result, rebates previously recorded as other revenue from operating activities, have now been disclosed as a reduction in cost of goods sold. The only exception is in limited circumstances in relation to the reimbursement of direct advertising costs incurred on behalf of the supplier, which are recorded as other revenue from non-operating activities.

On initial adoption of the change at July 29, 2002, the CML Group inventory decreased by A\$76.5 million (July 2001 A\$76.7 million). If the accounting policy had always been applied, the impact of the change would have been an increase to profit before tax by A\$0.2 million for the year ended July 28, 2002 and a decrease by A\$2.8 million for the year ended July 27, 2003.

Under the Australian equivalents to IFRS which come into effect in the 2006 financial year, voluntary changes to accounting policies such as this would be made by an adjustment to retained earnings, rather than through the Consolidated Income Statements.

(b) Indirect logistics expenses

Effective July 29, 2002, the CML Group made a modification to its policy of recognizing indirect costs of operating distribution centres as a component of the cost of inventory. Previously, these indirect costs were expensed as incurred. The modification was made to improve the relevance and reliability of the information presented in the financial report and to further comply with AASB 1019 Inventories . This treatment also complies with U.S. GAAP.

On initial adoption of the change at July 29, 2002, the CML Group s inventory increased by A\$4.5 million. For the year ended July 27, 2003, the change in accounting policy was an increase to the CML Group s profit before tax of A\$5.0 million. Had this policy been applied for the previous corresponding periods the effect would have been the same.

Change in accounting policy for providing for dividends

Effective July 29, 2002, the CML Group changed its accounting policy for providing for dividends to comply with AASB 1044 Provisions, Contingent Liabilities and Contingent Assets released in October 2001. This treatment of providing for dividends is consistent with U.S. GAAP. In previous years, in addition to providing for the amount of any dividends declared, determined or publicly recommended by the directors on or before the end of the financial year but not distributed at balance date, provision was made for dividends to be paid out of retained profits at the end of the financial year where the dividend was proposed, recommended or declared between the end of the financial year and the completion of the financial report.

An adjustment of A\$149.7 million was made against retained profits at the beginning of the financial year to reverse the amount provided at July 28, 2002 for the accrued ReCAPS dividend and the proposed final ordinary dividend for that year that was recommended by the directors between the end of the financial year and the completion of the financial report. This reduced current liabilities - provisions and total liabilities for the year ended July 27, 2003 by A\$149.7

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million with corresponding increases in net assets, retained profits, total equity and the total dividends provided for or paid.

Change in accounting policy for annual leave entitlements

Effective July 29, 2002, the CML Group changed its accounting policy for providing for employee benefits to comply with the revised AASB 1028 Employee Benefits released in June 2001. In previous years, liabilities for wages and salaries and annual leave were measured at current remuneration rates. Under the revised accounting standard these benefits must be 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 these liabilities are measured at their current rates. The effect of this difference is detailed in Note 31.

An adjustment of A\$6.6 million was made at the beginning of the financial year to reduce retained profits, A\$9.4 million to increase employee provisions, and A\$2.8 million to increase the future income tax benefit. If the accounting policy had always been applied, the impact of the change for the years ended July 28, 2002 and July 27, 2003 would have been immaterial.

3. REVENUE

	2004	2003	2002
	52 weeks	52 weeks	52 weeks
	A\$M	A\$M	A\$M
Revenue from operating activities			
Sales	32,266.8	27,016.6	25,688.7
Rebates and other allowances	27.1	17.7	650.6
Cumulative effect of change in accounting policy for supplier promotional rebates		(76.5)	
Proceeds from disposal of			
Property, plant and equipment	89.2	19.7	38.8
Sydney Central Plaza	9.9	372.8	
Businesses and controlled entities	31.9		73.0
	131.0	392.5	111.8
Other revenue from non-operating activities			
Interest income*	57.6	23.7	27.4
Rental income	25.9	30.8	37.8
Other income	225.7	220.8	221.1
	309.2	275.3	286.3
Total revenue	32,734.1	27,625.6	26,737.4



* Includes interest from the Coles Myer Employee Share Plan Trust of A\$38.0 million (2003 A\$3.7 million, 2002 A\$12.4 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.

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4. OPERATING PROFIT

	2004 52 weeks A\$M	2003 52 weeks A\$M	2002 52 weeks A\$M
Profit from ordinary activities before income tax expense includes the following net gains and expenses:			
Gains:			
Net gain/(loss) on sale of			
Freehold property	7.8	1.4	15.0
Plant and equipment	(45.0)	(31.2)	(27.0)
Sydney Central Plaza	12.0	5.5	
Businesses and controlled entities	9.7		(0.1)
	<u>(15.5)</u>	<u>(24.3)</u>	<u>(12.1)</u>
Expenses:			
Interest	68.3	86.2	100.8
Other costs of finance	2.8	0.7	2.1
Total borrowing costs	<u>71.1</u>	<u>86.9</u>	<u>102.9</u>
Depreciation			
Freehold buildings	0.7	0.7	0.6
Leasehold improvements	52.1	49.4	45.4
Plant and equipment	438.1	418.2	408.9
	<u>490.9</u>	<u>468.3</u>	<u>454.9</u>
Amortization			
Liquor licenses			10.3
Co-branded operating rights	3.5		
Goodwill	19.2	16.2	15.7
Computer software	20.1	25.3	9.7
Stamp duty	3.0	2.8	2.8
	<u>45.8</u>	<u>44.3</u>	<u>38.5</u>
Provisions			
Employee entitlements	246.2	254.3	240.2
Workers compensation	101.3	101.2	64.6
Self-insured risks	13.1	14.1	9.5
	<u>360.6</u>	<u>369.6</u>	<u>314.3</u>
Write-down of non-current assets to recoverable amounts			
Property, plant and equipment	45.9	12.8	10.4
Goodwill	5.7		

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	51.6	12.8	10.4
	<u>51.6</u>	<u>12.8</u>	<u>10.4</u>
Bad and doubtful debts	4.7	3.8	9.6
	<u>4.7</u>	<u>3.8</u>	<u>9.6</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. INCOME TAX EXPENSE

	2004 52 weeks A\$M	2003 52 weeks A\$M	2002 52 weeks A\$M
The Australian statutory tax on profit is reconciled to the income tax expense as follows:			
Profit before income tax	866.2	608.8	482.2
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:	259.9	182.6	144.7
Non-deductible depreciation and amortization	6.4	2.5	5.4
Realization of unrecognized timing differences	(5.5)	(5.5)	(0.5)
Investment property tax depreciation		(2.1)	(3.5)
Lease termination payments	4.3		
Under/(over) provision from prior year	(6.6)	2.0	10.4
Non-allowable goodwill amortization and write off	2.6	2.6	2.6
Loss/(profit) on property sales not subject to tax	(5.9)	0.6	(3.8)
Other items not subject to tax	(2.7)	(0.6)	(7.3)
Other non-deductible expenditure	6.5	6.6	2.0
Income losses recouped			(11.8)
Difference between accounting and tax profits from partnerships and trusts	(0.9)	(1.0)	(1.0)
Income tax expense	258.1	187.7	137.2
The components of income tax expense are:			
Income tax expense credited to current tax provision	436.2	199.3	104.8
The net tax effect of temporary differences:			
Fixed assets and software temporary differences	(58.0)	(26.7)	(17.9)
Co-branded operating rights	28.1		
Employee entitlements	(3.9)	(12.7)	(4.3)
Prepayments	(0.9)	(0.4)	(3.2)
Provisions	(35.2)	(4.4)	29.1
Income received in advance	0.9	(1.6)	1.0
Income received from partnerships		(1.6)	2.1
Foreign exchange translation, hedge and other finance costs	(13.6)	33.0	(19.3)
Inventory valuation	(65.6)	(24.4)	14.8
Other	(29.9)	27.2	30.1
Income tax expense	258.1	187.7	137.2

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. INCOME TAX EXPENSE (continued)

The significant temporary differences which give rise to deferred tax assets and liabilities are as follows:

	July 25, 2004		July 27, 2003	
	Deferred income tax liabilities A\$M	Future income tax benefits A\$M	Deferred income tax liabilities A\$M	Future income tax benefits A\$M
Fixed assets and software depreciation	(32.8)	6.0	(101.2)	16.4
Foreign exchange translation, hedge and other finance costs	(4.9)		(4.8)	(13.7)
Employee entitlements		164.8		160.9
Prepayments	(15.9)		(16.8)	
Income received in advance	(6.7)		(5.8)	
Inventory valuation		67.5	1.9	
Provisions and accruals	(20.0)	50.7	(48.4)	43.9
Lease incentives		13.7		14.4
Co-branded operating rights	(28.1)			
Differences between tax and accounting income of partnerships and trusts				
	(108.4)	302.7	(175.1)	221.9
Included in:				
Provisions (non-current)	(108.4)		(175.1)	
Other assets (non-current)*		302.7		221.9
	(108.4)	302.7	(175.1)	221.9

* Potential future income tax benefits of A\$7.1 million (2003 \$7.1 million, 2002 A\$NIL) attributable to tax losses of A\$23.8 million (2003 \$23.8 million, 2002 A\$NIL) 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. Future income tax benefits attributable to tax losses that were recognized in 2002 totaled A\$12.4 million.

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 is 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.

In the opinion of the directors, the tax sharing agreement is a verbal agreement under the tax consolidation legislation and limits the joint and several liability of the entities in the tax consolidation 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.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2004 52 weeks A\$M	2003 52 weeks A\$M	2002 52 weeks A\$M
6. DIVIDENDS			
Final ordinary dividend for the year ended July 27, 2003 of 12.5 cents (2002 12.0 cents) paid on November 10, 2003. The 2002 final dividend was recognized as a liability at July 28, 2002, but adjusted against retained profits at the beginning of the financial year as a result of the change in accounting policy for providing for dividends (Note 2).	151.6	142.1	142.1
Interim ordinary dividend for the year ended July 25, 2004 of 14.0 cents (2003 13.5 cents, 2002 13.5 cents) paid on May 10, 2004	170.3	160.6	159.3
Preference A\$3.2589 (2003 \$3.2589, 2002 \$3.2589) paid on December 1, 2003	22.8	22.8	22.8
Less: provided at July 29, 2001*			(7.6)
	22.8	22.8	15.2
Preference A\$3.2589 (2003 \$3.2411, 2002 \$3.2411) paid May 31, 2004	22.8	22.7	22.7
Preference A\$3.2589 payable December 2, 2002 pro rata to July 28, 2002*			7.6
Total ReCAPS dividends	45.6	45.5	45.5
	367.5	348.2	346.9

* In previous periods A\$7.6 million was provided at balance date. As a result of the change in accounting policy this has been adjusted against retained profits (Note 2). Since year-end the Directors have recommended the payment of a dividend of A\$3.2589 per share, fully franked at 30% tax rate.

Dividends not recognized at year end

In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 15.0 cents per fully paid ordinary share, fully franked based on tax paid at 30%. Aggregate amount of the proposed dividend expected to be paid on November 8, 2004 out of retained profits at July 25, 2004, but not recognized as a liability at year end as a result of the change in accounting policy for providing for dividends (Note 2)

206.6	151.6
-------	-------

The franked portions of the final dividends recommended after July 25, 2004 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending July 31, 2005.

Dividend franking account

This amount represents the balance of the dividend franking account after allowing for current tax paid and provided for, dividend provisions (the 2002 financial year only), dividend payments and franking credits the CML Group is prevented from distributing (the 2002 financial year only), based on a tax rate of 30% (2002 30%).

412.9	141.4	39.7
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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.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	July 25, 2004	July 27, 2003
	A\$M	A\$M
	<u> </u>	<u> </u>
7. RECEIVABLES (CURRENT)		
Customer receivables	390.9	309.6
Allowance for doubtful accounts	(9.5)	(9.2)
	<u> </u>	<u> </u>
	381.4	300.4
	<u> </u>	<u> </u>
Other debtors	32.3	46.6
Allowance for doubtful accounts	(1.4)	(1.0)
	<u> </u>	<u> </u>
	30.9	45.6
	<u> </u>	<u> </u>
Short-term deposits	234.4	
	<u> </u>	<u> </u>
	646.7	346.0
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
Short-term deposits are due for maturity within 4 months and pay interest at 5.90%		
8. OTHER ASSETS (CURRENT)		
Prepayments	41.1	28.1
	<u> </u>	<u> </u>
9. RECEIVABLES (NON-CURRENT)		
Loan to employee share plan Note 24	29.7	95.4
Term deposits and advances	18.1	23.7
Loans to associated unit trust and partnership	2.6	2.4
	<u> </u>	<u> </u>
	50.4	121.5
	<u> </u>	<u> </u>

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	July 25, 2004	July 27, 2003
	A\$M	A\$M
10. INVESTMENTS		
Interests in bonds (market value 2004 A\$9.1 million, 2003 A\$7.7 million)*	9.1	7.7
Unlisted securities, at cost**	19.3	19.3
	<u>28.4</u>	<u>27.0</u>
Other:		
Interest in shopping center unit trusts, At fair value ***	82.5	76.8
Interest in partnerships	2.0	2.0
	<u>84.5</u>	<u>78.8</u>
	<u>112.9</u>	<u>105.8</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 25, 2004 A\$M	July 27, 2003 A\$M	July 25, 2004 %	July 27, 2003 %
Unit trusts				
CMS General Trust ⁽¹⁾				
- Property ownership	82.5	76.8	50	50
	<u>82.5</u>	<u>76.8</u>		

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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

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	July 25,	July 27,
	2004	2003
	A\$M	A\$M
	<u> </u>	<u> </u>
11. PROPERTY, PLANT AND EQUIPMENT		
Freehold properties		
Land		
At fair value	213.7	202.1
	<u> </u>	<u> </u>
Total land	213.7	202.1
	<u> </u>	<u> </u>
Buildings		
At fair value	35.9	45.5
Accumulated depreciation	(9.1)	(1.8)
	<u> </u>	<u> </u>
	26.8	43.7
	<u> </u>	<u> </u>
Total buildings	26.8	43.7
	<u> </u>	<u> </u>
Total freehold properties	240.5	245.8
	<u> </u>	<u> </u>
Leasehold improvements		
At cost	705.3	674.5
Accumulated amortization	(333.5)	(297.4)
	<u> </u>	<u> </u>
	371.8	377.1
	<u> </u>	<u> </u>
Investment properties		
Investment freehold properties At fair value	77.5	71.5
	<u> </u>	<u> </u>
Total investment freehold properties	77.5	71.5
	<u> </u>	<u> </u>
Total properties	689.8	694.4
	<u> </u>	<u> </u>
Plant and equipment		
At cost	5,667.7	5,659.1
Accumulated depreciation	(3,326.7)	(3,241.2)
	<u> </u>	<u> </u>
	2,341.0	2,417.9
	<u> </u>	<u> </u>
Computer software		
At cost	160.2	152.5
Accumulated depreciation	(85.5)	(64.5)
	<u> </u>	<u> </u>
	74.7	88.0
	<u> </u>	<u> </u>

Capital work in progress, at cost	290.2	140.3
Total property, plant and equipment	3,395.7	3,340.6

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 25, 2004 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 31.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliations of the carrying amount of each class of property, plant and equipment are set out below:

CML Group 2004	Freehold properties:		Leasehold improvements	Investment properties	Plant and equipment	Computer software	Capital work in progress	Total
	Land	Buildings						
Carrying amount at the start of the year	202.1	43.7	377.1	71.5	2,417.9	88.0	140.3	3,340.6
Additions	35.6	6.4	50.1	7.4	369.5	19.5	254.5	743.0
Disposals	(28.5)	(12.1)	(5.0)	(21.9)	(64.1)	(0.9)	(0.7)	(133.2)
Acquisitions of entities or operations			0.1		14.8	0.1		15.0
Fair value increments/ (decrements)	4.4	(15.8)		4.3	(5.7)			(12.8)
Write-down to recoverable amounts			(1.2)		(36.6)	(8.0)	(0.1)	(45.9)
Depreciation expense		(0.7)	(52.1)		(438.1)	(20.1)		(511.0)
Transfers (to)/from another class	0.1	5.3	2.8	16.2	83.3	(3.9)	(103.8)	
Carrying amount at the end of the year	213.7	26.8	371.8	77.5	2,341.0	74.7	290.2	3,395.7

July 25, 2004
A\$M

July 27, 2003
A\$M

12. INTANGIBLES

Goodwill, at cost	468.8	470.0
Accumulated amortization	(332.3)	(311.0)
	136.5	159.0
Licenses, at cost	358.6	362.6
Accumulated amortization	(27.4)	(27.4)
	331.2	335.2
Co-branded operating rights, at cost	103.7	
Accumulated amortization	(3.5)	
	100.2	
Brand names, at cost	22.6	22.6
	590.5	516.8

13. OTHER ASSETS (NON-CURRENT)

		<u> </u>	<u> </u>
Future income tax benefits	302.7	221.9	
Other	30.0	29.8	
	<u>332.7</u>	<u>251.7</u>	

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	July 25, 2004	July 27, 2003
	A\$M	A\$M
14. ACCOUNTS PAYABLE		
Trade creditors	2,067.8	1,896.6
Accrued liabilities	747.9	579.7
	<u>2,815.7</u>	<u>2,476.3</u>

15. BORROWINGS (CURRENT)

Bank overdraft	7.1	10.8
Other loans	254.4	
	<u>261.5</u>	<u>10.8</u>

In 2002, other loans are predominantly due for repayment within 4 months of balance date with a weighted average interest rate of 6.38%. Refer Note 18 for details of the company's negative pledge.

16. TAX LIABILITIES (CURRENT)

Provision for income tax	161.6	13.6
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17. PROVISIONS (CURRENT)

Provision for employee benefits	477.1	465.0
Self-insured risks	36.9	36.3
Workers compensation	48.7	36.2
Provision for New Zealand onerous contracts	0.6	3.3
	<u>563.3</u>	<u>540.8</u>

Movements in provisions

Movements in each class of provision during the financial year, other than employee entitlements, are set out below:

CML Group 2004	Self-insured risks	Workers compensation	Onerous contracts	Total
A\$ million				<u> </u>

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Carrying amount at the start of the year	36.3	36.2	3.3	75.8
Provisions acquired		5.6		5.6
Additional provisions recognized	13.1	101.3		114.4
Payments/utilized	(12.5)	(47.0)	(1.8)	(61.3)
Transfer between current & non-current		(47.4)	(0.9)	(48.3)
Carrying amount at the end of the year	36.9	48.7	0.6	86.2

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	July 25, 2004	July 27, 2003
	A\$M	A\$M
18. LONG-TERM DEBT		
6.1% - 7.1% bonds and notes issued under domestic and international facilities due 2003 - 2005	330.0	600.0
0.3% - 6.5% unsecured international bonds and notes due 2002 - 2006	320.6	452.4
5.7% unsecured international loans due in 2004		7.5
	<u>650.6</u>	<u>1,059.9</u>
Net value of currency swaps supporting foreign currency facilities	62.8	83.4
	<u>713.4</u>	<u>1,143.3</u>

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 financial institutions of the Standard Coles Myer Negative Pledge (the Negative Pledge), and acceptance by investors of complementary Trust Deeds for public issues of bond and notes.

The Negative Pledge is the basis of an unsecured borrowing structure, providing financial ratio restrictions of total liabilities to total tangible assets at 80%, and the ratio of total secured liabilities of creditors who are not a party to the Negative Pledge to total tangible assets at 40%. A controlled entity has pledged A\$80.0 million of assets as security over obligations to a trade creditor. In addition, a pledge is given not to provide security over CML Group assets to parties to the Negative Pledge, without providing equivalent security to all parties to the Negative Pledge.

Liabilities covered by the above mature as follows:

2004/2005	409.3	
2005/2006	292.7	430.5
2006/2007	167.9	80.1
2007/2008	50.0	90.0
2008/2009	90.0	50.0
2009/2010	50.0	
	<u>650.6</u>	<u>1,059.9</u>

Long-term foreign currency loans included above consist of:

United States dollars	27.9	48.3
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Japanese yen	292.7	411.6
	<u>320.6</u>	<u>459.9</u>

Unused firmly committed long-term financing facilities of A\$530.0 million (2003 A\$580.0 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\$633.8 million (2003 A\$626.3 million). Of these, A\$383.4 million (2003 A\$543.3 million) related to the principal exchanges under currency swaps for terms of up to 5 years, and A\$250.4 million (2003 A\$83.0 million) related to foreign currency contracts for terms of up to 1 year.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	July 25, 2004	July 27, 2003
	A\$M	A\$M
19. PROVISIONS (NON-CURRENT)		
Provision for employee benefits	74.6	73.3
Provision for workers compensation	201.3	150.9
Deferred income tax	108.4	175.1
Provision for New Zealand onerous contracts	6.0	20.2
	<u>390.3</u>	<u>419.5</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 2004

A\$ million	Workers compensation	Onerous contracts	Total
Carrying amount at the start of the year	150.9	20.2	171.1
Provisions acquired	3.0		3.0
Provision no longer required due to re-measurement		(15.4)	(15.4)
Foreign exchange differences		0.3	0.3
Transfer between current & non-current	47.4	0.9	48.3
Carrying amount at the end of the year	<u>201.3</u>	<u>6.0</u>	<u>207.3</u>

	July 25, 2004	July 27, 2003
	A\$M	A\$M
20. SHARE CAPITAL		
Issued and paid up		
Ordinary fully paid 1,225,410,546 shares (2003 1,212,423,917)	1,626.1	1,529.7
Ordinary partly paid 114,000 shares paid to A\$0.01 (2003 124,000)		
ReCAPS fully paid 7,000,000 shares	680.6	680.6
	<u>2,306.7</u>	<u>2,210.3</u>

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Changes in issued share capital during the year were:

the issue of 7,937,954 (2003 9,982,892) ordinary shares under the Dividend Reinvestment Plan for A\$59.3 million (2003 A\$60.3 million);

the conversion of 10,000 (2003 4,000) partly paid ordinary shares to fully paid ordinary shares, for A\$NIL million (2003 A\$NIL million);

the issue of 5,038,675(2003 NIL) ordinary shares for A\$37.1 million (2003 A\$NIL million) upon the exercise of options.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. SHARE CAPITAL (Continued)

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 25, 2004, there were 114,000 (2003 124,000) partly paid shares on issue, of which a further \$1.99 per share is uncalled.

On July 19, 2001, the first 500 of each shareholder's ordinary shares were redesignated on the Australian Stock Exchange as Discount Card shares. On April 12, 2002, the Discount Card shares reverted back to ordinary shares. During their separate listing, Discount Card shares remained ordinary shares and as such, ranked equally with non-Discount Card shares in every respect including voting and dividend rights.

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

At July 25, 2004, an on-market buy-back program remained in place, with 28.4 million (2003 28.4 million) shares remaining of the original approved limit of 30.0 million shares.

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. Shareholders receive a preferential, non-cumulative dividend of at least 6.5% per annum, fixed until 2005. ReCAPS dividends will be paid in priority to any dividends declared on ordinary shares. ReCAPS shareholders are 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 affects rights attached to the ReCAPS;

iii) to wind up the company;

iv) for the disposal of the whole of the property, business and undertaking 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 is in arrears;

d) during the winding up of the company.

In the event of the winding up of the company, ReCAPS will rank ahead of ordinary shares. On reset dates, the outstanding ReCAPS may be converted into ordinary shares at the option of the holders of the ReCAPS or CML. The rights of holders of ReCAPS were not affected by the redesignation of ordinary shares on July 19, 2001 and their subsequent reversion on April 12, 2002.

Under U.S. GAAP, ReCAPS have been reclassified from equity to debt. The impact of this is described in Note 31.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	July 25, 2004	July 27, 2003
	<u>2004</u>	<u>2003</u>
21. EARNINGS PER SHARE		
Basic earnings per share (A\$)	0.46	0.32
Diluted earnings per share (A\$)	0.47	0.33
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	1,216,260	1,192,073
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	1,304,470	1,294,840
Reconciliation of earnings used in calculating earnings per share (A\$ 000)		
Basic earnings per share		
Net profit	608,117	421,114
Dividends on reset convertible preference shares	(45,600)	(45,500)
	<u>562,517</u>	<u>375,614</u>
Earnings used in calculating basic earnings per share	562,517	375,614
Diluted earnings per share		
Net profit	608,117	421,114
	<u>608,117</u>	<u>421,114</u>
Earnings used in calculating diluted earnings per share	608,117	421,114
	<u>608,117</u>	<u>421,114</u>
	July 25,	July 27,
	2004	2003
	A\$000	A\$000
	<u>2004</u>	<u>2003</u>
	<u>A\$000</u>	<u>A\$000</u>
22. AUDITOR S REMUNERATION		
Amounts received or due and receivable by auditors for:		
Audit	4,302	3,956
	<u>4,302</u>	<u>3,956</u>
Other assurance services		
Acquisitions/divestments	118	718
Sales certificates under leases	293	213
Advice on accounting standards	385	697
Related party transaction review	30	80
U.S. regulatory assistance	394	630
Assurance reviews	118	
Other	149	265
	<u>1,487</u>	<u>2,603</u>
Taxation advice	199	219
	<u>1,487</u>	<u>2,603</u>
Total PricewaterhouseCoopers	5,988	6,778
	<u>5,988</u>	<u>6,778</u>
PwC Consulting*		

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Support for Food & Liquor review	400
Other	93
	<hr/>
Total PwC Consulting	493
	<hr/>
	5,988
	<hr/>
	7,271
	<hr/>

* The acquisition of PwC Consulting by IBM was completed on October 1, 2002. From this date CML's auditor PricewaterhouseCoopers and PwC Consulting were organizations independent of each other.

COLES MYER LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****23. 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\$63.9 million in 2004, A\$61.2 million in 2003 and A\$56.2 million in 2002.

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 2002 and 2003 have been restated to ensure comparability with the 2004 disclosures.

The effect of the differences in accounting for retirement benefits under Australian GAAP and U.S. GAAP is reflected in Note 31.

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:

2004	2003	2002
52 weeks	52 weeks	52 weeks
<u>A\$M</u>	<u>A\$M</u>	<u>A\$M</u>

Net periodic retirement benefit expense (Note a):

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Service cost	19.4	23.0	24.8
Interest cost on projected benefit obligation	25.1	30.8	35.4
Expected return on assets	(28.8)	(37.8)	(45.7)
Net amortization and deferral		0.2	(1.8)
	<u>15.7</u>	<u>16.2</u>	<u>12.7</u>
Discount rate	5.25%	6.00%	6.00%
Rate of increase in compensation levels	4.00%	4.50%	5.00%
Expected long-term rate of return on assets	6.50%	7.00%	8.00%

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23. RETIREMENT BENEFITS (continued)

	July 25, 2004 A\$M	July 27, 2003 A\$M
Projected benefit obligation, beginning of year	568.3	648.1
Service cost	19.4	23.0
Interest cost	25.1	30.8
Contributions by plan participants	9.3	21.6
Actuarial (profits)/losses	(53.2)	(80.4)
Benefits paid	(70.9)	(74.8)
Projected benefit obligation, end of year	498.0	568.3
Funded status of plans:		
Plan assets at fair value, beginning of year	484.5	560.9
Actual return on plan assets	74.6	(36.7)
Contributions (employer and employee)	27.5	34.9
Benefits and expenses paid	(70.9)	(74.8)
Adjustment to assets at beginning of year	(19.7)	0.2
Plan assets at fair value, end of year (Note b)	496.0	484.5
Projected benefit obligation	(498.0)	(568.3)
Projected (shortfall)/benefit obligation less than plan assets	(2.0)	(83.8)
Unrecognized prior service cost		
Unrecognized net loss/(gain) from past experience different from that assumed (Note c)	(65.5)	2.1
Accrued pension cost (Note d)	(67.5)	(81.7)

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 31.
- b Plan assets include fully paid ordinary shares in the company of A\$NIL million (2003 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

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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 31.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24. EMPLOYEE SHARE AND OPTION PLANS

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

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	
				2004	2003	2004	2003
6 May 1994	G	4.93	200 to 2,500	16,321	17,920	10,086,800	11,138,550
15 June 1995	P	4.78	50 to 2,000	1,463	1,642	305,150	336,000
12 January 1996	P	4.54	50 to 2,500	1,656	1,839	355,420	395,630
14 August 1996	P	4.61	100 to 1,100	818	905	296,215	330,785
						11,043,585	12,200,965

G = General issue

P = Performance issue

Price = Average cost (including stamp duty and brokerage) of the shares to the Trust.

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CML has established an Executive Share Option Plan, under which options over unissued 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.

During 2004 the trustees restructured the Trust. The trustees disposed of eleven million CML shares. At balance date the Trust held a residual balance of 1,765,071 (2003 13,200,321) shares. This residual balance is held in reserve for the exercise of certain options issued under the Coles Myer Executive Share Option Plan. The exercise of all other options will be satisfied by the issue of new shares by CML.

The Trust used the proceeds from the sale of the eleven million shares 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 a loan of A\$29.7 million (2003 A\$95.4 million) was receivable from the Trust (refer Note 9).

The market value of CML ordinary shares at balance date was \$9.16.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24. EMPLOYEE SHARE AND OPTION PLANS (continued)

Details of options granted under the Coles Myer Executive Share Option Plan to 25 July 2004 are:

Date of grant	Expiry date	Exercise price A \$	Hurdle conditions (page 136)	No. of options at 27 July 2003	No. of options issued during period	No. of options exercised during period	No. of options lapsed during period	No. of options at 25 July 2004	No. of vested options at 25 July 2004
Jul 99	Oct 05	4.50	1	66,000		22,000		44,000	44,000
Jul 99	Oct 06	4.50	1	66,000				66,000	66,000
Jul 99	Oct 07	4.50	1	85,000				85,000	85,000
Nov 99	Nov 06	8.25	2	950,000			950,000		
May 00	Oct 06	4.50	3	96,000			96,000		
May 00	Oct 07	4.50	3	96,000			96,000		
May 00	Oct 08	4.50	3	96,000			96,000		
Jun 00	Jun 07	6.46	4	3,231,000			501,000	2,730,000	
Nov 00	Jul 06	7.28	NIL	4,000,000		4,000,000			
Aug 01	**	6.21	NIL	2,000,000		500,000		1,500,000	
Sep 01	**	6.28	NIL	1,500,000				1,500,000	600,000
Sep 01	Sep 07	6.33	5	2,500,000				2,500,000	1,000,000
Oct 01	Apr 07	4.50	NIL	66,000				66,000	66,000
Oct 01	Apr 08	4.50	NIL	66,000				66,000	66,000
Oct 01	Apr 09	4.50	NIL	68,000				68,000	68,000
Mar 02	Dec 06*	7.66	5	18,133,000		675,163	1,113,841	16,343,996	6,378,837
Jun 02	Dec 06*	8.32	5	430,000				430,000	172,000
Jun 02	Dec 06*	7.66	NIL	12,142,000		329,930	1,081,451	10,730,619	4,195,600
Jun 02	Dec 07*	6.44	5	2,500,000				2,500,000	
Jul 02	May 07*	8.26	5	400,000				400,000	
Jul 02	May 07*	8.26	NIL	270,000		12,000		258,000	96,000
Dec 02	Dec 07*	6.59	5	510,000		14,000	56,000	440,000	
Dec 02	Dec 07*	5.88	5	1,720,000				1,720,000	
Dec 02	Dec 07*	6.59	NIL	120,000		7,582	22,418	90,000	
Feb 03	Dec 07*	6.59	5	690,000			220,000	470,000	
Feb 03	Dec 07*	6.59	NIL	90,000				90,000	
May 03	May 08*	6.42	5	1,290,000				1,290,000	
May 03	May 08*	6.42	NIL	120,000				120,000	
Jun 03	May 08*	6.42	5	720,000				720,000	
Jun 03	May 08*	6.42	NIL	300,000			24,608	275,392	
Aug 03	Nov 08*	7.28	5		2,500,000			2,500,000	
Aug 03	Nov 08*	7.28	6		500,000			500,000	
Oct 03	Nov 08*	7.26	5		1,583,000		100,000	1,483,000	
Oct 03	Nov 08*	7.26	NIL		390,000			390,000	
Nov 03	**	7.53	7		1,500,000			1,500,000	
Dec 03	Nov 08*	7.12	5		430,000			430,000	
Jan 04	Nov 08*	7.26	5		1,100,000			1,100,000	
Jan 04	Nov 08*	7.26	NIL		420,000			420,000	
Apr 04	May 09*	7.43	5		540,000		100,000	440,000	
Apr 04	May 09*	7.43	NIL		120,000			120,000	
Jul 04	May 09*	7.43	5		770,000			770,000	

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Jul 04	May 09*	7.43	NIL	180,000		180,000	
Jul 04	Nov 09*	8.43	5	210,000		210,000	
				<u>54,321,000</u>	<u>10,243,000</u>	<u>5,560,675</u>	<u>4,457,318</u>
Total				54,321,000	10,243,000	5,560,675	4,457,318
				<u>54,546,007</u>	<u>12,837,437</u>		

* See legend on page 135

** See legend on page 135

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24. EMPLOYEE SHARE AND OPTION PLANS (continued)

At July 25, 2004, 4,500,000 options were outstanding that expired upon cessation of employment. Of the remaining options outstanding the weighted average remaining life was 2 years 11 months.

At July 27, 2003, there were 4,649,000 vested options. During 2003, 5,660,000 options were issued with exercise prices between A\$5.88 and A\$6.59 (weighted average A\$6.30), 819,000 options were exercised with prices between A\$NIL and A\$6.21 (weighted average A\$4.45), and 4,436,000 options lapsed with exercise prices between A\$6.46 and A\$8.26 (weighted average A\$7.55).

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+	2004 Number	2003 Number
September 2002	\$ 5.87		80,000
November 2002	\$ 6.25		80,000
January 2003	\$ 6.35		40,000
February 2003	\$ 5.68		23,000
June 2003	\$ 7.12		540,000
July 2003	\$ 7.10		56,000
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	
Total		5,560,675	819,000

Aggregate proceeds received by the Trust from employees on the exercise of options over issued shares was A\$3,204,000 (2003 A\$3,640,500), and the fair value of those shares at issue date was A\$4,039,180 (2003 A\$5,594,840).

Aggregate proceeds received by CML from employees on the exercise of options over unissued shares was A\$37,060,328 (2003 A\$NIL), and the fair value of those shares at issue date was A\$43,485,748 (2003 A\$NIL).

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.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24. EMPLOYEE SHARE AND OPTION PLANS (continued)

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 16 October 1998 to 15 October 2000, 15 October 2001 or 15 October 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 1 March 1999 to 28 February 2002, 28 February 2003, or 29 February 2004 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 2004.

3 Net profit for the CML Group must exceed specified targets set for any one of the financial years ending July 2001, 2002 and 2003; or

TSR over any one of the periods 16 October 1999 to 15 October 2001, 15 October 2002, or 15 October 2003 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 2004.

4 TSR over any one of the periods 1 March 2000 to 28 February 2003, 29 February 2004, or 28 February 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.

5 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.

6 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.

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- 7 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 5, 6 and 7, 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 retested in following years.

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.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

25. COMMITMENTS AND CONTINGENT LIABILITIES

	July 25, 2004 A\$M	July 27, 2003 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	190.0	222.1
Later than one year but not later than five years	3.4	12.3
	<u>193.4</u>	<u>234.4</u>

Lease commitments

The CML Group leases both property and equipment under operating leases. Future minimum lease obligations are detailed below.

	July 25, 2004 A\$M	July 27, 2003 A\$M
Operating leases:		
Due not later than one year	939.1	846.9
Due later than one year and not later than five years	3,422.4	3,108.9
Due later than five years	5,023.7	4,633.6
Total future minimum lease obligations*	<u>9,385.2</u>	<u>8,589.4</u>

* The CML Group subleases property and equipment to external parties. Future minimum lease obligations include any potential exposure arising from default by external parties.

2004 52 weeks A\$M	2003 52 weeks A\$M	2002 52 weeks A\$M
<u> </u>	<u> </u>	<u> </u>

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Base rental incurred	929.2	832.6	799.4
Percentage rental incurred	88.7	86.3	86.1
Rental received	25.9	30.8	37.8

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.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

25. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

	July 25, 2004	July 27, 2003
	A\$M	A\$M
	<u> </u>	<u> </u>
Contingent liabilities		
Contingent liabilities at balance date, not otherwise provided for in these financial statements, are categorized as arising from:		
Guarantees		
Trading guarantees	340.2	255.0
Coles Myer Ltd. has unconditionally guaranteed the obligations of Coles Myer Finance Ltd. and Coles Myer Finance (USA) Ltd., both of which are controlled entities.		
Coles Myer Ltd. 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		

Coles Myer Ltd. has entered into risk sharing arrangements under which contingent payments may arise.

Coles Myer Ltd. has entered into an agreement with Coles Myer Employee Share Plan Trust to provide funds for the purchase of Coles Myer Ltd. shares, allot new shares in Coles Myer Ltd. and make contributions to ensure the solvency of the Trust. Refer Note 24.

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 actions would not have a material adverse effect on the consolidated financial statements.

The Australian Competition and Consumer Commission has commenced proceedings against Liquorland Australia Pty. Ltd. alleging contraventions of the Trade Practices Act. Liquorland Australia Pty. Ltd. has denied liability and is defending the action. It is not possible to estimate the potential outcome of this claim at this time.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. SEGMENT INFORMATION

Under Australian GAAP, the CML Group is considered to operate predominantly within the retailing industry and predominantly in Australia.

During 2004, the CML Group acquired the right to operate certain Shell fuel and convenience outlets. These businesses operated as Coles Express. The results of the Coles Express business are included in the Food, Liquor and Fuel segment.

During 2004, management reporting was restructured resulting in Liquorland Direct being reported in Food, Liquor and Fuel, having previously been reported in Emerging Businesses. The 2003 and 2002 comparatives have been amended accordingly.

Industry Segments

	2004 52 weeks A\$M	2003 52 weeks A\$M	2002 52 weeks A\$M
Revenue			
Sales to external customers			
Food, Liquor & Fuel	21,146.3	16,557.6	15,908.8
Kmart and Officeworks	4,679.9	4,368.6	3,903.6
Myer and Megamart	3,322.4	3,239.9	3,243.2
Target	2,851.8	2,646.9	2,422.4
Emerging businesses	266.4	203.6	210.7
	<u>32,266.8</u>	<u>27,016.6</u>	<u>25,688.7</u>
Intersegment sales (eliminated on consolidation)			
Food, Liquor & Fuel			0.9
Kmart and Officeworks	1.1	0.9	0.8
Myer and Megamart			
Target			
Emerging businesses	24.2	31.5	25.0
	<u>25.3</u>	<u>32.4</u>	<u>26.7</u>
Total sales			
Food, Liquor & Fuel	21,146.3	16,557.6	15,909.7
Kmart and Officeworks	4,681.0	4,369.5	3,904.4
Myer and Megamart	3,322.4	3,239.9	3,243.2
Target	2,851.8	2,646.9	2,422.4
Emerging businesses	290.6	235.1	235.7
	<u>32,292.1</u>	<u>27,049.0</u>	<u>25,715.4</u>
Other revenue ¹			

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Food, Liquor & Fuel	132.6	44.6	657.7
Kmart and Officeworks	51.4	16.0	134.6
Myer and Megamart	49.0	51.5	129.1
Target	30.2	14.9	49.8
Emerging businesses	7.6	10.0	23.3
Property and Unallocated	138.9	448.3	26.8
	<u>409.7</u>	<u>585.3</u>	<u>1,021.3</u>
Total segment revenue²			
Food, Liquor & Fuel	21,278.9	16,602.2	16,567.4
Kmart and Officeworks	4,732.4	4,385.5	4,039.0
Myer and Megamart	3,371.4	3,291.4	3,372.3
Target	2,882.0	2,661.8	2,472.2
Emerging businesses	298.2	245.1	259.0
Property and Unallocated	138.9	448.3	26.8
	<u>32,701.8</u>	<u>27,634.3</u>	<u>26,736.7</u>

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. SEGMENT INFORMATION (continued)

	2004 52 weeks A\$M	2003 52 weeks A\$M	2002 52 weeks A\$M
Segment result management reporting³			
Food, Liquor & Fuel	697.6	602.0	537.4
Kmart and Officeworks	135.6	103.6	62.4
Myer and Megamart	60.7	25.2	(21.6)
Target	150.9	92.0	51.7
Emerging businesses	(19.2)	(9.7)	(13.9)
Property and Unallocated	(81.2)	(84.5)	(57.5)
Total Segment result management reporting	944.4	728.6	558.5
Segment result Australian GAAP³			
Food, Liquor & Fuel	674.5	562.0	541.6
Kmart and Officeworks	151.0	103.8	62.4
Myer and Megamart	42.8	5.0	(26.5)
Target	149.7	89.9	51.7
Emerging businesses	(19.2)	(9.7)	(13.9)
Property and Unallocated	(119.1)	(79.0)	(57.6)
Total Segment result Australian GAAP	879.7	672.0	557.7
Net borrowing costs	(13.5)	(63.2)	(75.5)
Profit before tax	866.2	608.8	482.2
Income tax expense	(258.1)	(187.7)	(137.2)
Net profit	608.1	421.1	345.0

¹ Reduction in other revenue is due to the accounting policy change for rebates - refer Note 2.

² Total segment revenue excludes interest income and includes inter-segment sales.

³ Segment result is calculated as profit before interest and tax. Management reporting excludes goodwill amortization for acquisitions prior to July 1988, and is adjusted for other non-recurring items that management do not consider to be reflective of the underlying operations of the business.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. SEGMENT INFORMATION (continued)

	2004	2003	2002
	A\$M	A\$M	A\$M
Segment assets			
Food, Liquor & Fuel	3,980.9	3,551.2	3,216.1
Kmart and Officeworks	1,384.8	1,362.1	1,267.7
Myer and Megamart	1,000.3	1,036.2	1,087.1
Target	805.9	793.8	782.2
Emerging businesses	79.6	74.0	50.1
Property and Unallocated	1,497.5	1,413.6	1,652.4
	<u>8,749.0</u>	<u>8,230.9</u>	<u>8,055.6</u>
Tax assets	302.7	221.9	265.0
	<u>9,051.7</u>	<u>8,452.8</u>	<u>8,320.6</u>
Segment liabilities			
Food, Liquor & Fuel	(1,789.7)	(1,564.3)	(1,506.7)
Kmart and Officeworks	(544.4)	(520.3)	(479.3)
Myer and Megamart	(390.9)	(397.3)	(337.8)
Target	(352.1)	(340.5)	(281.0)
Emerging businesses	(47.0)	(46.6)	(51.7)
Property and Unallocated	(1,560.0)	(1,595.9)	(2,075.8)
	<u>(4,684.1)</u>	<u>(4,464.9)</u>	<u>(4,732.3)</u>
Tax liabilities	(270.0)	(188.7)	(249.5)
	<u>(4,954.1)</u>	<u>(4,653.6)</u>	<u>(4,981.8)</u>
	2004	2003	2002
	52 weeks	52 weeks	52 weeks
	A\$M	A\$M	A\$M
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets			
Food, Liquor & Fuel	513.3	627.3	402.0
Kmart and Officeworks	68.3	116.5	46.3
Myer and Megamart	67.4	53.4	42.8
Target	53.2	41.5	35.5
Emerging businesses	6.8	11.2	6.0
Property and Unallocated	164.3	142.4	84.5
	<u>873.3</u>	<u>992.3</u>	<u>617.1</u>
Depreciation and amortization expense			
Food, Liquor & Fuel	290.2	260.6	251.1
Kmart and Officeworks	69.9	67.9	67.4
Myer and Megamart	69.1	73.1	73.1

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Target	52.5	55.7	47.8
Emerging businesses	4.4	4.4	4.6
Property and Unallocated	50.6	50.9	49.4
	<u>536.7</u>	<u>512.6</u>	<u>493.4</u>
Other non-cash expenses			
Food, Liquor & Fuel	25.7	59.0	15.4
Kmart and Officeworks	4.8	23.7	7.2
Myer and Megamart	3.3	21.6	(0.3)
Target	3.2	2.8	(4.2)
Emerging businesses	(1.0)	(0.7)	(5.3)
Property and Unallocated	73.0	70.8	45.0
	<u>109.0</u>	<u>177.2</u>	<u>57.8</u>

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. SEGMENT INFORMATION (continued)

Geographic regions

	2004 52 weeks A\$M	2003 52 weeks A\$M	2002 52 weeks A\$M
Sales to external customers			
Australia	32,113.4	26,869.0	25,565.3
New Zealand	153.4	147.6	123.4
	<u>32,266.8</u>	<u>27,016.6</u>	<u>25,688.7</u>
Acquisition of non-current assets			
Australia	869.2	988.3	616.9
New Zealand	2.4	0.3	0.1
Other *	1.7	3.7	0.1
	<u>873.3</u>	<u>992.3</u>	<u>617.1</u>
	<u>2004</u>	<u>2003</u>	<u>2002</u>
	<u>A\$M</u>	<u>A\$M</u>	<u>A\$M</u>
Assets			
Australia	8,433.6	8,120.3	8,196.3
New Zealand	293.3	91.3	82.8
Other *	22.1	19.3	41.5
	<u>8,749.0</u>	<u>8,230.9</u>	<u>8,320.6</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
Kmart & Officeworks

Retail of grocery, liquor and fuel products.
Retail of apparel, general merchandise and stationery items.

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Myer & Megamart	Retail of apparel and general merchandise
Target	Retail of apparel and general merchandise
Emerging Businesses	E-commerce trading, predominantly the Coles Online and Harris Technology Businesses.
Property and 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	Non-trading branch offices located in China.

Intersegment 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.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

27. RELATED PARTY INFORMATION

Directors and director-related entities

Disclosures relating to directors and specified executives are set out in Note 28.

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 25. Details of ownership interests in controlled entities are disclosed in Note 33.

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\$4,032,285 (2003 A\$3,911,866) on normal commercial terms and conditions. Balance of amounts payable by the CML Group (current) at balance date A\$NIL (2003 A\$NIL).

Distributions received and receivable by the CML Group from associated entities A\$7,445,915 (2003 A\$6,427,609) in accordance with Trust Deed and Partnership Agreements.

The CML Group's cost of participation with an associated entity in a customer loyalty program A\$43,726,000 (2003 A\$29,526,537) in accordance with a service agreement. Balance of amounts payable by the CML Group (current) at balance date A\$10,488,000 (2003 A\$7,845,878).

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The sale of gift vouchers to an associated entity on normal commercial terms and conditions A\$18,000,000 (2003 A\$21,750,000). Balance of amounts receivable from an associated entity by the CML Group (current) at balance date A\$NIL (2003 A\$NIL).

Details of associated entities are disclosed in Note 10.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28. DIRECTOR AND EXECUTIVE DISCLOSURES

AASB 1046 Director and Executive Disclosures by Disclosing Entities has been applied for the first time in 2004. These disclosures are in more detail than previously required.

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

Richard Charlton (retired 26 November 2003)

William Gurry

Anthony Hodgson

Mark Leibler (retired 18 November 2004)

Sandra McPhee

Martyn Myer

Michael Wemms

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:

Steven Cain	Group Managing Director, Food, Liquor and Fuel (appointed 11 August 2003)
Larry Davis	Managing Director, Target
Tim Hammon	Chief Officer, Corporate & Property Services
Fraser MacKenzie	Chief Financial Officer
Dawn Robertson	Managing Director, Myer
Hani Zayadi	Managing Director, Kmart

Remuneration of directors and executives

Principles used to determine the nature and amount of remuneration

The remuneration of non-executive directors reflects the size and complexity of the CML Group as well as the additional compliance issues arising from its multiple stock exchange listings. Committee fees are included in non-executive remuneration.

Emoluments for the executive director and senior executives in the CML Group are designed to drive performance over both the short and long-term. The CML Group's remuneration structure provides rewards for increasing shareholder value and the achievement of financial targets and business strategies.

Emoluments are structured to attract, retain and motivate high calibre directors and senior executives who are best able to enhance the CML Group performance. Remuneration packages for specified executives recruited from overseas are structured such that they are competitive with their home country.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28. DIRECTOR AND EXECUTIVE DISCLOSURES (Continued)

The senior executive remuneration structure has three components:

1. Fixed compensation

The annual review of senior executives' remuneration packages takes account of market comparisons for similar sized roles in other major corporations, performance of the incumbent, the appropriate mix of skills and experience and the performance of individual business groups and of the total CML Group. Appropriate advice is obtained from external consultants as to market and economic conditions as well as current directions in senior executive remuneration in Australia and overseas.

2. Senior Executive Incentive Scheme

The Senior Executive Incentive Scheme is based directly on the successful achievement of individual business unit, business group and the CML Group performance targets over the financial year and is paid annually as cash. Performance targets include financial (eg. profitability and comparative store growth) and non-financial measures (eg. safety).

For Retail Support executives, their performance targets also include key strategic deliverables relating to their functional area of responsibility. Executives need to be employed with the CML Group at the completion of the financial year to which the incentive relates, to be eligible to receive any payment.

3. Executive Share Option Plan

CML's Executive Share Option Plan is designed to reward senior executives for the creation of sustainable shareholder wealth over a 2-5 year period. The plan is currently based on market priced options, the exercise of which is linked to the achievement of performance hurdles. The performance hurdles are based on the achievement of relative total shareholder return in the top 50 industrials or minimum earnings per share growth expressed as a compound annual growth rate (refer Note 24).

Senior executive remuneration packages are based on established, long-standing work value assessments to provide a robust, systematic approach to determining remuneration packages, which are market competitive with similar sized roles in other major Australian corporations. Whole-of-job comparison is also undertaken to ensure packages are fair and reasonable as well as being financially responsible.

The nature and amount of each component of the emoluments are reviewed annually by the Board Nomination and Remuneration Committee in respect of both the performance of the CML Group and industry best practice. The Board Nomination and Remuneration Committee is responsible for reviewing and making recommendations to the Board in respect to the emoluments of non-executive directors, the managing director and chief executive officer and senior executives reporting to the managing director and chief executive officer.

Contracts for the managing director and chief executive officer, John Fletcher, and specified executives generally provide for 12 months notice by both the Company and the executive. Mr MacKenzie is employed on a contract which provides that if his employment is terminated prior to 30 April 2007 he will receive payment up to but not beyond that date. After 30 April 2007 Mr MacKenzie's contractual notice period will be 12 months. Mr MacKenzie is required to provide the Company with 6 months notice. If the employment of Ms Robertson is terminated within three years of the date she commenced employment (May 2002), she will receive a payment of twelve months salary in addition to the twelve months notice period.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28. DIRECTOR AND EXECUTIVE DISCLOSURES (Continued)

Details of remuneration

Details of the remuneration of each director of CML, including their personally-related entities, is set out in the following table.

	Primary		Post Employment			
	Salary & Fees	Bonus	Non-monetary ¹	Superannuation Contribution	Retirement Benefit ²	Cost to the Company
Patricia Akopiantz	116,450			9,956	102,771	229,177
Richard Allert	313,325			27,675	239,078	580,078
Keith Barton	130,894			11,256		142,150
Richard Charlton	37,786			3,225	4,182	45,193
William Gurry	108,325			9,225	52,310	169,860
John Fletcher ³	2,288,953	2,412,705	2,956	8,250		4,712,864
Anthony Hodgson	151,536			13,114		164,650
Mark Leibler ⁴	116,450				19,590	136,040
Sandra McPhee	130,894			11,256		142,150
Martyn Myer	116,450			9,956	14,930	141,336
Michael Wemms	138,348			11,927		150,275
Total	3,649,411	2,412,705	2,956	115,840	432,861	6,613,773

1. Non-monetary items include costs relating to motor vehicles.

2. Any benefit paid on retirement, termination or death is reduced by the amount of any superannuation benefit received. In prior years retirement benefits have been disclosed when paid. For 2004, retirement benefits have been presented on an accruals basis in accordance with AASB 1046. Mr Charlton received a payment of \$346,054 upon retirement from the Board on 26 November 2003. The amount of \$4,182 shown in the table represents the retirement benefit accrued during 2004 through to the date of his retirement.

3. Including option amortisation of \$1,256,131, Mr Fletcher's remuneration is \$5,968,995. Options have been valued by independent valuers using the Black-Scholes option pricing model. In accordance with AASB 1046, performance conditions are excluded from the valuation. Where options are subject to performance conditions, the disclosure reflects the maximum achievable allocation. The option value is amortised over the vesting period of the option. Option amortisation is included for disclosure purposes only. It is not included in the Consolidated Income Statements as it does not result in a cost to the CML Group. As detailed in Note 31(g), for the purpose of U.S. GAAP, performance conditions are included in the valuation, and option values are charged against profit.

4.

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Mr Leibler's fees are paid to Arnold Bloch Leibler, a firm of which he is a partner. Accordingly, superannuation contributions are not deducted. The fees are also subject to GST.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28. DIRECTOR AND EXECUTIVE DISCLOSURES (Continued)

The nature and details of employment arrangements with specified executives are set out in the following remuneration table.

	Primary			Super- annuation Contribution ²	Other Benefits ³	Cost to the Company	Option Amortisation ⁴	Total
	Salary & Fees	Bonus	Non- Monetary ¹					
\$								
Steven Cain	1,414,123	1,159,110			500,000	3,073,233	1,328,285	4,401,518
Larry Davis	1,052,878	835,232	99,786			1,987,896	443,686	2,431,582
Tim Hammon	768,988	800,037		11,050		1,580,075	421,360	2,001,435
Fraser MacKenzie	717,904	725,960		11,967		1,455,831	356,573	1,812,404
Dawn Robertson	1,439,585	806,032	205,139		276,345	2,727,101	1,150,818	3,877,919
Hani Zayadi	1,355,292	799,726	208,934		146,771	2,510,723	489,240	2,999,963
Total	6,748,770	5,126,097	513,859	23,017	923,116	13,334,859	4,189,962	17,524,821

1. Non-monetary items include costs relating to motor vehicles, accommodation, travel, insurance and tax planning that have been paid by the CML Group on behalf of the executive.
2. Superannuation contributions are not required for overseas nationals who hold certain business visas.
3. Other benefits include sign-on bonuses and payments for continued service. There will be additional benefits in future years if continued service conditions are fulfilled. For 2004, other benefits have been presented on an accruals basis in accordance with AASB 1046. In prior years, other benefits were disclosed when the executive became entitled to, and received payment. Had AASB 1046 always been applied, an additional \$46,057 would have been disclosed in 2003 for Ms Robertson, and an additional \$146,771 would have been disclosed in both 2002 and 2003 for Mr Zayadi.
4. Options have been valued by independent valuers using the Black-Scholes option pricing model. In accordance with AASB 1046, performance conditions are excluded from the valuation. Where options are subject to performance conditions, the disclosure reflects the maximum achievable allocation. The option value is amortised over the vesting period of the option. Option amortisation is included for disclosure purposes only. It is not included in the Consolidated Income Statement as it does not result in a cost to the CML Group. As detailed in Note 31(g), for the purpose of U.S. GAAP, performance conditions are included in the valuation, and option values are charged against profit.

Options provided as remuneration

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Details of options over ordinary shares of CML 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 is set out in Note 24.

	Exercise Price	Balance at 27 July 2003	Granted during the year	Value of option granted	Exercised	Market price at date of exercise ⁴	Lapsed during the year	Balance at 25 July 2004	Vested during the year	Vested at 25 July 2004 ⁵
John Fletcher	\$ 6.33	2,500,000						2,500,000	1,000,000	1,000,000
	\$ 7.53		1,500,000 ¹	\$ 1.17				1,500,000		
Steven Cain	\$ 7.28		2,500,000 ²	\$ 1.36				2,500,000		
	\$ 7.28		500,000 ³	\$ 1.36				500,000		
Larry Davis	\$ 6.28	1,500,000						1,500,000 ⁶	300,000	600,000
Tim Hammon	\$ 4.50	67,000			22,000	\$ 7.69		45,000		45,000
	\$ 4.50	48,000					48,000			
	\$ 6.46	115,000						115,000		
	\$ 4.50	100,000						100,000 ⁶	34,000	100,000
	\$ 7.66	745,000						745,000	298,000	298,000
Fraser MacKenzie	\$ 5.88	860,000						860,000		
Dawn Robertson	\$ 6.44	2,500,000						2,500,000		
Hani Zayadi	\$ 6.21	2,000,000			500,000	\$ 7.74		1,500,000 ⁶	500,000	
Total		10,435,000	4,500,000		522,000		48,000	14,365,000	2,132,000	2,043,000

1. Options granted are exercisable in accordance with the conditions described in footnote 7 of note 24, and expire one year after cessation of employment.
2. Options granted are exercisable in accordance with the conditions described in footnote 5 of note 24, and expire 60 days after the announcement of the results of the CML Group for the year ending July 2008.
3. Options granted are exercisable in accordance with the conditions described in footnote 6 of note 24, and expire 60 days after the announcement of the results of the CML Group for the year ending July 2008.
4. Options exercised have been fully paid.
5. Vested options are fully exercisable.
6. Options are not subject to performance hurdles, however, vesting is contingent upon service conditions.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28. DIRECTOR AND EXECUTIVE DISCLOSURES (Continued)

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 27 July 2003	Options Exercised	Net Change Other	Balance at 25 July 2004
Directors				
Patricia Akopiantz	3,144		109	3,253
Richard Allert	29,961		45	30,006
Keith Barton			10,200	10,200
Richard Charlton ¹	10,594		10	10,604
John Fletcher	28,061		38	28,099
William Gurry	102,500		3,669	106,169
Anthony Hodgson	6,000			6,000
Mark Leibler	45,600			45,600
Sandra McPhee ²			4,139	4,139
Martyn Myer	52,013		(2,573)	49,440
Michael Wemms			208	208
Specified Executives				
Steven Cain				
Larry Davis				
Tim Hammon	628	22,000	(21,977)	651
Fraser MacKenzie	3,000			3,000
Dawn Robertson				
Hani Zayadi		500,000	(500,000)	
Total	281,501	522,000	(506,132)	297,369

The number of ReCAPS held during the year by each director of CML, including their personally-related entities are set out below. Specified executives do not hold any ReCAPS.

	Balance at 27 July 2003	Balance at 25 July 2004
--	-------------------------------	-------------------------------

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Directors

Patricia Akopiantz		
Richard Allert		
Keith Barton	300	300
Richard Charlton ¹		
John Fletcher	120	120
William Gurry		
Anthony Hodgson		
Mark Leibler		
Sandra McPhee ²		
Martyn Myer	900	900
Michael Wemms		
Total	1,320	1,320

^{1.} Mr Charlton retired on 26 November 2003. At this time, Mr Charlton held 10,604 ordinary shares in CML and NIL ReCAPS.

^{2.} Ms McPhee also holds 3,400 (2003 3,400) endowment warrants.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28. DIRECTOR AND EXECUTIVE DISCLOSURES (Continued)

Other transactions with directors and specified executives

The CML Group has a comprehensive statement of Corporate Governance principles. This Statement incorporates detailed policies in respect to director-related party transactions. The major elements of the policy are:

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 \$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 \$5 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 2004.

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 favourable 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.

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.

Mr M.K. Myer

The CML Group had transactions with Armidale No 2 Property Syndicate, a director related party of Mr. M.K. Myer. Mr. M.K. Myer has no financial interest in Armidale No 2 Property Syndicate, an entity controlled by his brother.

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 \$906,400 net of recoverable expenses.

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

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Balance of amounts payable to the director-related entity by the CML Group (current) at balance date \$NIL.

The CML Group has entered into an agreement to lease a property from a related party of Mr M.K. Myer. Mr M.K. Myer has no financial interest in the related party. The lease is anticipated to commence in the 2005 financial year.

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.

Additionally, on October 21, 2003, CML entered into a supplemental deed with each of Messrs Allert, Charlton, Fletcher, Liebler, 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.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. 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.

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

Details of financial instrument agreements outstanding at balance date are as follows:

Derivatives are primarily used by the CML Group as a means of hedging interest rate and exchange rate risk and their terms and conditions are set out below. They are generally separated into three classes:

a Swaps

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.

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 25, 2004 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 are:

	Average rate			
	July 25, 2004	July 27, 2003	July 25, 2004	July 27, 2003
	%	%	A\$M	A\$M
Less than one year	5.90	5.10	525.0	628.1
One to two years	4.13	5.33	775.4	525.0
Two to three years	4.99	3.98	187.5	773.5
Three to four years	5.64	4.96	140.0	187.5
Four to five years		5.64		140.0
			<u>1,627.9</u>	<u>2,254.1</u>

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. FINANCIAL INSTRUMENTS DISCLOSURE (continued)

b Futures and Forward Contracts

Interest Rate Futures

Futures contracts and forward rate agreements undertaken by the CML Group are for delayed delivery of cash or financial instruments in which the seller agrees to settle at a specified price or yield. The terms and notional amounts of the CML Group's outstanding contracts at balance date are:

	Average rate		July 25, 2004	July 27, 2003
	July 25, 2004	July 27, 2003		
	%	%	A\$M	A\$M
Less than three months		4.46		450.0
3 to 12 months		4.23		250.0
				700.0

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 and borrowings. 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 25, 2004	July 27, 2003
	July 25, 2004	July 27, 2003		
	currency/A\$	currency/A\$	A\$M	A\$M
United States dollars				
Less than 3 months	0.71	0.65	232.2	74.8
3 to 12 months	0.70	0.63	4.3	3.9
			236.5	78.7

New Zealand dollars				
Less than 3 months	1.11		(3.1)	
Pounds Sterling				
Less than 3 months	0.39		1.2	
Hong Kong dollars				
Less than 3 months	5.36	5.18	0.1	0.2
Euro				
Less than 3 months	0.58	0.58	9.2	2.8
3 to 12 months	0.57	0.57	0.1	0.2
			<u>9.3</u>	<u>3.0</u>
			<u>244.0</u>	<u>81.9</u>

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. Interest rate caps and floors are option contracts. 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 principle. The CML Group regularly uses foreign currency options to hedge amounts payable in respect of foreign currency purchases of goods and services.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. 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 25, 2004 A\$M	July 27, 2003 A\$M
	July 25, 2004 currency/A\$	July 27, 2003 currency/A\$		
United States dollars				
Less than 3 months	0.73	0.65	38.1	53.9
3 to 12 months	0.71	0.68	3.1	0.4
			<u>41.2</u>	<u>54.3</u>
Hong Kong dollars				
Less than 3 months		5.79		
			<u>41.2</u>	<u>54.3</u>

The net deferred gain on hedges of anticipated future transactions hedged by the use of foreign currency options was immaterial as at July 25, 2004 (2003: immaterial).

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. FINANCIAL INSTRUMENTS DISCLOSURE (continued)

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			Total A\$M
			1 year or less A\$M	1 to 5 years A\$M	Non interest bearing A\$M	
At July 25, 2004						
Assets						
Cash and deposits	5.52	1,083.4				1,083.4
Customer receivables					433.0	433.0
Employee Share Plan	4.92	29.7				29.7
Interests in bonds	6.29		5.5	3.6		9.1
Interests in unit trusts and partnerships					103.8	103.8
Total financial assets		1,113.1	5.5	3.6	536.8	1,659.0
At July 25, 2004						
Liabilities						
Trade creditors and accrued liabilities					2,815.7	2,815.7
Medium term notes - domestic	7.03		350.0			350.0
Medium term notes - international	1.00	66.1		254.5		320.6
Other international 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 benefits					551.7	551.7
Total financial liabilities		334.9	525.0	115.0	3,367.4	4,342.3

* Notional principal amounts

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. FINANCIAL INSTRUMENTS DISCLOSURE (continued)

	Weighted average effective interest rate %	Floating interest rate A\$M	Fixed interest rate maturing			Total A\$M
			1 year or less A\$M	1 to 5 years A\$M	Non interest bearing A\$M	
At July 27, 2003						
Assets						
Cash and deposits	4.53	905.5				905.5
Customer receivables					372.1	372.1
Employee Share Plan	2.43	95.4				95.4
Listed securities	7.05		4.6	3.1		7.7
Interests in unit trusts and partnerships					98.1	98.1
Total financial assets		1,000.9	4.6	3.1	470.2	1,478.8
At July 27, 2003						
Liabilities						
Trade creditors and accrued liabilities					2,476.3	2,476.3
Medium term notes domestic	6.64		250.0	350.0		600.0
Medium term notes international	1.28	118.5	81.3	252.6		452.4
Other international loans	5.70		7.5			7.5
Overdrafts	8.45	10.8				10.8
Interest rate swaps*	4.61	30.8	(68.2)	37.4		
Cross currency swaps	5.37	154.0	(70.6)			83.4
Employee benefits					538.3	538.3
Total financial liabilities		314.1	200.0	640.0	3,014.6	4,168.7

* Notional principal amounts

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

30. 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 25, 2004 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.

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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 10.

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 is 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 25, 2004 are as follows:

	<u>July 25, 2004</u>		<u>July 27, 2003</u>	
	Carrying Amount A\$M	Fair Value A\$M	Carrying Amount A\$M	Fair Value A\$M
Cash	849.0	849.0	905.5	905.5
Short-term deposits	234.4	234.4		
Investments	112.9	112.9	105.8	105.8
Receivables (non-current)	50.4	50.4	121.5	121.5
Bank Overdraft	(7.1)	(7.1)	(10.8)	(10.8)
Long-term debt and other loans	(910.8)	(918.8)	(1,067.1)	(1,088.4)
Cross currency interest rate swap agreements *	(65.0)	(66.4)	(84.5)	(86.4)
Interest rate swap agreements *	0.4	6.3	1.6	2.7
Forward contracts	(1.6)	(1.6)	(1.4)	(1.4)
Futures contracts and forward rate agreements *	(0.1)		0.1	0.3
Currency Options	0.9	1.6	1.1	0.7

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.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31. 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 2003 and 2004.

FAS 142, Goodwill and Other Intangible Assets was adopted for the first time in 2003. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests. If this standard had been applied for all years in these consolidated statements, net income would have been A\$22.0 million higher in 2002.

The following schedule presents pro forma income from continuing operations and net income as if goodwill amortization and other intangibles amortization had not been included as an expense in 2002.

	2004	2003	2002
	A\$M	A\$M	A\$M
	<u> </u>	<u> </u>	<u> </u>
U.S. GAAP Income from continuing operations	475.4	444.4	310.7
Cumulative effect of change in accounting policy for supplier promotional rebates, net of related tax effects		(53.5)	
	<u> </u>	<u> </u>	<u> </u>
Reported income	475.4	390.9	310.7
	<u> </u>	<u> </u>	<u> </u>
Add back:			
Goodwill amortization			14.6
Other intangibles amortization			7.4
	<u> </u>	<u> </u>	<u> </u>

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Adjusted net income	475.4	390.9	332.7
Earnings per common share (\$A)			
Basic earnings per share:			
Reported net income	0.40	0.29	0.22
Goodwill amortization			0.01
Other intangibles amortization			0.01
Adjusted basic earnings per share	0.40	0.29	0.24
Diluted earnings per share:			
Reported net income	0.39	0.29	0.22
Goodwill amortization			0.01
Other intangibles amortization			0.01
Adjusted diluted earnings per share	0.39	0.29	0.24

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31. RECONCILIATION TO U.S. GAAP (continued)

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 require 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.

e Restructuring costs

During 2001, the CML Group incurred losses in relation to business repositioning and group restructuring and rationalization. Such losses comprise non-current asset and inventory write-offs, and lease exit and other costs, including redundancy costs. Whilst the company has already incurred or is committed to incurring certain redundancy costs which are integral to committed restructurings and store and DC closures, U.S. GAAP requires strict criteria be met before liabilities for employee termination benefits can be recognized. In the case of the redundancies,

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certain criteria, in particular the communication of redundancy plans to employees, have not been met and the associated expenses have not been recognized in the current period under U.S. GAAP. The effect of this adjustment is reflected in the reconciliations of net profit and shareholders equity to U.S. GAAP.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31. RECONCILIATION TO U.S. GAAP (continued)

f Employee Share Plan

(1) The company has issued shares to employees under the Employee Share Plan (refer Note 24 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 2004, the elimination of interest income on this loan is reflected in the reconciliations of net profit and shareholders' equity to U.S. GAAP.

g Executive Share Option Plan

The Company has issued options to employees under the Executive Share Option Plan. Any benefit derived by employees as a result of issues of options 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 options 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. GAAP. The weighted average fair values of options issued were determined using the Black-Scholes options pricing model with the following weighted average assumptions:

Weighted average:	2004	2003	2002
Fair value of options granted (A\$)	1.62	1.12	1.85
Expected dividend yield (%)	3.00	3.73	4.91
Expected stock price volatility (%)	25.0	27.5	31.9
Risk-free interest rate (%)	5.60	4.94	5.69
Expected life of options (months)	34	37	34

h Retirement benefits

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 23.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Post retirement benefits, other than pensions, paid by the CML Group are not material.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31. RECONCILIATION TO U.S. GAAP (continued)

i 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.

j 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 require 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.

k 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.

l 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\$6.6 million (net of tax effect A\$NIL million) and A\$16.5 million (net of tax effect A\$7.0 million) at July 25, 2004 and July 27, 2003, 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.

m Annual leave entitlements

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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.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31. RECONCILIATION TO U.S. GAAP (continued)

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 27, 2003 was A\$6.6 million, net of tax effect A\$2.8 million. The effect of this adjustment is reflected in the reconciliation of shareholders' equity to U.S. GAAP.

n Hedging instruments

The CML Group uses derivatives as a means of hedging interest rate and exchange rate risk (refer Note 29 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.

o ReCAPS

Under Australian GAAP, the ReCAPs are classified as equity (refer Note 20). 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.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31. RECONCILIATION TO U.S. GAAP (continued)

	Notes	2004 52 weeks A\$M	2003 52 weeks A\$M	2002 52 weeks A\$M
INCOME STATEMENTS				
Net profit, as reported in the Consolidated Income Statements		608.1	421.1	345.0
Adjustments required to accord with U.S. GAAP:				
- Goodwill amortization adjustment	a	19.2	16.2	1.1
- Amortization of other intangibles	b			2.9
- Revaluation of properties	c	(16.4)	(12.5)	(2.2)
- Building depreciation charged on investment properties	c	(1.3)	(1.6)	(2.3)
- Gains on sales of properties which are leased back	d	(0.2)	13.3	10.3
- Restructuring costs	e			(22.6)
- Compensation benefit/(expense) on share issues to employees	f	(24.5)	(12.5)	4.7
- Interest on Employee Share Plan loan	f	(38.0)		
- Compensation expense on option issues to employees	g	(19.4)	(21.6)	(19.7)
- Adjustment to retirement benefit expense	h	9.9	(0.9)	(1.7)
- Lease incentive income	j	1.9	1.9	1.9
- Onerous New Zealand contracts	l	(10.2)	(12.5)	(6.7)
- Hedging instruments	n	3.2		
- Effect of change in accounting policy for ReCAPS	o	(56.9)		
Net income, according to U.S. GAAP		475.4	390.9	310.7
- Cumulative effect of change in accounting policy for supplier promotional rebates, net of tax of \$23.0 million (refer Note 2)			53.5	
Net income from continuing operations, according to U.S. GAAP		475.4	444.4	310.7

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31. RECONCILIATION TO U.S. GAAP (continued)

	Notes	July 25, 2004 A\$M	July 27, 2003 A\$M
SHAREHOLDERS EQUITY			
Shareholders equity as reported in the Consolidated Balance Sheets		4,097.6	3,799.2
Cumulative adjustments required to accord with U.S. GAAP:			
- Goodwill amortization adjustment	a	36.5	17.3
- Accumulated amortization of other intangibles adjustment	b	2.9	2.9
- Revaluation of properties	c	(67.3)	(59.3)
- Building depreciation charged on investment properties	c	(9.2)	(7.9)
- Gains on sales of properties which are leased back	d	(183.7)	(186.3)
- Compensation expense on share issues to employees	f	(76.7)	(58.1)
- Employee Share Plan loan	f	(29.7)	(95.4)
- Compensation expense on option issue to employees	g	(5.1)	(29.4)
- Accrued retirement cost of A\$67.5 million (2003 - A\$81.7 million), net of tax effect A\$20.2 million (2003 - A\$24.5 million), calculated under U.S. GAAP	h	(47.3)	(57.2)
- Lease incentive income	j	(17.6)	(19.5)
- Onerous New Zealand contracts	l	6.6	16.5
- Adjustment to annual leave entitlements	m	6.6	6.6
- Hedging instruments	n	3.2	
- ReCAPS	o	(684.1)	
Shareholders equity, according to U.S. GAAP		3,032.7	3,329.4

FINANCIAL POSITION

	July 25, 2004 A\$M	July 27, 2003 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)	20.7	26.1
- Property, plant and equipment	3,319.2	3,273.4
- Intangible assets, net	736.9	644.4
- Long-term debt	1,397.5	1,143.3
- Other liabilities (non-current)	372.5	396.0
- Provisions (non-current)	493.5	506.7
- Reserves and retained profits*	1,406.6	1,171.8

* Included in reserves in 2004 is other comprehensive income of A\$30.4 million (2003 A\$17.1 million) in relation to the foreign currency translation reserve.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31. RECONCILIATION TO U.S. GAAP (continued)

	2004 52 weeks A\$M	2003 52 weeks A\$M	2002 52 weeks A\$M
EARNINGS PER SHARE - U.S. GAAP			
Net income from continuing operations	475.4	444.4	310.7
Net income	475.4	390.9	310.7
Basic earnings per share (in A\$):			
Net income from continuing operations	0.40	0.34	0.22
Net income	0.40	0.29	0.22
Diluted earnings per share (in A\$):			
Net income from continuing operations	0.39	0.33	0.22
Net income	0.39	0.29	0.22
Weighted average number of common shares and common share equivalents for basic calculations (millions)	1,204.3	1,192.1	1,180.1
Number of shares for diluted calculations (millions)	1,208.8	1,192.6	1,181.6

32. 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 May 2003, the FASB issued SFAS No. 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (FAS 150), becoming effective for interim periods commencing on or after June 15, 2003. FAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The Company adopted FAS 150 for the first time in 2004. Refer Note 31 (o) for the impact of FAS 150 on the Company's consolidated financial statements.

In January 2003, the FASB issued interpretation No. 46 (FIN 46) Consolidation of Variable Interest Entities, which become effective for interim periods commencing on or after July 1, 2003. The Company adopted FIN 46 for the first time in 2004. FIN 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 had no material impact on the Company's consolidated financial statements.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

33. LIST OF SUBSIDIARIES

Coles Myer Ltd.

Bi-Lo Pty. Ltd.

Barrier Investments Pty. Ltd.

CMFL Holdings Pty. Ltd. (in liquidation)

Coles KMR Pty. Ltd. (in liquidation)

Coles Myer Investments Pty. Ltd. (in liquidation)

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.

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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.

Coles Myer Property Investments Pty. Ltd. (in liquidation)

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. (formerly e.services (colesmyer) Pty. Ltd.)

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

33. LIST OF SUBSIDIARIES (Cont d)

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. (formerly o d (colesmyer) Pty. Ltd.)

Multimedia Services Pty. Ltd.

now.com.au Pty. Ltd.

Grace Bros. Holdings Pty. Ltd.

Grocery Holdings Pty. Ltd.

General Merchandise and Apparel Group Pty. Ltd.

Harris Technology Pty. Ltd. (formerly ht.com.au Pty. Ltd.)

Katies Fashions (Aust.) Pty. Ltd.

G.J. Coles & Coy. Pty. Ltd.

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.

Pallas Newco Pty. Ltd.

ALW Newco Pty. Ltd.

Pacific Liquor Wholesalers Pty. Ltd.

Liquorland (Qld.) Pty. Ltd.

Mycar Automotive Pty. Ltd.

Myer Stores Ltd.

Officeworks Superstores Pty. Ltd.

Officeworks Superstores N.Z. Ltd. ⁽¹⁾

Viking Direct Pty. Ltd.

Viking Office Products Pty. Ltd.

Penneys Pty. Ltd.

Price Point Pty. Ltd.

Charlot Pty. Ltd. (in liquidation)

Target Australia Pty. Ltd.

Fosseys (Australia) Pty. Ltd.

Tickoth Pty. Ltd.

Tyremaster Pty. Ltd.

Comnet Pty. Ltd.

The Myer Emporium Ltd.

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

33. LIST OF SUBSIDIARIES (Cont d)

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 \$NIL. The balance date of all controlled entities was July 25, 2004.

(1) Incorporated in New Zealand.

(2) Incorporated in Singapore.

COLES MYER LTD.

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