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

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

FOR THE FISCAL YEAR ENDED JULY 25, 2004

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission file number: 1-10083

COLES MYER LTD.

Australian Business Number 11 004 089 936

(Exact name of Registrant as specified in its charter)

VICTORIA, AUSTRALIA

(Jurisdiction of incorporation or organization)

800 TOORAK ROAD, TOORONGA, VICTORIA 3146 AUSTRALIA

(Address of principal executive offices)

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

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

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

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

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

None

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

None

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

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

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

Yes x No ¨

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

Item 17 ¨ Item 18 x

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

	Notes	2004 52 weeks A$M	2003 52 weeks A$M	2002 52 weeks 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
		4,569.5	4,116.4
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
		4,482.2	4,336.4
TOTAL ASSETS		9,051.7	8,452.8
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
		3,802.1	3,041.5
Non-current liabilities:			
Long term debt	18	713.4	1,143.3
Other		48.3	49.3
Provisions	19	390.3	419.5
		1,152.0	1,612.1
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
		4,097.6	3,799.2
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY		9,051.7	8,452.8

Commitments and contingent liabilities	25		

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

COLES MYER LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	2004 52 weeks A$M	2003 52 weeks A$M	2002 52 weeks 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.

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COLES MYER LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2004 52 weeks A$M	2003 52 weeks A$M	2002 52 weeks A$M
Notes			
A. Reconciliation of net cash provided by operating activities to net profit is as follows:			
Net cash inflow from operating activities	1,338.3	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.

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 A9.9 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)

Cash (Outflow)/Inflow	(192.0)	(241.7)	(70.4)	31.8	372.8	57.8

* 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 52 weeks A$M	2003 52 weeks A$M	2002 52 weeks A$M
Cash assets	849.0	905.5	866.0
Bank overdrafts	(7.1)	(10.8)	
	841.9	894.7	866.0

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).

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	
	millions	A$M
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)
	477.7	485.9	402.4

* 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

	2004 52 weeks A$M	2003 52 weeks A$M	2002 52 weeks A$M
Foreign currency translation reserve			
Balance at beginning	(17.1)		
Net exchange differences on translation of foreign controlled entity	(30.4)	(17.1)	
	(47.5)	(17.1)	

* 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.

	2004 52 weeks A$M	2003 52 weeks A$M	2002 52 weeks A$M
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)
	1,360.7	1,120.1	904.1
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)	
	1,790.9	1,588.9	1,306.5

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 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

(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.

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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:

	2004	**2003**	**2002**
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.

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.

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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 52 weeks A$M	2003 52 weeks A$M	2002 52 weeks 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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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)
	(15.5)	(24.3)	(12.1)
Expenses:			
Interest	68.3	86.2	100.8
Other costs of finance	2.8	0.7	2.1
Total borrowing costs	71.1	86.9	102.9
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
	490.9	468.3	454.9
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
	45.8	44.3	38.5
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
	360.6	369.6	314.3
Write-down of non-current assets to recoverable amounts			
Property, plant and equipment	45.9	12.8	10.4
Goodwill	5.7		

	51.6	12.8	10.4
Bad and doubtful debts	4.7	3.8	9.6

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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

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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 fax 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.

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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

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	July 25, 2004 A$M	July 27, 2003 A$M
7. RECEIVABLES (CURRENT)		
Customer receivables	390.9	309.6
Allowance for doubtful accounts	(9.5)	(9.2)
	381.4	300.4
Other debtors	32.3	46.6
Allowance for doubtful accounts	(1.4)	(1.0)
	30.9	45.6
Short-term deposits	234.4	
	646.7	346.0

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

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
	50.4	121.5

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	July 25, 2004 A$M	July 27, 2003 A$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
	28.4	27.0
Other:		
Interest in shopping center unit trusts, At fair value ***	82.5	76.8
Interest in partnerships	2.0	2.0
	84.5	78.8
	112.9	105.8

* 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
	82.5	76.8		

Partnership				
Fly Buys Partnership [2]				
- Loyalty program	2.0	2.0	50	50
	2.0	2.0		
Proprietary company				
Quids Technology Pty. Ltd. [1]				
- Software development			50	50

(1) Balance date is June 30

(2) Balance date is December 31

COLES MYER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

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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:

	Freehold properties:							
CML Group 2004	Land	Buildings	Leasehold improvements	Investment properties	Plant and equipment	Computer software	Capital work in progress	Total
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)

Future income tax benefits	302.7	221.9
Other	30.0	29.8
	332.7	251.7

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	July 25, 2004 A$M	July 27, 2003 A$M
14. ACCOUNTS PAYABLE		
Trade creditors	2,067.8	1,896.6
Accrued liabilities	747.9	579.7
	2,815.7	2,476.3
15. BORROWINGS (CURRENT)		
Bank overdraft	7.1	10.8
Other loans	254.4	
	261.5	10.8

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
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
	563.3	540.8

Movements in provisions

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

CML Group 2004 A$ million	Self-insured risks	Workers compensation	Onerous contracts	Total

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	July 25, 2004 A$M	July 27, 2003 A$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
	650.6	1,059.9
Net value of currency swaps supporting foreign currency facilities	62.8	83.4
	713.4	1,143.3

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	
	650.6	1,059.9

Long-term foreign currency loans included above consist of:

United States dollars	27.9	48.3

Japanese yen	292.7	411.6
	320.6	459.9

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 A$M	July 27, 2003 A$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
	390.3	419.5

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	201.3	6.0	207.3

	July 25, 2004 A$M	July 27, 2003 A$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
	2,306.7	2,210.3

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);