COLES MYER LTD
Form 20-F
December 23, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

FOR THE FISCAL YEAR ENDED JULY 31, 2005

OR

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

FOR THE TRANSITION PERIOD FROM __________ TO__________

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

Date of event requiring this shell company report

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

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

Yes x No ¨

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

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

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

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

Yes ¨ No x

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CERTAIN DEFINITIONS

The fiscal year of Coles Myer Ltd. (the Company , Coles Myer , CML or CML Group , which, unless the context otherwise requires, includes Coles Myer Ltd. and its consolidated entities) ends on the last Sunday in July each year. The fiscal year ended July 31, 2005 is referred to in the text of this Annual Report as 2005 , and other fiscal years are referred to in a corresponding manner. In the consolidated financial statements included in Item 17, the financial year 2004-05 is also referred to as 2005, and similarly for other years, except where otherwise stated. See also Glossary of Terms for descriptions of certain terms used in this Annual Report.

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

FORWARD-LOOKING STATEMENTS

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

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

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ITEM 1 IDENTITY OF DIRECTORS, SENIOR MANAGEMENT & ADVISERS

Not applicable.

ITEM 2 OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3 KEY INFORMATION

A. SELECTED FINANCIAL DATA

The selected income statement data for 2003 through 2005, and the selected balance sheet data at July 25, 2004 and July 31, 2005 set forth below (other than percentages) are derived from the audited consolidated financial statements of Coles Myer included in this Annual Report. They should be read in conjunction with, and are qualified in their entirety by reference to, those statements, including the Notes thereto. The selected income statement data for the years 2001 and 2002 and the selected balance sheet data at July 29, 2001, July 28, 2002 and July 25, 2003 set forth below (other than percentages) are derived from audited consolidated financial statements of Coles Myer, which are not included herein. Coles Myer s consolidated financial statements are prepared in accordance with accounting principles generally accepted in Australia (Australian GAAP), which vary in certain material respects from accounting principles generally accepted in the United States (U.S. GAAP). A reconciliation to U.S. GAAP is set out in Note 32 of the Notes to the Company s consolidated financial statements.

It should be noted that results for 2005 reflect 53 trading weeks compared to 52 trading weeks for the other fiscal years indicated. This is because the Company s fiscal year ends on the last Sunday in July each year and, as a result, approximately every six years an extra trading week is included in the Company s consolidated results for that fiscal year.

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Amounts in accordance with Australian GAAP

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

Refer page 4 for notes relating to above table.

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Amounts in accordance with U.S. GAAP

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

(1) Merely for the convenience of the reader, certain selected financial data has been converted into US dollars at the Noon Buying Rate on July 29, 2005, the last trading day of the fiscal year, of A$1.00 = US$0.7594. These translations should not be construed as representations that the A$ amounts actually represent such US$ amounts or could be converted into US$ at the rate indicated. For a more recent A$/US$ exchange rate, refer below.

(2) Results for 2005 reflect 53 trading weeks compared to 52 trading weeks for other fiscal years shown.

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

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

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

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

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Exchange Rates

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

Fiscal Year	**2005**	**2004**	**2003**	**2002**	**2001**
	(all figures in US$ per A$)				
Average rate [(1)]	0.7564	0.7181	0.5884	0.5270	0.5262

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

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

Months	**High**	**Low**
	(all figures in US$ per A$)	
June 2005	0.7792	0.7498
July 2005	0.7661	0.7403
August 2005	0.7739	0.7469
September 2005	0.7731	0.7537
October 2005	0.7630	0.7468
November 2005	0.7451	0.7267

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

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

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

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

Risks Related to Coles Myer

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

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

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

The Group s future plans include expected benefits from greater efficiencies in areas that are common across the Group (in particular Supply Chain and Information Technology) and access to greater economies of scale. There is a risk that the Company may not leverage the benefits and reduce costs, available from the scale, depth and breadth of its retail capability. If the Company is not able to realize these benefits, its future ability to reduce costs and remain competitive may be reduced.

There is a risk that the Company may put too much focus on Group change.

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

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

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

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

The Company s growth strategy includes the opening of new stores, together with the enhancement of existing stores. Coles Myer s ability to open new stores is dependent on identifying and entering into leases on commercially reasonable terms for properties that are suitable for its needs. If Coles Myer fails to identify and enter into leases at premium retail sites, the Company s growth may be impaired.

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

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

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

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

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

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

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

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

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

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

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

Myer ownership options risk.

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

Coles Myer faces the risk of exposure to product liability claims and adverse publicity.

The packaging, marketing, distribution and sale of food products entail an inherent risk of product liability, product recall, adverse publicity and exposure to product liability claims. Such claims may have an adverse impact on the Company s financial performance.

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

As described in Note 1 to the consolidated financial statements, CML complies with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB)**,** Urgent Issues Group Consensus Views and the Corporations Act 2001. The AASB is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after January 1, 2005. The AASB has issued Australian equivalents to IFRS (A-IFRS). The adoption of A-IFRS will be first reflected in the CML Group s financial statements for fiscal 2006, being the half year ending January 29, 2006 and the year ending July 30, 2006.

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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 July 26, 2004. The adoption of IFRS may increase the volatility of reported earnings in future periods, or negatively impact reported earnings.

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

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

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

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

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

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

Coles Myer is subject to many laws and regulations including, but not limited to, trade practices, corporations law, employment laws, workers compensation and rehabilitation, occupational health and safety, tax and accounting legislation including the Financial Services Act, State, Territory and local government legislation and regulations that govern property planning issues, liquor licensing, tobacco retailing, retail trading hours and other operational matters, environmental regulation and the Australian Competition and Consumer Commission. Compliance with, or changes in, these laws (which may be brought about by interest lobby groups) may reduce the sales and profitability of Coles Myer s operations and may otherwise adversely affect the Company s business, financial condition or results.

Risks Related to Australia

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

The retail trading environment is subject to general economic conditions in the Australian and global markets. Any adverse changes in such economic conditions can be expected to affect the retail-trading environment in general. Recent unexpected increases in energy costs have impacted the level of disposable income available to consumers to spend in the Company s stores. Adverse developments in economic conditions during the first half of the fiscal year of Coles Myer, particularly the Christmas trading period when its sales and profitability are typically strongest, may have a negative impact on Coles Myer s trading results.

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

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

Acts of terrorism in Australia may affect the Company.

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

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ITEM 4 INFORMATION ON THE COMPANY

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

A. HISTORY AND DEVELOPMENT

GENERAL

Coles Myer Ltd. is an Australian-based retailer, owning and operating stores in most sectors of the Australian retail market, in the general merchandise sector of the New Zealand retail market and on the Internet. The Company supplies a wide range of food and non-food items in supermarkets, discount stores, department stores, liquor stores, office supplies stores, automotive service centers, fuel outlets and online. Coles Myer Ltd. predominantly trades under the names of Coles , Bi-Lo , Coles Express , Coles Online , Liquorland , Vintage Cellars , 1st Choice Liquor Superstore , Theo s , Kmart , Kmart Garden Super Centre , Kmart Tyre & Auto , Tyremaster , Target , Target Country , Myer , Office and Harris Technology . In New Zealand, the Company trades as Kmart .

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

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

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

Coles Myer Ltd. is the holding company. The number of subsidiaries/consolidated entities in the Coles Myer Group at July 31, 2005, was 87, all of which are incorporated in Australia and New Zealand, apart from one company, which is incorporated in Singapore.

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RECENT DEVELOPMENTS

1. Megamart

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

2. Myer

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

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

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

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

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

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

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

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

3. Public Takeover Offers

Australian Leisure and Hospitality Group Limited (ALH)

In October 2004, the Company and Macquarie Bank Limited (MBL) undertook a public offer to acquire ALH, a hotel and liquor operator. Under the proposal, ALH would be acquired by CMM Hotel & Retail Investments Pty Limited (CMM), a joint venture vehicle with equity funding of 60 per cent from MBL and 40 per cent from CML. The offer price was A$3.35 a share.

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Another party, Bruandwo Pty. Ltd., had previously made an offer to acquire ALH and was continuing to raise the offer. As a result, the Company revised its original proposal to A$3.75 per share. At this time the other party made a further offer of A$3.76 a share. The Company and MBL decided not to further increase their offer, as it was not in the best interests of the Company s shareholders.

4. Financial Updates

1st Quarter Sales

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

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

(1) Total sales include concession sales.

Earnings guidance

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

5. Management

CEO tenure

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

Senior management changes

Appointments

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

On February 14, 2005 the Company announced that:

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

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

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

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

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

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

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

Departures

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

Brand reorganizations

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

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

Coles Myer Liquor Group relocation

The Coles Myer Liquor Group head office structure was reorganized to increase operational efficiencies. This included the relocation of the head office from Sydney to Melbourne in August 2004, enabling the Food and Liquor teams to work together more closely.

6. Capital management

Share buy-back

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

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

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

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

7. Other

MYER One

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

Shareholder Discount Card Program

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

Dividend Reinvestment Plan (DRP)

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

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Board Changes

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

Capital expenditure

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

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

Of this amount, 99.6% was spent on the Company s Australian operations, with the remainder spent in New Zealand.

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

Also see Consolidated Statements of Cash Flows and Note B Acquisitions/Disposals in the consolidated financial statements at Item 17.

B. BUSINESS OVERVIEW

Company Retail Operations

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

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

Retail Support centers that all operate within policies determined by a centralized corporate group. The results of the operating brands are reported under six groups: Food, Liquor & Fuel, Kmart, Officeworks, Myer, Megamart and Target. Sales, segment result, and identifiable asset data are reported for each Coles Myer brand group, and are shown in Note 27 to the Coles Myer consolidated financial statements contained herein. The table on page 14 provides details of the stores that fall within each group and Item 5 Operating and Financial Review and Prospects , provides a discussion of the results of operations for each of Coles Myer s brands groups.

Coles Myer s sales and to a greater extent its profits, show a seasonal pattern. Myer, Kmart and Target typically experience stronger sales of higher margin merchandise during the Christmas trading period. Sales for Myer, Kmart and Target in the 27 weeks to January 31, 2005 accounted for 52.9% (2004: 53.0%) of their full year sales and 78.5 % (2004: 70.0%) of their full year profits. Aggregate sales of food and liquor through supermarkets, fuel and other outlets are not as subject to major seasonal influences.

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

The Company continually monitors the performance of its stores in all locations, and closes or re-develops stores which cease to provide acceptable levels of profitability on a continuing basis. The strong correlation between disposable income, retail sales and population across Australia is shown in the following table.

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The spread of the Company s sales and selling area across the Australian States and Territories, as shown in the following table, also reflects the geographic distribution of population, retail sales and disposable income. Accordingly the decisions taken by the Company in the opening, closure, or refurbishment of the large majority of its stores are typically not principally influenced by economic conditions in individual States.

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

Source: Company Records and Australian Bureau of Statistics.

As at July 31, 2005 (the end of the Company s last completed fiscal year), the number and location of stores trading were:

	Australia	New Zealand	Total
Food, Liquor & Fuel			
Coles	505		505
Bi-Lo	214		214
Coles Myer Liquor Group	669		669
Coles Express	597		597
Total Food, Liquor & Fuel	1,985		1,985
Kmart			
Kmart	167	13	180
Kmart Tyre & Auto	65		65
Total Kmart	232	13	245
Officeworks			
Officeworks	87		87
Harris Technology	8		8
Total Officeworks	95		95
Myer	61		61

Megamart	9		9
Target			
Target	142		142
Target Country	113		113
Total Target	255		255
Total	2,637	13	2,650

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

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

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

** Includes Harris Technology

Strategy

History

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

Continuous brand improvement

Restoring operational excellence in the Kmart, Target and Myer brands

Growing the Food and Liquor brand

- Improving efficiencies
- Further strengthening the balance sheet

Sustainable growth

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

Group culture

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

Safety

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

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

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Supply Chain

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

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

Key features include:

Better systems to improve on-shelf availability of stock for customers;

Improved technology to simplify processes and reduce costs for suppliers and CML;

Streamlined deliveries into stores; and

More efficient distribution network, including the reduction of distribution centers to best practice levels.

Supply chain transformation expenses in 2005 were A$43.2 million.

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

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

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

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

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

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

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

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

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

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

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IT Transformation

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

Loyalty

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

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

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

Cultural change

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

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

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

Outlook Strategic review

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

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RETAIL OPERATIONS

FOOD, LIQUOR & FUEL GROUP

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

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

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

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

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

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

Bi-Lo

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

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

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

Coles Myer Liquor Group

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

As at July 31, 2005 the brand operated 669 liquor sites, including 30 hotels, with representation in all states except Tasmania. Approximately one third of stores are located adjacent to a Coles Myer supermarket, with the majority being freestanding stores.

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

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

Coles Express

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

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Currently the brand operates 597 fuel and convenience stores across Australia, making it the nation s largest fuel and convenience retail operation.

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

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

KMART

Kmart

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

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

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

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

In 1994, the Company renewed its License Agreement with KMC, pursuant to which Coles Myer has the exclusive right to use the Kmart name in Australia and New Zealand. Coles Myer does not believe that there is a significant risk of the License Agreement being terminated in a manner that would have a substantial adverse impact on the Company s operations. Besides the License Agreement, Coles Myer has no other affiliation or relationship with KMC.

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

Kmart Automotive

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

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OFFICEWORKS

Officeworks

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

Officeworks is well represented in all major Australian cities, as well as many regional areas. The first store was opened in 1994, with 87 Officeworks operating at July 31, 2005. Officeworks operates 3 brands, Officeworks Superstores, Officeworks BusinessDirect and Harris Technology.

Harris Technology

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

TARGET

Target

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

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

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

Target Country

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

MYER

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

Myer operates full range department stores with selling areas ranging from around 130,000 square feet up to around 550,000 square feet in the Myer Melbourne (Victoria) flagship store.

Myer is positioned as a brand-focused, value-driven department store, providing a range of well-known national, international and private brands and good service in a pleasurable store environment. Myer operated 61 stores as at July 31, 2005. The larger Myer stores are situated in downtown locations, with other stores positioned mainly as anchor tenants in suburban shopping centers and in major regional towns.

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

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

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

MEGAMART

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

RETAIL SUPPORT

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

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

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

Finance

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

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

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

(1) Limitation on Total Liabilities: The CML Group will at all times maintain Consolidated Total Liabilities at no greater than 80% of Consolidated Total Tangible Assets;

(2) Limitation on Secured Debt: The CML Group will at all times maintain Secured Debt (excluding Indebtedness secured by any encumbrance created or extended in accordance with the CPDP) at no greater than 20% of Consolidated Total Tangible Assets; and

(3) Fixed Charges Cover: The CML Group will at all times ensure that the ratio of the aggregate of EBITDA and Rental Expense to Total Fixed Charges exceeds 1.65 times.

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

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

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

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

At July 31, 2005, all foreign currency borrowings were hedged to cover exposure to adverse exchange rate movements. Coles Myer s interest rate risk management strategy is to have approximately 50% of core debt hedged at fixed interest rates beyond 12 months in maturity. Core debt represents the Company s long term, non-seasonal debt. See also Item 11 Quantitative and Qualitative Disclosures about Market Risk for a description of the Company s hedging activities.

Credit Cards

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

The Coles Myer credit card portfolio includes two other credit card products, namely the Coles Myer Store Card and the Coles Myer Source™ MasterCard with FlyBuys**™** Points EXTRA FAST, which has an annual fee. There are in excess of 1.5 million Coles Myer Branded credit cards issued.

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

PURCHASING AND SUPPLIERS

All Coles Myer brands have embraced the concept of developing a partnership approach with their suppliers to ensure customers have access to the quality, range and value they demand. The brands are focused on developing mutually beneficial relationships with approximately 32,000 active suppliers.

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

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

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

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

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

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COMPETITION

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

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

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

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

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

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

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

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

ADVERTISING AND PROMOTION

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

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

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

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

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

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

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

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

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

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

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

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

Loyalty Programs

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

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

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

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

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

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

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

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Coles Myer stores. This means that customers shopping within a participating Coles Myer brand, who present their FlyBuys™ card with their Coles Myer Source™ MasterCard when paying for the purchase will receive up to 4 FlyBuys™ points for each A$5 of spend. The addition of free petrol discounts and FlyBuys™ points to the Coles Myer Source™ MasterCard is designed to encourage enhanced customer loyalty and drive increased sales on the credit card across all Coles Myer Brands.

RESEARCH & ANALYSIS

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

The Company strives to understand consumers and their current and future needs and to identify appropriate opportunities to meet these needs in our stores. The research unit utilizes a wide variety of research methods to identify consumer needs including qualitative methods such as focus groups, accompanied shopping trips, ethnography, immersions, and quantitative studies such as brand, advertising and satisfaction tracking. Increasingly the Company utilizes customer data from the point of sale to understand buying patterns and preferences, and thereby modifying assortments to deliver to customer needs.

TRADING HOURS

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

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

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

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

REGULATION

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

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

The Australian Constitution requires periodic elections for both federal Houses of Parliament, with separate provisions reflecting the different constitutional status of each House. The Commonwealth Electoral Act of 1918 implements the Constitutional scheme.

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

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Government Regulation

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

Australian Regulation

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

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

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

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

Coles Myer is subject to Federal and State laws and regulations covering, but not limited to:

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

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

Restrictive Trade Practices

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

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

Unconscionable Conduct

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

Product Liability

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

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

Consumer Protection

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

Retail Grocery Industry Code of Conduct

Following a parliamentary inquiry into retailing, a voluntary retail grocery industry code of conduct (RGI Code) was established in August 2000, to apply to vertical relationships in the retail grocery industry. Coles Myer supports the introduction and application of this Code and is a signatory. RGI Code has recently had its first independent triennial review and some recommendations for improvement have been accepted by the Government and are currently being implemented by the Code Administration Committee. It is not anticipated that there will be any additional impact on CML Supermarkets.

New Zealand Regulation

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

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

Changes to Business Taxation

The Company has implemented the tax consolidation legislation as of July 29, 2002 with no material impact on the consolidated financial statements. The primary impact of the new legislation for Coles Myer is that the Company now files a consolidated income tax return with the Australian Tax Office with respect to subsidiaries in the tax consolidated group, instead of filing separate income tax returns for all subsidiary companies. The transition to the tax consolidation legislation provided Australian companies with the opportunity to reset tax bases of assets and liabilities, however no material impacts were recorded. See also Note 6 to the consolidated financial statements included in Item 17.

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

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

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

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

INSURANCE

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

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

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

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

TRADEMARKS AND LICENSES

Trademarks

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

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

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

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

Licenses

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

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

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C. ORGANIZATIONAL STRUCTURE

The Coles Myer Group consists of Coles Myer and its subsidiaries, which conduct business in Australia and New Zealand. A complete list of subsidiaries and their details can be found at Note 34 to the consolidated financial statements included in Item 17. Of these subsidiaries, the following were significant subsidiaries of Coles Myer at July 31, 2005:

Coles Supermarkets Australia Pty. Ltd.

Kmart Australia Ltd.

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

D. PROPERTY, PLANT AND EQUIPMENT

At July 31, 2005, the Company operated a total of 2,650 stores in Australia and New Zealand, with total selling area of approximately 48 million square feet. Properties include locations in downtown shopping areas, regional and minor shopping centers, strip retail locations, and freestanding stores.

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

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

At July 31, 2005, the Company s owned property portfolio was recorded at A$740.2 million (2004: A$425.4 million), held either directly, or indirectly through investments in property joint ventures.

It is the Company s policy to undertake revaluations of freehold and investment properties with sufficient regularity to ensure that the carrying amount of property does not differ materially from its fair value at balance date. This is in accordance with Australian Accounting Standards. The latest valuation, undertaken during 2005, resulted in a net increase in the aggregate book value of properties and investments in property trusts by A$56.1 million. See also Notes 1(i), 1(j), and 11 to the consolidated financial statements included in Item 17.

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ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

The discussion below contains certain forward-looking information. See comments regarding Forward-Looking Statements on page 1 of this Annual Report. Comparative amounts for 2004 and 2003 have been reclassified to ensure comparability with the current reporting period, and where significant this has been noted.

RETAIL TRADING ENVIRONMENT

2004/2005

In 2004/05, Australia s economic growth for the year to June 2005 was recorded at 2.6%[1]. Although solid, it was down on the 3.3% growth recorded in 2003/04[2].

Over the past year, the driver of Australia s economic growth has shifted away from consumer spending to business investment. High commodity prices have stimulated investment in the mining sector and in resource related industries[3]. This is expected to support an increase in the rate of Australia s economic growth into 2006 and 2007[4].

However, the retail environment remains more subdued reflecting high petrol prices and an end to house price growth. Despite strong income supports via jobs and wage growth, as well as recent tax cuts, real retail turnover is forecast to be 1.8% in 2005/06, down from 3.5% in 2004/05[5].

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

In 2004/05, non-food retail sales grew by 4.5%, down from 9.0% in 2003/04. Non-food retail sales may trough in mid 2006 before rising again in 2007 as domestic demand picks up and the housing cycle enters its next forecast upswing. The value of food retail sales grew by 4.2% in 2004/05, down from 6.9% growth in 2003/04. In the short-term food sales are expected to remain sluggish but there may not be much more downside and 4.3% growth is forecast in 2005/06[6].

2003/2004

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

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

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

Some of those economic supports started to lose momentum. After a period of strong growth, investment in housing fell in the September quarter of 2004, while growth in consumer and retail spending also slowed.

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

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

[2] ANZ (December quarter 2005) ANZ Economic Outlook .

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

[4] ANZ (December quarter 2005) ANZ Economic Outlook .

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

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

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CRITICAL ACCOUNTING POLICIES

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

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

The following are considered critical accounting policies of Coles Myer:

Accounting for provisions

Employee entitlements

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

Onerous contracts

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

Workers compensation and self-insurance

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

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

Net realizable value of inventory

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

Supplier promotional rebates

Accounting for all forms of rebates is reflective of guidance given by the Emerging Issues Task Force in the U.S. (EITF Issue No. 02-16, Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor). Refer Note 1(g) to the consolidated financial statements included in Item 17.

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Carrying value of non-current assets

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

Pensions and other post-retirement benefit plans

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

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

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

Employer contributions to this defined benefit fund during 2005 amounted to A$20.3 million (2004 A$18.2 million). Vested benefits are benefits, which are not conditional upon continued membership of the fund or any factor, other than resignation from the fund.

For U.S. reporting, the company has applied the principles of FASB Statement No. 87 *Employers Accounting for Pensions* (FAS 87). As a result, a reconciling item from Australian GAAP to U.S. GAAP is recorded at Note 32(g).

The defined benefit pension plan pays benefits to employees at retirement using formulae based on participants years of service and compensation. The defined benefit plan has been closed to new members since 1996. All new employees since that date must become members of the defined contribution plans. At balance date the defined benefit plan had approximately 3,000 remaining members.

Contributions to the defined benefit plan are based on rates determined by the actuary as being necessary and sufficient to ensure the stability and financial soundness of the plan. The funding objectives are: to target assets of 100% of total actuarial reserves; and for assets to exceed total vested benefits by a margin sufficient to reduce the likelihood of assets falling below vested benefits to an acceptable level.

The contribution rate is formally reviewed every three years as part of the triennial actuarial investigation of the Plan. As a result of the last triennial investigation in July 2003, the actuary recommended the contribution rate increase to 9.5% of salaries, from 8.9%, in respect of all members. This increase took effect from August 1, 2004. This movement is not expected to have any material impact on the Company s liquidity. The net periodic pension cost has increased income from operations over the 2005 fiscal year by A$1.2 million in respect of defined benefit members.

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

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

	Actual	Benchmark
Australian Shares	35.7%	35.0%
Overseas Shares (hedged)	11.1%	11.0%
Overseas Shares (unhedged)	16.3%	16.0%
Property	7.8%	8.0%
Australian Fixed Interest	14.6%	15.0%
Overseas Fixed Interest	9.7%	10.0%
Cash	4.8%	5.0%

The in-house rule under Superannuation law in Australia restricts a Superannuation Plan from holding more than 5% in total assets of the sponsoring company s shares. Plan assets include fully paid ordinary shares in CML of A$1.6 million (2004 A$NIL million, 2003: A$NIL million).

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

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

Period	Expected Return	Actual Return
2005 fiscal year	6.5%	13.1%
2004 fiscal year	6.5%	15.3%

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

The plan determines its discount rate assumption by reference to the 10 year AA rated corporate bond rate in the Australian market. A deduction for income tax on Plan earnings at 15% has also been made. The assumed average future service of members expected to receive benefits is 7.3 years. Further disclosures on the retirement plans are included in Note 24 to the consolidated financial statements.

International Financial Reporting Standards (IFRS)

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

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CONSOLIDATED RESULT

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

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

[1] Includes the Megamart A$81.5 million divestment charge.

2005 compared with 2004

Sales

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

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

Gross Profit

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

Other revenue from operating activities

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

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Other revenue from non-operating activities

	2005 A$M	2004 A$M
Other revenue from non-operating activities	304.2	309.2

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

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

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

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

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

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

Borrowing costs

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

Advertising expenses

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

The reconciliation at Note 32 between Australian and U.S. GAAP is performed at the net income level, at which point there are no differences between the two regulations.

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

Overall, advertising expenses have increased from 2004 to 2005 as sales have increased, competition in major markets has increased and the Company has undertaken new business initiatives such as the fuel offer and upgrading of the loyalty offer (enhanced FlyBuys™ and Coles Myer Source MasterCard). Refer to page 24 for additional information.

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Selling and occupancy expenses

	2005 A$M	2004 A$M
Selling and occupancy expenses	(6,308.1)	(5,801.7)

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

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

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

Administrative expenses

	2005 A$M	2004 A$M
Administrative expenses	(1,513.3)	(1,357.4)

Total administrative expenses increased by 11.5%.

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

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

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

Income tax expense

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

Net profit

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

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

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Dividend

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

2004 compared with 2003

Sales

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

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

Major increases were recorded in the segments of Food, Liquor & Fuel (27.7%), Kmart (4.2%), Officeworks (22.8%) and Target (7.7%) whilst Myer sales remained steady. Coles Express contributed A$3,176.9 million in sales to the Food, Liquor & Fuel segment. Excluding Coles Express, the Food and Liquor segment recorded a sales increase of 8.5%.

Gross Profit

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

Another area of improvement for the Company in 2004 was in the Target segment. Target s better management of product sourcing and promotional programs during 2004 combined with strong inventory control had a positive impact on gross profit. Myer also made significant progress against its rebuild program of combining a focus on enhancing the merchandise offer, with a strong customer focus and strategic marketing to drive higher quality sales and results. Kmart continued its rebuild through improving its product offer, competitive pricing and improved marketing.

Other revenue from operating activities

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

Other revenue from non-operating activities

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

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

Interest income increased from A$23.7 million to A$57.6 million due to the receipt of interest from the Coles Myer Employee Share Plan Trust of A$38.0 million (2003 A$3.7 million), comprising A$2.7 million received in the first half of the financial year, and A$35.3 million received in the second half of the financial year as a result of the restructuring of the Trust by its trustees. For U.S. GAAP reporting purposes this interest was eliminated from net profit to correspond with the reclassification of the loan (the income relates to) to shareholders equity. Refer Note 32 (e) of the consolidated financial statements at Item 17.

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

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

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

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

In 2003, the CML Group sold Sydney Central Plaza for A$372.8 million, additional proceeds of A$9.9 million were received during 2004.

Borrowing costs

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

Advertising expenses

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

The reconciliation at Note 32 between Australian and U.S. GAAP is performed at the net income level, at which point there are no differences between the two regulations.

Advertising expenses predominantly related to all production costs and fees relating to press, radio, television, and catalogue advertising of merchandise. The increase from 2003 was in line with the Company s aim of maintaining market share in all its trading businesses in an increasingly competitive environment. Other factors contributing to the increase are sales increases and new business initiatives.

Selling and occupancy expenses

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

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

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

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

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

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

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Administrative expenses

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

Total administrative expenses increased by 14.7%.

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

Travel, general and other administrative expenses increased by 25.8% from A$495.4 million in 2003 to A$623.1 million in 2004. Included in 2004 were the costs of relocating the Coles Myer Liquor Group head office from Sydney to Melbourne, and the Mt Druitt restructure costs, being costs of closing CML Group stores in the Mt Druitt (NSW) shopping centre. This line item included depreciation of plant and equipment located in offices, which remained steady from 2003 to 2004.

Income tax expense

The effective tax rate for 2004 was 29.8% (2003: 30.8%). The differences from the statutory rate of 30% are explained in Note 6 to the consolidated financial statements included at Item 17.

Net profit

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

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

Dividend

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

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RETAIL RESULT

Food, Liquor & Fuel Group

2005 compared with 2004

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

1. Profit from ordinary activities before income tax and interest

2. Excludes Coles Express locations

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

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

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

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

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

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

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

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2004 compared with 2003

	2004	2003	Change
Sales (A$M)	21,146.8	16,565.4	27.7%
Segment result[1] (A$M)	647.4	555.5	16.5%
Stores	1,943	1,325	618
Selling area[2] (M.sq.ft)	16.695	16.235	2.8%

1. Profit from ordinary activities before income tax and interest

2. Excludes Coles Express locations

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

The segment result increased by 16.5% to A$647.4 million (2003: A$555.5 million). After adjusting for the Coles Myer Liquor Group head office relocation costs of A$14.6 million in 2004 and the Mt Druitt restructure costs of A$5.0 million in 2004, and accounting policy changes of A$34.0 million and losses from exited businesses of A$2.5 million in 2003, the segment result would have been A$667.0 million in 2004 and A$592.0 million in 2003, representing a 12.7% increase. After further adjusting for the result of Coles Express of A$20.1 million, the result of the Food and Liquor operations would have increased by A$54.9 million or 9.3% to A$646.9 million.

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

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

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

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

Kmart

2005 compared with 2004

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

1. Profit from ordinary activities before income tax and interest

Segment sales increased by 6.0% from A$3,799.1 million to A$4,025.7 million. Segment results decreased by A$4.8 million or 4.8%, from A$100.8 million to A$96.0 million. Included in these results are benefits relating to the re-measurement of the Kmart New Zealand onerous lease provision, which has resulted from improved trading conditions in New Zealand. After adjusting for the impact of this re-measurement, the segment result would have increased by A$7.1 million or 8.3%, from A$85.4 million to A$92.5 million.

Kmart experienced weaker sales in May and June, following a slowing of consumer spending and reduced sales of winter-related merchandise due to unseasonably warm weather conditions. Categories most impacted included electrical and apparel. Given the considerable external challenges, Kmart maintained margin growth and produced a solid earnings increase for the year.

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

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

2004 compared with 2003

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

1. Profit from ordinary activities before income tax and interest

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

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

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

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

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

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

Officeworks

2005 compared with 2004

	2005	2004	Change
Sales (A$M)	1,236.3	1,100.1	12.4%
Segment result[1] (A$M)	67.1	51.7	29.8%
Stores	95	87	8
Selling area (M.sq.ft)	1.421	1.275	11.5%

1. Profit from ordinary activities before income tax and interest

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

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

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

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

2004 compared with 2003

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

1. Profit from ordinary activities before income tax and interest

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

Officeworks delivered another strong performance. The result reflected good sales growth, improved merchandise mix and ongoing business efficiencies. A new focus on housebrands was also initiated, and resulted in new packaging and clearer price points.

Officeworks opened nine new stores in the year, increasing the network to 78. Another 20 stores were updated with major refurbishments. Twelve new in-store technology centers were opened, bringing the total to 22, while the rollout of the digital printing program neared completion with 66 stores offering the service.

Myer

2005 compared with 2004

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

1. Excludes concession sales

2. Profit from ordinary activities before income tax and interest

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

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

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

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

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

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2004 compared with 2003

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

1. Excludes concession sales

2. Profit from ordinary activities before income tax and interest

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

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

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

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

Megamart

2005 compared with 2004

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

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

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

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

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

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

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2004 compared with 2003

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

1. Profit from ordinary activities before income tax and interest

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

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

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

Target

2005 compared with 2004

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

1. Profit from ordinary activities before income tax and interest

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

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

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

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

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

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2004 compared with 2003

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

1. Profit from ordinary activities before income tax and interest

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

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

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

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

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

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

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

Property and Unallocated

2005 compared with 2004

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

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

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

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2004 compared with 2003

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

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

B. LIQUIDITY AND CAPITAL RESOURCES

Cash Flow information

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

Net cash inflow from operating activities

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

Net cash outflow from investing activities

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

Net cash outflow from financing activities

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

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

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Capitalization

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

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

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

Net debt

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

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

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Sources of liquidity

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

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

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

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

The following programs were terminated during 2005:

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

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

The following program was terminated in December 2005:

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

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

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

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

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

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

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

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Capital Management Initiatives

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

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

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

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

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

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

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES ETC.

Not applicable.

D. TREND INFORMATION

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

E. OFF BALANCE SHEET ARRANGEMENTS

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

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

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

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

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

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

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F. ***CONTRACTUAL OBLIGATIONS***

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

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

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

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

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

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ITEM 6 DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

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

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

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

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

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

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

Board Changes and Composition

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

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

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

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

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

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

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

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

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

Senior Management serves at the discretion of the Directors.

Details of the Directors and senior management are as follows:

Directors

Richard (Rick) H. Allert, AM[1]

Chairman

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

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

John E. Fletcher

Managing Director and Chief Executive Officer

FCPA Age 54, (Appointed Director 2001)

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

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

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Patricia (Patty) E. Akopiantz

Non-executive Director

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

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

Ronald K. (Keith) Barton

Non-executive Director

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

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

William (Bill) P. Gurry, AO[1]

Non-executive Director

LLB Age 58, (Appointed Director 2001)

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

Anthony (Tony) G. Hodgson

Non-executive Director

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

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

Belinda Hutchinson

Non-executive Director

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

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

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

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Ms Sandra McPhee

Non-executive Director

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

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

Martyn K. Myer

Non-executive Director

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

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

Michael Wemms

Non-executive Director

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

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

Senior Management

Joe Barberis

Managing Director, Officeworks

Age 46

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

Fiona Bennett

Group General Manager, Risk and Internal Audit

Age 49

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

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Pamela Catty

Group General Manager, Corporate Affairs

Age 53

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

Ian Clubb

Group General Manager, Human Resources

Age 51

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

Larry Davis

Managing Director Kmart

Age 62

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

Tim Hammon

Chief Officer, Corporate & Property Services

Age 52

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

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Launa Inman

Managing Director Target

Age 49

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

Tom Lemke

Group General Manager, Marketing and Customer Strategy

Age 57

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

- Developing a range of innovative products, services and loyalty initiatives to build brand and CML loyalty;
- Helping the business to better understand the needs of customers across all CML brands;
- Developing marketing initiatives to leverage the scale of all CML businesses across existing customer groups; and
- Developing and managing customer research and market intelligence for the Group.

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

Fraser MacKenzie

Chief Financial Officer

Age 54

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

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Peter Mahler

Chief Information Officer

Age 53

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

Gerry Masters

Managing Director Supermarkets

Age 49

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

Mick McMahon

Managing Director, Coles Express

Age 42

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

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Peter Merritt

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

Age 49

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

Andrew Potter

Group General Manager, Supply Chain

Age 43

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

Dawn Robertson

Managing Director Myer

Age 50

Ms Dawn Robertson is Managing Director of Myer. Ms Robertson began her retailing career as an executive trainee at Davidson s (a division of R H Macy) in Atlanta, Georgia, in 1977, after graduating from Auburn University with a BA in Fashion Merchandising. Over six years, she progressed through the positions of department manager and group manager to buyer for a number of departments. Ms Robertson moved to The May Company in 1983 and held a number of senior positions across various divisions of the group in the next 13 years. From 1997-98, Ms Robertson was President and CEO of McRae s, a division of Saks Inc. based in Jackson, Mississippi, operating 46 department stores. In this time, Ms Robertson led the opening of six new stores and many renovations, as well as new merchandising and marketing initiatives. Ms Robertson joined Federated Department Stores in 1998, as Executive Vice President, Federated Merchandising Group, for men s, kids and home. She was responsible for the merchandising of a substantial portion of Federated s business. In 2000, she was appointed President and Chief Merchandising Officer of Federated Direct. In this role, she has been responsible for overseeing Macy s Direct, which includes Macys.com and Macy s by Mail, and Bloomingdale s Direct, which includes Bloomingdales.com and Bloomingdale s by Mail.

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Peter Scott

Managing Director, Coles Myer Liquor Group

Age 47

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

Hani Zayadi Group

Managing Director of Food, Liquor & Fuel

Age 57

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

B. COMPENSATION

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT TEAM

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

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

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

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

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

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

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

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

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

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

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

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

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

1 In accordance w