



22 February 2022

The Manager
Company Announcements Office
Australian Securities Exchange

Dear Sir or Madam

Coles Group Limited – 2022 Half Year Results Release

Please find attached for immediate release to the market the 2022 Half Year Results Release for Coles Group Limited.

This announcement is authorised for release by the Board.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Daniella Pereira".

Daniella Pereira
Company Secretary

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Results Release

colesgroup

22 February 2022

2022 Half Year Results Release

Smarter Selling program and efficient management of COVID-19 disruption delivers solid Supermarkets EBIT, new Flybuys partners build scale for future customer rewards and personalisation.

First half Group performance highlights

- Sales revenue growth of 1.0% to \$20.6 billion
- Two-year sales growth of 8.6% in Supermarkets, 18.2% in Liquor and 1.1% in Express
- Q2 comparable sales growth of 1.6% in Supermarkets, 2.1% in Liquor and (5.6)% in Express
- EBIT of \$975 million impacted by higher COVID-19 disruption costs, related travel restrictions on Express' earnings and transformation project costs
- Smarter Selling benefits in excess of \$100 million in 1H22; On track to deliver over \$200 million of benefits in FY22
- Cash realisation of 117% and a strong balance sheet with a net cash position of \$54 million (excluding lease liabilities)
- Fully-franked interim dividend of 33.0 cents per share declared
- Improved safety with 4% reduction in TRIFR compared to 2H21

Key financial results - 27 weeks ended 2 January 2022

	1H22	1H21	CHANGE
Sales revenue¹ (\$ millions)	20,593	20,390	1.0%
EBITDA ² (\$ millions)	1,762	1,802	(2.2)%
EBIT² (\$ millions)	975	1,020	(4.4)%
Net profit after tax (NPAT) (\$ millions)	549	560	(2.0)%
Basic earnings per share (cents)	41.2	42.0	(1.9)%
Interim dividend per share ³ (cents)	33.0	33.0	-

¹ 1H21 sales revenue has been restated to reflect a reclassification of fulfilment income to Sales revenue (previously reported within Other Income).

² 1H22 includes approximately \$20 million of implementation operating costs in relation to the Witrion and Ocado transformation projects.

³ Dividends announced.

As Coles enters the third year of its "Winning in our Second Century" strategy, significant progress has been achieved during the first half of FY22, despite a highly volatile operating environment as a result of COVID-19.

Strategic highlights

Inspire Customers

- Strengthened Flybuys loyalty program with the addition of Bunnings and Officeworks, providing members new opportunities to earn and redeem points, as well as implementing new operating model that will enable improved personalised offers for customers
- NPS remained stable across Supermarkets and increased in Liquor vs the prior corresponding period, though both softened late in the half due to availability challenges
- Delivered Supermarkets eCommerce sales growth of 46% with investments made in customer experience including the launch of a new unified shoppable App, expanded benefits for Coles Plus members, the launch of an additional 30 new Click & Collect Rapid stores (order to pickup in 90 minutes) to 430 stores and expanded same day home delivery stores to approximately 500 at the end of the half
- Liquor eCommerce sales growth of 60% supported by the opening of a fourth eCommerce dark store in New South Wales

- Increased Exclusive to Coles sales by 5% with nine Coles Own Brand products winning 2022 Product of the Year awards
- Provided more customers with access to Best Buys range with the launch of an online platform while in-store offer expanded by 83 stores, to more than 400 stores at the end of the half

Smarter Selling

- Delivered Smarter Selling benefits in excess of \$100 million in 1H22, on track to deliver benefits over \$200 million in FY22 (by the end of FY22 total cumulative benefits are expected to be in excess of \$750 million since commencement of program), with the following key initiatives delivered in 1H22:
 - Measures to reduce loss in store through the use of artificial intelligence with dynamic markdowns rolled out to the dairy category, following successful deployment in meat in the prior year, and continued roll out of front of store loss prevention initiatives
 - Alignment of meat operating models nationally to deliver high quality retail ready meat for customers with reduced wastage and a safer working environment for our team members
 - Service transformation in store with continued roll out of trolley assisted check outs and customer bagging benches, enabling greater customer choice while improving team member productivity
 - eCommerce efficiency benefits through the introduction of an automated fraud detection tool to reduce loss, and continued focus on reduced cost to serve through improved pick efficiencies and delivery van optimisation
- Provided transport solutions and other value add services to suppliers through Coles Collect with revenue growth of 20% in 1H22
- Completed phase one of Fresh Produce Easy Ordering program with the successful rollout of a core range driving growth in emerging fresh categories e.g. organics
- Witron Queensland automated distribution centre (ADC) and Ocado Sydney eCommerce customer fulfilment centre (CFC) on track to be commissioned in 2023; Witron Sydney ADC to be commissioned in FY24 as originally planned, Ocado Melbourne eCommerce CFC delayed to FY24 (refer Ocado transformation update on page 5 for further information)
- Renewed 21 stores as part of Coles' tailored format strategy including six Format A, seven Format C and four Coles Local stores

Win Together

- Improved safety (4% improvement in TRIFR compared to 2H21) with investments in team member development, wearable technology, critical risk reduction programs such as fall from height improvements and manual handling equipment in stores
- Invested in team member mental health and wellbeing with the launch of a mental fitness app, company-wide mental wellbeing family activities and continued roll out of Gratitude, Empathy and Mindfulness (GEM) challenges
- Ranked the number two food retailer globally (Tesco #1) for sustainable business practices in the World Benchmarking Alliance's 2021 Food and Agriculture Benchmark
- Secured path to 100% renewable electricity by end of FY25 through signing three additional renewable energy contracts to purchase large-scale generation certificates with Origin Energy, ACCIONA Energia, and ENGIE
- Celebrated 10 years partnering with REDcycle and with our customers reached the milestone of more than 2 billion pieces of soft plastic diverted from landfill since the partnership began supporting our ambition of *Together to zero waste*
- Ranked number one in the 2021 GivingLarge Report for the largest percentage contribution of profit (on a rolling three-year basis) to the community among Australia's leading organisations, working together with our customers, team members and suppliers to provide community support
- Significant contributions from Coles, its customers, team members and suppliers to community organisations for the half including almost \$2.2 million as part of the SecondBite Christmas campaign, helping Australians in need of food relief at Christmas, more than \$680,000 for Movember to support men's health and more than \$2.1 million for Redkite to support children and families affected by cancer
- Strengthened Executive Leadership Team with the appointment of John Cox as Chief Technology Officer in the first half. Charlie Elias appointed as Chief Financial Officer (CFO) with Leah Weckert, current CFO, to move to the role of Chief Executive, Commercial and Express in the second half

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Group performance overview

\$ MILLION	1H22	1H21	CHANGE	2-YEAR CHANGE ¹
Supermarkets	18,582	18,213	2.0%	9.6%
Liquor	2,007	1,956	2.6%	18.4%
Express	615	669	(8.1)%	1.0%
Group gross retail sales² (non-IFRS)	21,204	20,838	1.8%	10.1%

¹2-year growth is calculated as growth between 1H22 and 1H20 (retail calendar basis).

²Gross retail sales comprises retail sales on a gross basis before adjusting for concession sales and the cost of Flybuys scheme points. Fuel concession sales are excluded from Express Gross retail sales on the basis Coles does not control retail pricing. Refer Appendix 2 for further information.

\$ MILLION	1H22	1H21	CHANGE	2-YEAR CHANGE ¹
Supermarkets ²	18,016	17,812	1.1%	8.6%
Liquor	1,999	1,946	2.7%	18.2%
Express	578	632	(8.5)%	1.1%
Group sales revenue	20,593	20,390	1.0%	9.2%

¹2-year growth is calculated as growth between 1H22 and 1H20 (retail calendar basis).

²1H21 sales revenue has been restated to reflect a reclassification of fulfilment income to Sales revenue (previously reported within Other Income).

\$ MILLION	1H22	1H21	CHANGE
Supermarkets ¹	1,552	1,555	(0.2)%
Liquor	156	159	(1.9)%
Express	81	103	(21.4)%
Other	(27)	(15)	(80.0)%
Group EBITDA	1,762	1,802	(2.2)%

¹Includes approximately \$20 million of implementation operating costs in relation to the Witron and Ocado transformation projects.

\$ MILLION	1H22	1H21	CHANGE
Supermarkets ¹	896	903	(0.8)%
Liquor	99	104	(4.8)%
Express	12	32	(62.5)%
Other	(32)	(19)	(68.4)%
Group EBIT	975	1,020	(4.4)%

¹Includes approximately \$20 million of implementation operating costs in relation to the Witron and Ocado transformation projects.

1H22 performance summary and dividend

As revenue from partner sales, such as third-party gift cards, scoop & weigh, Sushi Sushi and Roll'd in-house concessions, become an increasing proportion of sales revenue, Coles will enhance its disclosures by reporting gross retail sales. Gross retail sales comprises retail sales on a gross basis before adjusting for concession sales and the cost of Flybuys scheme points. Fuel concession sales are excluded from Express gross retail sales on the basis Coles does not control retail pricing. Group gross retail sales of \$21.2 billion increased by 1.8% in 1H22, and 10.1% on a two-year basis.

Group sales revenue of \$20.6 billion increased by 1.0% in 1H22, and 9.2% on a two-year basis despite cycling significantly elevated COVID-19 related sales in the prior corresponding period.

Group EBITDA of \$1.8 billion and EBIT of \$975 million decreased by 2.2% and 4.4% respectively with approximately \$150 million of COVID-19 costs incurred during the half, an increase of \$45 million compared to the prior corresponding period. Smarter Selling benefits in excess of \$100 million were also realised during the period. The vast majority of COVID-19 costs and Smarter Selling benefits impacted the Supermarkets segment.

In Supermarkets, EBIT also includes approximately \$20 million of project implementation operating costs in relation to the Witron and Ocado transformation projects.

In Express, EBIT of \$12 million was impacted by reduced mobility as a result of COVID-19 restrictions in New South Wales, Victoria and the Australian Capital Territory.

While in the "Other" segment, net costs increased by \$13 million to \$32 million as a result of lower earnings from property operations, higher insurance costs and an increased net loss from Coles' 50% share of Flybuys.

The Coles Board has declared a fully-franked interim dividend of 33.0 cents per share, flat on the prior corresponding period, with a record date of 4 March 2022 and a payment date of 31 March 2022.

Statement from Coles Group CEO, Steven Cain

"I would like to thank our team members, suppliers, community partners and state and federal governments for their incredible efforts during the latest waves of Delta and Omicron, and the flood related road and rail recovery operation for Western Australia which have been highly disruptive. I would also like to thank our customers for their support during periods of reduced product availability in store which is now improving on the Eastern seaboard. Strategic progress continues and we are very excited that the biggest automation projects in Coles' history, Witron and Ocado, will open next year (2023) to further enhance efficiencies and the range and service we can offer to inspire customers."

Update on COVID-19 impacts

Supermarkets

Supermarkets comparable sales growth in the first half increased by 1.5%, cycling the strong COVID-19 related comparable sales growth in the prior corresponding period of 7.2%. Sales growth remained elevated in the first quarter and in the early part of the second quarter, with signs of local shopping behaviours continuing, largely as a result of lockdowns across New South Wales, the Australian Capital Territory and Victoria, before slowing in the middle of the second quarter as restrictions eased. Sales growth again increased late in the second quarter as Supermarkets experienced a strong Christmas trading period as families celebrated Christmas together. The increased demand for eCommerce also continued with sales growth of 46% and penetration of 8.2% in the first half, albeit eCommerce growth slowed as restrictions eased and customers returned to shopping in store.

In terms of store cohorts, the end of lockdowns in New South Wales, the Australian Capital Territory and Victoria early in the second quarter, combined with Christmas trade, saw an increase in the contribution from shopping centre stores as the contribution from neighbourhood stores declined, however this trend started to reverse at the end of the second quarter as Omicron became more prevalent.

Liquor

Liquor sales remained elevated during the half with comparable sales growth of 1.8%, cycling the COVID-19 related sales growth in the prior corresponding period of 15.1%. The re-opening of on-premise venues in the second quarter led to a softening of Liquor sales prior to strong trade over the Christmas period. eCommerce continued to perform strongly with sales growth of 60% and penetration of 4.8% in the first half.

Express

Government restrictions due to COVID-19 impacting mobility and traffic flows resulted in lower fuel volumes which negatively impacted convenience c-store sales revenue with c-store comparable sales declining by 7.4% in the first half (as well as cycling strong tobacco sales in the prior corresponding period). At the end of lockdowns in the early part of the second quarter, the trajectory of fuel volumes improved with average weekly fuel volumes growing by 17% quarter-on-quarter to 56.5mL per week.

Costs

As foreshadowed at the first quarter sales results, COVID-19 costs remained elevated with approximately \$150 million costs incurred in the first half compared to approximately \$105 million in the prior corresponding period, as the Delta variant caused significant disruptions across Coles' stores, supply chains, customers, and the communities we serve. The vast majority of the COVID-19 costs incurred in the half were recorded in the Supermarkets segment and were largely due to team member isolation requirements, additional door greeters to ensure QR code compliance in the early part of the half and rapid antigen testing requirements in distribution centres.

Update on Ocado transformation project

For more than 20 years, Coles has offered customers the opportunity to shop online, recognising the importance of an omni-channel offering. In recent years, the shift in consumer behaviour to increasingly shop online led to the March 2019 commitment to partner with Ocado, the world's leading technology provider in automated single pick fulfilment technology and home delivery solutions. This partnership provides the foundation for Coles' strategic differentiator to "win in online food and drinks with an optimised store and supply chain network", announced as part of Coles' Winning in our Second Century strategy outlined in June 2019.

In February 2021, Coles provided an eCommerce strategic update which detailed plans to provide a seamless, unified customer experience by building customer focused digital capabilities. To drive this, over the past 18 months, Coles has invested significantly in its digital platforms, including investments in platform stability and most recently, the unified shoppable App. Work also continues on merging Coles' content and commerce websites.

As a result of these significant investments in customer experience and the rapid acceleration in eCommerce revenue and penetration since the onset of COVID-19, Coles and Ocado have agreed to update arrangements regarding how the Ocado Smart Platform (OSP) will integrate with these new initiatives. Coles will manage the online store and web presence for the intake of orders, and Ocado will provide OSP automated fulfilment functionality through the CFCs and store pick channels, as well as last-mile solutions.

Steven Cain said that "We are delighted to be able to work with the Ocado team in ensuring that this enhancement would support our delivery of the optimum customer experience for the Australian market and we are very encouraged by the continuing investment being undertaken by Ocado in its development of more efficient delivery platforms, as recently announced."

The Delta variant of COVID-19 has also caused significant disruption upon the construction industry. In Sydney, construction delays have largely been largely mitigated, and as a result, the Sydney CFC is expected to open in-line with the original schedule (early FY24), while construction delays have had a greater impact on the Melbourne CFC which is now expected to open in FY24 (previously FY23).

Update on Fair Work Ombudsman (FWO) proceedings

In February 2020, Coles announced it was conducting a review into the pay arrangements for all team members who received a salary and were covered by the General Retail Industry Award 2010 (GRIA). The review assessed the remuneration paid to 15,011 team members against GRIA. Coles conducted a remediation program, and to date Coles has incurred \$13 million of remediation costs with a further \$12 million provisioned currently.

Following the announcement in February 2020, the Fair Work Ombudsman (FWO) commenced an investigation into Coles' pay arrangements for a group of the affected salaried team members covered by the GRIA.

In December 2021, the FWO filed proceedings in the Federal Court of Australia which include issues relating to the interpretation and application of various provisions of the GRIA. FWO alleges that Coles is obligated to pay a further \$108 million in remediation payments to 7,687 team members for the period 1 January 2017 to 31 March 2020. This group is a subset of the award covered salaried employees which were assessed as part of the 2020 review by Coles. Additionally, the period of time covered in the proceedings is a lesser period than the period covered in the Coles' remediation.

Coles is currently assessing the claims in the proceeding and preparing a defence. The Court has indicated that threshold questions including on interpretation of the GRIA may be dealt with as a preliminary matter. As such, the potential outcome, extent to which further remediation may be necessary, and costs associated with this matter remain uncertain as at the date of this report.

In May 2020, Coles was notified that a class action proceeding had been filed in the Federal Court of Australia in relation to payment of Coles managers employed in supermarkets. Coles is defending the proceeding. The potential outcome and total costs associated with this matter remain uncertain.

Segment performance review

Supermarkets

\$ MILLION	1H22	1H21	CHANGE
Sales revenue¹	18,016	17,812	1.1%
EBITDA ²	1,552	1,555	(0.2)%
EBIT²	896	903	(0.8)%
Gross margin ¹ (%)	26.1	25.9	20bps
CODB ¹ (%)	(21.1)	(20.8)	(30)bps
EBIT margin (%)	5.0	5.1	(10)bps

¹ 1H21 sales revenue, gross margin and CODB have been restated to reflect a reclassification of fulfilment income to Sales revenue (previously reported within Other Income).

² 1H22 includes approximately \$20 million of implementation operating costs in relation to the Witron and Ocado transformation projects.

Operating metrics

	1H22	2Q22	1Q22	1H21
Gross retail sales (\$ billions)	18.6	9.8	8.8	18.2
Gross retail sales growth (%)	2.0	1.9	2.1	7.4
Comparable sales growth (%)	1.5	1.6	1.4	7.2
2-year comparable sales growth ¹ (%)	8.7	6.6	11.1	9.1
eCommerce sales ² (\$ billions)	1.5	0.7	0.8	1.0
eCommerce penetration ² (%)	8.2	7.6	8.8	5.7
Sales per square metre ³ (MAT \$/sqm)	17,919	17,919	17,868	18,101
Net selling area (MAT '000 sqm)	1,952	1,952	1,948	1,926
Net promoter score (point improvement)	0.2	(1.1)	1.5	1.9
Inflation / (deflation) (%)	(0.2)	(0.2)	(0.3)	2.3
Inflation / (deflation) excl. tobacco and fresh (%)	(0.2)	0.3	(0.8)	0.7

¹ Comparable 2-year growth is calculated as the aggregate of 1H22 and 1H21 growth rates.

² eCommerce sales include Liquor sold through coles.com.au. 1H21 eCommerce sales and penetration has been restated to reflect a reclassification of fulfilment income (delivery fees) to Sales revenue (previously reported within Other Income).

³ Sales per square metre is on a moving annual total (MAT), calculated on a rolling 52-week basis.

Performance highlights

Supermarkets sales revenue was \$18.0 billion for the half, an increase of 1.1% on the prior corresponding period, with comparable sales growth of 1.5%, and 8.7% on a two-year basis. For the second quarter, sales revenue increased by 0.5% and comparable sales growth was 1.6% and 6.6% on a two-year basis. Gross retail sales of \$18.6 billion increased by 2.0% with the difference to sales revenue driven by higher concession sales and targeted Flybuys investments to drive profitable sales growth.

Sales revenue growth was delivered as a result of strong trade over the Christmas period and growth in eCommerce sales during the half. After a challenging year, customers opted for premium products at Christmas with popular items including rock lobster, croissants, macarons and premium cheese. Customer satisfaction remained stable, though softened late in the half, due to availability challenges driven by COVID-19.

eCommerce sales of \$1.5 billion grew by 46% with penetration of 8.2% in the first half, compared to 5.7% in the prior corresponding period. Sales growth was supported by expanded customer offers such as double Flybuys points for Coles Plus members, and investments in capacity which supported elevated demand earlier in the half. A new unified shoppable App was also launched during the half to further improve the customer experience. During the half, more than 100 Click & Collect (to the boot of car) locations were added taking the number of locations to more than 640 while 30 new Click & Collect Rapid stores (order to pickup in 90 minutes) were added taking the number of stores to over 430. The home delivery store network was also expanded nationwide with a focus on

regional areas, and same day home delivery now available at approximately 500 stores, allowing customers greater access and choice of the Coles Online home delivery service.

eCommerce contribution to Supermarkets profit increased relative to the prior corresponding period, largely a result of strong sales growth and media income as well as efficiency benefits delivered through the introduction of an automated fraud detection tool to reduce loss, and improved delivery van optimisation.

Coles provided more customers with access to its Best Buys range with the in-store offer now available in more than 400 stores, expanded by 83 stores in the half, while also providing more range by moving from fortnightly to weekly event launches. During the half a new online platform was launched to provide customers with an extended range of online exclusive general merchandise products.

Tailored range activity continued with more than 300 range changes completed during the half in categories such as health foods, convenience meals, international and Indian/Asian foods. Innovation was also delivered with pet treat bars added to a further 115 stores.

Exclusive to Coles delivered a strong sales performance through innovation and value for customers with sales of \$5.9 billion in the first half, an increase of 5% compared to the prior corresponding period. Over 840 new products were launched in the first half, including Coles' liquid Breakfast on the Move range, Coles Kitchen's range of pasta and family salad kits and in the Christmas range, mini chicken teriyaki and satay style kebabs, peking duck and cheeseburger spring rolls. During the half, Own Brand won 65 product awards including nine Product of the Year awards across products such as Coles Kitchen Green Goddess Salad kit, Coles Perform Open Chicken Fajita and Coles Made Easy Slow Cooked Pork and Beef Meatballs.

Coles Own Brand continued to drive industry change in responsible sourcing practices with sustainability and packaging commitments. This was recognised by the Australian Packaging Covenant Organisation (APCO) with Coles winning two prestigious packaging awards - APCO's "Our Packaging Future Award for Packaging Sustainability Education" and the "Large Retailer Award" for leadership in packaging.

Total Supermarkets price deflation of (0.2)% was recorded for the half and (0.2)% for the second quarter. In the second quarter, inflation in packaged groceries was partly offset by deflation in tobacco from competitive pricing and the absence of an annual tobacco excise increase in September 2021. In fresh¹, inflation in meat was more than offset by fresh produce deflation, predominantly in fruit, due to favourable growing conditions. Supermarkets recorded deflation excluding tobacco and fresh of (0.2)% for the half and inflation of 0.3% for the second quarter.

Coles completed 21 renewals during the half including six Format A, seven Format C and four Coles Local stores as COVID-19 related construction delays impacted delivery of Coles' store renewal program. Coles now has 47 Format A, 76 Format C and 13 Coles Local stores across the network. For the half, four new openings and three closures were completed. At the end of the period there were 835 Supermarkets.

Gross margin of 26.1% increased by 20 bps with strategic sourcing, particularly in Coles Own Brand, and Smarter Selling benefits such as supply chain and loss prevention initiatives partially offset by the COVID-19 costs incurred in the half.

Cost of doing business (CODB) as a percentage of sales of 21.1% increased by 30 bps due to higher COVID-19 costs of approximately \$100 million (the vast majority of the remaining \$50 million COVID-19 costs were incurred in Supermarkets gross profit), which compares to \$70 million incurred in the prior corresponding period. Smarter Selling benefits were also realised in CODB during the period to reduce underlying cost pressures and to allow for investments in IT, digital and strategic projects. In addition, approximately \$20 million of implementation operating costs in relation to the Witron and Ocado transformation projects were incurred, while strategic investments in IT and eCommerce continued.

EBIT of \$896 million decreased by 0.8% and EBIT margin of 5.0% declined by 10 bps. Excluding the implementation operating costs associated with the Witron and Ocado transformation projects of approximately \$20 million, EBIT increased by 1.3%.

¹ Includes fresh produce, meat, deli, dairy and bakery

Liquor

\$ MILLION	1H22	1H21	CHANGE
Sales revenue	1,999	1,946	2.7%
EBITDA	156	159	(1.9)%
EBIT	99	104	(4.8)%
Gross margin (%)	21.8	21.5	23bps
CODB (%)	(16.8)	(16.2)	(62)bps
EBIT margin (%)	4.9	5.3	(39)bps

Operating metrics

	1H22	2Q22	1Q22	1H21
Gross retail sales (\$ billions)	2.0	1.1	0.9	2.0
Gross retail sales growth (%)	2.6	2.6	2.6	15.3
Comparable sales growth (%)	1.8	2.1	1.4	15.1
2-year comparable sales growth ¹ (%)	16.9	15.2	19.2	16.6
eCommerce sales ² (\$m)	95	56	40	59
eCommerce penetration (%)	4.8	5.0	4.5	3.0
Net Promoter Score ³ (point improvement)	3.1	3.1	0.4	N/A
Sales per square metre ⁴ (MAT \$/sqm)	16,315	16,315	16,265	16,603
Net selling area (MAT '000 sqm)	220	220	218	215

¹ Comparable 2-year growth is calculated as the aggregate of 1H22 and 1H21 growth rates.

² eCommerce sales exclude Liquor sold through coles.com.au which is reported in Supermarkets' eCommerce sales.

³ Net Promoter Score is based on Liquorland NPS results.

⁴ Sales per square metre is on a moving annual total (MAT), calculated on a rolling 52-week basis.

Key highlights

Liquor sales revenue was \$2.0 billion for the half, an increase of 2.7% on the prior corresponding period, with comparable sales growing by 1.8%, and 16.9% on a two-year basis. For the second quarter, Liquor sales revenue increased by 2.8% with comparable sales growing by 2.1% and 15.2% on a two-year basis.

Sales growth for the half was driven by strong eCommerce sales with Liquorland the strongest performing banner. Spirits, Ready-To-Drink (RTD) and Wine performed strongly at the category level, supported by recent range activity in key growth products including gin and seltzers, and trending wine categories such as lighter red varietals and rose. Complementing range activity, Exclusive Liquor Brand (ELB) and local product contribution grew strongly with more than 470 net new local SKUs added and more than 230 ELB lines receiving awards in the half. This included Smithy's winning the Australian Lager of the Year award at the Melbourne International Beer Competition and the Armada Dark Rum winning the Dominican Rum of the Year award at the Melbourne International Spirits Competition.

Significant progress was made during the half against Liquor's strategy, underpinned by investments in team, systems, eCommerce and formats. Improving customer metrics in service, value, range, and store experience were supported by investments in customer service, particularly leading into the peak Christmas trading period, and a focus on delivering trusted value through lowering prices for longer. Strategic investments in eCommerce capacity continued during the half with the launch of a fourth eCommerce dark store in New South Wales which supported strong eCommerce sales growth of 60% and penetration of 4.8% in the first half, compared to 3.0% in the prior corresponding period. Transformative investments in core IT systems to support differentiation and growth over the long-term also commenced during the half.

Renewal activity continued across all three banners with 97 renewals completed during the half while the new Black & White Liquorland format performed strongly and supported strengthening customer store experience metrics. Optimisation of the Liquor store network remained a focus with seven new stores opened and five stores closed, taking the total Liquor network to 931 sites.

Gross margin of 21.8% increased by 23 bps largely due to improved shelf margin, despite the investment in pricing during the half.

CODB as a percentage of sales of 16.8% increased by 62 bps largely due to investments in customer service and team capability, as well as transformation costs in relation to core IT systems and eCommerce in line with Liquor's refreshed strategy. Minor additional COVID-19 costs were also incurred in the latter part of the half.

Liquor EBIT of \$99 million decreased by 4.8% for the half with EBIT margin of 4.9%, declining by 39 bps, driven largely as a result of investments aligned with strategy execution.

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Express

\$ MILLION	1H22	1H21	CHANGE
Convenience (c-store) sales revenue	578	632	(8.5)%
EBITDA	81	103	(21.4)%
EBIT	12	32	(62.5)%
Gross margin (%)	51.5	50.9	67bps
CODB (%)	(49.5)	(45.8)	(363)bps
EBIT margin (%)	2.1	5.0	(295)bps

Operating metrics

	1H22	2Q22	1Q22	1H21
C-store gross retail sales ¹ (\$ millions)	615	336	279	669
C-store gross retail sales growth ¹ (%)	(8.1)	(6.7)	(9.8)	10.0
Comparable c-store sales growth (%)	(7.4)	(5.6)	(9.5)	9.9
2-year comparable sales growth ² (%)	2.4	4.0	0.6	12.8
Weekly fuel volumes (mL)	52.6	56.5	48.4	55.5
Fuel volume growth (%)	(5.2)	(3.2)	(7.5)	(13.8)
Comparable fuel volume growth (%)	(4.4)	(1.9)	(7.5)	(14.9)

¹Fuel concession sales are excluded from Express gross retail sales on the basis that Coles does not control retail pricing.

²Comparable 2-year growth is calculated as the aggregate of 1H22 and 1H21 growth rates.

Key highlights

C-store sales revenue was \$578 million for the half, a decrease of 8.5% on the prior corresponding period, with comparable c-store sales decreasing by 7.4%. In the second quarter, c-store sales revenue decreased by 7.0% and comparable c-store sales decreased by 5.6%. Gross retail sales decreased by 8.1% to \$615 million.

C-store sales growth was negatively impacted by lower forecourt traffic due to lockdowns in New South Wales, Victoria and the Australian Capital Territory during the half, as well as cycling strong tobacco sales in the prior corresponding period. Excluding tobacco, c-store sales were flat in the second quarter with strong growth in food-to-go, including coffee, indicating an improving trajectory as restrictions eased during the half.

To allow customers convenient access to the Express c-store offer, DoorDash was rolled out at over 540 Express sites during the half, providing customers with more than 400 products for immediate delivery. Strategic investments also continued in the network, including the renewal of 64 sites together with our Alliance partner. During the half, six sites were closed, taking the total Express network to 711 sites.

Fuel volumes declined by 5.2% during the half with comparable fuel volumes declining by 4.4% driven by COVID-19 restrictions impacting traffic flows and mobility particularly in New South Wales, Victoria and the Australian Capital Territory. Average weekly fuel volumes of 52.6mL per week were recorded during the half. For the second quarter, average weekly fuel volumes were 56.5mL per week, improving by 17% compared to the first quarter of FY22 as lockdown restrictions began to ease across impacted states.

Gross margin of 51.5% improved by 67 bps largely due to favourable mix driven by strong growth in food-to-go and declining tobacco volumes. CODB as a percentage of sales of 49.5% increased by 363 bps largely due to lower sales across Express' fixed cost base. This was despite a continued focus on cost control to mitigate COVID-19 headwinds driving a year-on-year decrease in CODB.

Express EBIT for the half was \$12 million with EBIT margin decreasing to 2.1%.

Other

Coles reported net costs of \$32 million for the half. Other includes corporate costs, Coles' 50% share of flybuys' net result, the net gain or loss generated by Coles' property portfolio and self-insurance provisions.

Corporate costs of \$43 million were incurred for the half, an increase relative to the prior corresponding period, largely as a result of higher insurance costs. Coles' 50% share of flybuys' net result was a \$4 million loss as we continue to invest in Flybuys, while earnings from property operations were \$15 million for the half compared to \$20 million in the prior corresponding period.

Balance sheet

\$ MILLION	2 JAN 2022	27 JUN 2021	3 JAN 2021
Inventories	2,387	2,107	2,423
Trade and other receivables	336	368	415
Trade and other payables	(4,282)	(3,660)	(4,173)
Working capital	(1,559)	(1,185)	(1,335)
Property, plant and equipment and equity investments	4,653	4,683	4,496
Right-of-use assets	7,162	7,288	7,703
Intangibles	1,806	1,698	1,620
Provisions	(1,293)	(1,408)	(1,358)
Other assets / (liabilities)	(20)	35	(64)
Capital employed	10,749	11,111	11,062
Net cash / (debt)	54	(355)	38
Lease liabilities	(8,635)	(8,756)	(9,168)
Net tax balances	841	813	860
Total net assets	3,009	2,813	2,792
Inventory days	28	29	29
Trade payable days	(33)	(33)	(33)

Key highlights

Net assets were \$3,009 million, an increase of \$217 million compared to the prior corresponding period.

Working capital of (\$1,559) million improved by \$224 million compared to the prior corresponding period, with higher trade payables, primarily from strong Christmas trade, as well as reduced inventory holdings due to heightened COVID-19 demand towards the end of the half. Trade and other receivables reduced from 3 January 2021 following the settlement of a property development loan in the second half of FY21. Inventory days marginally improved relative to the prior corresponding period as stock availability challenges resulted in abnormally low stock holdings at certain times during the half.

Right-of-use assets of \$7,162 million decreased by \$126 million compared to the full year largely driven by depreciation for the period, partially offset by new leases.

Provisions decreased by \$115 million compared to the full year due to the utilisation of the Witron transformation project provision and a moderate reduction in employee entitlements as COVID-19 restrictions eased. Employee leave entitlements remained above pre-COVID-19 levels as travel restrictions resulted in less leave utilisation over the period.

Net cash (excluding lease liabilities) of \$54 million was modestly above the prior corresponding period and a \$409 million decrease from the full year reflecting seasonal net working capital movements. At the half, net leverage including lease liabilities was 2.7x. In August 2021, Coles established a total of \$1.3 billion, four-year Sustainability Linked Loans (SLLs) under its bilateral debt facilities, replacing existing debt commitments. The \$1.3 billion SLLs draw a direct line between Coles' sustainability performance and cost of capital, providing transparency and

accountability as we work to fulfil our ambition to be Australia's most sustainable supermarket. The SLLs were undrawn at 2 January 2022.

Cash flows before financing activities

\$ MILLION	1H22	1H21
EBIT	975	1,020
Depreciation and amortisation	787	782
EBITDA	1,762	1,802
Movement in working capital	372	221
Movement in provisions and other	(70)	134
Net cash from operating activities – excluding interest and tax	2,064	2,157
Income tax paid	(259)	(207)
Interest component of lease payments	(181)	(199)
Net interest (paid) / received	(21)	(15)
Net cash from operating activities	1,603	1,736
Net capital expenditure	(374)	(503)
Other	(3)	(4)
Net cash from investing activities	(377)	(507)
Net cash flow before financing activities	1,226	1,229
Cash realisation ratio	117%	120%

Key highlights

Earnings converted strongly to net cash from operating activities excluding interest and tax, with cash realisation at 117%. This was primarily driven by an increased benefit from a reduction in working capital offset by a reduction in cash flow due to the provision utilisation relative to the full year (as detailed in the balance sheet commentary above).

Net cash flow before financing activities was broadly stable relative to the prior corresponding period driven by lower capital expenditure (refer below), despite a \$52 million increase in income tax due to the payment timing of the FY21 income tax.

Capital expenditure

Gross operating capital expenditure on an accrued basis was \$418 million in the first half. Within Supermarkets, capital expenditure was incurred in relation to investments in the store renewal program, as well as continued investments in eCommerce and the Witron and Ocado transformation projects while Liquor capital expenditure was focused on new store openings and renewals, particularly the 'Black & White' Liquorland format.

Acquisition and divestment activity was stable compared to the prior half resulting in a net property inflow of \$34 million, compared to a net property inflow of \$24 million in the prior corresponding period.

Outlook

As Omicron spread through the community in the early part of January, Supermarkets sales were elevated before moderating later in the month. There has been significant variation in sales performance between states, store locations and on a week-to-week basis as a result of COVID-19 and floods in South Australia which have had an impact on sales, particularly in Western Australia.

Coles will continue to focus on providing trusted value for customers, including through Exclusive to Coles products, despite increasing cost pressures.

While the current operating environment remains uncertain, COVID-19 costs of approximately \$30 million were incurred in January, primarily due to the large number of COVID-19 related isolations, which have now moderated in February.

As foreshadowed at the first quarter sales results, COVID-19, including construction delays, has impacted Coles' capital expenditure program. As such, Coles now expects capital expenditure in FY22 to be between \$1.0 billion to \$1.2 billion (previously \$1.2 billion to \$1.4 billion).

For further information, please contact:

Investors

Mark Howell
Mobile: +61 400 332 640

Lisa Zimmet
Mobile: +61 428 857 242
E-mail: investor.relations@colesgroup.com.au

Media

Blair Speedy
Mobile: +61 431 960 249
E-mail: media.relations@coles.com.au

Appendix 1 – Number of retail stores

	OPEN AS AT 28 JUN 2021	OPENED	CLOSED	OPEN AS AT 2 JAN 2022
NSW & ACT	261	2	0	263
QLD	182	1	(2)	181
VIC & TAS	234	0	0	234
SA & NT	61	0	0	61
WA	96	1	(1)	96
Supermarkets	834	4	(3)	835
Liquor	929	7	(5)	931
Express	717	0	(6)	711
Group store numbers	2,480	11	(14)	2,477

Appendix 2 – Gross retail sales

As revenue from partner sales (e.g. third-party gift cards, scoop & weigh, Sushi Sushi, Roll'd in-house concessions) become an increasing proportion of sales revenue, Coles has enhanced its disclosures by reporting gross retail sales, a non-IFRS measure representing partner inclusive sales. Gross retail sales should be considered in addition to, and not intended to be substitutable for, IFRS measurements.

Gross retail sales comprises retail sales on a gross basis before adjusting for concession sales and the cost of Flybuys scheme points. Fuel concession sales are excluded from Express gross retail sales on the basis that Coles does not control retail pricing. Partner inclusive sales captured under gross retail sales are used internally by management for performance analysis, planning and reporting purposes. The below tables provide prior period comparatives for gross retail sales.

	2Q22	1Q22	FY21	4Q21	3Q21	2Q21	1Q21
Supermarkets	9,766	8,816	34,645	8,537	7,895	9,583	8,630
Liquor	1,130	877	3,542	823	763	1,101	855
Express	336	279	1,262	302	291	360	309
Group gross retail sales	11,232	9,972	39,449	9,662	8,949	11,044	9,794

	FY20	4Q20	3Q20	2Q20	1Q20
Supermarkets	33,635	8,307	8,372	9,089	7,867
Liquor	3,317	879	743	968	727
Express	1,176	296	272	327	281
Group gross retail sales	38,128	9,482	9,387	10,384	8,875

Appendix 3 – Glossary of terms

Non-IFRS financial information

- This Results Release contains non-IFRS financial information which in the ordinary course, is not subject to audit or review.
- IFRS or Statutory financial information is financial information that is presented in accordance with all relevant accounting standards.
- Any non-IFRS financial information is clearly labelled to differentiate it from the Statutory/IFRS financial information.
- The use of non-IFRS information in the 2022 Half Year Results Release provides readers of these documents with meaningful insights into Coles' financial performance.
- Balance Sheet and Cash Flow information presented in this Results Release is consistent with underlying information disclosed in the Appendix 4D Half Year Financial Report

Average basket size – A measure of how much each customer spends on average per transaction

B2C – Business to Consumer. Refers to eCommerce sales between Coles Online and the retail consumer

bps - Basis points. One basis point is equivalent to 0.01%

Capital employed – Total net assets excluding net tax balances, net debt and lease liabilities

Cash realisation – Calculated as operating cash flow excluding interest and tax, divided by EBITDA

CODB – Costs of doing business. These are expenses which relate to the operation of the business below gross profit and above EBIT

Comparable sales – A measure which excludes stores that have been opened or closed in the last 12 months and excludes demonstrable impact on existing stores from store disruption as a result of store refurbishment or new store openings

EBIT – Earnings before interest and tax, calculated in accordance with accounting standards

EBITDA – Earnings before interest, tax, depreciation and amortisation, calculated in accordance with accounting standards

EPS - Earnings per share, calculated in accordance with accounting standards

Exclusive to Coles – Refers to the portfolio of product brands that are exclusively available at Coles, and includes Coles Own Brand and Exclusive Proprietary Brand products. Coles Own Brand refers to the portfolio of product brands owned by Coles (e.g. Coles Finest, KOi, Coles Nature's Kitchen). Exclusive Proprietary Brand refers to the portfolio of product brands owned by suppliers but exclusive to Coles (e.g. La Espanola). There has been no change to products included in the financial calculations reported since 1H FY21, including sales and penetration rates

Gross margin – The residual income remaining after deducting cost of goods sold, total loss and logistics from sales, divided by sales revenue

Gross retail sales- Comprises retail sales on a gross basis before adjusting for concession sales and the cost of Flybuys scheme points. Fuel concession sales are excluded from Express gross retail sales on the basis Coles does not control retail pricing

Group sales revenue or Group EBIT – Total sales revenue or EBIT generated by Group for the period

IFRS – International Financial Reporting Standards

Leverage ratio – Calculated as gross debt, less cash at bank and on deposit, add lease liabilities, divided by EBITDA

MAT – Moving annual total. Sales per square metre is calculated as Sales divided by Net selling area. Both Sales and Net selling area are based on a MAT, calculated on a rolling 52-week basis

Net Promoter Score – Metric used to measure customer advocacy, derived from an externally facilitated survey with a nationally representative sample. Liquor NPS is based on Liquorland NPS results

Perfect Order Rate - The percentage of total Home Delivery orders (excluding Click&Collect) that are fulfilled in full and on time without any missing items or substitutions

pp - Percentage point

Significant items – Large gains, losses, income, expenditure or events that are not in the ordinary course of business. They typically arise from events that are not considered part of the core operations of the business

SKU – Stock Keeping Unit

TRIFR - Total Recordable Injury Frequency Rate. The number of lost time injuries, medically treated injuries and restricted duties injuries per million hours worked, calculated on a rolling 12-month basis. TRIFR includes all injury types including musculoskeletal injuries

Two-year growth - 2-year sales growth is calculated as growth between 1H22 and 1H20 (retail calendar basis). Comparable 2-year growth is calculated as the aggregate of 1H22 and 1H21 growth rates

Working capital – Includes all current assets and liabilities that form part of the day-to-day operations of the business (inventories, receivables and payables)