24 September 2020

The Manager
Company Announcements Office
Australian Securities Exchange

Dear Manager,

2020 ANNUAL REPORT

In accordance with the ASX Listing Rules, attached for release to the market is Coles Group Limited's 2020 Annual Report.

This announcement is authorised by the Board.

Yours faithfully,

Daniella Pereira
Company Secretary

For more information:

Investor Relations
Mark Howell
Mobile: +61 400 332 640
E-mail:
investor.relations@colesgroup.com.au

Media
Meg Rayner
Mobile: +61 439 518 456
E-mail:
media.relations@coles.com.au

colesgroup

2020 Annual Report

Sustainably feed all Australians to help them lead healthier, happier lives

Coles Group Limited
ABN 11 004 089 936

Coles acknowledges the Traditional Custodians of Country throughout Australia and pays its respects to elders past and present. We recognise their rich cultures and continuing connection to land and waters.

Aboriginal and Torres Strait Islander peoples are advised that this document may contain names and images of people who are deceased.

All references to Indigenous people in this document are intended to include Aboriginal and/or Torres Strait Islander people.

Forward-looking statements

This report contains forward-look lled entities (together 'Coles' or 'the Group'), including stateme ents of current expectations with respect to the Group's business and operations, market conditions, results of operations and financial conditions, and risk management practices. Forward-looking statements can generally be identified by the use of w plan', 'will', 'anticipate', 'may', 'believe', 'should', 'expect', 'intend', 'outlook', 'guidance' and other simi

These forward-looking statements are based on the Group's good-faith assumpti , regulatory and other relevant environments that will exist and affect the Group's business and operation give any assurance that the assumptions will prove to be correct. The forward-looking statements involve known and unknown risks, uncertainties and assumptions and other important factors, many of which are beyond the reasonable control of the Group, that could cause the actual results, performances or achievements of the Group to be materially different from future results, performances or achievements expressed or implied by the statements.

Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements in this report speak only as at the date of issue. Except as required by applicable laws or regulations, the Group does not undertake any obligation to publicly update or revise any of the forward-looking statements or to advise of any change in assumptions on which any such statement is based. Past performance cannot be relied on as a guide to future performance.

Non-IFRS Information

This report contains IFRS and non-IFRS financial information. IFRS financial information is financial information that is presented in accordance with all relevant accounting standards. Retail or non-IFRS financial information is financial information that is not defined or specified under any relevant accounting standards and may not be directly comparable with other companies' information.

Any non-IFRS financial information included in this report has been labelled to differentiate it from statutory or IFRS financial information. Non-IFRS measures are used by management to assess and monitor business performance at the Group and segment level and should be considered in addition to, and not as a substitute for, IFRS information. Non-IFRS information is not subject to audit or review.

Other Information

Photographs in our Annual Report may have been taken before social distancing restrictions were in place. The image of FightMND campaign director Bec Daniher with Coles team members on page 11 of this report was photographed by News Ltd / Newspix.

Front cover: In addition to the collection of unsold, edible food from our supermarkets and distribution centres, food and groceries to a retail value of $7.9 million were provided to SecondBite and Foodbank this year in response to increasing demand for food relief as a result of COVID-19. SecondBite CEO Jim Mullan said, 'It's incredible to see how our partnership with Coles has grown over the years and the impact this has had on the most vulnerable people in our community. Many shoppers wouldn't be aware of the work that goes on behind the scenes to ensure edible unsold food ends up on the plates of those in need, rather than in landfill. We are proud to work with an organisation that is a clear leader with respect to both its social and environmental responsibilities.'

Contents

2020 Annual Report

Our vision is to become the most trusted retailer in Australia and grow long-term shareholder value.

Customers trust Coles, as part of the fabric of Australian society for more than 100 years, to provide great value food and drinks.

We are known for our value, range and customer service through our extensive store network and for providing online shopping solutions across Australia.

The Pergoliti family at Harvey Citrus in Western Australia received a grant from the Coles Nurture Fund in FY20 to extend its supply of WA-grown citrus over the summer and increase local employment by expanding its cool room facility and installing solar panels on its packing shed. Pictured is Andrew Pergoliti with his father Steve and daughter Alyssa.

Our purpose is to sustainably feed all Australians to help them lead healthier, happier lives.

2020 performance

6.9
Sales growth[1]

for Supermar

5.0%
Supermarkets
s density growth[3]

$1.4bn
EBIT[1]

$362m
Net debt[4]

111%
Cash realisation[5]

57.5c
Dividends per share[6]

7pp
Improvement in team member engagement (percentage points)

18.3%
Improvement in total recordable injury frequency rate[7]

1 On a non-IFRS basis. Refer to Non-IFRS Information section on page 39.
2 Q4 FY20, as measured by Tell Coles.
3 Growth in sales per square metre on a moving annual total (MAT), or exit rate calculated on a rolling 12 months of data basis.
4 Calculated as interest-bearing liabilities less cash and cash equivalents.
5 Calculated as operating cash flow excluding interest and tax, divided by EBITDA (excluding the impacts of AASB 16 and Significant items).
6 Comprising an interim dividend of 30.0 cents per share (paid) and a final dividend of 27.5 cents per share.
7 Refer to glossary of terms on page 49 for definition.

2020 highlights

Highlights for the year spanned our business and store network, our customer base, our team of suppliers and our communities around Australia.

1,500+ new products
at everyday low prices

Almost
doubl
capacity of Coles

10bn+
les Own Brand sales

Tailored store format strategy
70 renewals

New transport hubs to
optimise logistics

Progress with Witron & Ocado
automation

4,700+
Indigenous team members

Direct milk sourcing
with dairy farmers in VIC & NSW

$139m
provided in community support

Message from the Chairman

The 2020 financial year was extraordinary for Coles and the whole Australian community as droughts, bushfires and COVID-19 created significant demands across our businesses.

The 2020 financial year was extraordinary for Coles and the whole Australian community as droughts, bushfires and COVID-19 created significant demands across our businesses. Pleasingly, with the positive engagement of our team members, our suppliers, our customers and governments we were able to adapt to new challenges at pace, with emphasis upon safety and performance.

Financial

For the year ended 28 June 2020, our first full year as a relisted ASX company, we saw strong financial results. On a statutory basis, total sales revenue was $37,408 million; earnings before interest and tax were $1,762 million; and net profit after tax was $978 million ($951 million excluding the impacts of AASB 16 *Leases* and Significant items).

Our final dividend for the year payable on 29 September 2020 is 27.5 cents per share, fully franked, which together with our interim dividend of 30.0 cents per share paid in March 2020, brings our full year dividend to 57.5 cents per share. This is a dividend payout equivalent to 82 per cent of our after tax profit (before Significant items).

Coles strengthened its financial position during the year, including extending the term of our debt maturity dates and, at year end, had net debt of $362 million, a 30% reduction on the prior year.

...rity expanded our leadership ... of new Executives in: Liquor – Darr... Ben Hassing; Emerging Busi... formation – Ian Bowring; and ... e. Under the leadership of o... in, Coles has built a strong leadership team with complementary skills which are well aligned to our vision of becoming the most trusted retailer in Australia and growing long-term shareholder value.

We also saw an increase of more than 5,000 team members at year end, as we responded to the significant surge in customer demand across food and liquor driven by COVID-19. This increase in part reflected our underlying business growth and in part the extra focus upon customer and team member hygiene and safety in response to the coronavirus pandemic.

With our commitment to increase our Aboriginal and Torres Strait Islander participation levels to 5% of our total team members by 2023, further progress was made during the year. By the end of the 2020 financial year we had surpassed 4,700 team members which was an increase of more than 600 on the prior year.

Team member safety remains a priority and through increased training, technology and commitment we saw an improvement of 18.3% in our total recordable injury frequency rate through the year.

On behalf of the Board, I extend our thanks to all Coles team members and to our many strategic partners in supply, logistics and services for the exceptional efforts that have been made during a year marked by so many extraordinary events.

Customers and community

Throughout FY20 Coles played its part in supporting our customers and the Australian community as we engaged our nearly 2,500 retail outlets and rapidly growing online services.

In times of community stress, large corporations have the opportunity, and responsibility, to bring much needed resources to address special needs. During this last financial year we provided special support to the emergency services and the rural fire services both financially and in food availability at the time of the East Coast bushfires; to our farmers and the Country Women's Association through our Coles Nurture Fund as we responded to the drought-driven hardships experienced by so many in rural communities; and to the elderly and disabled to whom we provided special access to supermarkets and to our Coles Online Priority Service in response to the restrictions arising from COVID-19.

These special community focused activities were in addition to our long-term support for national food rescue organisations, SecondBite and Foodbank; to children with cancer and their families thro
address motor neurone dise
support of hospitals caring for
through the sale of Mum's Sa

In total, our community support was more than $139 million comprising $125 million from Coles directly and $14 million contributed by Coles' customers, team members and suppliers.

Technology and sustainability

Throughout our business we are investing for the future. This investment is much more than the expansion of our footprint; it is directed at how we can become more efficient in meeting the needs of our customers and in doing so more responsibly.

In every area there are opportunities where we can improve our performance. Our progress on our hallmark projects of automation of the two Witron distribution centres in Queensland and New South Wales and the development of the two Ocado Online customer fulfilment centres in Victoria and New South Wales, is advancing in line with our business plans. These two large projects are illustrative of how we will make a difference to our future operating effectiveness as we partner with global technology leaders with fit for purpose retail solutions.

But there are many other projects throughout our business operations where new technology is making a difference. Coles is committed to improving how we operate and to lessening our impact on the environment by improving our packaging, decreasing our waste, reducing our electricity needs and increasing our utilisation of renewable energy sources. Full details of these initiatives are set out in our 2020 Sustainability Report which is accessible at www.colesgroup.com.au.

Importantly we are continually working with our suppliers to improve not only our Coles Own Brand and proprietary grocery product offerings but also to seek to ensure we source product in accordance with our ethical sourcing policy and requirements. At the 2019 Annual General Meeting concerns were raised as to the importance of labour standards amongst suppliers and since that time we have increased our resources and efforts in this important area. Working with suppliers, unions and other stakeholders we are seeking to ensure that all aspects of our supply chain support our dual objectives of trust and sustainability.

Board

I extend a special thanks to all my fellow directors who have greatly contributed to the progress which we have been able to make during this most unusual year. In particular, I express appreciation on behalf of Coles to the contribution made by Zlatko Todorcevski, who is retiring at the end of September 2020. Zlatko has been the Chairman of our Audit and Risk Committee since our demerger and has ensured that our systems and financial procedures have been
tus as an ASX listed company
een greatly valued.
Chief Executive, Steven Cain.
pment and implementation of
our ... our leadership team, and
the ... e business in this rapidly
cha

I am also very pleased to welcome our new director Paul O'Malley. Paul O'Malley has a very strong financial and commercial background within prominent ASX listed companies which will complement the Board and our skills mix. Paul will join the Board on 1 October 2020 and will stand for election at our 2020 Annual General Meeting which is being held virtually on 5 November 2020.

To all our shareholders, I express my thanks for your continuing support of Coles and look forward to our making further progress in the year ahead.

James Graham

James Graham AM
Chairman, Coles Group Limited

Managing Director and Chief Executive Officer's report

Since our successful demerger from Wesfarmers during the 2019 financial year, Coles has been executing our refreshed strategy to transform our business and lay the foundations for long-term sustainable growth. COVID-19 has seen Coles classified as an 'essential service' and our focus has been on team and customer safety and supporting vulnerable Australians in our community.

I am pleased to say that we have made substantial progress against each of the pillars of our strategy despite the challenges the 2020 financial year has presented, as our team worked hard to fulfil our purpose of sustainably feeding all Australians to help them lead healthier, happier lives.

Together during COVID-19

As a designated 'essential service', Coles has played an important role in ensuring Australians can safely access the food, drinks and fuel they need.

As demand surged in early March, we worked collaboratively with suppliers, governments and industry stakeholders to increase our supply chain capacity and also introduced Community Hour to serve the vulnerable and emergency services workers.

Coles Online briefly suspended service in March and April in part due to limited and uncertain product availability, with capacity almost doubling across home delivery and contactless Click & Collect at service desks and to the car boot. Coles Online Priority Service, focusing on service for those most in need, including the elderly, was then introduced.

We also worked closely with government experts and the Supermarkets Taskforce to formulate industry-wide hygiene keep our customers and team product supply.

mes, our supply chain team set up atter of days to increase our estment in our integrated stoc dvanced data analytics hel and ensure high-demand products were sent into stores to meet customer needs.

As the community adapted to the 'new normal,' demand for food and liquor remained elevated as venue closures and working from home meant customers were increasingly cooking for themselves and staying in on weekends. COVID-19 restrictions reduced traffic on the road and fuel volumes at Coles Express.

As ever, it was the tremendous efforts of our team members that made everything possible, and we were pleased to be able to recognise their outstanding work with a thank you payment to store and supply chain team members, doubling the team member discount on shopping at Coles and subsidising their flu vaccinations.

I am immensely proud of the way we truly worked as one Coles team to support our customers, our suppliers, our communities and each other. To further strengthen our culture, in June we launched our Coles values: Customer obsession, Passion and pace, Responsibility, and Health and happiness.

These values are supported by our LEaD behaviours of Look ahead, Energise everyone and Deliver with pride, and were developed with input from our team members.

Coles provided $3 million in gift cards to around 6,000 rural fire brigades across Australia to thank volunteer fire fighters for helping to keep rural communities safe. Coles CEO Steven Cain is pictured at Wauchope with NSW Rural Fire Service Mid Coast District Incident Controller Kam Baker, Wauchope and King Creek Rural Fire Brigade fire fighters, Coles NSW State General Manager Ivan and local Coles team members from the Lake Innes supermarket in Port Macquarie.

They will guide the day-to-day decisions and actions of team members, shaping the way we work together to get things done as we continue to transform Coles for a second century of generating long-term returns for our shareholders.

Inspire Customers

We were pleased to report satisfaction across Supermarkets, Liquor and Express in the fourth quarter.

We continued tailoring our customer offer by using data-driven ranging tools, which allowed us to execute one of the largest range changes in Coles' history and introduce more than 1,600 new product lines.

We delivered trusted value through our campaigns to Help Lower the Cost of Breakfast, Lunch and Dinner, including the introduction of more than 1,500 new products at everyday low prices, while sales of Own Brand grew by 10% to exceed $10 billion for the first time – accounting for more than 31% of supermarket sales.

We have prioritised building capabilities in a number of areas where COVID-19 has accelerated existing consumer trends, including the growth of online shopping and cooking at home.

enience offer, with dedicated n almost 150 supermarkets and launched, including the new r recently acquired Jewel Fine Foo ney.

In Li is focused on being a sim relevant drinks specialist with a differentiated offer, while our Exclusive Liquor Brands continue to collect accolades, bringing home a total of 372 medals and awards during the year.

Smarter Selling

Our Smarter Selling strategy achieved cost savings in excess of $250 million, driven by the increased use of technology to drive efficiencies.

Our values.

Customer obsession

Passion and pace

Responsibility

Health and happiness

Our behaviours.

LEaD

Look ahead

Energise everyone

Deliver with pride

To our millions of customers across almost 2,500 supermarkets, convenience and liquor stores, I thank you for your understanding, patience, respectfulness and adherence to the new social distancing guidelines that keep us all safe.

This included streamlining our Store Support Centre and implementing new systems across Finance and Procurement, more efficient use of logistics so more trucks carry both inbound and outbound loads, new technology to help our store teams order the right amount of stock, reduced energy consumption through use of LED lights and refrigeration control systems, and improved measures to reduce stock loss in stores.

Further progress was also made in tailoring our store formats to the needs of local communities, with 70 renewals completed during the year, including 10 Format A, 31 Format C and three Coles Local supermarkets.

The first of our two distrib... global automation experts ... Queensland, and the second ... the approvals stage. Meanw... leases to underpin the development of automated online customer fulfilment centres in Victoria and New South Wales by leading online retail technology experts Ocado.

Our financial position

In line with our objective of providing shareholders with sustainable earnings growth and attractive dividends, we delivered a total shareholder return of 31.7% for the year. Total dividends of 57.5 cents per share were declared in relation to FY20.

On a retail basis, full year sales revenue increased by 6.9% to $37,408 million with sales revenue growth across all segments, and we were pleased to mark a return to growth in full-year Group EBIT – up 4.7% to $1,387 million on a retail basis – the first increase since FY16.

Importantly, we had begun to see benefits of the new strategy prior to the onset of COVID – providing assurance that Coles will be a stronger, more sustainable business long after the pandemic.

Looking ahead

In the 106 years since Coles was founded as a single store in Melbourne's Collingwood, our Company has weathered many challenges. Few of them would be greater than those that we have faced over the past financial year.

I am extremely grateful for and proud of the resilience that our more than 118,000 team members have demonstrated in their response to the ongoing challenges that we face as a community, and for their dedication to safely serving our customers with a smile.

I would like to thank the Board for their support and valuable ... ear, and our leadership team ... sure our business could keep ... le simultaneously making the ... les up for long-term success.

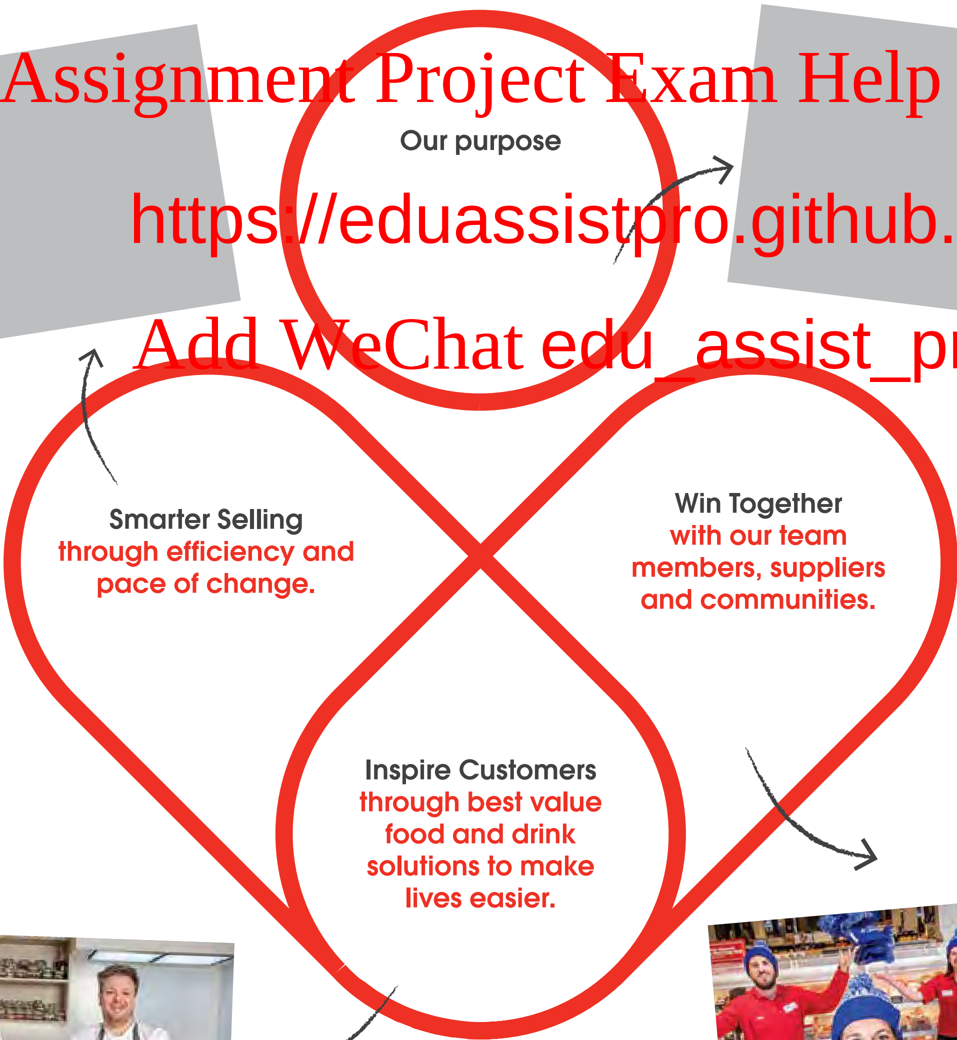
To ... across almost 2,500 sup... liquor stores, I thank you for ... ce, respectfulness and adh... istancing guidelines that keep us all safe. To our suppliers and community partners, none of what has been achieved could have happened without your collaboration, innovation and hard work for which I thank you sincerely.

And finally to our shareholders – we will continue to transform Coles into the most trusted retailer in Australia and deliver long-term sustainable returns for you, your families and millions of beneficiaries in Australia and beyond.

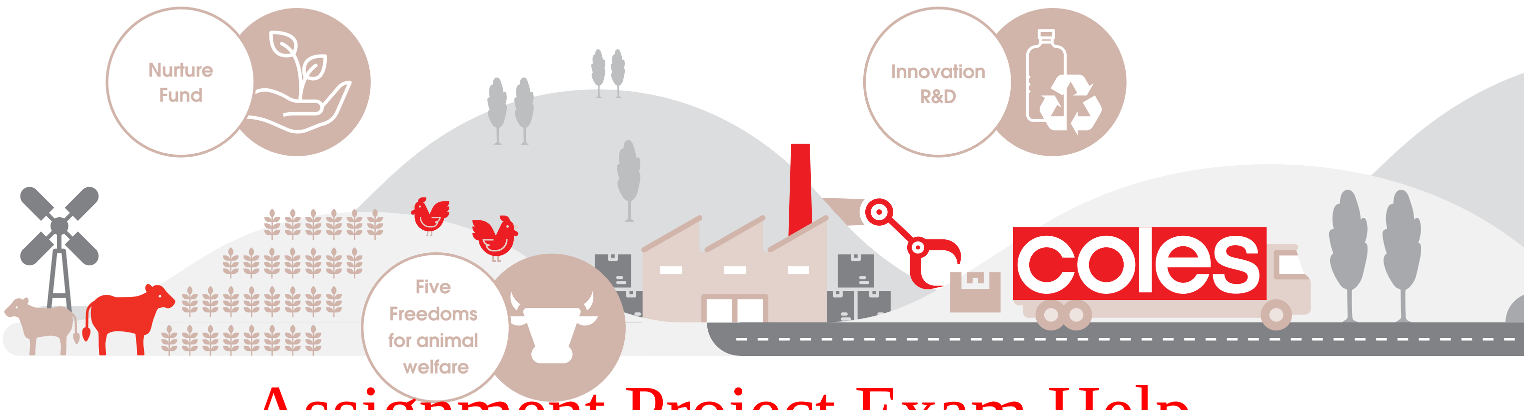
Steven Cain
Managing Director and Chief Executive Officer,
Coles Group Limited

Our vision, purpose and strategy

Our vision
Become the most trusted retailer in Australia and grow long-term shareholder value.



How we create value



Australian farmers and producers

Coles Supermarkets has an Australian-first sourcing poli provide our customers with q Australian-grown fresh produce. By doing this, we are supporting Australian farmers and growers wh provide us with healthy, quality products. Our support includes the $50 million Coles Nurture Fund.

Suppliers, processors and packaging

Brand suppliers to improve Own Brand packaging recyclability labelling on Own Brand pr help customers recycle. R soft plastics recycling is av in our supermarkets.

Transport and distribution

g with our logistics partners, reducing our environmental int through more efficient fleet movements. We are also ensuring re provided with quality, t by conducting ality checks when ives at our fresh produce distribution centres, with additional checks for chilled products.

Our economic value creation

Suppliers	Team members	Shareholders	Governments	Community
$29.9bn	$4.8bn	$873m	$2.6bn	$139m
supplier and services spend	payments and benefits to team members	total dividends paid	cash taxes paid and collected	community support

All figures above are as at 28 June 2020, with the exception of community support (30 June 2020).

We are driven by our purpose to sustainably feed all Australians to help them lead healthier, happier lives, which means we need to consider our social and environmental impacts in all that we do.

Retail and store network

We support local economic through investment in new s infrastructure, while continu reduce greenhouse gas emissions. Innovation is key to providing online grocery and convenient shopping experiences to make life easier for our customers. Providing safe, responsibly sourced, nutritious products at competitive prices is fundamental.

Team members

Islander team members in Australia's private sector, our workfo the diversity of our custom the community. A safe a workforce for all is our pri

Customers and community

h community partnerships, supporting Australians and ing our environmental impact. Our work with SecondBite and rovides Australians in ealthy, nutritious food that wise go to waste. Disaster usiness continuity plans support customers and communities in times of extreme weather events and other crises.

Our sustainability achievements[1]

Sustainable communities	
Meals to people in need since 2003 (equivalent of)	147m+
Funds to Redkite since 2013	$38m
Grants announced for 15 producers through Coles Nurture Fund in FY20	$3.6m

Sustainable products	
Best Sustainable Seafood Supermarket in Australia Awarded by MSC. Holder of the award since 2017	MSC AWARD WINNER 2020
Broadest range of RSPCA Approved products of any major Australian supermarket	
Own Brand products displaying Health Star Rating	2,400+

Sustainable environmental practices	
Pieces of flexible plastic through REDcycle since 2011	1bn+
Waste diverted from landfill	79%
Greenhouse gas emissions (Scope 1 and 2) from 2009	▼ 36.5%

1 All references are as at 30 June 2020, with the exception of funds to Redkite which is as at 28 June 2020.

Together with Michelin-starred chef and Coles ambassador Curtis Stone, Coles announced a new partnership with the Stephanie Alexander Kitchen Garden Foundation in February 2020. Providing thousands of children across Australia access to a pleasurable food education program helps them develop a healthy relationship with food, self-confidence and life skills.

Sustainability snapshot

Just over a year ago, we launched our vision to become the most trusted retailer in Australia and grow long-term shareholder value. We also launched our purpose to sustainability feed all Australians to help them lead healthier, happier lives.

Central to that purpose is trust and that means delivering against our key bility pillars.

es, a global pandemic – 2020
bro scale. In this extraordinary
yea and customers rose to the
chal supp to Australians in
nee d purpose to life.

Central to that vision and purpose is trust. We will build trust by continuously improving our management, performance and reporting in regard to social and environmental impacts and opportunities under the three key pillars of our Sustainability Strategy – Sustainable communities, Sustainable products and Sustainable environmental practices.

We contribute to the following United Nations Sustainable Development Goals:

ill (pictured with his grandchildren) was
Coles Nurture Fund grant in FY20.

Sustainable communities

Sustainable communities involves supporting our customers, team members and producers. It is about investing in and giving back to the community and doing the right thing by farmers, suppliers and their workers.

Coles Supermarkets has an Australian-first sourcing policy to provide our customers with quality Australian-grown fresh produce as a first priority. In FY20, 96% of fresh produce, by volume, was sourced from our supply partners from all over Australia, excluding floral, nuts, dried fruit, sauces, dressings and packaged salads. In FY20, 100% of fresh lamb, pork, chicken, beef, milk and eggs and 100% of Own Brand frozen vegetables were Australian grown.

During the year, we announced $3.6m in Coles Nurture Fund grants provided to 15 recipients who are improving their sustainability, rebuilding after bushfires and producing more Australian made food and beverages.

Sustainable communities means creating a workplace for more than 118,000 team members that reflects the communities in which they live and work. With more than 4,700 Aboriginal and Torres Strait Islander team members, Coles is proud to be the largest private sector employer of Indigenous Australians.

A company-wide Human Rights Strategy was introduced in FY20, including a refreshed Ethical Sourcing Policy and supplier requirements.

In a first for the Australian retail sector, Coles worked with three key unions to develop the Coles Ethical Retail Supply Chain Accord which aims to achieve a safe, sustainable, ethical and fair retail supply chain for workers regardless of their employment, citizenship or visa status.

More about our community partnerships and support can be found in our 2020 Sustainability Report.

Sustainable products

Sustainable products focuses on healthy food choices and healthy lifestyles. It also means sourcing products responsibly and ethically. It includes our commitment to animal welfare and to responsibly sourced seafood.

We introduced new health food ranges including vegan and vegetarian options, and supported healthy lifestyle programs. Our new three-year partnership with the Stephanie Alexander Kitchen Garden Foundation gives thousands of children, at more than 2,000 schools and early learning centres, access to food education to help them develop a healthy relationship with food.

In FY20, Coles was awarded the MSC Best Sustainable Seafood Supermarket in Australia. The MSC has named Coles holder of the award since 2017, recognising that we have the widest eco-labelled fresh seafood range of any Australian supermarket.

We want to make life easier for our customers by offering quality, safe and trusted products – sourced in an ethical and transparent way – to help them make healthy and sustainable choices.

As customers' needs are changing, we continue to offer new ranges and products. An affordable healthy food range was launched in FY20 and we provided more meat-free protein alternatives. Our Own Brand food and drink standard range is now free of artificial colours and artificial flavours.

We are committed to providing our customers with safe, high-quality Own Brand products. Our commitment is supported by our rigorous supplier requirements, our auditing and inspection program and in-store standards.

s Sause, which was launched in July 2019
hospitals across Australia as part of the
Curing Homesickness initiative.

cal Rose Bay store wear polo shirts made from 65% recycled plastic bottles.

Sustainable environmental practices

Sustainable environmental practices means reducing the impact of our own operations as well as making it easier for customers to reduce their environmental impact.

As a food retailer, we love food and do not want it to go to waste. Every Coles supermarket and distribution centre is connected with a food waste solution, something first achieved at the end of FY19. Our first choice for unsold, edible food is to donate it to food rescue organisations. Following that, we have other food waste solutions including donation to farmers and animal or wildlife services, organics collections and in-store food waste disposal equipment.

Packaging continues to be a focus. In November 2019, Coles won the APCO's large retailer industry award for our achievements in sustainable packaging design, recycling initiatives and product stewardship.

REDcycle soft plastics collection is offered in our supermarkets. Since the program began at Coles in 2011, more than one billion pieces of soft plastic have been diverted from landfill.

We are facing into the impacts of climate change and need to adapt to respond to extreme weather events and to maintain security of food supply. More information about our response to climate change is in the Risk Management section of this report.

Coles has a responsibility to support our team members, customers, suppliers and the communities in which we live and work and is committed to making a positive difference.

Understanding and meeting these responsibilities are key to achieving our vision to becoming Australia's most trusted retailer and growing long-term value for our shareholders.

Support for customers, suppliers and communities

Coles supported farmers and communities dealing with the impact of drought conditions across many parts of Australia during the past year. With help from our community partners, we also provided much-needed assistance to flood-affected communities.

Responding to drought and floods

Over the past two financial years, Coles has committed more than $18 million to drought relief. In FY20, Coles donated $1 million from the Coles Nurture Fund to the Country Women's Associ
to distribute to farming f
In addition, Coles raised

CWA Drought Appeal through customer donations at supermarkets and liquor stores and from the sale of $2 donation cards in the lead-up to Christmas.

Together, these funds donated and raised by Coles in FY20 for the CWA Drought Appeal resulted in more than 920 farming families receiving grants to help them pay household expenses such as medical, energy and grocery bills.

During October and November 2019, Coles donated and delivered around 140,000 litres of drinking water to local communities in northern New South Wales including Tenterfield, Guyra, Glen Innes, Ebor and Armidale, where local catchments were depleted by the combination of drought and bushfires.

Flooding caused havoc on roads in some parts of New South Wales and Queensland in early 2020 while some areas barely received a drop of rain. Pictured is a Coles truck at Warriewood in northern Sydney in February.

Coles Tenterfield Shire Councillor and NSW Farmers local branch chair Bronwyn Petrie (middle), Tenterfield Shire Deputy Mayor Greg Sauer (right) and local residents Howard and Carmel with one of many truckloads of donated bottled water. Coles donated around 140,000 litres of bottled water to local communities in northern New South Wales of which around 100,000 litres was donated to Tenterfield residents.

Amid heavy rainfall and flooding in parts of Queensland in February 2020, Coles converted its delivery of goods from rail to road to ensure food and groceries could reach our customers.

To help people and communities to recover from the bushfires, we also launched a fundraising appeal for Red Cross. By raising $3.2 million for bushfire support, our funds enabled Red Cross to provide grants to hundreds of people to help them meet immediate needs, make repairs, cover hospital costs or re-establish a safe place to live.

Campaigns to support farmers

With many fresh produce suppliers finding their crops impacted by drought during the year, Coles worked with farmers to vary our product specifications and worked with industry stakeholders to encourage customers to look beyond a few surface imperfections. This provided valuable support to farmers by helping them sell their crops at the best possible price, while ensuring ongoing supply of great quality Australian fruit and vegetables for our customers.

Bushfires

Coles regularly supports Australians through times of hardship and natural disaster. During the summer bushfires, we played an important role in supporting affected communities and emergency services with direct donations and fundraising to support longer-term relief.

Firefighter donations

To acknowledge the amazing courage and dedication of volunteer firefighters, Coles donated $3 million in gift cards to over 6,000 rural fire brigades across Australia in December 2019.

This provided essential funds for brigades to stock up supplies of food and essentials for their stations or run a thank you event with their members.

The gift cards were distributed via the NSW Rural Fire Service, Queensland Rural Fire Service, Country Fire Authority in Victoria, SA Country Fire Service, Tasmanian Fire Service, the ACT Rural Fire Service, Bushfire Volunteers (WA), WA Volunteer Fire and Rescue Service, WA Volunteer Fire and Emergency Service and Bushfires NT.

Food donations

Coles donated food, water and other essentials to bushfire-affected communities and emergency services.

We worked with Foodbank, donating 47 pallets of food, fresh fruit, UHT milk, coffee, tea and snacks for relief centres, aged care facilities and emergency services.

We supported animal sanctuaries and zoos including Mogo Zoo (Bateman's Bay), Adelaide Koala and Wildlife Hospital, Kangaroo Island Wildlife Network, and Live Stock SA with donations of fruit, vegetables and animal feed.

Red Cross donations

Through Coles Supermarkets, Coles Liquor stores and Coles Express stores, we launched an appeal for the Red Cross Disaster Relief and Recovery Fund in November 2019.

By double matching customer donations for a specific period, Coles contributed more than $1 million and together with our customers provided more than $3.2 million to the fund.

Our donations enabled Red Cross to provide emergency assistance, psychological first aid and longer-term community support to Australians affected by bushfires.

John, Regional Manager, at the Bateman's Bay store (top left), Coles State General Manager for South Australia and Northern Territory, Sophie, at a fundraising trivia night that raised funds for people affected by the Cudlee Creek and Kangaroo Island bushfires (top right), the burnt remains of a Coles team member's house and car (middle left), residents evacuated as fires sweep through Bateman's Bay in New South Wales (middle right) and fire trucks re-fuelling at the Moss Vale Coles Express during the bushfires (bottom).

COVID–19

The COVID-19 pandemic highlighted our role as an essential service to the community, and we worked closely with government and industry bodies to ensure all Australians had safe access to essential food and groceries.

Safety our greatest priority

Since the outbreak of COVID-19, Coles has played an important role in providing an essential service to the community while prioritising the safety of our team members and customers.

Team member and custom
and Coles followed the e
federal health authorities on how to reduce the risk of infection in our stores and through our supply chain.

The frequency with which we clean our stores was increased, particularly in high-traffic areas such as checkouts, while safety screens and floor decals were installed to assist with social distancing measures including the introduction of limits on the number of customers in stores at our busiest times.

Responding to demand

To help address the unprecedented customer demand seen early in the outbreak, we invested in our supply chain, opening pop-up distribution centres in New South Wales, Victoria and Queensland.

We introduced product limits on the most in-demand products so that more customers could access essentials.

We also worked with suppliers to prioritise production of groceries they could deliver in the greatest volume until demand returned to more normal levels.

Prioritising our vulnerable citizens

We also provided Australia's elderly and most vulnerable, together with emergency and healthcare workers, with better access to groceries by introducing Coles Community Hour at all our supermarkets across Australia in March. This initiative, which ran until May 8, involved temporarily changing our trading hours to 7am to 8pm on weekdays and dedicating the first hour of trade exclusively to elderly and vulnerable customers on Mondays, Wednesdays and Fridays; and to emergency services and healthcare workers on Tuesdays and Thursdays.

To further support more vulnerable Australians, we
iority Service (COPS) in April
d Click & Collect services to
to visit a store.

Ano
upport to disadvantaged
peo
al food and groceries to
our
and SecondBite, during
CO
we regularly donate from
our stores and distribution centres, we donated extra food and groceries to the retail value of nearly $7.9 million to Foodbank and SecondBite to distribute to food charities across Australia.

In April, we also teamed up with Indigenous corporations and local charities to deliver and donate more than 80 pallets – the equivalent of 50 tonnes – of food and grocery essentials to Indigenous communities across the Northern Territory.

Recruiting Australians in store

To serve more customers, replenish shelves faster, keep stores cleaner and offer employment for Australians whose jobs had been impacted by COVID-19, we recruited thousands of additional casual team members.

More security guards were also employed to help manage customer numbers and keep customers and team members safe.

Team members working throughout the challenging period were rewarded for their extraordinary efforts with an additional team member discount and a thank you payment for those working in stores and supply chain.

Throughout COVID-19, we prioritised the safety of our team members and customers, providing Australians access to essential goods and services, and supporting communities and people in need. Customers at Coles Southland (top), Brisbane mother Anna with her daughter Olivia using sanitiser in store (middle left), Salvation Army's Major Brendan Nottle with Coles Online team member Matthew and Collingwood Football Club Director of Stadia and Community, David Emerson, with donations of 2,000 convenience meals as well as frozen vegetables and pantry items for residents in Magpie Nest's housing program which accommodates people who have been sleeping rough on Melbourne's streets and women fleeing domestic violence (middle right); and Coles Eastland Store Support Manager Drew delivers groceries to 97 year-old World War II veteran Des (bottom right).

Governance at Coles

In our first full year as a listed entity, Coles' corporate governance framework has been integral to our response to the events of FY20. We are committed to the highest standards of corporate governance and believe that a robust and transparent governance framework is central to our success.

The Group's FY20 key corporate governance highlights and focus areas included:

Board

Overseeing Coles' response to the unforeseen national and global challenges presented during FY20 including their impact on our team members, customers, suppliers and local communities.

…al General Meeting in … first Board performance … les values which build on the exis… haviours.

Strategy

Executi… , with good progress made o… me the most trusted retailer in Australia and grow long-term shareholder value' underpinned by our three strategic pillars: Inspire Customers, Smarter Selling and Win Together. This includes progress against our eight strategic KPIs, which were laid out to measure the success of our strategy.

Risk management

Implementing initiatives that continue to drive an uplift in our risk management maturity. This has entailed the establishment of our risk appetite framework, including definition, measurement, monitoring and reporting of risk appetite for our material risks. We also implemented a technology platform to facilitate the management of risks and major compliance programs.

Diversity and inclusion

Continuing our progress towards achieving our Better Together objectives, including in relation to gender diversity, with the proportion of men and women across the entire Coles workforce for FY20 being 49.3% men and 50.7% women. In addition, at the end of FY20 we employed more than 4,700 Aboriginal and Torres Strait Islander people across our stores, distribution centres and store support centres, representing 3.8% of team members.

Chairman James Graham AM addresses shareholders at the first Coles Annual General Meeting in November 2019.

Corporate governance framework

Coles' 2020 Corporate Governance Statement contains a comprehensive overview of our corporate governance framework and highlights and is available at www.colesgroup.com.au/

The Board

Audit and Risk Committee | Nomination Committee | People and Culture Committee

Managing Director and Chief Executive Officer

Executive Leadership Team

Coles Team Members

Board role and responsibilities

The Board provides leadership and approves the strategic direction and objectives of the Group in the long-term interests of, and to maximise value to, shareholders. The shareholders for the overall pany, having regard to the ers, including team members, customers, suppliers and the broader community.

The utlines its responsibilities, incl ly reserved to the Board, and elegated to the CEO and management.

Board composition

The Constitution states that the number of directors shall be not less than three directors and not more than 10 directors. Other than the Managing Director, directors may not retain office without re-election for more than three years or past the third annual general meeting following their last election or re-election. Any newly appointed directors are required to seek election at the first annual general meeting after their appointment.

The Board will review periodically its composition and the duration of terms served by directors, upon recommendation from the Nomination Committee.

Board skills matrix

The Board recognises the importance of having directors who possess a broad range of skills, background, expertise, diversity and experience in order to facilitate constructive decision-making and facilitate good governance processes and procedures.

The Board, on the recommendation of the Nomination Committee, determines the composition, size and structure requirements for the Board and will regularly review its mix of skills to make sure it covers the skills needed to address existing and emerging business and governance issues relevant to the Company.

The current mix of skills and experience represented on the Board is set out in the skills matrix below:

Skill	Number of Directors with the requisite skill
Corporate governance	8
Executive experience	8
Financial acumen	8
Strategic thinking	[illegible]
People, culture and remuneration	8
Risk management	8
Retail and FMCG skills and experience	6
Customer service delivery	7
Supply chains	6
Interstate / global business experience	8
Property development and asset management	4
Marketing	6
Digital technology and innovation	8
Sustainability, environment, health and safety	7
Regulatory and public policy	7

SKILL/ EXPERIENCE	EXPLANATION
	Experience serving on boards in diverse industries and for a range of organisations, including public listed entities or other large, complex organisations. An awareness of global practices and trends. Experience in implementing high standards of governance in a large organisation and assessing the effectiveness of senior management.
	Effective senior leadership in a large, complex organisation or public listed company. Successfully leading organisational transformation and delivering sustained business success, including through line management responsibilities.
	Senior executive or other experience in financial accounting and reporting, internal financial and risk controls, corporate finance and/or restructuring, corporate transactions, including ability to probe the adequacies of financial and risk controls.
	Demonstrated ability to identify and critically assess strategic opportunities and threats and to develop and implement successful strategies to create sustained, resilient business outcomes. Ability to question and challenge on delivery against agreed strategic planning objectives.
	Experience overseeing or implementing a company's culture and people management framework, including succession planning to develop talent, culture and identity. Board or senior executive experience in applying remuneration policy and framework, including linking remuneration to strategy and performance, and the legislative and contractual framework governing remuneration.
	Understanding of and experience in identifying and monitoring key risks to an organisation and implementing ... gement frameworks and procedures
	... perience in the retail and fast moving ... G) industry, particularly in the food ... an in-depth knowledge of ... elopment, exporting, logistics
	... stomer service delivery ... versight.
	Senior executive experience in managing or overseeing the operation of supply chains and distribution models in large, complex entities, including retail suppliers.
	Senior manager or equivalent experience in national or international business, providing exposure to a range of interstate or international political, regulatory and business environments.
	Experience in property development and asset management.
	Senior executive experience in consumer and brand marketing and in e-commerce and digital media, including in the retail industry.
	Expertise and experience in the adoption and implementation of new technology. Understanding of key factors relevant to digital disruption and innovation, including opportunities to leverage digital technologies and cyber security and understanding the use of data and analytics.
	Identification of key health and safety issues, including management of workplace safety, and mental and physical health. Experience in managing and driving environmental management and social responsibility initiatives, including in relation to sustainability and climate change.
	Senior management experience working in diverse political, cultural, regulatory and business environments. Experience in regulatory and competition policy and influencing public policy decisions and outcomes, particularly in relation to regulation relevant to food and liquor industries.

Board of Directors

James Graham AM
Chairman of the Board
Chairman of the Nomination Committee and Member of the People and Culture Committee

Steven Cain
Managing Director and Chief Executive Officer

David Cheesewright
Member of the Nomination Committee and the People and Culture Committee

Jac
Me
Co
and Risk Committee

Abi Cleland
Member of the Nomination Committee and the People and Culture Committee

Richard Freudenstein
Chairman of the People and Culture Committee and Member of the Nomination Committee

Wendy Stops
Member of the Nomination Committee and the Audit and Risk Committee

Zlatko Todorcevski
Chairman of the Audit and Risk Committee and Member of the Nomination Committee

Biographical details of the Board of Directors can be found on **pages 66–67.**

A culture of acting lawfully, ethically and responsibly

Coles has a number of company policies that promote a culture of acting lawfully, ethically and responsibly and outline expected standards of behaviour. These policies include the following:

Code of Conduct

Coles has a Code of Conduct which sets out the standards of behaviour which are expected of its directors and team members in their interactions with customers, suppliers, the community and each other. The Code of Conduct was reviewed in FY20 and was updated to reflect the Company's vision, purpose and strategy as well as the values and LEaD behaviours. Our values of
pace, Responsibility and Hea
important to us, and our LE
Energise everyone and Deliver
as a team and continue to build on the strong relationships with our suppliers and customers.

Whistleblower Policy

As part of Coles' commitment to the highest standards of conduct and ethical behaviour in all its business activities, the Company has a Whistleblower Policy to encourage anyone to come forward with concerns. The policy, which was reviewed and updated in FY20, requires Coles team members, directors and officers who have reasonable grounds to suspect that 'Potential Misconduct' has occurred or is occurring within or against Coles to make a report. The policy also encourages anyone else who has reasonable grounds to suspect that 'Potential Misconduct' has occurred or is occurring within or against Coles to make a report. Potential Misconduct is any suspected or actual misconduct or an improper state of affairs or circumstances in relation to Coles. It includes any unethical, illegal, corrupt, fraudulent or undesirable conduct or any breach of Coles' policies such as its Code of Conduct by a Coles director, team member, contractor, supplier, tenderer or any other person who has business dealings with Coles.

Anti-bribery and Corruption Policy

Coles has an Anti-bribery and Corruption Policy. In FY20, the Board approved updates to the policy in response to regulatory changes. The policy stipulates that Coles has zero tolerance for bribery and corruption in any form. It prohibits directors and team members from engaging in activity that constitutes bribery or corruption and sets out a number of guidelines to assist team members to determine what constitutes bribery or corruption. It covers any activity or behaviour undertaken in connection with Coles, regardless of the geographical location in which that activity or behaviour

afety and Wellbeing

oviding a safe and healthy
envi rs, customers, suppliers,
con ain partners. The Health,
Safe cribes the systems and
pro e risks and hazards that
come with operating Coles' business and ensure that Coles' actions are appropriate to our risk profile.

Securities Dealing Policy

Coles has a Securities Dealing Policy to ensure compliance with insider trading laws, protect the reputation of the Group, its directors and team members, maintain confidence in the trading of the Company's securities and prohibit specific types of transactions. In general, directors, members of the Executive Leadership Team and other executives at the General Manager level and above (Restricted Persons) may not deal in Coles' securities during specified periods (known as 'blackout periods') that cover the period leading up to and immediately following the release of the quarterly retail sales results, half-yearly results and full-year results. Outside of those blackout periods, Restricted Persons must seek prior approval to deal in Coles' securities from the Company Secretary (or their delegate).

Executive Leadership Team

Steven Cain
Managing Director and Chief Executive Officer

Leah Weckert
Chief Financial Officer

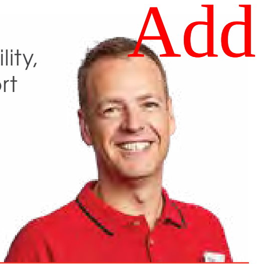
Greg Davis
Chief Executive Commercial & Express

Matthew Swindells
Chief Operations Officer

Darren Blackhurst
Chief Executive Liquor

Ben Hassing
Chief Executive eCommerce

Thinus Keevé
Chief Sustainability, Property & Export Officer



George Saoud
Chief Executive Emerging Businesses

cer

Kris Webb
Chief People Officer

Roger Sniezek
Chief Information Officer

Lisa Ronson
Chief Marketing Officer

Daniella Pereira
Company Secretary

Ian Bowring
Group Executive Transformation

Sally Fielke
General Manager Corporate Affairs

Operating and Finan

Business model and strategy

Coles operates and maintains 2,447 stores nationally across its businesses and employs more than 118,000 team members.

Coles is a leading Australian retailer selling customers everyday products including fresh food, groceries, general merchandise and liquor, through its extensive store network and online platforms.

Coles also sells convenience p with Viva Energy (Viva), is fuel sales operating under th operates some of Australia's including Coles, Coles Local, Coles Express, Liquorland, First Choice Liquor Market and Vintage Cellars. In addition, Coles sells customers financial and lifestyle services and is a 50% shareholder of flybuys, a loyalty program covering more than six million active households.

Coles operates and maintains 2,447 stores nationally across its businesses and employs more than 118,000 team members.

Coles' core competencies include merchandising and supplier relationships, marketing, maintaining and operating a national store network, operating a fully integrated supply chain, including logistics, and a national distribution centre network.

The Group's reportable segments are:

- Supermarkets: fresh food, groceries and general merchandise retailer with a national network of 824 supermarkets, including Coles Online and Coles Financial Services
- Liquor: liquor retailer with 910 stores nationally under the brands Liquorland, First Choice, First Choice Liquor Market and Vintage Cellars, including online liquor delivery services through Coles Online and Liquor Direct
- Express: convenience store operator and commission agent for retail fuel sales across 713 outlets nationally

Other business operations that are not separately reportable, such as Property, as well as costs associated with enterprise functions, such as Treasury, are included in Other.

Our vision is to become the most trusted retailer in Australia lder value. Achieving this vision urpose, which is to sustainably n lead healthier, happier lives.

Our ond Century', represents our rpose. There are three stra ers, **Smarter Selling**, and **Win** se pillars, we are planning to win in our second century by ensuring that our strategy delivers a competitive advantage through five strategic differentiators:

1. Win in online food and drinks with an optimised store and supply chain network
2. Be a great value Own Brand powerhouse and destination for health
3. Achieve long-term structural cost advantage through automation and technology partnerships
4. Create Australia's most sustainable supermarket
5. Deliver through team engagement and pace of execution

We have made progress against each of these three pillars over the past year, supported by our existing Look ahead, Energise everyone and Deliver with pride (LEaD) behaviours framework and our newly-launched Coles values.

Inspire Customers

Inspire Customers through best value food and drink solutions to make lives easier.

- Customer obsessed
- Tailored offer with trusted and targeted value
- Own Brand powerhouse
- Destination for convenience and health
- Leading anytime, anywhere shopping
- Accelerate growth through new markets

Delivering inspiring solutions, with the right offer at the right price, where and when our c

At Coles, we strive to be custo are responding, with our c measured by Tell Coles, increasing to 88.2% in the fourth quarter as availability improved following initial COVID-19 pantry stocking impacts (83.4% in the third quarter).

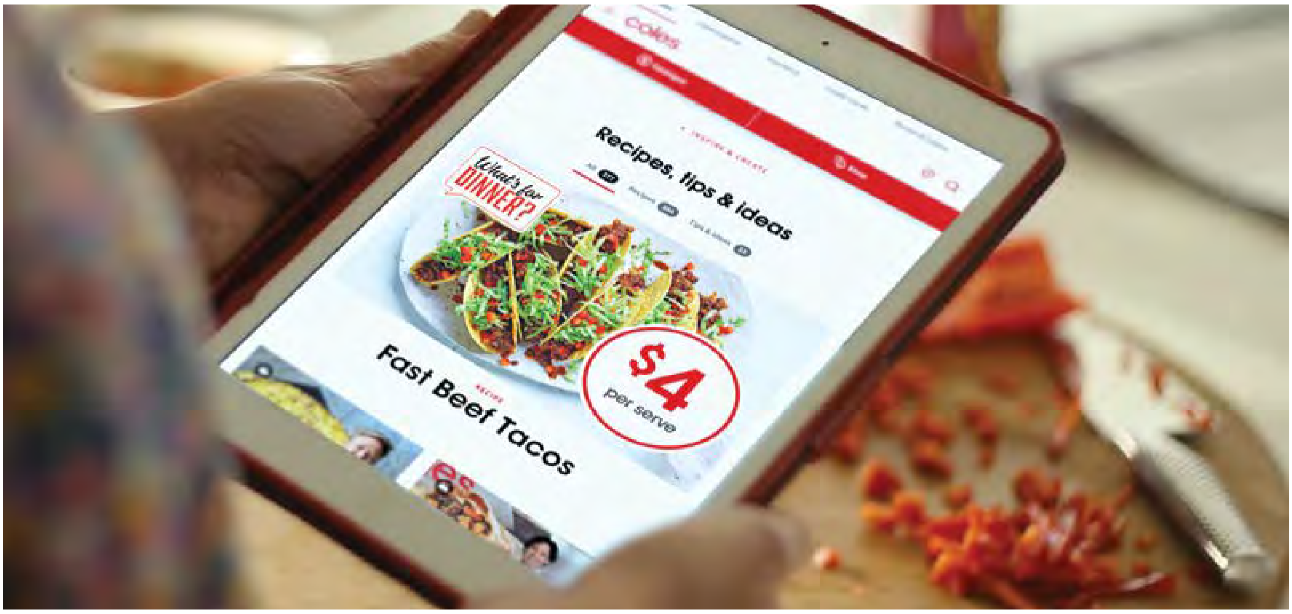
Customer obsession pervades our strategy. Landing the right offer in the right location and ensuring our customers trust Coles to deliver them the best value, with 20% of FY20 sales at everyday low prices and the 'Helping lower the cost of…' campaign focused on lowering the cost of breakfast, lunch and dinner.

Continuing to innovate to build an Own Brand powerhouse, and reinforcing the 10% sales growth achieved in FY20, are critical to our commitment to deliver trusted value and to lower the cost of living for our customers through affordable quality.

Coles is also delivering on those areas that are increasing in importance for our customers as lifestyles change. This includes expanding our Convenience meal range and rolling it out to approximately 160 stores in FY20, and enhancing our customer offer to ensure we are their venience and health solutions.

seeking options in terms of . To this end, Coles is investing to become Australia's leading digital retailer, with online sale delivering an expanded, pers line.

Col new customer groups, continuing the drive to expand both our export and B2B businesses. Coles recently opened an office in Shanghai to better support our export customers in Asia.



In 2020, Coles launched a 'What's for Dinner?' campaign to provide customers with a collection of easy and fast recipes to produce tasty meals at great value.

Smarter Selling

Smarter Selling through efficiency and pace of change.

- Technology-led stores & supply chain
- Strategic sourcing
- Optimised network and formats
- Efficient and agile Store Support Centres

Coles is committed to establishing a structural cost advantage by increasing efficiency through rapid innovation and execution at pace. Technology and digital investment supporting efficiency and automation in our supply chain, stores and St
as is the continued optimisa
formats, and our supplier ne

The technology-led optimisation and automation of our supply chain to reduce costs and improve availability is continuing to accelerate with construction starting on our first fully automated distribution centre in Queensland. Leases have also been signed for two online fulfilment centres in Sydney and Melbourne that will enable Coles to win in online food and drinks. Technological innovation is a critical element of efficiency in the Store Support Centre with multiple SAP system investments underway or completed.

Coles is building an optimised store network by opening new stores in key network gaps and growth corridors, while closing underperforming stores.

This process of optimisation is being reinforced by an ongoing program of store renewals, with the rollout of 'Format A' stores, a premium mainline supermarket format for our best trading stores, and 'Format C' stores, a highly efficient format for lower trading stores that allows Coles to continue to deliver a high quality offer to customers that may otherwise not be able to access that offer.

nnovative Coles Local format,
upermarket that delivers both
lutions to customers.

Col s, 33 Format C and four
Col twork, including the first
Col Rose Bay.

Team members Karra and Jess at the Parkinson Distribution Centre in Brisbane plan logistics for the transport of food and groceries across Queensland.

Win Together

Win Together with our team members, suppliers and communities.

- Wellbeing and safety in our DNA
- Great place to work
- Drive generational sustainability
- Better together through diversity
- Innovation through partnerships

Coles is focused on helping all Australians to lead healthier and happier lives, including our team members, our suppliers and our communiti

Ensuring the wellbeing and s part of making Coles a gre with. In FY20, Coles improved its TRIFR by 18.3% to 22.7.

To help deliver on our purpose, Coles is committed to attracting, engaging and retaining the very best talent. Engagement continues to improve, with our engagement score increasing by seven percentage points in FY20.

Coles is committed to driving generational sustainability by creating Australia's most sustainable supermarket. Our Sustainability Strategy, aligned with the United Nations Global Compact and United Nations Sustainable Development Goals, is focused on supporting sustainable communities, delivering sustainable products, and following sustainable environmental practices.

Our support for Australian communities has never been more apparent than in the drought, bushfire and COVID-19 pandemic affected FY20. Coles' contribution to the Australian community in FY20 included donations of gift cards to rural fire brigades and additional food and groceries to charity partners. We are focused on making life easier for our customers by offering quality, trusted products while at the same time, working to minimise our environmental impacts through sustainable environmental practices.

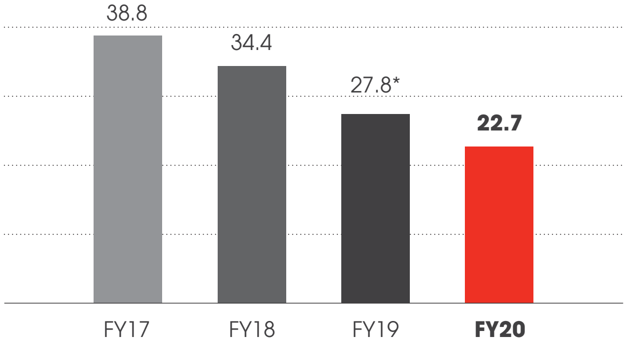
Coles is committed to being a diverse and inclusive workplace that's reflective of the customers and community we serve. Coles is proud to be Australia's largest private sector employer of Aboriginal and Torres Strait Islander people.

t for human rights is essential to become the most trusted e continued to enhance our Ethi g the development and ado Rights Strategy, and the stre ng team with dedicated tea ills.

Improvement in team member engagement
(percentage points)

7pp

Total recordable injury frequency rate (TRIFR)
Number of all injury types per million hours worked



* Restated due to maturation of data

Group performance

Highlights

- Statutory sales revenue growth of 6.5% in Supermarkets and 3.2% in Liquor
- Group EBIT on a retail (non-IFRS) basis returned to growth for the first time in four years
- Robust balance sheet with investment-grade credit metrics
- The Board has determined a fully franked final dividend of 27.5 cents per share

Performance overview

The financial and operating performance of the Group is presented on a statutory (IFRS) basis. Results prepared on a retail (non-IFRS) basis have also been included to support an understanding of comparable business performance. Further details relating to the presentation of retail results are provided in the Non-IFRS Information section.

For continuing operations of the Group:

$M		FY19	CHANGE
Sales revenue			
Supermarkets		30,993	6.5%
Liquor		3,205	3.2%
Express		3,978	(72.2%)
Group sales revenue		**38,176**	**(2.0%)**
EBIT			
Supermarkets		1,191	35.9%
Liquor	138	133	3.8%
Express	33	46	(28.3%)
Other	(27)	(27)	-
Significant items	-	124	n/m[1]
Group EBIT	**1,762**	**1,467**	**20.1%**
Financing costs	(443)	(42)	n/m[1]
Income tax expense	(341)	(347)	(1.7%)
Profit after tax	**978**	**1,078**	**(9.3%)**
Retail (non-IFRS)[2]			
Group sales revenue[3]	**37,408**	**35,001**	**6.9%**
Group EBIT[4]	**1,387**	**1,325**	**4.7%**
Profit after tax[4]	**951**	**888**	**7.1%**

1 n/m denotes not meaningful.
2 Refer to Non-IFRS Information section for a comparison of statutory (IFRS) and retail (non-IFRS) results.
3 Retail sales revenue for FY19 excludes fuel sales and hotel sales.
4 Retail EBIT and profit after tax excludes the impact of AASB 16 and significant items in FY20, and hotels and significant items in FY19.

Statutory **Sales revenue** for the Group reduced by 2.0% to $37,408 million, due to a 72.2% reduction in Express revenues driven by the move to a commission agent model under the New Alliance Agreement, effective 1 March 2019. In accordance with the terms of the New Alliance Agreement, Express no longer recognises gross fuel sales revenue; however, it is entitled to commission income from fuel sold at Alliance sites (recognised in 'other operating revenue'). Partly offsetting this decline was sales growth in the Supermarkets and Liquor segments.

On a retail basis, sales revenue for the Group increased 6.9% to $37,408 million driven by improved trading performance in Supermarkets from successful value and collectible campaigns, tailored range reviews and Own Brand sales growth. Liquor revenue also increased from sales growth in Exclusive Liquor Brands (ELB) and benefits from First Choice Liquor Market conversions. Both Supermarkets and Liquor experienced a trading uplift in the latter part of the year from increased demand for in-home consumption associated with the COVID-19 pandemic.

Statutory **Group EBIT** increased 20.1% to $1,762 million primarily due to the impact of a new accounting standard, AASB 16 *Leases* (AASB 16), which was effective for the Group from 1 July 2019. This resulted in an increase in EBIT of $375 million for the year. In accordance with an allowable election under the standard, ... not been restated. For a ... financial effects of applyin... AASB 16 *Leases* below. Parti... a pre-tax gain of $124 million relating to significant items recognised in the prior year.

On a retail basis, Group EBIT increased 4.7% to $1,387 million reflecting improved trading performance and cost management initiatives in Supermarkets, partly offset by the New Alliance Agreement and lower fuel volumes in Express. Liquor EBIT remained consistent with the prior year.

Statutory **profit after tax** for the Group decreased 9.3% to $978 million driven by lower Express earnings, the net cost associated with the application of AASB 16, and a reduced net profit contribution from significant items relative to the prior year. Collectively, these impacts offset growth in Supermarkets earnings during the year.

On a retail basis, profit after tax increased by 7.1% to $951 million driven by earnings growth in Supermarkets, partly offset by lower fuel volumes in Express.

Impacts of COVID-19

Coles has played an important role during the COVID-19 pandemic, providing an essential service to the community while prioritising the safety of our team members and customers.

Trading impacts

Supermarkets and Liquor

COVID-19 impacted Coles significantly in the second half of the financial year, starting in late February with a spike in trade from customer pantry stocking amid growing concerns of a global pandemic. Demand continued to build in Supermarkets, peaking in late March, as government-imposed social distancing measures were introduced.

To meet the challenge of unprecedented customer demand, Coles worked closely with suppliers and supply chain partners to ensure stock was delivered to stores as quickly as possible, including the opening of pop-up distribution centres in New South Wales, Victoria and Queensland. Limits were also introduced for the most in-demand products so that more customers could access essentials. In March, the Coles Online platform was repurposed as a priority service for vulnerable customers, impacting ordinary trading operations until late April when the platform was fully reopened to all customers. To further support the community, Coles donated additional food and groceries to our charity partners SecondBite and Foodbank to distribute to food charities across Australia.

Supermarkets trading levels moderated in April, however remained above that experienced pre-COVID-19. Store ... mained elevated, reflecting ... aning/sanitising and ongoing ... istancing in stores.

Liqu... throughout the fourth qua... ns on the opening of hot... nue operators remained in pl...

Throughout this time, Coles' priority was to maintain the safety of team members and customers by investing in store service, security and cleaning. This focus included the installation of safety screens and signage to assist with social distancing measures and limiting the number of customers in stores at our busiest times. To recognise the significant commitment of our team during this unprecedented period, our team member discount was temporarily doubled on eligible purchases and thank you payments were also made to our store and distribution centre team members.

Express

Coles Express was adversely impacted by lower fuel volumes associated with the government-imposed stay-at-home measures. The decrease in road traffic resulted in significantly lower revenue, while costs increased to support safety measures in store.

With the easing of these measures late in the year, fuel volumes began to increase but did not return to pre-COVID-19 levels. Earnings remained under pressure with fixed costs and ongoing safety measures in store more than offsetting revenue generated for the second half of the financial year.

Financial reporting impacts

Impairment of non-financial assets (including goodwill)

Forecast future cash flows used to support assets and cash generating units (CGUs) have been updated to reflect the best estimate of future impacts of the COVID-19 pandemic on income and expenses. These impacts did not result in any impairments during the year.

Furthermore, as at the reporting date, the Group's freehold proprieties are not considered to be significantly impacted by the ongoing effects of COVID-19 as these assets are expected to maintain a steady yield in a low interest rate environment.

Equity accounted investment in associates and joint ventures

On 22 March 2020, the Australian Federal and State governments announced restrictions for 'non-essential' businesses, forcing the closure of pubs, clubs, bars and restaurants across all States and Territories.

These restrictions impacted Queensland Venue Co. Pty Ltd (QVC), in which Coles has a 50% joint venture interest, through the closure of hotel venues.

Under the terms of the joint venture, Coles' joint venture partner Australian Venue Co. (AVC) is economically exposed to the operations a
business. Coles' economic ri
are limited to the retail liquo
adversely impacted by COV
no implications for the carrying value of Coles' investment in QVC at the reporting date.

Receivables

The timing and recoverability of receivables has been closely monitored for COVID-19 impacts on customers and suppliers. Where appropriate, the deterioration in credit quality has been considered in the measurement of expected credit losses. No material financial impacts have been recognised in the reporting period.

Self-insurance liabilities

Coles engaged an independent actuary to ensure actuarial liabilities appropriately reflect all relevant risks as at 28 June 2020. COVID-19 assumptions have not been material to the determination of self-insurance liabilities as at the reporting date.

Leases

Coles, as a lessor has granted certain lessees concessions with respect to contractual lease payments referred to as rent abatements. Rent abatements have not had a material impact on financial performance in FY20.

Classification of COVID-19 as a significant item

While COVID-19 significantly impacted Coles' financial performance during the reporting period, the ability to separate and reliably measure the impacts from underlying business performance is limited. Furthermore, the pandemic has impacted our operations such that many of the additional measures introduced to address and mitigate the risks of COVID-19 during the reporting period are likely to form part of business as usual activities for the foreseeable future. On this basis, the impacts of COVID-19 have not been presented as a significant item in the FY20 Financial Report.

Impact of AASB 16 *Leases*

The Group applied AASB 16 for the first time in this reporting period. The impact of the adoption of AASB 16 on the Group's FY20 Statement of Profit or Loss is set out below:

	PRE-AASB 16 FY20 $M	AASB 16 IMPACT $M	STATUTORY FY20 $M
EBIT	**1,387**	**375**	**1,762**
Financing costs	(44)	(399)	(443)
Profit before tax	**1,343**	**(24)**	**1,319**
Income tax expense	(348)	7	(341)
Profit after income tax	**995**	**(17)**	**978**

Under AASB 16, operating lease expenses are no longer
of the right-of-use assets
ted with lease liabilities are
of Profit or Loss. The application
of AASB 16 resulted in a favourable impact to Group EBIT
of $ iation charge associated
with operating lease expenses
no l

The application of AASB 16 resulted in an unfavourable impact to profit after income tax of $17 million, due to the elimination of operating lease expenses being more than offset by the recognition of depreciation and financing costs associated with the Group's AASB 16 lease portfolio.

Award covered salaried team member review

In February 2020, Coles announced it was conducting a review into the pay arrangements for team members who receive a salary and are covered by the General Retail Industry Award 2010 (GRIA). The review does not relate to team members who are remunerated in accordance with approved enterprise agreements and who comprise over 90% of our workforce. As announced in February 2020, Coles recognised a provision of $20 million in its half year report in relation to expected remediation costs.

Coles has continued to be supported by a dedicated team of external experts as we complete the review. Remediation to affected current and former team members commenced in June 2020 and, at the date of this report, this process is nearing its conclusion.

Following the announcement in February 2020, the Fair Work Ombudsman (FWO) commenced an investigation into the subject matter of the announcement. Coles has had ongoing communications with the FWO since then.

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. As the court proceeding is at an early stage, the potential outcome and total costs associated with this matter are uncertain as at the date of this report.

Non-IFRS information

This report contains IFRS and non-IFRS financial information. IFRS financial information is financial information that is presented in accordance with all relevant accounting standards. Retail or non-IFRS financial information is financial information that is not defined or specified under any relevant accounting standards and may not be directly comparable with other companies' information. Retail information is presented to enable an understanding of comparable business performance by excluding the impacts of certain items that do not impact both the current and comparative reporting period (for example, the impact of AASB 16 and significant items). Retail results are also presented using a retail reporting period to ensure the current year's results are prepared for a period that is comparable to the prior year's results.

Both statutory and retail resul on a 52 week basis, beginnin 28 June 2020. FY19 statutory 1 day reporting period, while FY19 retail results reflect a 52 week reporting period.

The table below provides further details relating to the statutory and retail reporting periods:

	STATUTORY (IFRS)		RETAIL (NON-IFRS)	
	FY20	FY19	FY20	FY19
Reporting period	1 Jul – 28 Jun	1 Jul – 30 Jun	1 Jul – 28 Jun	25 Jun – 23 Jun
Number of days	364 days	365 days	364 days	364 days
Number of weeks	52 weeks	52 weeks 1 day	52 weeks	52 weeks

Any non-IFRS financial information included in this report has been labelled to differentiate it from statutory or IFRS financial information. Non-IFRS measures are used by management to assess and monitor business performance at the Group and segment level and should be considered in addition to, and not as a substitute for, IFRS information. Non-IFRS information is not subject to audit or review.

Forward-looking statements

This report contains forward-looking statements in relation to the Group, including statements regarding the Group's intent, belief, goals, objectives, initiatives, commitments or current expectations with respect to the Group's business and operations, market conditions, results of operations and financial conditions, and risk management practices. Forward-looking statements can generally be identified by the use of words such as 'forecast', 'estimate', 'plan', 'will', 'anticipate', 'may', 'believe', 'should', 'expect', 'intend', 'outlook', 'guidance' and other similar expressions.

These forward-looking statements are based on the Group's good-faith assumptions as to the financial, market, risk, regulatory and other relevant environments that will exist and affect the Group's business and operations in the future. The Group does not give any assurance that the assumptions will prove to be correct. The forward-looking statements involve known and unknown risks, uncertainties and assumptions and other important factors, many of which are beyond the reasonable control of the Group, that could cause the actual results, performances or achievements of the Group to be materially different from future results, performances or achievements expressed or implied by the statements.

Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements in this report speak only as at the date of issue. Except as required by applicable laws or regulations, the Group does not undertake any obligation to publicly update or revise any of the forward-looking statements or to advise of any change in assumptions on which any such statement is annot be relied on as a guide

dividends

Earn ed to 73.3 cents, a 9.3% dec

	FY20	FY19
Profit for the period from continuing operations ($M)	978	1,078
Weighted average number of ordinary shares for basic and diluted EPS (shares, million)	1,334	1,334
Basic and diluted EPS (cents)	73.3	80.8
Basic and diluted EPS, excluding significant items (cents)	70.1	67.5

The Board has determined a fully franked final dividend of 27.5 cents per share (cps).

	CPS	FRANKED AMOUNT PER SECURITY
FY20		
Interim dividend	30.0 cents	30.0 cents
Final dividend	27.5 cents	27.5 cents
FY19		
Interim dividend	nil	nil
Final dividend	24.0 cents	24.0 cents
Special dividend	11.5 cents	11.5 cents
Total dividend	**35.5 cents**	**35.5 cents**

Balance sheet

A summary of key balance sheet accounts for the Group:

$M	28 JUNE 2020	30 JUNE 2019	CHANGE
Assets			
Cash and cash equivalents	992	940	5.5%
Trade and other receivables	434	360	20.6%
Inventories	2,166	1,965	10.2%
Property, plant and equipment	4,127	4,119	0.2%
Right-of-use assets	7,660	-	n/m[1]
Intangible assets	1,597	1,541	3.6%
Deferred tax assets	849	365	132.6%
Other	524	487	7.6%
Total assets		**9,777**	**87.7%**
Liabilities			
Trade and other payables		3,380	10.6%
Provisions		1,341	(0.6%)
Interest-bearing liabilities		1,460	(7.3%)
Lease liabilities		-	n/m[1]
Other		239	(5.0%)
Total liabilities		**6,420**	**145.1%**
Net assets	**2,615**	**3,357**	**(22.1%)**

1 n/m denotes not meaningful.

Coles opened its new Coles supermarket and Liquorland store at Ormeau Village in July 2019. The supermarket is part of an investment of more than $120 million by Coles across the Gold Coast since 2016, including new and refurbished supermarkets at Ormeau Village, Australia Fair, Mudgeeraba, Southport Park, Coomera City Centre, Coomera Westfield, Pimpama and Palm Beach.

Cash and cash equivalents increased to $992 million largely driven by increased trading activity in the last week of the financial year and the timing of trade payables settlements relative to the same time last year.

The uplift in **Trade and other receivables** to $434 million reflects increased supplier and other trading related balances owing to the Group from higher sales, particularly in the final quarter of the year.

Inventories increased to $2,166 million primarily in response to increased trading activity across Supermarkets and Liquor. A legislative change relating to the recognition of duties and taxes on tobacco stock has also contributed to the increase in inventories during the year.

The application of AASB 16 from 1 July 2019 resulted in a significant increase in **Deferred tax assets** to $849 million attributable to the deferred tax impact associated with the implementation of AASB 16 during the year (refer to Impact of AASB 16 *Leases*).

The increase in **Other assets** to $524 million is predominantly attributable to an increase in income tax receivable. The movement in this balance reflects a timing difference in the settlement of tax balances driven by the Group's exit from the Wesfarmers tax consolidated group in the prior year.

Trade and other payables in
driven by elevated inventory
related demand towards the

Other liabilities have reduced to $227 million, with the net movement reflecting an uplift in gift card liabilities from lower redemptions offset by a reduction in lease related obligations which have been reclassified to lease liabilities as part of the transition to AASB 16.

Capital management

Interest-bearing liabilities reflect external borrowings and debt capital funding commitments. During the year, Coles issued $600 million of fixed rate Australian dollar medium term notes (Notes), comprising $300 million of seven-year Notes and $300 million of 10-year Notes. The proceeds from these issuances, along with surplus cash, was used to pay down term debt.

As at 28 June 2020, Coles' average debt maturity was 5.6 years, with undrawn facilities of $2,182 million. Borrowing costs for the year were $32 million and averaged approximately 2.13% per annum. Coles is committed to diversifying funding sources and extending its debt maturity profile over time.

The lease-adjusted leverage ratio at the reporting date was 3.1x with current published credit ratings of BBB+ with Standard & Poor's and Baa1 with Moody's.

Impact of AASB 16 *Leases*

The application of AASB 16 impacted the following items in the Balance Sheet on 1 July 2019:

- recognition of right-of-use assets: $7,481 million
- recognition of lease liabilities: $8,856 million
- x assets: $356 million
- s recognised under ting: $188 million

The ngs on 1 July 2019 was a dec

Set out below are the carrying amounts of recognised right-of-use assets and movements during the period:

	PROPERTY LEASES $M	NON-PROPERTY LEASES $M	TOTAL $M
As at 1 July 2019	**7,339**	**142**	**7,481**
Additions[1]	1,024	16	1,040
Depreciation expense	(822)	(39)	(861)
At 28 June 2020	**7,541**	**119**	**7,660**

Set out below are the carrying amounts of recognised lease liabilities and movements during the period:

	$M
As at 1 July 2019	**8,856**
Additions[1]	1,073
Accretion of interest	399
Payments	(1,245)
At 28 June 2020	**9,083**

1 Includes reasonably certain options, remeasurements and new leases, net of leases terminated.

Cash flow

Summary cash flows of the Group

$M	FY20	FY19	CHANGE
Cash flows from operating activities			
Receipts from customers	39,971	41,126	(2.8%)
Receipt from Viva Energy	-	137	n/m[1]
Payments to suppliers and employees	(36,486)	(38,665)	(5.6%)
Interest paid	(37)	(33)	12.1%
Interest component of lease payments	(399)	-	n/m[1]
Interest received	7	4	75.0%
Income tax paid	(504)	(294)	71.4%
Net cash flows from operating activities	**2,552**	**2,275**	**12.2%**
Net cash flows used in investing activities	**(658)**	**(280)**	**135.0%**
Net cash flows used in financ	**)**	**(1,611)**	**14.3%**
Net increase in cash and ca		**384**	**(86.5%)**

1 n/m denotes not meaningful.

The application of AASB 16 has necessitated the reclassification of lease related payments in the cash flow statement during FY20. Specifically, operating lease expenses which were included in payments to suppliers and employers in the prior year, have been reclassified between interest paid and financing costs. The impact of this is a reclassification of net cash outflows from operating activities to financing activities to align with the accounting requirements of the new standard. As FY19 balances have not been restated, this reduces comparability against the prior year.

Net cash flows from operating activities increased to $2,552 million. The increase reflects the uplift associated with the net reclassification of lease related payments to cash flows from financing activities, partially offset by an increase in cash tax paid. In FY19, Coles exited the Wesfarmers tax consolidated group which brought forward the settling of all tax related balances resulting in a lower net tax cash outflow in the prior year. The movement in operating cash flows for the year also reflects a net reduction in Express associated with the transition to a commission agent arrangement under the terms of the New Alliance Agreement.

Net **g activities** increased to $65 t in the Group's annual cap by the proceeds from pro ed in FY19 net cash flows were proceeds associated with the sale of Spirit Hotels and the disposal of Kmart, Target and Officeworks (KTO) to Wesfarmers as part of Coles' demerger from Wesfarmers Limited.

Net cash flows used in financing activities increased to $1,842 million reflecting the net repayment of external borrowings during the year, the principal component of lease payments and dividends paid to shareholders. FY19 cash flows also reflected the net settlement of capital and funding balances with Wesfarmers as part of the demerger.

Supermarkets

Segment overview

$M	FY20	FY19	CHANGE
Sales revenue	32,993	30,993	6.5%
EBIT	1,618	1,191	35.9%
EBIT margin (%)[1]	4.9	3.8	106bps

Retail (non-IFRS)[2]

$M	FY20	FY19	CHANGE
Sales revenue	32,993	30,890	6.8%
EBITDA	1,879	1,735	8.3%
EBIT[3]	1,310	1,183	10.7%
Gross margin (%)	25.1	24.8	30bps[1]
Cost of doing business (CODB) (%)	(21.1)	(20.9)	(16bps)[1]
EBIT margin (%)[1]		3.8	14bps

Operating metrics (non-IFRS)

		2H20 (25 WEEKS)	1H20 (27 WEEKS)
Comparable sales growth (%)		10.0	2.0
Customer satisfaction[4] (%)		85.9	88.3
Inflation excl. tobacco and fresh (%)		2.6	0.4
Sales per square metre[5] (MAT $/sqm)	17,547	17,547	16,800

1 Changes are calculated on an absolute percentage basis to more precisely reflect the movement.
2 Refer to Non-IFRS Information section for a comparison of statutory (IFRS) and retail (non-IFRS) results.
3 Retail EBIT excludes the impact of AASB 16 *Leases* in FY20.
4 Based on Tell Coles data. See glossary for explanation of Tell Coles.
5 Sales per square metre is on a moving annual total (MAT), or exit rate calculated on a rolling 12 months of data basis.

Highlights

Statutory sales revenue increased 6.5% to $32,993 million driven by range reviews providing a more tailored offer for customers, trusted value campaigns to lower the cost of breakfast, lunch and dinner, and execution of Coles' tailored store format strategy. Collectible campaigns including Little Shop 2 and Spiegelau glassware also contributed to sales revenue growth during the year. Trading increased significantly in the later stages of the third quarter as customers began pantry stocking in advance of COVID-19 social distancing measures being introduced. The associated transition to in-home consumption supported elevated trade through to the end of the year.

On a retail basis, sales increased by 6.8% to $32,993 million, with comparable sales growth of 5.9%, the 51st consecutive quarter of positive comparative sales growth.

Own Brand sales grew by 9.7% in FY20, achieving in excess of $10 billion sales for the year and launching over 1,850 new products. Range innovations, including the Coles Kitchen and Coles Finest convenience ranges, have provided quick and healthy meal solutions to support in-home consumption growth. Trusted value was delivered through the 'Helping lower the cost of…' campaign, increased Own Brand sales and more than 1,500 products on everyday low prices.

Coles recorded inflation excluding tobacco and fresh of 1.5% for the year, with total inflation of 2.4%. Total cost inflation was largely a result of increases in tobacco due to excise, dairy following milk cost price increases earlier in the year and vegetables, with some lines impacted by weather conditions such as drought, bushfires and storms. Inflation was higher in the fourth quarter driven by cost inflation,

Supermarkets (continued)

lower availability and mix impacts. Reduced availability of key lines led to lower promotional activity, with increased at-home eating trends also driving a shift to premium products during the quarter.

Supermarkets continued to
part of its tailored store for
completed in FY20.

Coles now has 29 Format A stores focused on convenience and a premium fresh food offer; 33 Format C stores focused on driving operational efficiencies and four Coles Local stores focused on tailored local offerings, including the first in New South Wales at Rose Bay which opened in May. Coles' dedicated convenience space was also successfully delivered to approximately 150 stores during the year.

Gross margin increased 30bps to 25.1% driven by strategic sourcing benefits, a more efficient supply chain from the realisation of Smarter Selling initiatives, and favourable mix as a result of COVID-19 customer purchasing, partly offset by investment in value.

CODB as a percentage of sales increased by 16bps to 21.1% driven by higher store expenses, including incremental costs to support team member and customer safety during COVID-19. Partly offsetting this increase were savings from Smarter Selling initiatives relating to a more streamlined Store Support Centre, enhanced end-to-end processes in store driven by data and technology related solutions, and energy and waste management reductions including the replacement of fluorescent lights with more efficient, lower maintenance LED lighting in stores.

Statutory EBIT increased by 35.9% to $1,618 million driven by growth in sales, gross margin progression, cost management initiatives and an uplift in EBIT from the implementation of AASB 16 in FY20.

On a retail basis, which excludes the impacts of AASB 16, EBIT increased by 10.7%.

Coles Online

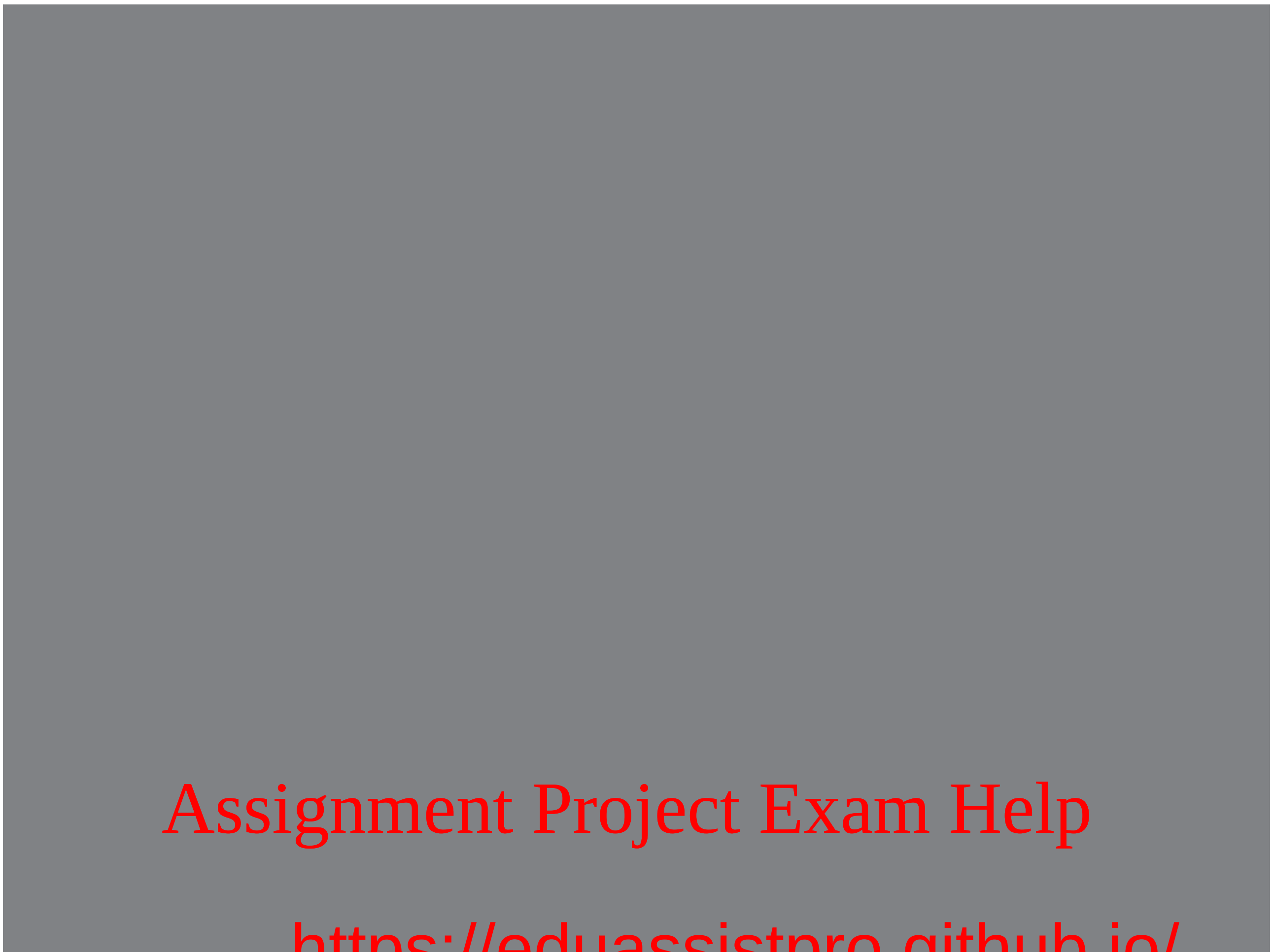
grew by 18.1% to $1,301 million
emporarily disrupted in March
-19 pandemic. As government
ed, the Coles Online Priority
Serv port customers most in
nee estored for all customers
thro

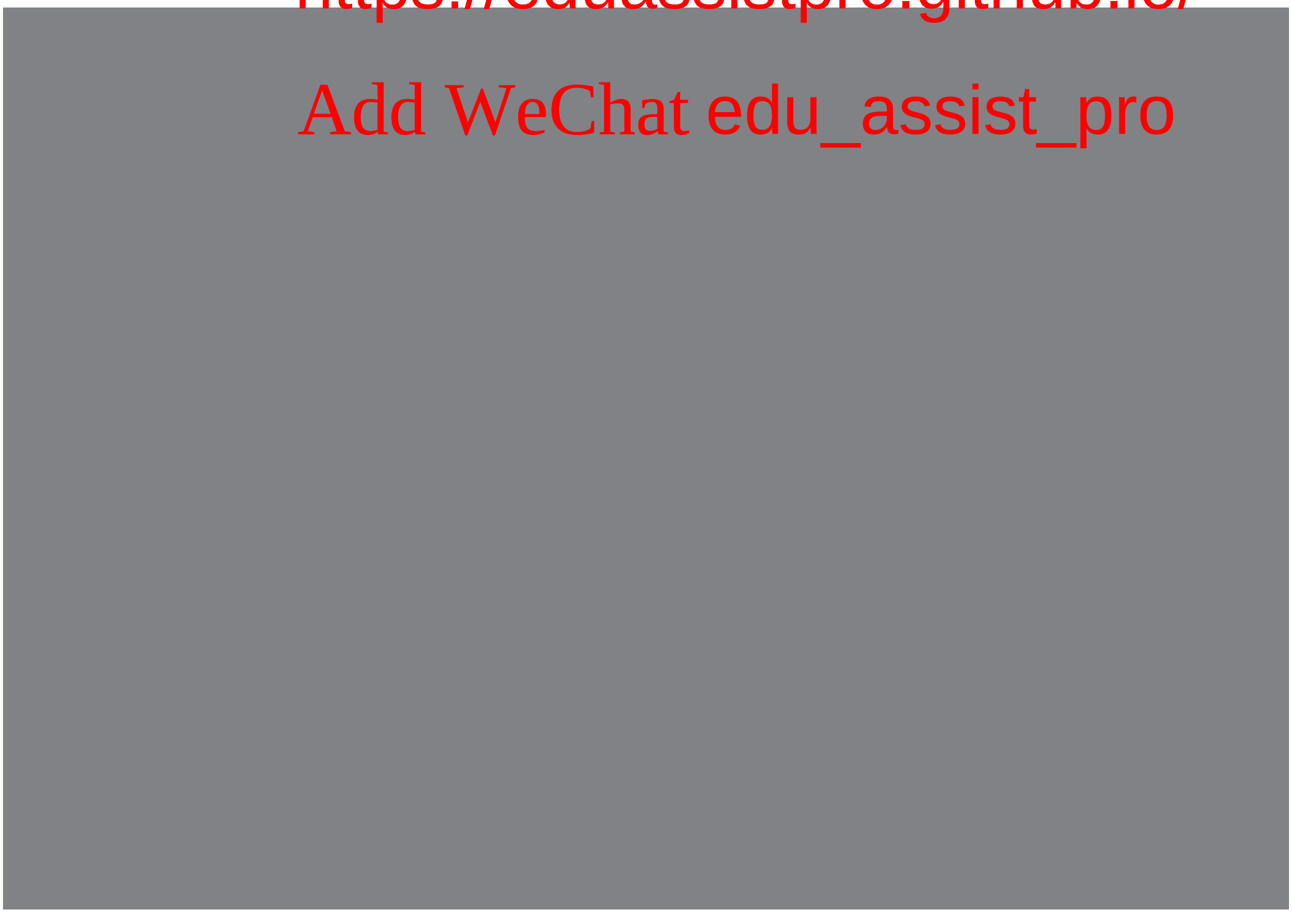
Col throughout the year in expanding capacity of Home Delivery, largely through extended pick-times and the recruitment of additional drivers. Click & Collect capacity increased, predominantly through the expansion of contactless Click & Collect, and unattended delivery was also introduced allowing Coles Online to service customers more quickly.

Leases were also signed during the year for the two Ocado sites in Sydney and Melbourne, with construction having commenced on the Melbourne site.

Coles Financial Services

Through Coles Financial Services, the Group offers credit cards and personal loans in partnership with Citigroup to approximately 330,000 customer accounts and home, car and landlord insurance in partnership with Insurance Australia Group (IAG) to approximately 350,000 policy holders. During the year, Coles launched pet insurance in partnership with Guild Insurance.





Above: Michael and Rob at the new Coles Local which opened in Glenferrie Road, Hawthorn during FY20, offering customers a tailored local range.
Below: Brenda has worked at Coles for more than 53 years and in June 2020 she received an Order of Australia medal for services to the Malvern community.

Coles launched 115 new liquor products during FY20, including the Somma range of alcoholic mineral water (top left), Native Spirits range of gins (top right), an extended range of our craft beer Tinnies (middle left) and a new Vintage Cellars wine range (middle right). Winemakers Julian Langworthy and Andrew Bretherton from Deep Woods Estate in Western Australia's Margaret River region with a bottle of award-winning Deep Woods Single Vintage Cabernet Malbec which is exclusive to Coles Liquor (bottom). Julian Langworthy was named Vintage Cellars Winemaker of the Year in 2019.

Liquor

Segment overview

$M	FY20	FY19	CHANGE
Sales revenue	3,308	3,205	3.2%
EBIT	138	133	3.8%
EBIT margin (%)[1]	4.2	4.2	2bps

Retail (non-IFRS)[2]

$M	FY20	FY19	CHANGE
Sales revenue[3]	3,308	3,063	8.0%
EBITDA	149	153	(2.6%)
EBIT[4]	120	120	-
Gross margin (%)	21.6	22.3	(72bps)[1]
Cost of doing business (CODB) (%)	(17.9)	(18.4)	44bps[1]
EBIT margin (%)[1]		3.9	(28bps)

Operating metrics (non-IFRS)	FY20	2H20 (25 WEEKS)	1H20 (27 WEEKS)
Comparable sales growth (%)		13.9	1.5
Sales per square metre[5] (MAT $/sqm)		15,438	14,370

1 Changes are calculated on an absolute percentage basis to more precisely reflect the movement.
2 Refer to Non-IFRS Information section for a comparison of statutory (IFRS) and retail (non-IFRS) results.
3 Retail sales revenue for FY19 excludes hotel sales.
4 Retail EBIT excludes the impact of AASB 16 *Leases* in FY20 and hotels in FY19.
5 Sales per square metre is a moving annual total (MAT) or exit rate calculated on a rolling 12 months of data basis.

Highlights

Liquor sales revenue was $3,308 million on a statutory basis, an increase of 3.2% from the prior year.

On a retail basis sales revenue was $3,308 million, an increase of 8.0% for the year with comparable sales growth of 7.3%.

The First Choice Liquor Market conversions continue to perform strongly with the format now rolled out to 61% of the First Choice network. ELB sales grew by 7.5% for the year, with 74 new ELB lines launched in FY20.

Liquor experienced a trading uplift driven by COVID-19 in the latter part of the year from increased in-home consumption following government-imposed restrictions on hotels, pubs, clubs and licensed venue operators. A plan to simplify and refocus the Liquor operating model was accelerated by COVID-19, providing an opportunity to fast-track clearance activity for slow moving and deleted stock. The closure of on-premise venues as a result of COVID-19 also provided the opportunity to support and engage with local suppliers, with over 300 new 'local' product lines launched during the fourth quarter.

Targeted investment in online platforms, capacity and customer experience across all three banners supported strong online sales growth of 40% for the year. For the fourth quarter, online sales increased in excess of 70% driven, in part, by changing customer preferences towards online shopping alternatives during COVID-19.

Optimisation of the store network continued with 20 new stores opened and 20 stores closed, resulting in a total of 910 Liquor stores at the end of the year.

Gross margin decreased by 72bps to 21.6% from customers moving towards more value-oriented products and ongoing clearance and promotional activities associated with tailored range reviews.

Statutory EBIT increased by 3.8% to $138 million driven by increased sales and the implementation of AASB 16 in FY20, partly offset by margin deterioration and incremental operating costs associated with COVID-19.

On a retail basis, which excludes the impacts of AASB 16, EBIT was flat for the year.

Express

Segment overview

$M	FY20	FY19	CHANGE
Sales revenue	1,107	3,978	(72.2%)
EBIT	33	46	(28.3%)
EBIT margin (%)[1]	3.0	1.2	180bps

Retail (non-IFRS)[2]

$M	FY20	FY19	CHANGE
Sales revenue[3]	1,107	1,048	5.6%
EBITDA	12	76	(84.2%)
EBIT[4]	(16)	50	(132.0%)
Gross margin (%)	53.7	61.4	n/m[5]
Cost of doing business (CODB) (%)	(55.2)	(56.7)	153bps[1]
EBIT margin (%)[1]		4.7	n/m[5]

Operating metrics (non-IFRS)	2H20 (25 WEEKS)	1H20 (27 WEEKS)
Comparable convenience store (c-store) sales growth (%)	6.4	2.9
Weekly fuel volumes (million litres)	54.2	64.4
Fuel volume growth (%)	(9.0)	3.3
Comparable fuel volume growth (%)	(9.9)	4.2

1 Changes are calculated on an absolute number / percentage basis to more precisely reflect the movement.
2 Refer to Non-IFRS Information section for a comparison of statutory (IFRS) and retail (non-IFRS) results.
3 Retail sales revenue for FY19 excludes fuel sales.
4 Retail EBIT excludes the impact of AASB 16 *Leases* in FY20.
5 n/m denotes not meaningful.

Highlights

Statutory sales revenue for Express decreased by 72.2% to $1,107 million driven by lower fuel volumes and the move to a commission agent model under the New Alliance Agreement effective 1 March 2019. In accordance with the terms of the New Alliance Agreement, Express no longer recognises fuel sales revenue; however, it is entitled to commission income (recognised in 'other operating revenue') from fuel sold at Alliance sites.

On a retail basis, sales revenue increased by 5.6% to $1,107 million largely driven by COVID-19 related pantry stocking and strong basket size growth in the latter part of the year which more than offset lower foot traffic in-store following government stay-at-home directives across the country.

Express continued to invest in the customer offer in FY20, completing the implementation of fast-lane fridges and commencing a network wide roll out of new self-service coffee machines in the fourth quarter. During the year, seven new sites were opened and eight sites closed, taking the total network to 713 sites.

Weekly fuel volumes averaged 59.5 million litres in FY20, a decline of 2.3% for the year. Prior to COVID-19, fuel volumes were trending positively compared to the prior year, peaking at approximately 70 million litres per week during the third quarter. Average weekly fuel volumes declined significantly in the early part of the fourth quarter, with less road traffic due to government stay-at-home directives. The trajectory improved throughout the fourth quarter as restrictions began to ease in parts of the country.

CODB as a percentage of sales decreased by 153bps to 55.2% reflecting cost control and efficiency measures throughout the year.

Statutory EBIT decreased by 28.3% to $33 million for the year driven by the decline in fuel volumes and c-store margin, partly offset by an EBIT uplift from the implementation of AASB 16.

On a retail basis, Express recorded an EBIT loss of $16 million for the year driven by the decline in fuel volumes and, in part, c-store margin deterioration as customers shifted towards top-up and non-food categories in the latter part of the year. Retail results exclude the impacts of AASB 16 and fuel sales.

Other

Other includes corporate costs, Coles' 50% share of flybuys net profit, the net gain generated by the Group's property portfolio and self-insurance provisions. In aggregate, this resulted in a $27 million net loss for the year driven by corporate costs, partly offset by earnings from property-related activities.

Coles' share of net loss for its 50% equity interest in flybuys was $6 million in FY20 (FY19: $5 million net profit).

Glossary of terms

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

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

Cash realisation: Calculated as operating cash flow excluding interest and tax, divided by EBITDA (excluding significant items)

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

EBITDA: Earnings before interest, tax, depreciation and amortisation

EPS: Earnings per share

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

IFRS ... rting Standards

Lev... h at bank and on deposit, 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, or exit rate calculated on a rolling 12 months of data basis

Retail calendar: A reporting calendar based on a defined number of weeks, with the annual reporting period ending on the last Sunday in June

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

Tell Coles: A post-shop customer satisfaction survey completed by over two million customers annually, through which Coles monitors customer satisfaction with service, product availability, quality and price

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

Looking to the future

Over the past year, Coles has made good progress on delivering on our vision to 'Become the most trusted retailer in Australia and grow long-term shareholder value'.

Despite the many challenges we have faced, we have strong plans in place to continue to deliver on this vision and our strategy to Inspire Customers through best value food and drink solutions to make lives easier, deliver Smarter Selling through efficiency and pace
with our team members, supp

Coles' priorities for the year a
many of our customers facin
been more important, and an increasingly diverse customer base requires a tailored offer to ensure we meet their needs. We will provide trusted value by lowering prices, supported by marketing efforts to lower the cost of breakfast, lunch and dinner. We will also accelerate Own Brand innovation across all price tiers and deliver range reviews at pace on the back of the successes we achieved in FY20. We also know that our customers want convenience and are looking for healthier food options. Coles is well positioned in these areas with our convenience range already rolled out to approximately 150 supermarkets. Growth in online shopping is also expected to accelerate as existing and new online customers appreciate the convenience of anytime, anywhere shopping. Coles' export business remains a growth opportunity.

During FY20, an operational review of the Liquor strategy was completed. This is a multi-year strategy with the objective of creating a more relevant and accessible offer for our customers, delivered through improved service. It will be implemented over the three horizons of 'Simplify and refocus', 'Differentiate' and 'Grow'.

Having made a strong start to the Smarter Selling program in FY20, Coles retains its $1 billion cost-out target to be achieved between FY20 and FY23. In FY21, Coles will continue to focus on realising cost-out opportunities, however the timing will be dictated, in part, by COVID-19. Coles' optimised store network and formats are already transforming the make-up and performance of our extensive store network with plans to renew approximately 65 stores in FY21, and to open approximately 15 to 20 new stores, including five stores that were delayed in FY20 due to COVID-19. Technology and automation will continue to play an important role in
and our anytime, anywhere
itron to construct two ambient
tres in Queensland and New
. Construction has commenced in Queensland and we expect construction to begin on the
Ne
r partnership with Ocado
to d
tre in Melbourne (where
con
and Sydney, will provide industry leading capability in online fulfilment.

Supporting our team members, suppliers and the communities in which we operate has never been more important than it is today. In the year ahead, we will continue to embed wellbeing and safety in Coles' DNA by continuing to focus on reducing TRIFR and building the capabilities of all team members to look after their mental wellbeing and to create a mentally healthy workplace.

Coles has continued to experience elevated sales and incur incremental COVID-19 costs in the early part of FY21. There is significant variation between states, and store locations within states, as a result of the ongoing impact of COVID-19 restrictions around Australia. The extent and duration of these impacts will depend upon a number of factors as we proactively manage the unfolding COVID-19 situation.

While COVID-19 continues to have an impact on our team members, suppliers and the communities we serve, and the environment in which we operate remains highly uncertain, Coles is well placed to take advantage of opportunities as they arise.

To provide customers with fast, convenient service, Coles expanded its Click & Collect Concierge offer. Northlakes Coles Online Team Manager Jai delivers groceries for Leah and her son, William, in Darwin.

Risk management

During the year, Coles has continued to identify and manage risks in accordance with the Coles Risk Management Framework. The design of this Framework is based on ISO 31000:2018 Risk management – Guidelines ('ISO 31000'), which provides an intern principles and guidelines for m Further information about ou is available in Coles' Corporat

In response to the COVID-19 pandemic, we implemented a large number of measures to keep our customers and team members safe, such as sneeze guards in supermarkets.

Through application of the Coles Risk Management Framework, we have identified material strategic, operational, and financial risks which could adversely affect the achievement of our future financial prospects. Each of d below along with our plans the risks have been described level of interdependency n increased exposure for one material risk can drive elevated levels of exposure in other are n to these material risks, our acted by risks that apply gen nd the retail industry, as well as by the emergence of new material risks not reported below.

COVID-19

There are high levels of uncertainty with regard to how the COVID-19 pandemic will evolve both internationally and domestically, along with corresponding responses from governments, organisations, customers and the broader community. This makes the impact of the COVID-19 pandemic for Coles, its business and its customers highly uncertain. Key areas of uncertainty include, but are not limited to: evolution of the virus, rates of infection, government regulatory and policy response (including government-imposed shutdowns of sectors of the economy, border closures, and variations in restrictions between states and countries), resilience of both domestic and international supply chains, the treatment and immunisation timeline, and quality of available healthcare.

The emergence of the COVID-19 pandemic has created its own set of significant risks and impacts to Coles, and has also heightened Coles' existing material risk profile. The table below summarises the most significant risks associated with COVID-19, and how these link to the broader set of material risks.

Risk Description	Relevant existing material risk(s)
Operational disruption	
Risk of significant and/or prolonged disruptions in the supply chain, store and online operations which can impact on our ability to serve our customers and the community. This can be driven by government-imposed restrictions including border closures, industrial relations disputes, surges in customer demand, inability to access critical third parties whom we rely on to deliver our strategy and operations, and loss of critical digital applications and platforms due to cyber attacks.	• Pandemic • Competition, changing consumer behaviour and digital disruption • Security of supply • Industrial relations • Third party management • Technology, resilience, data and cyber security
Customer behaviour	
Failure to adequately respond to changes in customer expectations as a result of COVID-19 including increased focus on safety measures and increased reliance and demand on online shopping and digital channels. Any future government changes in restrictions may also lead to further surges in customer purchases of fresh food, homecare, grocery and pantry items, or declines in fuel volumes.	• Pandemic • Competition, changing consumer behaviour and digital disruption • Strategy and transformation delivery • Security of supply
Program execution	
Pauses or delays in the execution of great within our strategy and transformation program due to disruptions brought about by the COVID-19 pandemic. These include re-allocation of program resources to focus on response activities, disruptio and to critical third parties transformational program	• Pandemic • Security of supply y and transformation delivery rty management
Health and safety	
Adverse impacts to team member health and wellbeing (including health), the potential for clusters of COVID-19 infections at sites, and key personnel due to infection.	fety
Regulatory changes	
Failure to appropriately respond to enhanced and rapidly moving regulatory requirements brought on by COVID-19, including for health and safety.	• Pandemic • Health and safety • Legal and regulatory
Cyber threats	
Heightened cyber security threats including remote access scams targeting team members working from home, payments fraud and business email compromise, phishing scams, and abuse of video conferencing applications.	• Pandemic • Technology, resilience, data and cyber security
Financial costs and losses	
Risk of higher input costs, additional operational costs associated with responding to the COVID-19 pandemic, reduction in sales and margins, increased risk of fraud, and working capital implications.	• Pandemic • Financial, treasury and insurance

COVID-19 has also adversely impacted the local and global economy but the severity, duration and extent of impact in each affected jurisdiction is uncertain. We anticipate that the evolving nature of the COVID-19 pandemic and the changing geopolitical and macro-economic environment (including impacts to population growth within Australia), will drive continual changes to Coles' material and emerging risks during the next financial year. We will therefore continue to monitor and respond to further developments as required.

Existing material strategic, operational and financial risks for Coles are set out below.

Strategic risks

Risk Description	Mitigations
Pandemic	
If Coles does not monitor and respond to the evolution of the COVID-19 pandemic, or that of any future pandemic, then it can expose us to material financial loss, legal and regulatory action, people, health and safety issues, operational risks, environmental and sustainability risks and/or reputational damage.	Coles continues to manage the evolution of the COVID-19 pandemic in accordance with our Coles Group Response Policy and Program which sets out the governance arrangements, accountabilities, and processes for crisis management and business continuity, and our Coles SafetyCARE System which is the safety management system that provides a framework for Coles to look after the health, safety and wellbeing of our team members, customers, contractors, suppliers and visitors. Our response is led by our Executive-level Response Leaders who are supported by the Group Response Manager. Business continuity functional leads are assigned to manage dedicated streams of work to identify, prepare and respond to emerging risks and issues across the Group. Critical response decisions are discussed and approved by Coles' Executive Leadership Team and elevated to the Board, where required. Business continuity plans are in place for critical functions and activities across our operations including merchandising, supply chain and store and online operations. Our plans include consideration of people, resources, physical sites, information technology and digital requirements, and critical third parties required to continue to operate and serve our customers and when required during our evolving nature of, and our ency plans and resourcing arrangements.
Macro-economic environment	
A downturn in the local and global economy, slump in consumer confidence, and financial market volatility may expose Coles to higher input costs, supply chain disruptions, credit risk, financial loss, and restricted access to liquidity.	Assumptions about macro-economic conditions and monitoring of macro-economic factors are built into the development of our strategic programs of work, and our forward-looking business planning. We continue to adapt our offer so it is consistent with customer needs and execute our Smarter Selling program with the objective of reducing costs. We also continuously monitor progress of execution against our strategy and transformational programs of work. We have a Board approved Treasury Policy which governs the management of our treasury risks, including liquidity, funding, interest rates, foreign currency, the use of derivatives and counterparty risk. These risks are managed day-to-day by our Group Treasury function.
Competition, changing consumer behaviour and digital disruption	
If Coles fails to respond to competitive pressures and changing customer behaviours and expectations, it could result in loss of market share and, ultimately, adverse margin impacts, reduced customer retention and impact to share price or value.	Key programs to respond to these risks and build on opportunities are embedded in the implementation of our strategy. Coles regularly monitors customer sentiment, best practice global retailers, local and international learnings, and customer insights and research, so we can quickly respond to changes in customer behaviours. In response to COVID-19 we launched initiatives which were focused on delivering our products and services safely to our customers. This included a shifting focus to contactless Home Delivery and Click & Collect, Community Hour for vulnerable and elderly customers, emergency services and health

Competition, changing consumer behaviour and digital disruption (continued)

care workers, and delivery of the 'speedy shopper' initiative including use of the Coles Product Finder App to help customers plan their shop ahead of time.

We continue to focus on driving an enhanced digital customer experience through our digital catalogue and the new coles.com.au platform and have invested in new data analytics tools and platforms to give suppliers and category decision makers fast and detailed insights across products, stores, geographies and sales channels.

Strategy and transformation delivery

Inability to properly execute and deliver our strategy and transformational program could result in loss of market share, and variability in Coles' earnings.

Delivery of our strategy and transformation program is determined by the effective implementation of each of the three pillars of our strategy.

Furthermore, elements of our strategy are supported by third-party strategic partnerships including Witron (automated distribution centres), Ocado (enhanced online capability) and Microsoft (cloud data platform, and enterprise resource planning platform for selected business units).

We also have joint ventures with Wesfarmers (flybuys) and AVC (QVC), and an alliance with Viva (Coles Express). During the financial year, Coles acquired lian ready-meals facility. In and divestments, and enter ble effectively execute our

We have governance st ce to oversee, manage and execute our strate rams of work. Projects and programs are regul for progress of program delivery, costs and bene s. We have maintained progress in the execution of our programs with Witron and Ocado during the COVID-19 pandemic, though our joint venture with AVC and Viva Alliance have been adversely impacted, with the temporary closure of hotel venues (which does not have any direct economic impact on Coles) and reduced fuel volumes.

Climate change

Climate change presents an evolving set of risks and opportunities for Coles, and has the potential to contribute to and increase the exposure of other material risks. These include increased frequency/intensity of extreme weather events and chronic climate changes which can disrupt our operations and compromise the safety of our team members, customers, supply chain and the food we sell; changes to government policy, law and regulation, which can result in increased costs to operate and potential for litigation; and failure to meet expectations of stakeholders resulting in reputational damage.

Coles has undertaken a gap analysis against the G20's Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD) to understand and improve its alignment to the TCFD recommended disclosures. A roadmap has been developed and action commenced to improve Coles' response to climate change and its transition to a lower carbon economy.

During FY20, we worked with external climate change specialists to further assess our climate change risks and opportunities. Additional information on these risks and opportunities is set out in the Climate Change section.

Further, in the case of extreme weather events, we have business continuity processes for sourcing and delivering goods to stores. To reduce our impact on the environment, we have an Energy Strategy that includes our approach to energy purchasing, monitoring and management. Through the Coles Nurture Fund, we are supporting suppliers with grants to help them adapt to climate change as well as to mitigate their impact.

Operational risks

Risk Description	Mitigations
Industrial relations	
As we execute our strategy, workforce changes may lead to industrial action and/or disruptions to operations, which can result in increased costs, litigation and financial impacts from reputational damage. The emergence of COVID-19 along with planned changes in our supply chain operations, has heightened our exposure to this risk.	Coles has in place a dedicated Employee Relations function which is responsible for monitoring and responding to industrial relations risks and issues. Key activities include implementation of appropriate enterprise bargaining and employee relations strategies; maintaining and building strong working relationships with unions and industry organisations; and constructively liaising with our team members, third-party suppliers and transport and logistic service providers. The renegotiation of collective bargaining agreements is proactively managed and business continuity plans are in place to mitigate disruption to operations if industrial action occurs.
Security of supply	
Potential disruption to the supply of goods for resale and services required to deliver our core operations can occur due to extreme weather events and changes in climate, changes in domestic and international government policy and regulation, and disruptions caused by the evolving COVID-19 pandemic, including suspension of pr domestic and internation closures, and restricted ac the workforce our suppliers rely on to produce goods. Supply chain disruptions can result in an inability to supply to customers, loss of market share, price volatility and increased costs.	We have business continuity plans to manage the supply chain and delivery of goods to stores during extreme weather and business disruptive events. These continuity plans were successfully invoked in response to the bushfires and demand surges experienced during the early stages of Coles' COVID-19 response. Our COVID-19 response includes sourcing alternative supply arrangements, scaling up production and distribution of substitute goods (potentially simplifying range to aid production efficiency) and removal of promotions to suppress demand of impacted lines and customer limits. nce across a number of key nd water scarcity. The results ns to supply. Medium and ly security risks and mitigations continue to be assessed volves.
Health and safety	
The safety of our team, customers, third parties and contractors is paramount to Coles. We employ an extensive and diverse work force, including third parties, with high volumes of people interactions daily. This brings risk of fatality, life-threatening injuries or transmission of disease to team members, customers, suppliers, contractors or visitors, due to unsafe work practices, accidents or incidents.	Our detailed Health, Safety, Environment and Injury Management system (SafetyCARE) is supported by a team of experienced safety professionals throughout our network. SafetyCARE's performance is measured through a range of indicators and the effectiveness of the system is assessed through a verification program. A rolling five-year Safety and Wellbeing Plan focuses on the three pillars of Safety leadership and culture, Critical risk reduction, and Mind your health. The health and safety of our customers and team members is the focal point of our response to the COVID-19 pandemic. Coles adheres to the hygiene practices recommended by the Australian Government through Safe Work Australia and based on information from the World Health Organization, the Australian Department of Health, state and territory governments and departments of health and other applicable regulatory bodies. A large number of measures have been implemented including programs to keep our customers and team members safe incorporating social distancing measures, sneeze guards, sanitiser, masks, additional cleaning and security, immediate escalation and reporting protocols, and the implementation of large-scale mental health and wellbeing programs for all of our team members.

Product and food safety

Product and food safety and quality is critical for Coles. Serious illness, injury or death are the most severe potential consequences from compromised product or food safety. Loss in customer trust, reputational damage, loss in sales and market share, regulatory exposure, and potential litigation could also occur.

Coles has a food safety governance program in place which is overseen by an experienced technical team. The program comprises targeted policies and procedures, including well established food recall and withdrawal processes, specific supplier requirements for different food categories (for example chilled versus ambient) and a supporting assurance program to ensure key controls are operating and effective.

We also have a Product Safety Program which covers non-food products, and work closely with our suppliers to ensure compliance with relevant mandatory standards to meet consumer guarantees under the Australian Consumer Law. Our Product and Food Safety Committee oversees continuous improvement of food and product safety risks and issues across Coles, including any presented by COVID-19.

Food and plastic waste

We recognise that food and plastic waste negatively impacts the environment, economy and society. There is a potential for significant reputational risk if Coles does not reduce food and plastic waste in line with consumer, shareholder and government expectations

Coles is committed to working with the Australian Packaging Covenant Organisation. We have a waste management strategy in place which includes programs to divert waste from landfill, including partnerships with SecondBite, Foodbank and local farmers. In-store training and awareness programs are in place to increase the effectiveness of our waste management program. Soft plastics recycling through REDcycle is available in our supermarkets and the volumes of material submitted for recycling continue to increase.

uce waste, including working s to use food we do not sell, -store waste.

Third party management

An inability to successfully manage and leverage our strategic third-party relationships, or a critical failure of a key supplier or service provider, may expose Coles to risks related to compromised safety and quality, misalignment with ethical and sustainability objectives, disruptions to supply or operations, unrealised benefits, and legal and regulatory exposure.

Coles has due diligenc ss the adequacy and suitability of key suppliers, service providers and strategic partners in accordance with our requirements. We monitor and manage quality and performance of key suppliers and strategic third parties throughout their engagement with Coles. Defined service level and key performance indicators are in place for key supply contracts. Risks are managed via contractual protections.

During FY20, we delivered the source to pay process for goods and service providers (goods not for resale) via implementation of the SAP Ariba technology platform. Third party management (goods not for resale) is governed by the Third Party Management Policy and includes risk assessment requirements for the sourcing process. Plans for FY21 include the continued uplift and embedding of contract management and supplier management requirements for goods not for resale engagements.

Legal and regulatory

The diversity of our operations necessitates compliance with extensive legislative requirements at all levels of government, including corporations law, competition and consumer law, health and safety, employee relations, product and food safety, environment, council by-laws, privacy and bio-security.

Coles has in place a Compliance Framework, which is based on AS ISO 19600:2015 Compliance Management Systems – Guidelines, and which sets out the standards, requirements and accountability for managing regulatory compliance obligations across the Group. Coles has targeted controls in place across the various areas of compliance, including policies, procedures, training and system controls. The Framework is subject to assurance to ensure controls are in operation and operating effectively. We also maintain relationships with regulators and industry bodies and actively monitor new and impending legislative and policy changes.

Legal and regulatory (continued)

Non-compliance with key laws and regulations, could expose Coles to loss of license to operate, substantial financial penalties, reputational damage, a deterioration in relationships with regulators, and additional regulatory changes which may adversely impact the execution of our strategy and result in increased cost to operate. Furthermore, if Coles is a party to litigation, it can involve reputational damage, financial costs, and high investment of Company resources and time.

Our legal teams work in partnership with our compliance teams to monitor and manage legal issues, matters, claims or disputes. We are supported by pre-agreed panel arrangements with external legal firms and undertake risk analysis on any potential litigation claims to understand loss potential.

Ethical sourcing

Failure to source product or conduct our business in a manner that complies with our Coles Ethical Sourcing Policy and relevant legal requirements across Australia and the countries we source from can result in impact to worker safety, wellbeing or living conditions, material reputational damage, loss in consumer c and market share, regulator and penalties, and adverse performance.

Our Ethical Sourcing Policy and supplier requirements are based on internationally recognised standards and establish the minimum standards for all suppliers.

Coles' Ethical Sourcing Program takes a risk-based approach which defines the level of due diligence and monitoring that applies to suppliers based on risk exposure and includes a requirement for ethical audits of selected suppliers. The program covers Supermarkets Own Brand and fresh produce nded program coverage to n preparation to implement well as Goods Not For Resale

Coles' Human Rights sees ethical sourcing governance including improvement actions across the business. Th ends to reviewing the application of relevant uirements concerning human rights, such as the reporting requirement under the Commonwealth's *Modern Slavery Act 2018*. In March 2020 the Board endorsed our Human Rights Strategy which focuses on systems and processes to prevent, mitigate and remedy actual or potential adverse human rights impacts.

Coles allocates dedicated resources to the delivery of our Human Rights Strategy and Ethical Sourcing Program. This includes an in-house certified social compliance auditor (certified by the Association of Professional Social Compliance Auditors) to manage the ethical audit program. Coles' whistle-blower hotline and dedicated supply chain wages and conditions hotline enable reporting of unethical, illegal, fraudulent or undesirable conduct.

Information technology, resilience, data and cybersecurity	
A failure or disruption to our information technology applications and infrastructure, including a cyber security event, could impede the processing of customer transactions or limit our ability to procure or distribute stock for our stores. Furthermore, our technology and data-rich environment also exposes us to the risk of unintentional or unauthorised access to confidential, financial, or private information, which may result in loss in consumer confidence, loss in market share, regulator fines and penalties, and reputational damage.	We have a rolling five-year technology strategy and continuously monitor our technology operations. Our service management function is responsible for responding to incidents, and we actively manage technology changes to reduce the risk of system instability, especially during peak trading periods. Information technology recovery plans are in place should an information technology disruption occur. Our privacy and digital security policies, procedures, governance forums, and education and awareness programs help to assess and manage ongoing data, privacy and cyber security threats. We regularly test and review our information technology infrastructure, systems, and processes to assess security threats and the adequacy of controls. We also benchmark security capabilities and identify opportunities for improvement, and are committed to the ongoing delivery of Coles' cyber security program to continually improve our people, process, and technology controls. In response to COVID-19, we regularly assess new and increased cyber-crime attack vectors, have deployed resources and invested in areas of threat which have arisen, and continue to be vigilant as the threat evolves.

Financial risks

Risk Description	Mitigations
Financial, treasury and insurance	
The availability of funding management of capital ar[illegible] are important requirements [illegible] our business operations and growth. In addition, we are exposed to material adverse fluctuations in interest rates, foreign exchange rates and commodity movements which could impact business profitability. We may also be exposed to financial loss from accidents, natural disasters and other events.	[illegible] managing our cash funding [illegible]f interest rate and foreign [illegible]ed by the Board, and govern the management of our financial risks, including liquidity, interest rates, foreign currency and c[illegible]ther derivatives. Further information is included i[illegible]gement of the Financial Report. Insurance is a tool to protect our customers, team members and the Group against financial loss, where applicable. In some cases, we choose to self-insure a significant proportion of the risk. This means that, in the event of an incident, the cost is covered from internal premiums charged to the business or the losses are absorbed. Our insurance function is responsible for managing both self-insurance and the purchase of external insurance where we determine this is prudent. We monitor our self-insured risks and have active programs to help us pre-empt and mitigate losses. We engage an external actuary to determine the self-insurance liabilities recognised in the Statement of Financial Position. COVID-19 has impacted Coles significantly in the second half of the financial year and in the Operating and Financial Review we have documented the trading and financial reporting impacts of the pandemic.

Climate change

As one of Australia's largest companies, we know we have a responsibility to minimise our environmental footprint. Our business is also impacted by climate change, and we need to adapt to be able to respond to extreme weather events and maintain security of food supply to sustainably feed all Australians.

We support the TCFD, and information in this section responds to the four thematic areas against which the TCFD recommendations for climate-related disclosures are structured.

During the reporting period we engaged an external consultant to complete a gap analysis of Coles' previous reporting against the TCFD recommendations. While the analysis found we are parti
of the TCFD recommended
to refine and enhance our d
embed our climate change

We also prepared a detailed roadmap and action plan to enhance our climate change response and support our transition to a lower-carbon economy. The roadmap, which was endorsed by the Board, also highlights the key milestones we need to meet to enable more comprehensive climate change responses and disclosures.

Our first priority was the requirement for a climate change risk assessment, noting climate risk has already been identified as a material business risk as part of the risk identification processes defined within Coles' Risk Management Framework. During the year, we worked with external climate change specialists to further assess our climate change risks and opportunities. The assessment considered three climate scenarios to prompt innovative thinking, as described below in the Risk Management section.

The next steps in developing our climate change strategy will be assessing our corporate strategy against different climate scenarios and releasing new greenhouse gas emission reduction targets for our operational emissions. The strategy will also reference and respond to the risks already identified.

Governance

The Board oversees the effectiveness of Coles' environment, sustainability and governance policies and retains ultimate oversight of material environmental and sustainability risks and opportunities, including those related to climate change.

The Audit and Risk Committee assists the Board in fulfilling its responsibilities. The Committee evaluates the adequacy and effectiveness of Coles' identification and management of environmental and social sustainability risks as well as reporting of those risks. The Committee receives reports from management on new and emerging sources of risk and the controls and mitigation measures management has put in place to address these risks.

The Group's Sustainability Steering Committee, a management committee, is responsible for overseeing Group-wide identification and response to sustainability risks, including climate change. It is chaired by the Chief Property and Export Officer, a member of the Executive
o the Chief Executive Officer.
omprise management from
nability responsibilities including
ability, Own Brand, Company
Sec irs.

Our rogram are coordinated
by ee which oversees Coles' climate change approach and reports to the Sustainability Steering Committee and its Chair. The Subcommittee is chaired by the General Manager Sustainability and Property Services and includes senior leaders from key functions within Coles, including Finance, Strategy, Risk and Compliance, and Sustainability. The Subcommittee also reviews the application of relevant legislative and regulatory requirements concerning climate change.

Our approach to climate change governance will continue to develop as we embed roles and responsibilities throughout the organisation, recognising that responsibilities for managing and mitigating climate change risks are organisation wide.

Strategy and approach

During FY20, we continued to develop a comprehensive climate change strategy in line with the recommended TCFD disclosures.

Our approach to climate change is captured under the Win Together pillar of our corporate strategy, which incorporates Coles' response to climate change risk and opportunities, and has three key focus areas:

- Sustainable communities – supporting Australian farmers, suppliers, team members and the communities in which we live and work
- Sustainable products – sourcing quality products in an ethical and responsible way
- Sustainable environmental practices – minimising environmental impacts across our operations, including climate change impacts

Initiatives that address and support this component of our corporate strategy include:

- Our **Energy Strategy** which guides our approach to energy purchasing and management and maintaining security of energy supply. In FY20, we were the first major Australian retailer to commit to buying renewable energy through a power purchase agreement. The 10-year agreement is in place to purchase power from three solar plants in New South Wales with the projects expected to provide 10% of Coles' national power needs. We expect the solar plants will be operational in FY21.
- Our approach to **refrigeration management** which includes investing in transcritical CO_2 refrigerants – natural gas compounds that have little or no impact on the ozone layer and do not contribute to greenhouse gas emissions.
- **Environmental improvements** in stores by enhancing sustainability features on t
as doors on freezers, op
new gas and water met
- **Business continuity planning** for sourcing and delivering goods to stores in the occurrence of extreme weather events, such as floods, storms and bushfires.
- Research into **supply chain resilience** with the Commonwealth Scientific and Industrial Research Organisation (CSIRO), where we have investigated the security of key products in our fresh food supply chain.
- Opportunities for **new product development** to support customers seeking products with lower environmental impacts. We understand that minimising environmental impacts of food production is an important issue for many customers, and we have responded by increasing our range of plant-based products including introducing Nature's Kitchen, a range of plant-based products.
- The **Coles Nurture Fund** which provides support to suppliers through grants for climate change adaptation and mitigation initiatives.
- Participation in the **Australian Beef Sustainability Framework**, an initiative of the Red Meat Advisory Council managed by Meat and Livestock Australia. We consider the framework the most appropriate way to address climate and environmental issues facing the beef industry (such as emission reduction and deforestation) from a national and industry-wide perspective.

opportunities to mitigate risk
ies.

Construction has commenced on the development of a solar farm outside Junee in regional New South Wales. It is one of three solar farms from which Coles will source 10% of its national power needs. The other two solar farms will be located outside the regional centres of Wagga Wagga and Corowa. All three solar farms are being developed and constructed by Metka EGN Australia.

Risk management

Through the application of the Coles Risk Management Framework, climate change has been identified as a material business risk to the Group.

During FY20, we further assessed our climate change risks and opportunities including the potential for climate change risks to contribute to or increase other material risks. The qualitative risk assessment applied the risk management processes defined within Coles' Risk Management Framework and used the following three climate scenarios to prompt innovative thinking:

1. **stated policies** – Where governments deliver on current policies already in place which result in approximately 3.2°C warming above pre-industrial levels
2. **ambitious global action** – Where there is active movement towards the goals set in the Paris Agreement to keep 'global average temperature to well below 2°C, or preferably to 1.5°C above pre-industrial levels'
3. **runaway climate change** – Where there is no limit placed on carbon emissions and warming is set to reach 4°C above pre-industrial levels.

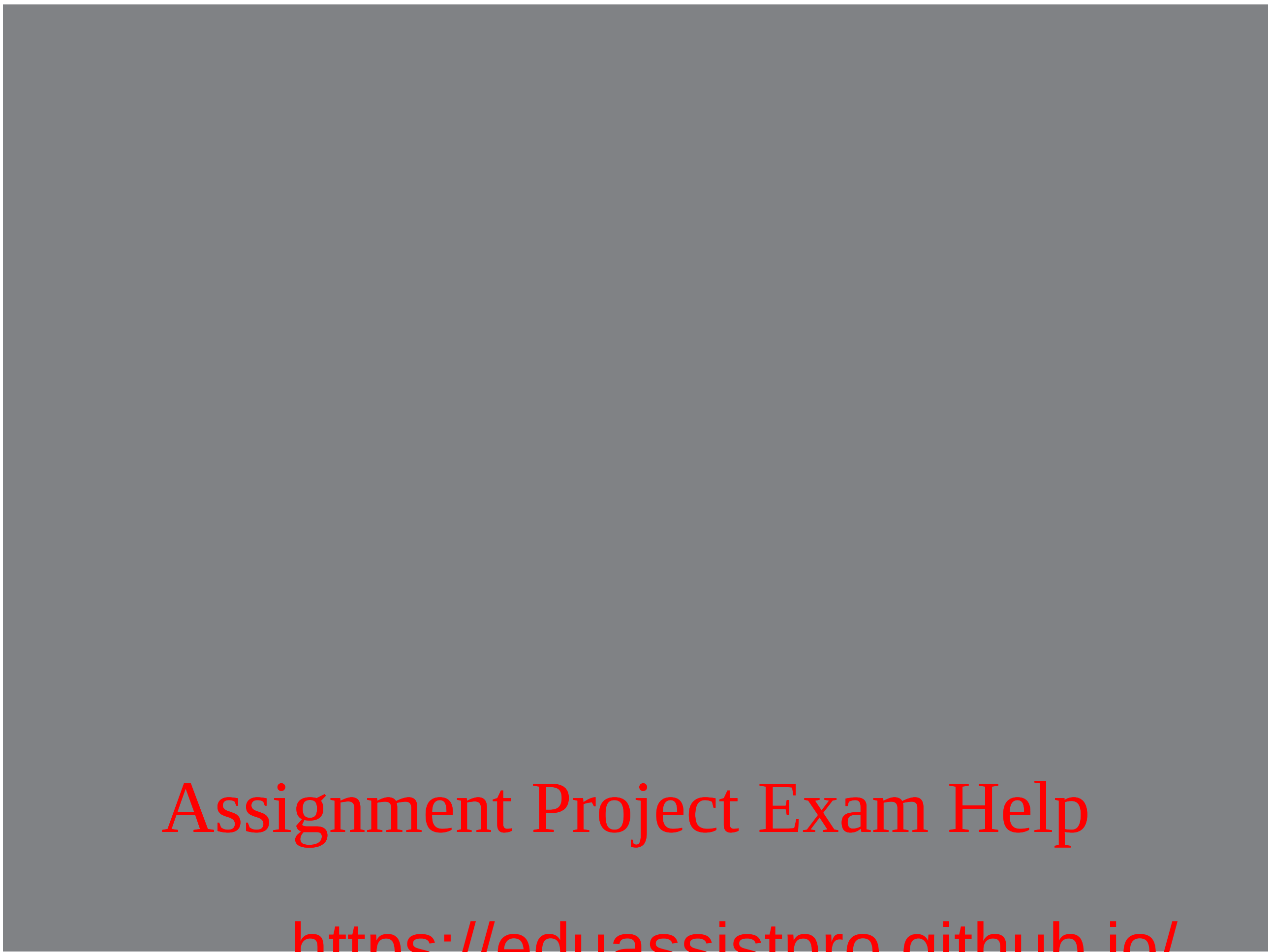
The risk assessment included interviews and workshops with stakeholders across the Group including Property, Export, Supply Chain, Product, Own Brand, Coles Liquor, Coles Express and Procurement.

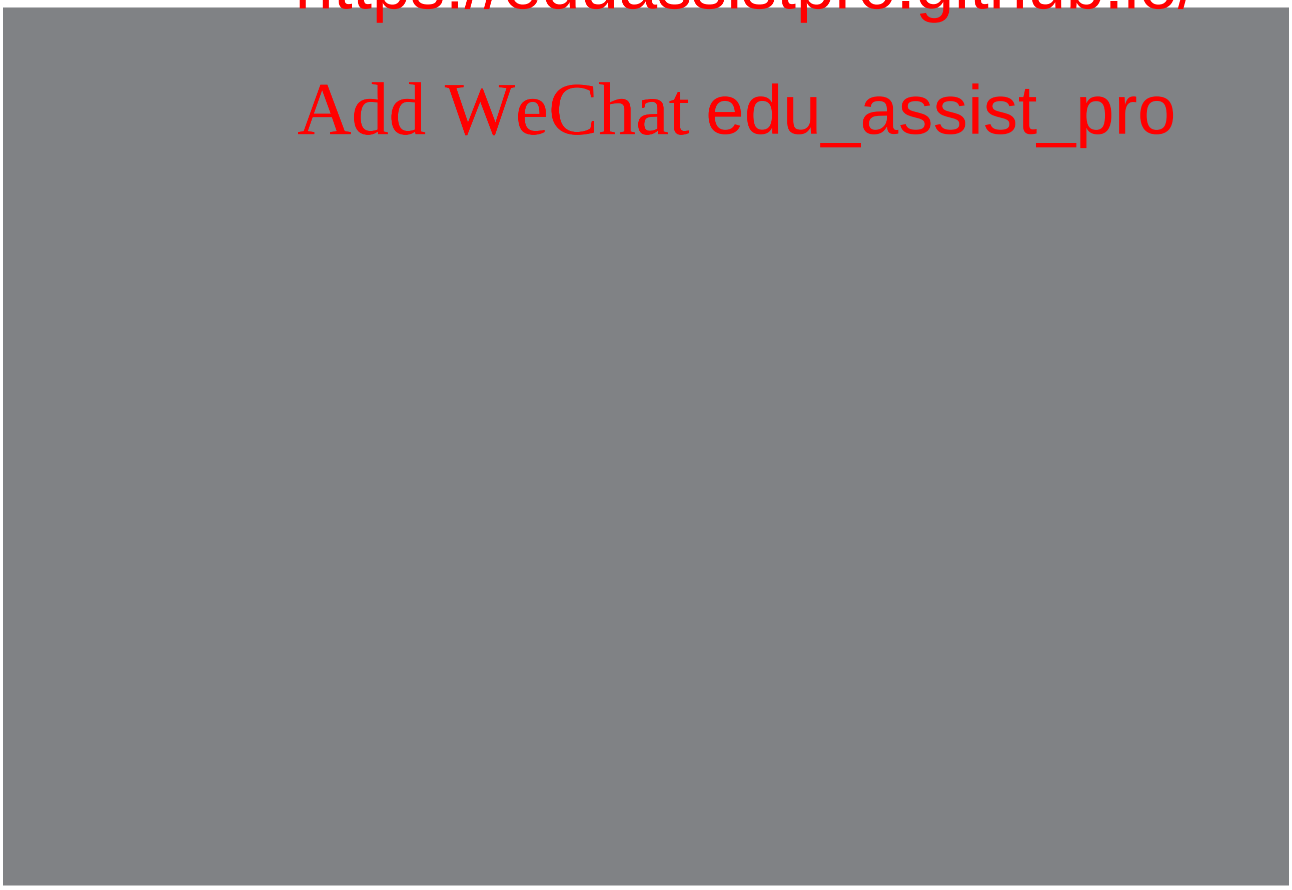
Analysis of the risk exposure considered financial, reputational, health and safety, legal and regulatory, and operational consequences over the next 10 years. The assessment also identified associated metrics and targets used to monitor the management of risk and opportunities and evaluated risk exposure against Coles' climate change risk appetite.

Our most significant climate-related risks, mitigants and opportunities are presented in the following table, along with our approach to managing them. The risks identified have been grouped into the two major categories of climate-related risks identified by the TCFD: (1) risks related to the transition to a lower-carbon economy and (2) physical risks (acute and chronic).

Transition risks

Risk and impact	Mitigants and opportunities
Reputational	
We recognise our customer[illegible] strong and responsible act[illegible] change. We know we have [illegible] our impact on the environment through our operations. Failure to take action on climate change would harm the environment and Coles' reputation.	[illegible]d processes to monitor, [illegible] the concerns and [illegible]eholders and society more bro[illegible]veloped and action has co[illegible]ate change response and [illegible]conomy.
Changing regulatory requirements	
We take our regulatory obligations seriously and manage non-compliance with regulatory requirements as a risk, with supporting risk appetite statements set by the Board. New and evolving climate-related regulations may result in breaches and/or increased implementation or operational cost to deliver compliance.	Coles has a Compliance Framework based on AS ISO 19600:2015 Compliance Management Systems – Guidelines which sets out the standards, requirements and accountability for managing regulatory compliance obligations across the Group.
Carbon pricing	
Changes in policy affecting the cost of carbon may result in increased business costs including energy, transport, water, goods, materials and services.	Coles consistently looks for opportunities to improve operational efficiency including energy efficiency. Strategies to source energy from renewable sources and reduce energy usage have been developed for store operations, transport and refrigeration. Incremental improvements are implemented through asset replacement regimes. This is supported by internal engineering standards which incorporate technological advances and changing operating conditions.
Export market growth	
Changing policies in existing and future markets may impact growth due to the introduction and/or expansion of trading taxes, barriers on high emissions and water intensive products, and bans on non-recyclable packaging. Growth may also be further impacted by consumer transition to lower carbon lifestyles.	Export remains an area of growth for Coles. Business planning considers future market conditions and consumer preferences, which are monitored routinely. Coles mitigates exposures to macro-economic conditions and regulatory requirements through diversification of products and markets.





Tom and Vickie Tyson from Lachlan Valley Grazing near Condobolin in New South Wales received a Nurture Fund grant to install solar panels to power new, efficient irrigation equipment. The project, completed in FY20, has minimised the business' carbon footprint, reduced its reliance on electricity and enabled the family to produce grass-fed beef for 12 months of the year.

Physical risks

Risk and impact	Mitigants and opportunities
Health and safety	
The frequency and intensity of extreme weather events, as well as changes in weather patterns, will create more instances in which conditions may become unsafe for our team members, contractors and customers.	The Coles Health, Safety, Environment and Injury Management system (SafetyCARE) factors in the acute (for example bushfires) and chronic impacts (for example heat fatigue) of climate change. The system is integrated with emergency management (our response to physical threats or events as coordinated by the Health and Safety team), and Coles Group Response Policy and Program, which sets out the governance arrangements, accountabilities and processes for crisis management and business continuity. Learnings from incidents and events, and opportunities for improvement, are identified and incorporated into our safety, emergency management and response plans and processes.
Supply chain disruption	
Our ability to move, procure and sell products and services will be impacted by climate change both domestically and internationally. Key impacts include decreased agricultural productivity due to extreme temperature shifts; droughts and other extreme weather events; disrupted transport routes; and disrupted suppliers' operations due to extreme weather events.	We have business continuity plans to manage the supply chain and delivery of goods to stores during extreme weather and business disruptive events. We continue to analyse Coles' supply chain resilience across a number of key food categories, including for carbon footprint and water scarcity. The results will be used to contain possible future disruptions to supply.
Food safety	
Changes in growing and op[illegible] affect the persistence and [illegible] diseases and, as a result, inc[illegible] production, handling and processing in manufacturing plants, distribution and storage along the value chain.	[illegible] which includes recall and [illegible]ted to adapt to changing [illegible]ns with externally accredited pro[illegible]d (SQF) and British Ret[illegible]rd for Food Safety. We wor[illegible]gulators to understand and [illegible]nal risks.
Asset integrity and continuity of operations	
Changing weather conditions will result in an increase in physical damage to assets; access interruption; prolonged power outages; decreased equipment reliability and efficiencies; and essential services.	Emergency response plans and business continuity plans are in place to mitigate potential disruptions and store design specifications consider future conditions to improve their resilience in extreme conditions.

We also conducted an assessment with respect to potential impacts on Coles' financial statements which found that, while the risks identified to date may result in financial impacts such as increased costs and loss of income for future financial years, none are considered to give rise to material financial reporting impacts for the FY20 financial year.

Work will continue in FY21 to further explore opportunities to manage the risks identified in the climate change risk assessment referenced above and determine how these will be addressed in our climate change strategy.

Metrics and targets

We met our 2020 greenhouse gas emissions target, which was to reduce greenhouse gas emissions by 30% from a 2009 baseline, four years early in 2016 through a focus on reducing emissions particularly emissions associated with refrigeration.

While our target has been met, we continue to invest in energy efficiency and greenhouse gas reduction programs including our energy strategy, refrigeration management and opportunities in store.

Work is well progressed on developing new greenhouse gas emission targets.

We measure and report on Scope 1 and Scope 2 greenhouse gas emissions in line with the National Greenhouse and Energy Reporting Scheme (NGERS) requirements. NGERS requires companies to report annually each October. As such, metrics, including greenhouse gas metrics, will be included in our FY20 Sustainability Report.

Board
of Dire

Board of Directors: Biographical details

James Graham AM

BE (Chem) (Hons), MBA, FIEAust EngExec, FTSE, FAICD, SF Fin

Chairman and Non-executive Director, Chairman of the Nomination Committee and Member of the People and Culture Committee

Age: 72

James Graham has extensive investment, corporate and governance experience, including as a Non-executive Director of Wesfarmers Limited for 20 years, prior to his retirement in July 2018. James is Chairman of Gresham Partners Limited, having founded the Gresham Partners Group in 1985. From 2001 to 2009, he was a Director of Rabobank Australia Limited, initially as Deputy Chairman and then Chairman, responsible for the Bank's operations in Australia and New Zealand. He was also Chairman of the Darling Harbour Authority between 1989 and 1995. James was made a member of the Order of Australia in 2008.

Directorships of listed entities, current and recent (last three years):

Director of Wesfarmers Limite

Steven Cain

MEng (1st)

Managing Director and CEO

Age: 55

Steven Cain has over 20 years of experience in Australian and international retail. Steven was previously Chief Executive Officer of Supermarkets and Convenience at Metcash Limited. He was Chief Executive of Carlton Communications plc, a FTSE 100 media group company, and Operating Director and Portfolio Company Chairman at Pacific Equity Partners, a private equity firm. He was Group Marketing Director, Store Development Director and Grocery Trading Director of Asda Stores Ltd (UK) during its turnaround and has held roles at UK retail group Kingfisher plc, and Bain & Company. Steven was previously the Managing Director of Food, Liquor and Fuel at Coles Myer and was an advisor to Wesfarmers Limited on its takeover of the Coles Group in 2007.

David Cheesewright

BSc Mathematics and Sports Science (1st)

Non-executive Director, Member of the Nomination Committee and the People and Culture Committee

Age: 58

David Cheesewright retired in early 2018 as President and Chief Executive Officer of Walmart International, which comprises Walmart's operations outside the United States, including more than 6,200 stores and over a million associates in 27 countries. David was also responsible for Walmart's global sourcing operations and offices around the world. He was previously President and CEO of Walmart EMEA (Europe, Middle East and Africa), CEO Walmart Canada, and COO Asda. David's other prior roles include a range of key positions with Mars Confectionery in the UK across manufacturing, marketing, sales and logistics. David is also a previous board member of Walmex (Walmart Mexico), Chinese online grocery business Yihaodian, South r Massmart, The Retail Council and is a prior Chair of Walmart Holdings (UK). David currently rd of the Smith Business School and Rapha Racing (UK).

Ja

MB

Non-executive Director, Member of the Nomination Committee and the Audit and Risk Committee

Age: 48

Jacqueline Chow is a Non-executive Director of nib Holdings Limited and a Senior Advisor at McKinsey Consulting RTS, advising clients across industrial, retail, telecommunications, financial services and consumer sectors on performance transformation projects. She is also a Director of the Australia-Israel Chamber of Commerce of New South Wales. From 2016 to June 2019, Jacqueline was a Director of Fisher & Paykel Appliances. Jacqueline previously held senior management positions with Fonterra Co-operative Group, one of the world's largest dairy product producers and exporters, including Chief Operating Officer, Global Consumer and Food Service. Prior to that, she was in senior management with Campbell Arnott's and Kellogg Company. She was also Programme Steering Group Director, Ministry for Primary Industries, NZ and Deputy Chair, Global Dairy Platform Inc.

Directorships of listed entities, current and recent (last three years):

Director of nib Holdings Limited (since April 2018)

Abi Cleland

MBA, BCom/BA

Non-executive Director, Member of the Nomination Committee and the People and Culture Committee

Age: 46

Abi Cleland is a Director of Computershare Limited, Sydney Airport Corporation Limited and Orora Limited. Abi is also a Director of Swimming Australia. Abi's previous board appointments include Australian Independent Business Media, Chairman of Planwise Australia and membership of the advisory committee of Lazard PE Fund 2. From 2012 to 2017, Abi established and ran an advisory and management business, Absolute Partners, focusing on strategy, mergers and acquisitions and disruption. Before that, she held senior management roles at KordaMentha's 333, where she was Managing Director, and at ANZ, Incitec Pivot Limited and Amcor Limited.

Directorships of listed entities, current and recent (last three years):

Director of Computershare

Director of Sydney Airport C

2018); Director of Orora Limited (since February 2014); Director of BWX Limited (August 2017 to December 2017)

Richard Freudenstein

LLB (Hons), BEc

Non-executive Director, Chairman of the People and Culture Committee and Member of the Nomination Committee

Age: 55

Richard Freudenstein is a Director of REA Group Limited (since 2006), including as Chairman from 2007 to 2012. He is also currently a board member of Cricket Australia, Deputy Chancellor of the University of Sydney and a member of the Advisory Board of start-up artificial intelligence software company Afiniti. Richard was previously Chief Executive Officer of Foxtel (2011 to 2016), Chief Executive Officer of The Australian and News Digital Media at News Ltd (2006 to 2010), and Chief Operating Officer at British Sky Broadcasting plc (2000 to 2006). His previous board positions include Ten Network Holdings (2015 to 2016), Foxtel (2009 to 2011) and ESPN STAR Sports ESS (2009 to 2012).

Directorships of listed entities, current and recent (last three years):

Director of REA Group Limited (since November 2006); Director of Astro Malaysia Holdings Berhad (September 2016 to August 2019)

Wendy Stops

BAppSc (Information Technology), GAICD

Non-executive Director, Member of the Nomination Committee and the Audit and Risk Committee

Age: 59

Wendy Stops is a Director of Commonwealth Bank of Australia Limited. She is also a Director of Fitted for Work, a Council member at the University of Melbourne, Chair of the Advisory Board for the Melbourne Business School's Centre for Business Analytics and a member of the Advisory Committee to the Digital Technology Taskforce of the Department of Prime Minister and Cabinet. Wendy was previously a senior management executive in the information technology and consulting sectors, including 16 years with Accenture in various senior management positions in Australia, Asia Pacific and globally. Her previous board experience includes Altium Limited, Accenture Software Solutions Australia and Diversiti. She is currently a

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current and recent

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Zla

MBA, BCom

Non-executive Director, Chairman of the Audit and Risk Committee and Member of the Nomination Committee

Age: 52

Zlatko Todorcevski is a Director of The Star Entertainment Group Ltd and was appointed as Chief Executive Officer and Managing Director of Boral Limited, effective 1 July 2020. Zlatko's previous appointments include Deputy Chair and Director of Adelaide Brighton Ltd, having served as Chairman from May 2018 to May 2019. Zlatko was also a Council member of the University of Wollongong, President of the Group of 100 and Chairman of the ASIC Accounting and Audit Standing Committee. Zlatko's executive career included four years as Chief Financial Officer of Brambles Ltd and from 2009 to 2012 as Chief Financial Officer of Oil Search Ltd. From 1986 to 2009, he held various senior roles at BHP, including Chief Financial Officer of Energy based in London and Houston.

Directorships of listed entities, current and recent (last three years):

Director of Adelaide Brighton Limited (March 2017 to June 2020); Director of Star Entertainment Group (since May 2018); Executive Director of Boral Limited since July 2020

Directors' Report

Directors' Report

The Directors present their report on the consolidated entity consisting of Coles Group Limited ('Coles' or 'the Company') and its controlled entities at the end of, or during, the financial year ended 28 June 2020 ('the Group').

The information referred to below forms part of and is to be read in conjunction with this Directors' Report:

- the Operating and Financial Review
- the Remuneration Report
- Board of Directors: Biographical Details
- Note 7.3 Auditor's remuneration to the financial statements accompanying this report
- Note 7.6 Events after the reporting period to the financial statements accompanying this report
- the Auditor's Independence Declaration required under section 307C of the *Corporations Act 2001* (Cth).

Directors

The Directors in office during

NAME		S A DIRECTOR
James Graham AM	Chairman and Independen Non-executive Director	November 2018
Steven Cain	Managing Director and Chief Executive Officer	ief Executive Officer 18 Appointed Managing Director 2 November 2018
David Cheesewright	Independent, Non-executive Director	Appointed 19 November 2018
Jacqueline Chow	Independent, Non-executive Director	Appointed 19 November 2018
Abi Cleland	Independent, Non-executive Director	Appointed 19 November 2018
Richard Freudenstein	Independent, Non-executive Director	Appointed 19 November 2018
Wendy Stops	Independent, Non-executive Director	Appointed 19 November 2018
Zlatko Todorcevski	Independent, Non-executive Director	Appointed 19 November 2018

The biographical details of the current Directors set out information about the Directors' qualifications, experience, special responsibilities and other directorships.

Company secretary

Daniella Pereira LLB (Hons), BA

Daniella Pereira was appointed the Company Secretary of Coles Group Limited on 19 November 2018. Daniella has an extensive career in legal, governance and company secretariat, including a 14-year career with ASX-listed industrial chemicals company Incitec Pivot Limited. Daniella began her career as a lawyer with Ashurst (formerly Blake Dawson).

Directors' meetings

The number of Directors' meetings (including meetings of committees of Directors) and the number of meetings attended by each of the current Directors of the Company during the financial year are listed below:

DIRECTOR	BOARD		AUDIT AND RISK COMMITTEE		PEOPLE AND CULTURE COMMITTEE		NOMINATION COMMITTEE	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
James Graham	12	12			5	5	3	3
Steven Cain	12	11*						
David Cheesewright	12	12			5	4	3	3
Jacqueline Chow	12	12	5	5			3	3
Abi Cleland	12	12			5	5	3	3
Richard Freudenstein	12	12			5	5	3	3
Wendy Stops	12	11*	5	5			3	3
Zlatko Todorcevski	12	12	5	5			3	3

* Mr Cain and Ms Stops were apologies for extraordinary meeting, which were convened at short notice.

Directors' shareholdings in Coles

Details of Directors' sharehol ... e table below. All Directors have met the minimum shar

DIRECTOR	NUMBER OF SHARES HELD[1]
James Graham	500,188
Steven Cain[2]	50,000
David Cheesewright	20,000
Jacqueline Chow	20,000
Abi Cleland	19,816
Richard Freudenstein	19,000
Wendy Stops	20,000
Zlatko Todorcevski	19,201

1 The number of shares held refers to shares held either directly or indirectly by Directors as at 18 August 2020. Refer to the Remuneration Report tables for total shares held by Directors and their related parties directly, indirectly or beneficially as at 28 June 2020.

2 As at 18 August 2020, Steven Cain also holds 85,057 Restricted Shares, 85,057 Performance Shares and 275,901 Performance Rights.

Principal activities

The principal activities of Coles during the financial year were providing customers with everyday products, including fresh food, groceries, general merchandise, liquor, fuel and financial services through its store network and online platforms. No significant changes have occurred in the nature of these activities during the financial year.

State of affairs

Cessation of Wesfarmers substantial shareholding

On 19 February 2020, Wesfarmers announced that it had sold 4.9% of the issued share capital of Coles. On 31 March 2020, Wesfarmers announced that it had sold a further 5.2% of the issued share capital of Coles. Following the sale, Wesfarmers retains a 4.9% interest in Coles. Coles and Wesfarmers continue to operate the flybuys joint venture, with both parties retaining a 50.0% interest in the business.

As a result of Wesfarmers' interest falling below 10.0%, the Relationship Deed agreed between Coles and Wesfarmers at the time of the demerger terminated and Wesfarmers no longer has the right to nominate a director to the Coles Board. Mr David Cheesewright who was previously nominated to the Coles Board by Wesfarmers, continues as a director on the Coles Board. In light of Wesfarmers no longer being a substantial shareholder in Coles and Mr Cheesewright ceasing to be a nominee to the Coles Board by Wesfarmers, the Board has concluded that Mr Cheesewright is an independent director.

Review and results of operations

A review of the operations of the Group during the financial year, the results of those operations and the Group's financial position are contained in the Operating and Financial Review (OFR).

Business strategies and prospects for future financial years

The OFR sets out information on the business strategies and prospects for future financial years and refers to likely developments in Coles' operations and the expected results of those operations in future financial years. Information in the OFR is provided to enable shareholders to make an informed assessment about the business strategies and prospects for future financial years of the Group. Information that could give rise to likely material detriment to the Group, for example, information that is commercially sensitive, confidential or could give a third party a commercial advantage, has not been included. Other than the information set out in the OFR, information about other likely developments in the Group's operations and the expected results of these operations in future financial years has not been included.

Events after the reporting date

On 18 August 2020, the Directors determined a final dividend of 27.5 cents per fully paid ordinary share to be paid on 29 September 2020, fully franked at the corporate tax rate of 30%. The aggregate amount of the final dividend to be paid out of profits, but not recognised as a liability at 28 June 2020, is expected to be $367 million.

Dividends

Dividends since Coles' last A [illegible]

TYPE	CENTS PER SHARE	AMOUNT	FRANKED	DATE OF PAYMENT
Paid during the year				
2019 final dividend	24.0	[illegible]	[illegible]	26 September 2019
2019 special dividend	11.5	154	100%	26 September 2019
2020 interim dividend	30.0	399	100%	27 March 2020
To be paid after end of year				
2020 final dividend	27.5	367*	100%	29 September 2020

DEALT WITH IN THE FINANCIAL REPORT AS	NOTE	$M
Dividends paid	3.3	873
Events after the reporting period	7.6	367*

* Estimated final dividend payable, subject to variations in the number of shares up to the record date.

Environmental regulations

The activities of the Company are subject to a range of environmental regulations under the law of the Commonwealth of Australia and its states and territories. The Group is also subject to various state and local government food licensing requirements, and may be subject to environmental and town planning regulations.

The Group has not incurred any significant liabilities under any environmental legislation during the financial year.

Indemnification and insurance of officers

The Company's Constitution requires the Company to indemnify any person who is, or has been, an officer of the Company, including the Directors, the Company Secretary and other executive officers, against the liabilities incurred while acting as such officers to the extent permitted by law.

In accordance with the Company's Constitution, the Company has entered into a Deed of Indemnity, Insurance and Access with each of the Company's Directors, Company Secretary, Chief Financial Officer and certain executives. No

Director or officer of the Company has received benefits under an indemnity from the Company during or since the end of the financial year.

The Company has paid a premium in respect of a contract insuring current and former directors, company secretaries and executives of the Company and its subsidiaries against liability that they may incur as an officer of the Company or any of its subsidiaries, including liability for costs and expenses incurred by them in defending civil or criminal proceedings involving them as such officers, with certain exceptions. It is a condition of the insurance contract that no details of the premiums payable or the nature of the liabilities insured are disclosed.

Indemnification of Auditors

Pursuant to the terms of engagement Coles has with its auditors, Ernst & Young (EY), Coles has agreed to indemnify EY to the extent permitted by law and professional regulations, against any losses, liabilities, costs or expenses incurred by EY where they arise out of or occur in relation to any negligent, wrongful or wilful act or omission by Coles. No payment has been made to EY by Coles pursuant to this indemnity, either during or since the end of the financial year.

Non-audit services and Auditor's independence

Details of the non-audit services undertaken by, and amounts paid to EY are detailed in Note 7.3 Auditor's remuneration to the financial statements.

The Board is satisfied that the provision of non-audit services during the year by the Auditor is compatible with, and did not compromise, the auditor ind he following reasons:

- all non-audit services pr ot impact the integrity and objectivity of the Auditor;
- the non-audit services provided did not undermine the general pri pendence as set out in APES 110 *Code of Ethics for Professional Accountants* as they uditing the Auditor's own work, acting in a management or decision making capacity of the ate of the Company or jointly sharing risks or rewards.

A copy of the Auditor's Independence Declaration forms part of this report.

Proceedings on behalf of Coles

No application has been made under section 237 of the *Corporations Act 2001* (Cth) in respect of Coles, and there are no proceedings that a person has brought or intervened in on behalf of Coles under that section.

Rounding

The amounts shown in this report and in the financial statements have been rounded off, except where otherwise stated, to the nearest one million dollars, with the Company being in a class specified in the *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.*

Signed on behalf of the Board in accordance with a resolution of the Directors of the Company.

James Graham AM
Chairman

18 August 2020

Steven Cain
Managing Director and Chief Executive Officer

18 August 2020

Remuneration
Repor

Remuneration Report

Letter to shareholders from the Chair of the People and Culture Committee

Dear Shareholder,

On behalf of the Board, I am pleased to present the FY20 Remuneration Report for Coles. The Remuneration Report provides information on the remuneration arrangements for our Key Management Personnel (KMP) which include the Managing Director and Chief Executive Officer (Managing Director and CEO), Other Executive KMP and Non-executive Directors of the Company.

A year of progress

Heading into FY20, Coles launched its refreshed strategy, 'Winning in our Second Century'. The new strategy outlined the Company's vision to 'be ... areholder value'. The Coles management team led by ... many of the commitments made to shareholders acro... (TSR) of 31.7% placing it in the top quartile of performa... endable that these results were achieved amid some of the most challenging conditions in living memory, requiring the business to pivot at pace in response to bushfires, floods and COVID-19. Some of the achieveme... g on the new strategy include:

Inspire Customers: Coles continued to inspire our customers in FY20 an... ugh the 'Helping lower the cost of…' campaign. Although periodic disruptions to availability as a result of COVID-19 prevented the Company from fully meeting the FY20 customer satisfaction target for STI purposes, it is notable that customer satisfaction improved in all segments in Q4. Own Brand achieved more than $10 billion of sales, contributing 31.2% of Supermarkets sales in Q4, increasing by 9.7% for the year as more than 1,850 products were launched. Coles also introduced a dedicated convenience foods section across almost 150 supermarkets, with more than 240 new lines including the new Coles Kitchen range from our recently acquired Jewel manufacturing facility in Sydney, supporting Coles' ambition to become a destination for convenience and health.

Smarter Selling: Cost savings in excess of $250 million were achieved through Smarter Selling initiatives. This was due to enhanced logistics solutions for stores and distribution centres, improved labour productivity through integration of operations and supply chain teams, and measures to reduce loss in store.

Win Together: Team member safety significantly improved across FY20 with the Total Recordable Injury Frequency Rate improving by 18.3%. To help team members manage their own wellbeing in the face of the many challenges the year presented, we proactively provided team members with resources to look after their mental and physical health, as well as that of their families. This focus on team members was reflected in the increased engagement score, improving by seven percentage points for the full year, alongside record participation. Coles continued to support our communities with the SecondBite Winter Appeal; $5.2 million raised for FightMND; and more than $6 million contributed to rural firefighters and bushfire relief.

Outcomes for FY20

This was the first year of operation under the new Coles remuneration framework for the Executive KMP as outlined in the 2019 Annual Report. Under the framework each of the Executive KMP was aligned to the new short-term incentive (STI) design structure using individual balanced scorecards consisting of financial, strategic and non-financial metrics as outlined in section 4.4.

Company performance was strong against all financial metrics included in the Executive KMP STI for FY20. Group sales revenue (adjusted retail basis) increased by 6.6% to $38,109 million; and for the first time in four years, Coles reported earnings growth at a Group level, with earnings before interest and tax (EBIT) (pre AASB 16 and significant items) increasing by 4.7% to $1,387 million. It is important to note that revenue and earnings had both established a strongly upward trajectory prior to the influence of COVID-19, which began to further accelerate sales growth during the third quarter. It is also significant that the Company successfully managed the increased demand and operational challenges of COVID-19.

Performance was also strong against strategic and non-financial metrics, which broadly included people, safety, customer, Smarter Selling and transformation projects that will underpin the long-term sustainability of our business. In evaluating the achievement against the balanced scorecard, the Board maintains the absolute discretion to ensure that remuneration outcomes are appropriate in the context of the Company's performance, our customer and team member experience and shareholder expectations. For FY20, the Board considered the STI outcomes in the context of the unprecedented events the year presented. Section 4.4 covers the achievements in more detail and includes a summary of the Board's approach to determining the final STI payable for Executive KMP, considering the full year achievements in the context of the unique circumstances of FY20. The resulting impact was STI outcomes for the Executive KMP that ranged between 91.7% to 100% of the maximum STI opportunity. The Board believes this is a reasonable reflection of the significant achievements delivered by management against the commitments made to shareholders for FY20. Under the remuneration framework, 50% of the Managing Director and CEO's STI award will be deferred into equity for two years, and 25% of the Other Executive KMP STI awards will be deferred into equity for one year.

An unprecedented time

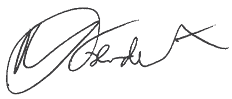
As an essential service, Coles played a significant role in supporting the community and our own team members through COVID-19 in FY20. The comprehensive response included a number of initiatives that contributed to the final EBIT result for FY20:

- A safe in-store environment for team members and customers through increased cleaning throughout the store, store signage to help customers keep a safe distance, safety screens at checkouts, and increased security where required;
- Helped the most vulnerab ies through the introduction of Community Hour, Cole
- Increased total headcou al team members through COVID-19;
- Additional food donations to the value of $7.9 million to SecondBit
- One-off thank-you payment to store and supply chain team mem
- Double discount on shopping and subsidised flu vaccinations offered to all team members.

Looking ahead

In considering performance metrics to apply for the FY21 STI, the Board has approved two key changes. Firstly, the introduction of a specific Online sales metric for Executive KMP in place of the Cash Realisation metric. The exception to this will be the CFO, who will retain the Cash Realisation metric. This shift demonstrates the importance of growth in the online channel to achieving our strategic goals. Secondly, the Customer metric will be adapted from a blended approach to a single Net Promoter Score (NPS) metric. This simplifies the measurement and highlights the importance of going beyond merely satisfying our customers to recruiting them as advocates for our business.

The Board, as advised by the People and Culture Committee, regularly reviews the executive remuneration framework to ensure it remains relevant, competitive and appropriate in the context of changing business and economic conditions. The Board believes the current remuneration framework for the Executive KMP continues to reflect Coles' strategy and market positioning, and therefore has not proposed any further changes for FY21.



Richard Freudenstein
Chair of the People and Culture Committee

Introduction

The Directors of Coles Group Limited ('Coles' or 'the Company') present the Remuneration Report for the Company and its controlled entities (collectively, 'the Group') for the financial year ended 28 June 2020 ('FY20'). This report forms part of the Directors' Report, has been prepared in accordance with section 300A of the *Corporations Act 2001* (Cth) and is audited.

This is Coles' first Remuneration Report covering an entire year as a newly listed public company, following our demerger from Wesfarmers Limited ('Wesfarmers') during FY19.

This Remuneration Report covers the period from 1 July 2019 to 28 June 2020.

Structure of this report

The Remuneration Report is divided into the following sections:

SECTION
(1) Key Management Personnel
(2) Remuneration governance
(3) Remuneration policy and structure overview
(4) FY20 Executive KMP remuneration outcomes
(5) FY20 Non-executive Director remuneration
(6) Ordinary Shareholdings

SECTION 1: KEY MANA

Coles is required to prepare a Remuneration Report in respect of the Gr who have the authority and responsibility for planning, directing and controlling the Group's a tly. This includes the Board of Directors and Executive KMP.

In this Remuneration Report, 'Executive KMP' includes the Managing Dir xecutives considered to be KMP. References to 'Other Executive KMP' means the Executive KMP excluding the Managing Director and CEO.

Table 1 sets out the details of those persons who were considered KMP of the Group during FY20.

Table 1

Non-executive Directors

NAME	POSITION HELD[1]
James Graham AM	Chairman and Non-executive Director
David Cheesewright	Non-executive Director
Jacqueline Chow	Non-executive Director
Abi Cleland	Non-executive Director
Richard Freudenstein	Non-executive Director
Wendy Stops	Non-executive Director
Zlatko Todorcevski	Non-executive Director

1 All Non-executive Directors were in office during the whole financial year and up to the date of this report.

Executive KMP

NAME	POSITION HELD[1]
Steven Cain	Managing Director and Chief Executive Officer
Leah Weckert	Chief Financial Officer
Greg Davis	Chief Executive, Commercial & Express
Matthew Swindells[2]	Chief Operations Officer

1 All Executive KMP were in office during the whole financial year and up to the date of this report.

2 Matthew Swindells became an Executive KMP on 1 July 2019, and the disclosures in this report are from that date onwards. Prior to this date, he held the non-KMP position of Chief Supply Chain Officer.

SECTION 2: REMUNERATION GOVERNANCE

2.1 Governance framework

The diagram below provides an overview of the remuneration governance framework that has been established by Coles. Further information regarding the membership and meetings of the People and Culture Committee is provided in the Directors' Report.

Remuneration consultants and external advisors

External advisors may be engaged either directly by the People and Culture Committee, or through management, to provide information on remuneration-related issues, including benchmarking information and market data.

During FY20 Mercer and PwC provided independent benchmarking and market analysis in relation to executive remuneration to the People and Culture Committee. No remuneration recommendations were made by external consultants.

The Board

The Board maintains overall accountability for oversight of the Group's remuneration policies. Specifically, the Board approves all remuneration and benefit arrangements as they relate to the Managing Director and CEO and executive-level direct reports to the Managing Director and CEO, having regard to the recommendations made by the People and Culture Committee, and the remuneration arrangements for Non-executive Directors.

The Board maintains absolute di … r the Managing Director and CEO and executive-level di … g data to substantiate the requirement of an adjustment. … e aligned to Coles' values and LEaD behaviours, risk, comp … earnings delivered.

Shareholders and other stakeholders

The People and Culture Committee may consult with shareholders, proxy advisors and other relevant stakeholders, in determining appropriate remuneration policies for the Group, including remuneration arrangements for the Managing Director and CEO, and executive-level direct reports to the Managing Director and CEO.

People and Culture C

The role of the Committee is to assist the B … responsibilities to shareholders and regulat … Group's remuneration policies. The Committee does this by reviewing and making recommendations to the Board on matters including (but not limited to):

- remuneration arrangements of Non-executive Directors, the Managing Director and CEO, and executive-level direct reports to the Managing Director and CEO;
- the annual performance review of the Managing Director and CEO and executive-level direct reports to the Managing Director and CEO;
- remuneration outcomes for the Managing Director and CEO and executive-level direct reports to the Managing Director and CEO; and
- delegating authority for the operation and administration of all Group incentive and equity plans to management (as appropriate).

External advisors

The People and Culture Committee may seek advice from independent remuneration consultants in determining appropriate remuneration policies for the Group, and specifically remuneration arrangements for the Managing Director and CEO, and executive-level direct reports to the Managing Director and CEO.

Management

Management makes recommendations, to the People and Culture Committee on matters including (but not limited to):

- remuneration arrangements of executive-level direct reports to the Managing Director and CEO, including the establishment of any new, or amendment to the terms of any existing, incentive and equity plans;
- annual performance review of executive-level direct reports to the Managing Director and CEO; and
- changes to the Group's remuneration policies.

2.2 Corporate governance policies related to remuneration

To support a robust remuneration framework, Coles has a number of corporate governance policies related to remuneration, including those outlined below.

2.2.1 Securities Dealing Policy

Coles has adopted a Securities Dealing Policy that applies to all Coles team members including Non-executive Directors and Executive KMP and their connected persons, as defined within the policy. This policy sets out the insider trading laws and restrictions with which KMP must comply, including obtaining approval prior to trading in Coles securities and not trading within blackout periods. The policy aims to protect the reputation of the Group and maintain confidence in trading in Coles securities. It also prohibits specific types of transactions being made which are not in accordance with market expectations or may otherwise give rise to reputational risk.

2.2.2 Minimum Shareholding Policy

To build strong alignment between KMP and shareholders, Coles has established a Minimum Shareholding Policy. The policy requires both Executive KMP and Non-executive Directors to build and maintain a significant shareholding in Coles.

Executive KMP

Each Executive KMP is required to achieve a minimum shareholding equivalent to 100% of total fixed compensation ('TFC') by the later of five years from [illegible] the policy on 1 July 2019. The details of each Executive KM[illegible]

In addition to Executive KMP, t[illegible] anaging Director and CEO.

Non-executive Directors

Each Non-executive Director is required to hold at least 1,000 ordina[illegible] hin six months of their appointment. The shares may be held by a Non-executive Director eit[illegible] indirectly in the name of either an entity controlled by the Non-executive Director or a closel[illegible]

Within five years of appointment, each Non-executive Director is expected to increase his or her shareholding to an amount equivalent to 100% of their annual base fee at that time. As at the date of this Remuneration Report, each Non-executive Director meets this requirement.

SECTION 3: REMUNERATION POLICY AND STRUCTURE OVERVIEW

3.1 Remuneration policy for FY20

In FY20, we introduced our updated remuneration framework aligned to our 'Winning in our Second Century' strategy. As disclosed in the FY19 Remuneration Report, the FY20 framework is guided by our remuneration principles and designed to ensure remuneration at Coles is market-competitive, performance-based, creates long-term value for shareholders, and is fit-for-purpose.

In contrast to legacy remuneration arrangements established immediately following demerger, the FY20 framework is more heavily focused on performance-based pay delivered through equity awards. When balanced with the performance conditions to be achieved, the People and Culture Committee believes that the framework is appropriately aligned to our strategy and the interests of our shareholders.

Market competitive	Performance-based	Creates long-term value for shareholders	Fit-for-purpose
Retail is a globally competitive industry. We need to be able to attract, motivate and retain high calibre executives in both the local and global talent market.	A strong link to performance-based pay to support the achievement of strategy aligned to short, medium and long-term financial targets.	Ensuring there is a common interest between executives and shareholders by aligning reward to the achievement of sustainable shareholder returns.	Designed to be relevant to how Coles operates. It needs to be simple to articulate, drive the right behaviours and ensure we deliver on our strategy.

3.2 Delivered through a simple, three-element structure

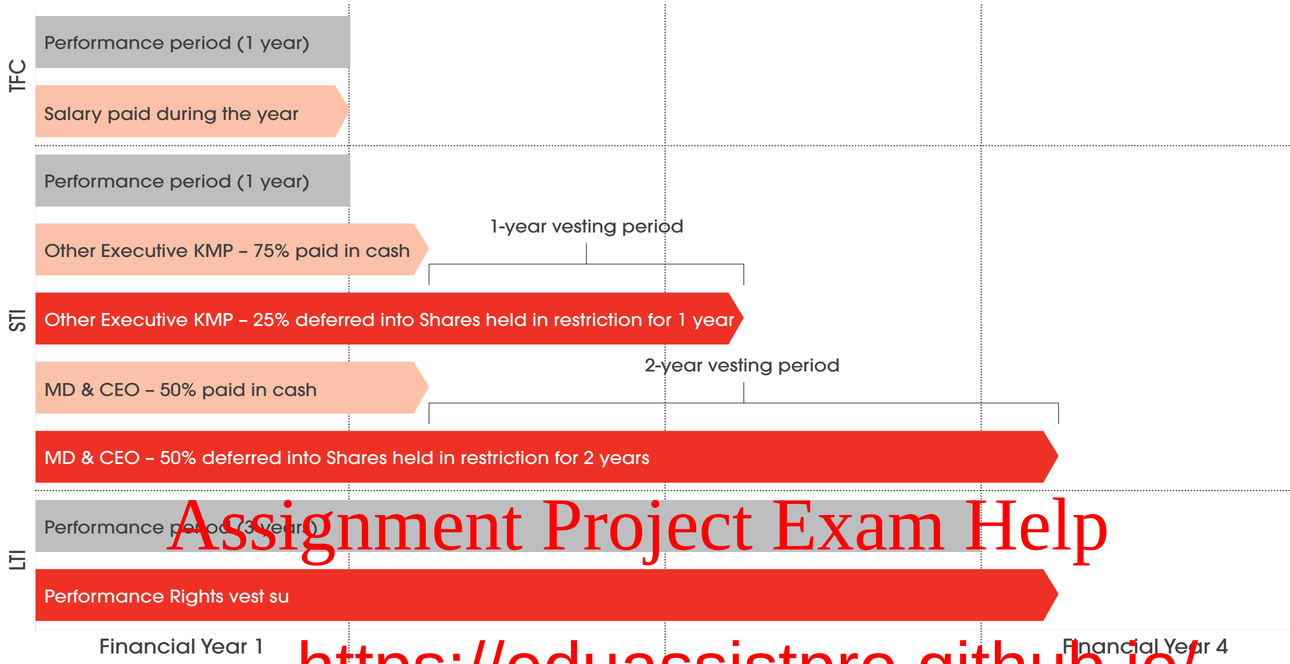
Executive KMP remuneration is delivered using both fixed and variable (at-risk) components as outlined below.

Specific performance measures and outcomes for FY20 are included in section 4.

	Fixed elements	Variable elements[1]		
	Total Fixed Compensation (TFC)	**Short-term incentive (STI)**		**Long-term incentive (LTI)**
How it is delivered	Cash	Cash	Equity (Shares)	Equity (Performance Rights)
How it works	• consists of base salary and superannuation • target position is the 50th percentile of the ASX 10-40 compara group (pl reference to local a internati retailers, as appropriate)	• paid as part cash, part deferred equity = Managing Director and CEO 50% is deferred into shares and restricted for 2 years = Other Executive KMP 25% is deferred into shares and restricted for 1 year • opportunity levels (all Executive KMP): scorecard consisting of: = 60% financial measures = 40% strategic and non-financial measures • includes a mixture of group and functional strategic measures		• delivered in performance rights, subject to a 3 year Performance Period • opportunity levels: = Managing Director and CEO 175% of TFC = Other Executive KMP 150% of TFC nst: elative TSR (RTSR) 100 comparator group) Return on Capital (ROC) payment made in vesting
What it does	Allows us to attract and retain key talent through competitive and fair fixed remuneration	Incentivises strong individual and Company performance, based on strategically aligned deliverables, through variable, at-risk payments		Aligns reward with creation of sustainable, long-term shareholder value

1 Excludes transition arrangements put in place for the Managing Director and CEO as outlined in section 4.7

The graphic below demonstrates the award delivery time horizons from FY20.

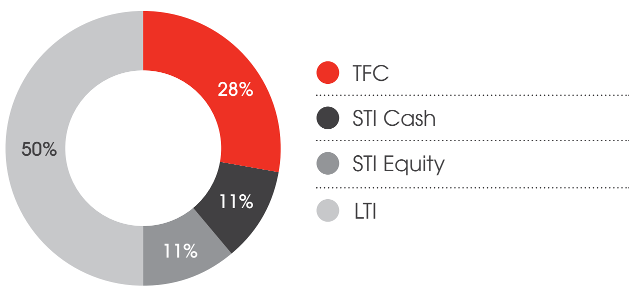


3.3 FY20 target remune

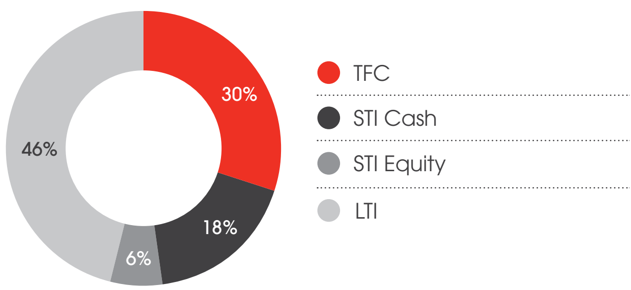
The FY20 remuneration mix at target for the Executive KMP is outlined

Chart 1

Managing Director and CEO



Other Executive KMP



3.4 Executive KMP service agreements

The terms of employment for the Executive KMP are formalised in employment contracts that have no fixed term. Specific information relating to the terms of the Executive KMP's employment contracts is set out in Table 2.

Table 2

NAME	NOTICE PERIOD[1]	RESTRAINT OF TRADE
Steven Cain	12 months	12 months
Leah Weckert	12 months	12 months
Greg Davis	6 months	6 months
Matthew Swindells	6 months	6 months

1 Executive KMP can be terminated without notice if they are found to have engaged in serious or wilful misconduct, are seriously negligent in the performance of their duties, commit a serious or persistent breach of their employment contract, or commit an act, whether at work or otherwise, that would bring the Group into disrepute. Coles may also make a payment in lieu of notice.

SECTION 4: FY20 EXECUTIVE KMP REMUNERATION OUTCOMES

4.1 Company performance

This section of the Remuneration Report provides an overview of how the Company's performance for FY20 has driven remuneration outcomes for our Executive KMP.

Coles' remuneration framework has been designed to reward Executive KMP for their contribution to the collective performance of Coles and to support the alignment between the remuneration of Executive KMP and shareholder returns.

Table 3 summarises key indicators of Coles' performance and relevant shareholder returns over FY20.

As Coles listed on the ASX on 21 November 2018, it is not possible to address the statutory requirement that Coles provide a five-year discussion of the link between Company performance and remuneration. Details are included for FY19 as well as the first full year of results in FY20. This table will continue to be expanded in future years to provide comparative metrics for the financial years in which Coles is listed.

Table 3

FINANCIAL SUMMARY	BASIS	YEAR ENDED 28 JUNE 2020	YEAR ENDED 30 JUNE 2019
Group Earnings Before Interest and Tax (EBIT)	Statutory	$1,762m	$1,467m
Group EBIT (pre AASB 16 and		$1,387m	$1,343m
Group Sales[1]		$37,408m	$35,001m
Group Sales (adjusted retail		$38,109m	$35,741m
Return on capital (ROC) (pre		35.2%	32.9%
Dividends paid per ordinary share (cents)[4]		65.5	-
Closing share price (as at end of financial year)[5]		$16.79	$13.35
Total shareholder return (TSR) (%)[6]		31.7%	6.9%

1 Retail sales reflect the retail calendar period and exclude Fuel sales and Hotels sales.
2 Retail sales adjusted to include concession sales and remove flybuys point redemption costs.
3 ROC is Group EBIT (pre AASB 16 and significant items) divided by capital employed. Capital employed is calculated on a rolling average basis (seven months in FY19).
4 The dividends paid per ordinary share reflect the dividends shareholders received within each financial period. Dividends paid within each financial year does not reflect the dividends determined for the same financial year due to the dividend payment date. The Directors determined a dividend relating to FY19 of 35.5 cents per share (final dividend of 24.0 cents per share plus special dividend of 11.5 cents per share) which was paid on 26 September 2019. Similarly, the interim dividend of 30.0 cents per share was paid on 27 March 2020. The final dividend determined by Directors for FY20 was 27.5 cents per share to be paid on 29 September 2020 (FY21).
5 The opening share price on listing on the ASX on 21 November 2018 was $12.49.
6 TSR is calculated as the change in share price during the financial year, plus dividends reinvested on the respective ex-dividend dates.

4.2 Board oversight of remuneration outcomes

The Board maintains absolute discretion to ensure that remuneration outcomes are appropriate in the context of the Company's performance, our customer experience and shareholder expectations. The Board has discretion in evaluating the achievement against performance measures, including to adjust for unusual factors. The Board recognises that COVID-19 has created a challenging environment that needs to be considered when determining remuneration outcomes. As part of its assessment, the Board considered if there were windfall gains or losses and determined that the calculated remuneration outcomes appropriately aligned to shareholder outcomes and the Board's assessment of management's performance. The steps undertaken by the Board to inform this decision with respect to STI outcomes for FY20 are further outlined in section 4.4.

4.3 Total fixed compensation (TFC)

For FY20, TFC was designed to be competitive to attract, motivate and retain the right talent. As disclosed in the FY19 Remuneration Report, the TFC for Executive KMP was compared to the ASX 10-40 benchmark group, as well as both local and international retailers. TFC was targeted at the 50th percentile of this peer group for comparable roles.

At the start of FY20, the Board conducted a detailed review of Executive KMP TFC and total remuneration packages against the new comparator group. This was informed by a detailed benchmarking exercise conducted by Mercer. The timing of this review coincided with the restructure of the Executive Leadership Team, aligned to the launch of the new company strategy. In light of the review outcomes, the Board determined that it was appropriate to apply a TFC increase to each of the Executive KMP, with the exception of the Managing Director and CEO, who did not receive an increase. The increase for Other Executive KMP was effective from 1 July 2019 and is reflected in the summary of total remuneration received by Executive KMP in Table 7 of this report.

In making this decision the Board considered the following:

- no prior increases - there had been no increase in TFC for any of the Executive KMP at the time of listing on the ASX (in November 2018);
- size and complexity of role, and the individual's experience, skills and performance - since demerger in 2018, the Executive KMP have continued to deliver performance consistent with, and in some cases, exceeding Board expectations, resulting in strong returns for shareholders; and
- alignment to our remuneration principles - the increase in TFC reflects our 'market competitive' principle, ensuring that we continue to attract, motivate and retain high calibre executives in both the local and global talent market.

A review of fixed remuneration will be conducted in FY21 in line with our remuneration principles. Any approved changes will be disclosed in our 2021 Remuneration Report.

4.4 Short-term incentiv

The FY20 Coles STI is designed [illegible] performance measures.

A balanced scorecard approach was introduced for all Executive KMP in FY20. This provides a simple and transparent approach to highlighting performance priorities, measuring performan[illegible] eighted metric, and provides clarity regarding the connection between the performance mea[illegible]

The FY20 STI payable for the Executive KMP was assessed against in[illegible] (as demonstrated in Tables 4 and 5) consisting of Financial, Strategic and Non-financial metrics. The scorecards also include a mixture of group and functional strategic metrics. Scorecard metrics are reviewed by the Board on an annual basis to ensure alignment with the Company's strategy. The scorecards also include a Quality and Behaviours overlay which considers:

- how the Executive KMP achieved performance aligned to the Coles values and LEaD behaviours;
- risk, compliance and reputational matters; and
- the quality of earnings delivered.

Table 4

FY20 Financial Performance Measures (All Executive KMP)

The Executive KMP have a maximum STI opportunity equivalent to 150% of target (80% of TFC at target and 120% of TFC at maximum). The FY20 Group Financial performance measures contribute up to 110% of the target STI opportunity for all Executive KMP (60% at target) as outlined in Table 4.

MEASURE	FY20 TARGET	FY20 ACTUAL	ACHIEVEMENT	TARGET WEIGHTING	MAXIMUM WEIGHTING	ACTUAL STI OUTCOME
Group EBIT	$1,343m	$1,387m	Above Stretch	35%	70%	70%
Group Sales	$36,636m	$38,109m	Above Stretch	15%	30%	30%
Group Cash Realisation	107%	111%	Above Target	10%	10%	10%
OVERALL PERFORMANCE				**60%**	**110%**	**110%**

Further details regarding each financial performance measure in Table 4 is provided as follows:

Group EBIT (pre AASB 16 and significant items) increased by 4.7% driven by strong trading performance and cost management initiatives in Supermarkets, and the realisation of cost savings from the Smarter Selling program. This was partly offset by lower earnings in Express, particularly in the last quarter of the year from government-imposed stay-at-home measures in response to COVID-19.

Group Sales (adjusted retail basis) increased by 6.6% driven by growth in Supermarkets from successful value and collectible campaigns, tailored range reviews and Own Brand sales growth. Liquor sales increased from growth in Exclusive Liquor Brands and benefits from First Choice Liquor Market conversions. Both segments experienced trading uplifts in the latter part of the year from the COVID-19 driven increase in at-home consumption, as did Express convenience store sales which offset lower foot traffic in-store following the introduction of stay-at-home measures across the country.

Group Cash Realisation reflects both a strong trading performance and disciplined working capital management with inventory reducing faster than trade payables towards the end of the financial year. Cash realisation is calculated as operating cash flow excluding interest and tax, divided by earnings before interest, tax, depreciation and amortisation (EBITDA) (excluding significant items).

Table 5

FY20 Strategic and Non-Financial Measures for the Managing Director and CEO

The strategic and non-financia ... anaging Director and CEO.

AREA			
Strategy – Smarter Selling	10%	10%	Cost savings in excess of $250 million were achieved thro ... which exceeded the ann ... was due to enhanced logi ... and distribution centres, imp ... through integration of operations and supply chains teams and measures to reduce loss in store.
Safety - TFIFR	10%	10%	Team member safety significantly improved across FY20 with the Total Recordable Injury Frequency Rate improving by 18.3%.
People – mysay engagement score	10%	10%	Team member engagement improved by seven percentage points for the full year, alongside record participation.
Customer – Tell Coles w/NPS gateway Value	10%	8.75%	Availability demands as a result of COVID-19 impacted the full achievement of the FY20 Tell Coles metric. However, the NPS gateway was exceeded. The Value target was met for FY20, and this was a reflection of the success of the 'Helping lower the cost of…' campaign.
OVERALL PERFORMANCE	**40%**	**38.75%**	

FY20 Strategic and Non-Financial Measures for the Other Executive KMP (aggregated summary)

The Other Executive KMP have the same financial measures and outcomes as detailed in Table 4.

The strategic and non-financial measures contribute up to 40% of the target STI opportunity for the Other Executive KMP and comprise measures that are largely aligned to the Managing Director and CEO. Each have variances consistent with the respective portfolios they lead at Coles. Achievements against the strategic and non-financial measures for each of the Other Executive KMP ranged from partially achieved to full achievement.

4.4.1 FY20 STI Award Outcomes

At the conclusion of FY20, the Board assessed the performance against the balanced scorecard of the Managing Director and CEO and each of the Other Executive KMP to determine any STI award outcome payable based on this assessment.

In its assessment, the Board considered the performance of the Group, including the periods both pre-COVID-19 and since COVID-19. The Board was mindful of the need to avoid unintended windfall gains or losses while rewarding Executive KMP for strong performance and delivering value to shareholders. The Board formed the view that the STI outcomes for the Executive KMP were a fair reflection of performance throughout the full year. The Board therefore did not adjust the FY20 STI outcomes for any impacts related to COVID-19.

The following reflects the rationale considered by the Board in making this decision:

- Our shareholders have continued to see solid returns from their investment relative to the broader market across the full year. Our share price has grown, and we have maintained a strong dividend with a total shareholder return over the financial year of 31.7% reflecting top quartile performance compared to the ASX 50 and ASX 100 respectively.
- Prior to the impact of COVID-19 on demand, the Group was on track to deliver above-target EBIT and sales performance and all other metrics for the Executive KMP were largely on track to either meet or exceed expectations. This performance is directly linked to the turnaround of the organisation driven by the delivery of strategic objectives defined in the 'Winning in our Second Century' strategy.

- The focus on inspiring our customers and our team members continued to be at the heart of all decisions made during COVID-19. We have see ment on the Roy Morgan Risk Monitor list of trusted reta engagement score, which is heavily influenced by c

- The STI targets set at the beginning of the year were established within the context of changing consumer habits. While COVID-19 had a significant impact on sales, from late Q3 and thro was also elevated. This was the result of additional investments made to ensure the safety embers.

- The entire Coles business has responded at pace to the shift in str initiatives have been implemented to effectively manage business disruption. As Coles is an essential service, we were actively involved in the government response to COVID-19. At times, this required decisions being taken for the benefit of the broader Australian community. This included temporarily suspending our Online business, introducing purchasing limits and implementing significant measures in store to keep customers and team members safe. Although these changes were made at short notice, they remain aligned to our vision to become the most trusted retailer in Australia and grow long-term shareholder value.

The Board also considered the appropriate application of the Quality and Behaviours overlay to determine the final Executive KMP STI outcomes for FY20 as detailed in Table 6.

A key change in FY20 was the introduction of STI deferral into equity. This change further aligns Executive KMP and shareholder interests, and facilitates additional forfeiture provisions for a significant period, reflecting good governance. As a result, the Managing Director and CEO's STI will be delivered 50% in cash, with the remaining 50% deferred into equity for two years (subject to shareholder approval at the Coles 2020 AGM). For the Other Executive KMP, the STI will be delivered 75% in cash with the remaining 25% deferred into equity for one year.

Table 6

FY20 Executive KMP STI Outcomes

Details of the Executive KMP STI opportunity and actual payments received for FY20 are provided in Table 6.

	STI OPPORTUNITY (% OF TFC)[1]		STI AWARDED				STI FORFEITED[4]
NAME	TARGET	MAXIMUM	$	% OF TFC	CASH[2]	EQUITY[3]	(%)
Steven Cain	80%	120%	$2,499,000	119.0%	$1,249,500	$1,249,500	0.8%
Leah Weckert	80%	120%	$1,140,000	120.0%	$855,000	$285,000	-
Greg Davis	80%	120%	$962,500	110.0%	$721,875	$240,625	8.3%
Matthew Swindells	80%	120%	$945,600	118.2%	$709,200	$236,400	1.5%

1 The minimum STI opportunity was nil.
2 The FY20 cash component of the STI will be paid on or about 15 September 2020.
3 The FY20 equity component of the STI will be granted in STI Shares following the Coles 2020 Annual General Meeting (AGM), using a 10 day Volume Weighted Average Price (VWAP) for the period up to and including 28 June 2020, of $16.47. Equity for the Managing Director and CEO will not be granted until shareholder approval is obtained at the Coles 2020 AGM.
4 As a percentage of STI Maximum Opportunity.

Terms of the FY20 Short-term Incentive (STI)

What was the Performance

1 July 2019 – 28 June 2020

What were the performance

For the Managing Director lculated using a balanced scorecard as detailed in section 4.4. This included EBIT, Sales, Cash ustomer and other transformation or strategically aligned metrics.

Why were the performance conditions chosen?

The financial measures of EBIT, Sales and Cash Realisation align wit d the commitments made to shareholders in launching this strategy ahead of FY20. In particular, EBIT focuses on delivering strong earnings through the business cycle and ensuring strong returns for Coles' shareholders. Including a sales metric as well as EBIT ensures a strong focus upon our capability to deliver sustainable returns for shareholders in the long-term.

Strategic and non-financial metrics align to all three pillars of the Coles strategy to 'Inspire Customers', 'Win Together', and streamline our business through 'Smarter Selling'.

How were the conditions assessed?

Performance against the balanced scorecard metrics were assessed by the Board based on the Company's annual audited results, financial statements and other data provided to the Board.

This method was adopted as the Board believes it is the most appropriate way to assess the true performance of the Company and the Executive KMP's contribution to determine remuneration outcomes.

What portion of the STI component was deferred into equity?

As detailed in Table 6, once the individual scorecard calculation has been completed, the total STI award is determined. The equity deferred amount is then determined by reference to 50% of the total STI award for the Managing Director and CEO, and 25% of the total STI award for the Other Executive KMP.

This amount is then used to determine the number of shares ('STI Shares') that will be granted and subject to deferral. This is calculated using the 10 day VWAP up to and including the final day in the performance period (i.e. 28 June 2020).

The shares are granted following the payment of the cash component of the STI award and are unable to be traded during the restricted period: one year for the Other Executive KMP and two years for the Managing Director and CEO. Once the restricted period ends, the restriction is lifted and the Executive KMP may trade these shares in accordance with Coles' Securities Dealing Policy.

When will the FY20 STI award be paid?	
The cash component of the STI award will be paid in September 2020. The STI equity component will be allocated following the Coles 2020 AGM, where shareholder approval will be sought for the grant to the Managing Director and CEO.	
What happens if an Executive KMP left the organisation?	
In the event of resignation or dismissal for cause or significant underperformance prior to payment of the STI, an Executive KMP would not be eligible for any STI award.	
What happens if an Executive KMP leaves the organisation before STI equity vests?	
During the restricted period, if an Executive KMP leaves the organisation in the event of resignation or dismissal for cause or significant underperformance, all shares will be forfeited, unless the Board determines otherwise. In any other circumstances (including by reason of redundancy, permanent disability, death or ill health) the shares will continue on foot until the usual vesting date, unless the Board determines otherwise.	
Can the Board amend the STI program?	
The Board retains discretion to suspend or terminate the program at any time or amend all or any elements of the program up until the date of payment.	

4.5 Long-term incentive (LTI)

The FY20 LTI is designed to reward Executive KMP for the achievement of long-term sustainable returns for shareholders.

As outlined in section 3, for F[illegible]ered in Performance Rights. The Performance Period for [illegible]ear end for FY22).

Performance Rights will vest subject to the satisfaction of the following performance conditions measured over the Performance Period:

- 50% of Performance Rights are subject to a cumulative return on c[illegible]omponent); and
- 50% of Performance Rights are subject to a relative total shareholder return ('RTSR') performance hurdle. Coles' RTSR will be compared to companies in the S&P ASX 100 ('Comparator Group') as at 30 June 2019.

These performance conditions were chosen because they provide a direct link between Executive KMP reward and sustained shareholder returns to promote further alignment with shareholders.

4.5.1 ROC component

Vesting of the Performance Rights in the ROC component is subject to achievement of at least 95% of the cumulative ROC target over the Performance Period.

Cumulative ROC measures the Company's average annual return on capital over the Performance Period against targets set by the Board. Cumulative ROC is calculated based on the Company's audited financial information. The Board will assess cumulative ROC after the end of the Performance Period.

In assessing achievement against the cumulative ROC performance condition, the Board may have regard to any matters that it considers relevant and retains discretion to review outcomes to ensure that the results are appropriate.

The number of Performance Rights in the ROC component that vest, if any, will then be based on the Group's cumulative ROC performance determined over the Performance Period by reference to the following vesting schedule:

GROUP CUMULATIVE ROC OVER THE PERFORMANCE PERIOD	% OF PERFORMANCE RIGHTS THAT VEST
Equal to or below 95% of the cumulative ROC target is achieved	0%
Between 95% and 105% of the cumulative ROC target is achieved	Straight-line pro rata vesting between 0% – 100%
Equal to 105% or above of the cumulative ROC target is achieved	100%

The ROC targets are considered by Coles to be commercially sensitive. However, the Board will disclose the relevant vesting outcomes following the end of the Performance Period.

4.5.2 RTSR component

The number of Performance Rights in the RTSR component that vest, if any, will be based on Coles' RTSR ranking within the S&P ASX 100 Comparator Group over the Performance Period, as set out in the following vesting schedule:

COLES RTSR RANK IN THE COMPARATOR GROUP	% OF PERFORMANCE RIGHTS THAT VEST
Below the 50th percentile	0%
Equal to the 50th percentile	50%
Between 50th percentile and 75th percentile	Straight-line pro rata vesting between 50% – 100%
Equal to the 75th percentile or above	100%

Following testing, any Performance Rights that do not vest will lapse. There is no re-testing of awards.

4.5.3 FY20 LTI outcomes

Performance Rights granted under the FY20 LTI will be tested following the end of FY22 (the end of the Performance Period). Details of the number of Performance Rights granted under the FY20 LTI are included in section 4.8. Details of equity awards granted to Executive KMP in prior years (including applicable performance conditions and vesting dates) are contained in the FY19 Remuneration Report.

Terms of the FY20 Long-term i

How is the LTI award deliver

The LTI award was delivered in Performance Rights. Each Performan KMP to one ordinary share in the Company on vesting. The Board retains a discretion t ayment in lieu of an allocation of shares.

Performance Rights vest subject to achievement of relevant perfor located to Executive KMP at no cost to the Executive KMP, and no amount is payable on vesting.

When were Performance Rights allocated?

The Performance Rights for all Executive KMP under the FY20 Long Term Incentive plan were granted on 29 November 2019 following the 2019 Coles AGM (at which the grant made to the Managing Director and CEO was approved).

How are Performance Rights allocated?

The number of Performance Rights allocated to the Executive KMP was determined by dividing each Executive KMP's LTI opportunity by the VWAP of Coles shares trading on the ASX over the 10 trading days up to and including 30 June 2019, rounded up to the nearest whole number.

What is the Performance Period?

The Performance Period is 1 July 2019 to 26 June 2022 (the last trading day of the FY22 retail calendar year).

What are the performance conditions?

Performance Rights are subject to the following performance conditions:

- 50% of the LTI award is subject to a ROC hurdle; and
- 50% of the LTI award is subject to a RTSR hurdle.

Further information on the performance conditions is provided earlier in section 4.5.

How are the performance conditions assessed?

RTSR performance is independently assessed at the end of the Performance Period against the constituents of the S&P ASX 100 Comparator Group. ROC is calculated using Coles' audited financial results.

These assessment methods are designed to safeguard the integrity of the performance assessment process and ensure the accuracy of underlying information.

When does testing and vesting occur?

Testing of performance against performance conditions will occur after the end of the Performance Period (being 26 June 2022).

Following testing, the Board will determine the number of Performance Rights to vest, which is expected to occur in late August 2022. Details regarding the vesting of the Performance Rights will be included in the FY22 Remuneration Report.

If the anticipated vesting date falls within a Blackout Period (as defined within the Company's Securities Dealing Policy), vesting will be delayed until the end of that period.

Following testing, any Performance Rights that do not vest will lapse. No retesting of the performance conditions is permitted.

What happens if an Executive KMP ceases employment?

In the event of resignation or dismissal for cause or significant underperformance, all unvested Performance Rights will lapse, unless the Board determines otherwise.

In any other circumstances (including by reason of redundancy, permanent disability, death or ill health), a pro rata number of Performance Rights (based on the proportion of the Performance Period that has been served) will remain on foot and subject to the original terms of offer, as though the Executive KMP had not ceased employment, unless the Board determines otherwise.

Do Performance Rights have voting rights?

No. Prior to vesting, Perform

Are dividends paid on Perfo

Executive KMP do not have

After testing against the performance conditions, Executive KMP will receive a dividend equivalent amount related to the vested Performance Rights only. The dividend equivalent amou nal shares, equal in value to the value of dividends that would have been paid on the KMP been the owner of Coles shares during the period from the Performance Rights gran rticularly, there is no dividend payable on any Performance Rights that do not vest.

The Board retains a discretion to settle the dividend equivalent amount in cash.

How can the Board apply discretion to clawback outcomes?

The Board has broad clawback powers to determine that any Performance Rights may lapse, any shares allocated on vesting are forfeited, or that the Executive KMP is required to pay as a debt the net proceeds of the sale of shares or dividends in certain circumstances (for example the Executive KMP has acted fraudulently or dishonestly, has engaged in gross misconduct, brought the Group into disrepute or breached their obligations to the Group).

This protects Coles against the payment of benefits where participants have acted inappropriately.

What happens if there is a change of control?

Under the offer terms, the Board may determine in its absolute discretion that some or all the Executive KMP's Performance Rights will vest or cease to be subject to restrictions on a likely change of control.

Where there is an actual change in control of the Company then, unless the Board determines otherwise, unvested Performance Rights will vest on a pro rata basis (based on the proportion of the Performance Period that has elapsed).

What restrictions are there on dealing in the Performance Rights?

Executive KMP must not sell, transfer, encumber, hedge or otherwise deal with Performance Rights. Executive KMP will be free to deal with the shares allocated on vesting of the Performance Rights, subject to the requirements of Coles' Securities Dealing Policy.

4.7 Transition awards

Prior to the demerger of Coles, Wesfarmers put in place a small number of transition arrangements for certain Coles executives. These arrangements were disclosed in the Demerger Scheme Booklet, are temporary and have not been replicated post demerger. The transition arrangements that were paid across financial years including FY20 are outlined below.

Managing Director and CEO

As part of Mr Cain's employment agreement with Coles, Wesfarmers agreed to compensate Mr Cain for short-and long-term incentives that were forfeited or forgone with his prior employer, due to his acceptance of the role with Coles.

As disclosed in the Demerger Scheme Booklet, the maximum cash amount of compensation payable to Mr Cain is $3,900,000. This amount was structured into three tranches, with the final tranche paid in FY20:

1. $900,000 paid by Coles on 4 December 2018;
2. $1,500,000 paid by Coles on 28 December 2018; and
3. $1,500,000 paid by Coles on 27 December 2019.

These payments were subject to service conditions. The payments made on 28 December 2018 and 27 December 2019 are subject to clawback (for example, where there is a material misstatement in, or omission from, the Company's financial statements or as a result of fraud, dishonesty or breach of obligations) for a period of two years from the date of each payment.

4.8 Summary of remun eration)

Table 7 details the nature a P. The increase in the total compensation value for FY20 compared to FY19 largely reflects the ecutive KMP in FY20, and the pro-rating of remuneration in FY19. Pro-rating for FY19 was a h each individual was considered KMP, as well as the timing of Coles ceasing to be a wholly ers.

There were no transactions or loans between Executive KMP and the ries during FY20.

Table 7

NAME	YEAR	BASE SALARY	SHORT-TERM: OTHER BENEFITS[1]	SHORT-TERM: CASH STI	LONG-TERM: LONG SERVICE LEAVE	POST-EMPLOYMENT: SUPER-ANNUATION BENEFITS	VALUE OF SHARE-BASED PAYMENTS[2]: PERFORM-ANCE RIGHTS	VALUE OF SHARE-BASED PAYMENTS[2]: SHARES	TOTAL COMPEN-SATION
Current Executive KMP									
Steven Cain	2020	$2,069,647	$1,501,776	$1,249,500	$3,122	$21,003	$1,156,486	$963,545	$6,965,079
	2019	$1,815,929	$2,403,010	$822,314	$10,28[illegible]	$25,665	-	$319,110	$5,396,312
Leah Weckert	2020	$900,440	$1,323	$855,000	$9,[illegible]	$21,003	$448,433	$636,941	$2,872,331
	2019[3]	$686,674	$710,255	$408,240	$6,9[illegible]	$16,197	-	$443,693	$2,272,047
Greg Davis	2020	$850,211	$1,765	$721,875	$29,9[illegible]	$21,003	$413,035	$612,703	$2,650,522
	2019[4]	$465,265	$631,667	$362,880	$8,1[illegible]	$12,148	-	$364,142	$1,844,238
Matthew Swindells[5]	2020	$755,724	$1,074	$709,200	$3,1[illegible]	$21,003	$377,632	$487,522	$2,355,277
TOTAL 2020		**$4,576,022**	**$1,505,937**	**$3,535,575**	**$45,3[illegible]**	**$84,012**	**$2,395,586**	**$2,700,711**	**$14,843,209**
TOTAL 2019[6]		**$2,967,868**	**$3,744,932**	**$1,593,434**	**$25,4[illegible]**	**$54,[illegible]**	**-**	**$1,126,945**	**$9,512,597[6]**

1 Other benefits include costs associated with employment (including any applicable fringe benefits tax) including awards noted under s

2 The figures in this column for share-based payments represent share-based awards that are not yet vested in favour of the Executive ncial period presented. The amounts represent the accounting fair value of the grants of Restricted Shares, Performance Shares and STI Shares. It also includes legacy Wesfarm rds allocated to Ms Weckert, Mr Davis and Mr Swindells prior to the demerger pursuant to Wesfarmers share plans, which Ms Weckert, Mr Davis and Mr Swindells received as Wesfarmers e are being expensed over the relevant performance period. In accordance with the Accounting Standards the accounting fair value of the grants is recognised proportionally over the gr nce period. Refer to section 4.5 for further details for the grants, their performance conditions and performance periods. If the performance conditions are not met, the Execut t b

3 Represents remuneration received as Coles KMP from 17 September 2018. Total base salary received by or F
Ms Weckert participated in the 2015, 2016 and 2017 Wesfarmers Employee Share Acquisition Plan (WESAP), and at th erg sfarmers shares:

- 11,511 Restricted Shares held under the 2015 WESAP, subject to vesting in November 2018
- 10,895 Restricted Shares held under the 2016 WESAP, subject to vesting in November 2019; and
- 6,962 Restricted Shares and 6,962 Performance Shares under the 2017 WESAP, subject to vesting (and testing for the Per res)

During FY19 Ms Weckert's 2015 WESAP vested in full, and she retained Restricted Shares under the 2016 and 2017 pla
During FY20 Ms Weckert's 2016 WESAP vested in full, and she retained Restricted Shares under the 2017 plan.

4 Represents remuneration received as Coles KMP from 28 November 2018. Total base salary received by Mr Davis fo 83,3
Mr Davis participated in the 2015, 2016 and 2017 Wesfarmers Employee Share Acquisition Plan (WESAP) and at the r h

- 8,057 Restricted Shares and 8,057 Performance Shares under the 2015 WESAP, subject to vesting (and testing for the Perf res) in November 2018
- 7,627 Restricted Shares and 7,627 Performance Shares under the 2016 WESAP, subject to vesting (and testing for the Per res) in November 2019; and
- 6,962 Restricted Shares and 6,962 Performance Shares under the 2017 WESAP, subject to vesting (and testing for the Per res) in December 2020.

During FY19 Mr Davis' 2015 WESAP Restricted Shares vested in full, and 2,819 Performance Shares vested (5,238 Performance Shares were forfeited). He retained Restricted and Performance Shares under the 2016 and 2017 plans.
During FY20 Mr Davis' 2016 WESAP Restricted Shares vested in full, and 2,589 Performance Shares vested (5,038 Performance Shares were forfeited). He retained Restricted and Performance Shares under the 2017 plans.

5 Mr Swindells' remuneration is disclosed for the period he was an Executive KMP, which commenced on 1 July 2019.
Mr Swindells participated in the 2017 Wesfarmers Employee Share Acquisition Plan (WESAP) and at the time of demerger, he held 6,962 Restricted Shares and 6,962 Performance Shares under the 2017 WESAP, subject to vesting (and testing for the Performance Shares) in December 2020.
Mr Swindells did not have a holding under the 2015 or 2016 WESAP at demerger, so he has not received any vesting under these plans in FY19 or FY20.

6 Mr John Durkan was a Director of Coles in FY19 from 1 July 2018 until 17 September 2018 (during the pre-demerger period). As Mr Durkan ceased to be a KMP in FY19 he has been excluded from Table 7. For comparative purposes, Mr Durkan's total compensation for FY19 was $1,518,639 as detailed in the FY19 Remuneration Report.

4.9 Summary of Executive KMP shareholding and Performance Rights

Tables 8.1 and 8.2 show the movements of Coles Performance Rights, Restricted Shares and Performance Shares, held beneficially, by each Executive KMP during FY20. Details of ordinary shares are provided in Table 12. No shares were acquired as remuneration during the year.

Table 8.1 Restricted and Performance Shares

		MOVEMENTS DURING THE FINANCIAL PERIOD				ADDITIONAL INFORMATION
NAME	SHARE TYPE	BALANCE OF SHARES HELD AT 1 JULY 2019[2]	VESTED/ RELEASED DURING THE YEAR	FORFEITED DURING THE YEAR	CLOSING BALANCE AT 28 JUNE 2020[2]	ACCOUNTING FAIR VALUE OF GRANT YET TO VEST ($)[1]
Steven Cain	Restricted Shares	85,057	-	-	85,057	$881,191
	Performance Shares	85,057	-	-	85,057	$696,617
Leah Weckert	Restricted Shares	61,272	(10,895)[3]	-	50,377[3]	$377,653
	Performance Shares	36,453	-	-	36,453	$298,550
Greg Davis	Restricted Shares	61,580	(15,254)[3]	-	46,326[3]	$335,685
	Performance Shares	32,402	-	-	32,402	$265,372
Matthew Swindells	Restric				40,251[3]	$272,748
	Perfor				26,327	$215,621

1 The fair value of Restricted Shares and Perfor rs. Restricted Shares and Performance Shares are subject to the satisfaction of conditions and therefore the minimum total value of the awards for future financial years is nil. The accounting fair value does not include those detailed in footnote 3 (shares acquired throu gs).

2 The Restricted Shares and Performance Shares totals include shares allocated under the FY19 LTI aw ly. Performance Shares vest based on the achievement of performance conditions aligned to RTSR and ... detail regarding this award are detailed in the FY19 Remuneration Report.

3 The Restricted Shares total for the Other Executive KMP includes Coles shares acquired through dem shares, as detailed in Table 7. These shares are only subject to a holding lock while the Other Executive KMP remain employed by Coles, or until the date the WESAP award that these Coles shares were allocated as a result of, vest (whichever is the earlier). During the year Ms Weckert had 10,895 of these shares released, and Mr Davis had 15,254 released. On release, the holding lock is removed. The Other Executive KMP each continue to hold 13,924 shares linked to the 2017 WESAP award as at the end of FY20.

Table 8.2 Performance Rights

	MOVEMENTS DURING THE FINANCIAL PERIOD				ADDITIONAL INFORMATION
NAME	BALANCE OF RIGHTS HELD AT 1 JULY 2019	RIGHTS ALLOCATED AS REMUNERATION	RIGHTS VESTED/ LAPSED DURING THE YEAR	CLOSING BALANCE AT 28 JUNE 2020	ACCOUNTING FAIR VALUE OF GRANT YET TO VEST ($)[1]
Steven Cain	-	275,901	-	275,901	$3,469,457
Leah Weckert	-	106,982	-	106,982	$1,345,299
Greg Davis	-	98,537	-	98,537	$1,239,105
Matthew Swindells	-	90,091	-	90,091	$1,132,896

1 The fair value of Performance Rights is an estimate of the total maximum value of grants in future financial years. The fair value per Performance Right at the grant date of 29 November 2019 was $10.52 for the TSR component and $14.63 for the ROC component. Performance Rights are subject to the satisfaction of conditions, and therefore the minimum total value of the awards for future financial years is nil.

SECTION 5: FY20 NON-EXECUTIVE DIRECTOR REMUNERATION

5.1 Non-executive Director remuneration framework

Non-executive Director remuneration is designed to ensure that the Company can attract and retain suitably qualified and experienced Non-executive Directors.

Non-executive Directors receive a base fee for their service as a director of the Company and, other than the Chairman, an additional fee for membership of, or for chairing a Board committee. To maintain the independence of directors, Non-executive Directors do not receive shares or any performance-related incentives as part of their remuneration from the Company. A minimum shareholding policy applies to Non-executive Directors (see section 2.2.2).

Non-executive Directors are reimbursed for travel and other expenses reasonably incurred when attending meetings of the Board or conducting the business of the Company.

The People and Culture Committee reviews and makes recommendations to the Board with respect to Non-executive Directors' fees and Board committee fees.

5.2 Current Non-executive Director remuneration policy

The Non-executive Director remuneration policy enables the Company to attract and retain high-quality directors with relevant experience. The remuneration policy is reviewed annually by the People and Culture Committee. Non-executive Director fees are le size, complexity, industry, and geography, and reflect rd's responsibilities.

The current Non-executive Di then shareholders of Coles at a general meeting held o oard and Committee fees in FY20.

Table 9 sets out the Board and committee fees in Australian dollars (in FY20.

Table 9

BOARD AND COMMITTEE FEES	CHAIR	MEMBER
Board	$695,000[1]	$220,000
Audit and Risk Committee	$55,000	$27,000
People and Culture Committee	$55,000	$27,000
Nomination Committee	No fee	No fee

1 The Chairman of the Board does not receive Committee fees in addition to his Board fee.

5.3 FY20 Non-executive Director remuneration

Table 10 outlines the remuneration for the Non-executive Directors of Coles during FY20. There were no loans between Non-executive Directors and the Company or any of its subsidiaries during FY20.

Table 10

NAME	FINANCIAL YEAR[1]	BASE AND COMMITTEE FEES (EXCLUDING SUPERANNUATION)	OTHER BENEFITS[4]	SUPERANNUATION BENEFITS	TOTAL COMPENSATION
James Graham	2020	$673,997	$1,273	$21,003	$696,273
	2019	$416,344	$131	$15,399	$431,874
David Cheesewright[2]	2020	$244,007	-	$2,993	$ 247,000
	2019	$149,111	-	$4,328	$153,439
Jacqueline Chow	2020	$225,997	$1,088	$21,003	$248,088
	2019	$140,329	$187	$13,110	$153,626
Abi Cleland[3]	2020	$234,543	$91	$12,457	$247,091
	2019	$140,329	[illegible]	$13,110	$153,439
Richard Freudenstein[3]	2020	$264,499	-	$10,501	$ 275,000
	2019	$157,401	-	$13,432	$170,833
Wendy Stops[3]	20			$15,752	$248,191
	20	[illegible]	[illegible]	$13,110	$153,548
Zlatko Todorcevski	20	[illegible]	[illegible]	$21,003	$275,372
	2019	$157,401	$60	$13,432	$170,893
TOTAL 2020		**$2,128,288**		**4,712**	**$ 2,237,015**
TOTAL 2019		**$1,[illegible]01,2[illegible]4**		**5,921**	**$1,387,652**

1 Details provided for FY19 cover the period from 19 November 2018 (the date from which each of the N [illegible] to 30 June 2019.
2 Due to Mr Cheesewright residing outside of Australia, superannuation obligations are only payable for any time worked in Australia.
3 Approval was obtained from the ATO by individual Non-executive Directors to be exempt from making superannuation contributions due to superannuation obligations being met by other employers.
4 Other benefits include costs associated with directorships (including any applicable fringe benefits tax).

5.4 Other transactions and balances

During FY20, Mr Freudenstein sold livestock to Coles via a livestock agent for an aggregate amount of $65,832. The transaction occurred on an arm's length basis with normal commercial terms.

SECTION 6: ORDINARY SHAREHOLDINGS

6.1 Non-executive Director Ordinary Shareholdings

Table 11 shows the shareholdings and movements in shares held directly, or indirectly, by each Non-executive Director, including their related parties during FY20.

Table 11

NAME	BALANCE OF SHARES HELD AT 1 JULY 2019	SHARES ACQUIRED	SHARES DISPOSED	CLOSING BALANCE AS AT 28 JUNE 2020
James Graham	460,188	40,000	-	500,188
David Cheesewright	-	20,000	-	20,000
Jacqueline Chow	20,000	-	-	20,000
Abi Cleland	1,816	18,000	-	19,816
Richard Freudenstein	19,000	-	-	19,000
Wendy Stops	11,910	8,090	-	20,000
Zlatko Todorcevski	19,201	-	-	19,201
TOTAL	**532,115**	**86,090**	**-**	**618,205**

6.2 Executive KMP Ordi

Table 12 shows the sharehol ch Executive KMP, including their related parties during FY20.

Table 12

NAME	BALANCE OF SHARES HELD AT 1 JULY 2019	SHARES ACQUIRED	SHARES DISPOSED	CLOSING BALANCE AS AT 28 JUNE 2020
Steven Cain	50,000	-	-	50,000
Leah Weckert	11,511	10,895[2]	-	22,406
Greg Davis	40,042[1]	15,291[2]	13	55,320
Matthew Swindells	605	-	-	605
TOTAL	**102,158**	**26,186**	**13**	**128,331**

1 Mr Davis' opening balance of Coles Ordinary Shares is 40,042. This differs to the closing balance disclosed in the FY19 Remuneration Report of 23,445, which represented Ordinary Shares held directly by Mr Davis and did not include 16,597 Ordinary Shares held by Mr Davis' related parties.

2 Shares acquired by Ms Weckert are shares released from holding lock as referred to in Table 8.1. Shares acquired by Mr Davis include shares released from holding lock as detailed in Table 8.1.

Building a better working world

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Auditor's Independence Declaration to the Directors of Coles Group Limited

As lead auditor for the audit of the financial report of Coles Group Limited for the financial year ended 28 June 2020, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit*;* and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Coles Group Limited and the entities it controlled during the financial year.

Ernst & Young

Fiona Campbell
Partner
18 August 2020

Financial Report

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Statement of Profit or Loss

for the year ended 28 June 2020

		CONSOLIDATED	
	NOTES	YEAR ENDED 28 JUNE 2020 $M	YEAR ENDED 30 JUNE 2019 $M
Continuing operations			
Sales revenue	1.3	37,408	38,176
Other operating revenue		376	288
Total operating revenue		**37,784**	**38,464**
Cost of sales		(28,043)	(29,253)
Gross profit		**9,741**	**9,211**
Other income		108	428
Administration expenses	1.4	(8,081)	(8,031)
Other expenses		-	(146)
Share of net (loss) / profit of equity accounted investments	5.1	(6)	5
Earnings before interest and tax (EBIT)		**1,762**	**1,467**
Financing costs	1.5	(443)	(42)
Profit before income tax		**1,319**	**1,425**
Income tax expense	1.6	(341)	(347)
Profit for the year from continuing operations		**978**	**1,078**
Discontinued operations			
Profit from discontinued operations		-	357
Profit for the year		**978**	**1,435**
Profit attributable to:			
Equity holders of the parent entity		**978**	**1,435**
Earnings per share (EPS) attributable to equity holders of the parent:			
Basic and diluted EPS (cents)		73.3	107.6
EPS attributable to equity holders of the parent from continuing operations:			
Basic and diluted EPS (cents)	1.2	73.3	80.8

The accompanying notes form part of the consolidated financial statements.

Statement of Other Comprehensive Income

for the year ended 28 June 2020

		CONSOLIDATED	
	NOTES	YEAR ENDED 28 JUNE 2020 $M	YEAR ENDED 30 JUNE 2019 $M
Profit for the year		**978**	**1,435**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Net movement in the fair value of cash flow hedges		(17)	(2)
Income tax effect	1.6	5	1
Other comprehensive loss which may be reclassified to profit or loss in subsequent periods		**(12)**	**(1)**
Total comprehensive income attributable to:			
Equity holders of the parent entity		966	1,434
Total comprehensive income from continuing operations attributable to:			
Equity holders of the parent entity		966	1,077

The accompanying notes form part of the consolidated financial statements.

Statement of Financial Position
as at 28 June 2020

	NOTES	CONSOLIDATED 28 JUNE 2020 $M	CONSOLIDATED 30 JUNE 2019 $M
Assets			
Current assets			
Cash and cash equivalents	2.1	992	940
Trade and other receivables	2.2	434	360
Inventories	2.4	2,166	1,965
Income tax receivable		42	-
Assets held for sale	5.2	75	94
Other assets	2.3	70	47
Total current assets		**3,779**	**3,406**
Non-current assets			
Property, plant and equipment	2.5	4,127	4,119
Right-of-use assets	2.7	7,660	-
Intangible assets	2.6	1,597	1,541
Deferred tax assets	1.6	849	365
Equity accounted investments	5.1	217	212
Other assets		120	134
Total non-current assets		**14,570**	**6,371**
Total assets		**18,349**	**9,777**
Liabilities			
Current liabilities			
Trade and other payables	[illegible]	3,737	3,380
Provisions	2.9	861	743
Lease liabilities	2.7	885	-
Other		198	168
Total current liabilities		**5,681**	**4,291**
Non-current liabilities			
Interest-bearing liabilities	3.1	1,354	1,460
Provisions	2.9	472	598
Lease liabilities	2.7	8,198	-
Other		29	71
Total non-current liabilities		**10,053**	**2,129**
Total liabilities		**15,734**	**6,420**
Net assets		**2,615**	**3,357**
Equity			
Contributed equity	3.2	1,611	1,628
Reserves		43	42
Retained earnings		961	1,687
Total equity		**2,615**	**3,357**

The accompanying notes form part of the consolidated financial statements.

Statement of Changes in Equity

for the year ended 28 June 2020

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				
	CONTRIBUTED EQUITY $M	SHARE-BASED PAYMENTS RESERVE $M	CASH FLOW HEDGE RESERVE $M	RETAINED EARNINGS $M	TOTAL $M
At 1 July 2019	**1,628**	**43**	**(1)**	**1,687**	**3,357**
Effect of adoption of AASB 16 *Leases*	-	-	-	(831)	(831)
At 1 July 2019 (adjusted)	**1,628**	**43**	**(1)**	**856**	**2,526**
Net profit for the year	-	-	-	978	978
Other comprehensive income	-	-	(12)	-	(12)
Total comprehensive income for the year	**-**	**-**	**(12)**	**978**	**966**
Share-based payments expense	-	13	-	-	13
Purchase of shares under Equity Incentive Plan	(17)	-	-	-	(17)
Dividends paid	-	-	-	(873)	(873)
Balance as at 28 June 2020	**1,611**	**56**	**(13)**	**961**	**2,615**
At 1 July 2018	**2,193**	**39**	**-**	**1,018**	**3,250**
Net profit for the year				1,435	1,435
Other comprehensive income	[illegible]	[illegible]	(1)	-	(1)
Total comprehensive income [illegible]	[illegible]	[illegible]	**(1)**	**1,435**	**1,434**
Capital return	(538)	[illegible]	[illegible]	-	(538)
Share-based payments expense	-	[illegible]	[illegible]	[illegible]	4
Purchase of shares under Equity Incentive Plan	(27)	-	-	-	(27)
Distributions to Wesfarmers	-	-	-	(766)	(766)
Balance as at 30 June 2019	**1,628**	**43**	**(1)**	**1,687**	**3,357**

The accompanying notes form part of the consolidated financial statements.

Statement of Cash Flows

for the year ended 28 June 2020

	NOTES	CONSOLIDATED YEAR ENDED 28 JUNE 2020 $M	CONSOLIDATED YEAR ENDED 30 JUNE 2019 $M
Cash flows from operating activities			
Receipts from customers		39,971	41,126
Receipt from Viva Energy		-	137
Payments to suppliers and employees		(36,486)	(38,665)
Interest paid		(37)	(33)
Interest component of lease payments		(399)	-
Interest received		7	4
Income tax paid		(504)	(294)
Net cash flows from operating activities	**2.1**	**2,552**	**2,275**
Cash flows used in investing activities			
Purchase of property, plant and equipment and intangibles		(833)	(1,104)
Proceeds from sale of property, plant and equipment		211	288
Proceeds from sale of controlled entities		-	544
Net investments in joint venture and associate	5.1	(11)	(6)
Acquisition of subsidiaries or b		(25)	(2)
Net cash flows used in investing activities		**(658)**	**(280)**
Cash flows used in financing activities			
Proceeds from borrowings		5,120	10,260
Repayment of borrowings		(5,226)	(8,800)
Proceeds from borrowings with related parties		-	170
Repayment of borrowings with related parties		-	(3,678)
Payment of principal component of lease payments		(846)	-
Distributions to Wesfarmers		-	(320)
Redemption of redeemable preference shares		-	1,322
Dividends paid		(873)	-
Capital return		-	(538)
Purchase of shares under Equity Incentive Plan		(17)	(27)
Net cash flows used in financing activities		**(1,842)**	**(1,611)**
Net increase in cash and cash equivalents		**52**	**384**
Cash at the beginning of the financial period	2.1	940	556
Cash at the end of the financial period	**2.1**	**992**	**940**

The accompanying notes form part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

The Financial Report of Coles Group Limited ('the Company') in respect of the Company and the entities it controlled at the reporting date or during the year ended 28 June 2020 (collectively, 'the Group') was authorised for issue in accordance with a resolution of the Directors on 18 August 2020.

Reporting entity

The Company is a for-profit company limited by shares which is incorporated and domiciled in Australia and listed on the Australian Securities Exchange (ASX).

The nature of the operations and principal activities of the Group are described in Note 1.1 Segment Reporting.

Basis of preparation and accounting policies

The Financial Report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* (Cth). The Financial Report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments measured at fair value as explained in the notes to the consolidated financial statements ('the Notes').

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of AASB 16 *Leases* ('AASB 16') from 1 July 2019 as described in Note 2.7 Leases.

This Financial Report present [illegible] stency with current year's presentation.

Key judgements, estimates and assumptions

The preparation of the financial statements requires judgement and th [illegible] ptions in applying the Group's accounting policies, which affect amounts reported for asset [illegible] ses.

Judgements, estimates and assumptions are continuously evaluated and are based on the following:

- historical experience
- current market conditions
- reasonable expectations of future events

Actual results may differ from these judgements, estimates and assumptions. Uncertainty about these judgements, estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in future periods. The Group has incorporated specific judgements, estimates and assumptions relating to the expected impact of the COVID-19 pandemic in determining the amounts recognised in the financial statements based on conditions existing at reporting date, recognising uncertainty still exists in relation to its timeframe, the measures to control it and its economic impact.

Basis of preparation and accounting policies (continued)

The key areas involving judgement or significant estimates and assumptions are set out below:

NOTE		JUDGEMENTS
Note 5.1	Equity accounted investments	Control and significant influence
Note 2.7	Leases	Determining the lease term
NOTE		**ESTIMATES AND ASSUMPTIONS**
Note 2.4	Inventories	Net realisable value
Note 2.4	Inventories	Commercial income
Note 4.1	Impairment of non-financial assets	Assessment of recoverable amount
Note 2.9	Provisions	Employee benefits
Note 2.9	Provisions	Self-insurance
Note 2.9	Provisions	Restructuring
Note 7.2	Share-based payments	Valuation of share-based payments
Note 2.7	Leases	Incremental borrowing rate

Detailed information about each of these judgements, estimates and assumptions is included in the Notes together with information about the basis of calculation for each affected line item in the financial statements.

The Notes

The Notes include information which is required to understand the consolidated financial statements and is material and relevant to the operations, financial performance and position of the Group.

Information is considered material and relevant if, for example:

- the amount in question is significant because of its size or nature
- it is important for understanding the results of the Group
- it helps to explain the imp
- it relates to an aspect of

The Notes are organised into the following sections:

1. **PERFORMANCE:** this section provides information on the performan ment results, earnings per share and income tax.
2. **ASSETS AND LIABILITIES:** this section details the assets used in the Group's operations and the liabilities incurred as a result.
3. **CAPITAL:** this section provides information relating to the Group's capital structure and financing.
4. **FINANCIAL RISK:** this section details the Group's exposure to various financial risks, explains how these risks may impact the Group's financial performance or position, and details the Group's approach to managing these risks.
5. **GROUP STRUCTURE:** this section provides information relating to subsidiaries and other material investments of the Group.
6. **UNRECOGNISED ITEMS:** this section provides information about items that are not recognised in the consolidated financial statements but could potentially have a significant impact on the Group's financial performance or position in the future.
7. **OTHER DISCLOSURES:** this section provides other disclosures required by Australian Accounting Standards that are considered relevant to understanding the Group's financial performance or position.

Basis of consolidation

In preparing these consolidated financial statements, subsidiaries are consolidated from the date the Group gains control until the date on which control ceases. The Group's share of results of its equity accounted investments is included in the consolidated financial statements from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. All intercompany transactions are eliminated.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Foreign currency

These consolidated financial statements are presented in Australian dollars, which is the functional currency of the Group. Foreign currency transactions are translated into the functional currency using the exchange rates at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at reporting date exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges.

Accounting Policies

Accounting policies that summarise the classification, recognition and measurement basis of financial statement line items and that are relevant to the understanding of the consolidated financial statements are provided throughout the Notes.

Rounding of amounts

The amounts contained in the Financial Report have been rounded to the nearest million dollars (unless specifically stated to be otherwise) under the option available to the Company under *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. The Company is an entity to which this legislative instrument applies.

Significant items

Significant items are large g rdinary course of business. They typically arise from eve up. These items have been highlighted below to help us f the Group.

Significant gains or income ditures are included within 'other expenses' or 'income tax expense' in the Statement of Profit or

Tax consolidation

The Company and its 100% owned Australian resident subsidiaries for ed group with effect from 31 December 2018. As disclosed in the Group's FY19 Financial Report, the tax cost base of revenue and capital assets were reset in accordance with Australian taxation legislation and calculated by reference to independent market valuations. In performing these valuations, certain judgements and assumptions were made such as future earnings and discount rates which were subject to review at a future date.

Independent market valuations and tax cost base resetting calculations were progressed during the current year resulting in a $31 million net credit to income tax expense (2019: $50 million).

Incorporated joint venture with Australian Venue Co.

As disclosed in the Group's FY19 Financial Report, the Company entered into an incorporated joint venture AVC for the operation of Spirit Hotels (the 'Hotel business') and the retail liquor stores linked to Spirit Hotels venues (collectively the 'Retail Liquor business'). As part of the transaction, a group subsidiary company, Liquorland (Qld) Pty Ltd was converted into an incorporated joint venture company, QVC. To facilitate the transaction, QVC restructured its share capital by issuing two classes of shares: R-Shares which confer the right to the full economic benefit of the Retail Liquor business and H-Shares which confer the right to the full economic benefit of the Hotel business. The Company sold the H-shares to AVC, while retaining the R-shares.

The income tax impacts arising from the sale of the H-shares were progressed in the current year resulting in a $12 million net credit to income tax expense.

1. Performance

This section provides information on the performance of the Group, including segment results, earnings per share and income tax.

1.1 Segment reporting

The Group has identified its operating segments based on internal reporting to the Managing Director and Chief Executive Officer (the chief operating decision maker). The Managing Director and Chief Executive Officer regularly reviews the Group's internal reporting to assess performance and allocate resources across the operating segments. The segments identified offer different products and services and are managed separately.

The Group's reportable segments are set out below:

REPORTABLE SEGMENT	DESCRIPTION
Supermarkets	Fresh food, groceries and general merchandise retailing (includes Coles Online and Coles Financial Services)
Liquor	Liquor retailing, including online delivery services
Express	Convenience store operations and commission agent for retail fuel sales

Other business operations that are not separately reportable (such as Property), as well as costs associated with enterprise functions (such as Treasury) are included in 'other'.

There are varying levels of integration between operating segments. This includes the common usage of property, services and administration functions. Financing costs and income tax are managed on a Group basis and are not allocated to operating segments.

EBIT is the key measure by which management monitors the performance of the segments.

The Group does not have o y individual customer that is in excess of 10% of sales reve

			S	OTHER	CONSOLIDATED
	$M	$M	$M	$M	$M
Year ended 28 June 2020					
Sales revenue	32,993			-	37,408
Segment EBIT	**1,618**			**(27)**	**1,762**
Financing costs					(443)
Profit before income tax					**1,319**
Income tax expense					(341)
Profit for the year					**978**
Share of net loss of equity accounted investments included in EBIT					(6)
Year ended 30 June 2019					
Sales revenue	30,993	3,205	3,978	-	38,176
Segment EBIT	**1,191**	**133**	**46**	**(27)**	**1,343**
Significant items					124
Financing costs					(42)
Profit before income tax for continuing operations					**1,425**
Income tax expense for continuing operations					(347)
Profit for the year for continuing operations					**1,078**
Share of net profit of equity accounted investments included in EBIT					5

1.2 Earnings per share (EPS)

	YEAR ENDED 28 JUNE 2020	YEAR ENDED 30 JUNE 2019
EPS attributable to equity holders of the Company from continuing operations		
Basic and diluted EPS (cents)	73.3	80.8
Profit for the period from continuing operations ($M)	978	1,078
Weighted average number of ordinary shares for basic and diluted EPS (shares, million)	1,334	1,334

Calculation methodology

EPS is profit for the period from continuing operations attributable to ordinary equity holders of the Company, divided by the weighted average number of ordinary shares on issue during the year.

Diluted EPS is calculated on the same basis except that it includes the impact of any potential commitments the Group has to issue shares in the future. For the period, the potential dilution to the weighted average number of ordinary shares from employee performance rights was nil as shares are already issued and held by the Plan Trustee on behalf of the participants.

Between the reporting date and the issue date of the Financial Report, there have been no transactions involving ordinary shares or potential ordinary shares that would impact the calculation of EPS disclosed in the table above.

1.3 Sales revenue

Sale of goods

The Group operates a network of supermarkets, retail liquor stores and convenience stores, as well as online platforms. Revenue is recognised by the Group when it is the principal in the sales transaction. Revenue from the sale of goods is recognised when control of the goods has transferred to the customer. For goods purchased in store, control of the goods transfers to the customer at the point of sale. For goods purchased online, control of the goods transfers to the customer upon delivery, or when colle

Revenue comprises the fair ods and is recorded net of discounts and goods and ser

1.4 Administration expenses

	CONSOLIDATED	
	AR ENDED 28 JUNE 2020 $M	YEAR ENDED 30 JUNE 2019 $M
Employee benefits expense	4,768	4,533
Occupancy and overheads	597	1,635
Depreciation and amortisation	1,495	640
Marketing expenses	216	213
Impairment (reversal) / expense	(41)	42
Other store expenses	659	651
Other administration expenses	387	317
Total administration expenses	**8,081**	**8,031**

1.4 Administration expenses (continued)

Employee benefits expense includes the following:

	CONSOLIDATED	
	YEAR ENDED 28 JUNE 2020 $M	YEAR ENDED 30 JUNE 2019 $M
Remuneration, bonuses and on-costs	4,387	4,155
Superannuation expense	355	346
Share-based payments expense	26	32
Total employee benefits expense	**4,768**	**4,533**

Employee benefits expense

The Group's accounting policy for liabilities associated with employee benefits is set out in Note 2.9 Provisions. The policy relating to share-based payments is set out in Note 7.2 Share-based payments.

Share-based payments expense includes both awards granted by the Company that will be settled in equity of the Company and awards granted by Wesfarmers (pre demerger) to employees of the Group that will be settled in equity of Wesfarmers.

Retirement benefit obligations

The Group contributes to a number of superannuation funds on behalf of its employees, and the Group's legal or constructive obligation is limited to these contributions. Contributions payable by the Group are recognised as an expense in the Statement of Profit or Loss when incurred.

1.5 Financing costs

	CONSOLIDATED	
	YEAR ENDED 28 JUNE 2020 $M	YEAR ENDED 30 JUNE 2019 $M
Interest expense	32	30
Imputed interest on lease liabilities	399	-
Discount rate adjustment	3	7
Other finance related costs	9	5
Total financing costs	**443**	**42**

Financing costs

Financing costs consist of interest and other costs incurred in connection with the borrowing of funds, imputed interest on lease liabilities as well as the discount rate adjustments associated with non-current provisions (excluding employee benefits). Financing costs directly attributable to the acquisition, construction or production of an asset, that necessarily takes more than 12 months to get ready for its intended use or sale, are capitalised as part of the cost of the asset. All other financing costs are expensed in the period in which they are incurred.

1.6 Income tax

The major components of income tax expense in the consolidated Statement of Profit or Loss are set out below:

	CONSOLIDATED	
	YEAR ENDED 28 JUNE 2020 $M	YEAR ENDED 30 JUNE 2019 $M
Current income tax expense	461	429
Adjustment in respect of current income tax of previous years	(5)	8
Deferred income tax relating to origination and reversal of temporary differences	(79)	(86)
Adjustment in respect of deferred income tax of previous years	(36)	(4)
Income tax expense reported in Statement of Profit or Loss	**341**	**347**

The components of income tax expense recognised in the consolidated Statement of Other Comprehensive Income (OCI) are set out below:

	CONSOLIDATED	
	YEAR ENDED 28 JUNE 2020 $M	YEAR ENDED 30 JUNE 2019 $M
Deferred tax related to items recognised in OCI during the year:		
Net loss on revaluation of cash flow hedges	5	1
Deferred income tax charged to OCI	**5**	**1**

The tax expense included in the Statement of Profit or Loss consists of current and deferred income tax.

CURRENT INCOME TAX IS:

- the expected tax payable on taxable income for the year
- calculated using tax rates enacted or substantively enacted at the reporting date
- inclusive of any adjustment to income tax payable or recoverable in respect of previous years

DEFERRED INCOME TAX IS:

- recognised using the liability method
- based on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for taxation purposes
- calculated using the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on the tax rates that have been enacted or substantively enacted by the reporting date

Both current and deferred income tax are charged or credited to the Statement of Profit or Loss. However, when it relates to items charged or credited directly to the Statement of Changes in Equity or Statement of Other Comprehensive Income, the tax is recognised in equity, or OCI, respectively.

Reconciliation of the Group's

	CONSOLIDATED	
	YEAR ENDED 28 JUNE 2020 $M	YEAR ENDED 30 JUNE 2019 $M
Profit before tax from continuing operations	1,319	1,425
Profit before tax from discontinued operations	-	509
Profit before income tax	**1,319**	**1,934**
At Australia's corporate tax rate of 30.0% (30 June 2019: 30.0%)	396	580
Adjustments in respect of income tax of previous years	2	4
Share of results of joint venture	2	(1)
Non-deductible expenses for income tax purposes	5	15
Non-assessable income for income tax purposes	(21)	-
Significant item - tax consolidation	(31)	(50)
Significant item - incorporated joint venture with Australian Venue Co.	(12)	(49)
At the effective income tax rate of 25.9% (30 June 2019: 25.8%)	**341**	**499**
Income tax expense reported in the consolidated Statement of Profit or Loss	341	347
Income tax attributable to discontinued operations	-	152
	341	**499**

Tax consolidation

The Company and its 100% owned Australian resident subsidiaries formed an income tax consolidated group with effect from 31 December 2018.

The Company is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing agreement which operates to manage joint and several liability for group tax liabilities amongst group members as well as enable group members to leave the group clear of future group tax liabilities. Members of the group have also entered into a taxation funding agreement which provides that each member of the tax consolidated group pay a tax equivalent amount to or from the parent in accordance with their notional current tax liability or current tax asset. Such amounts are reflected in amounts receivable from or payable to the parent company in their accounts and are settled as soon as practicable after lodgement of the consolidated tax return and payment of the tax liability.

1.6 Income tax (continued)

Deferred income tax balances recognised in the consolidated Statement of Financial Position

	CONSOLIDATED					
28 June 2020	OPENING BALANCE $M	EFFECT OF ADOPTION OF AASB 16 $M	CHARGED TO PROFIT OR LOSS $M	CREDITED TO OCI $M	ACQUISITIONS $M	CLOSING BALANCE $M
Provisions	92	(34)	(3)	-	1	56
Employee benefits	215	-	34	-	-	249
Trade and other payables	15	-	19	-	-	34
Inventories	41	-	4	-	-	45
Property, plant and equipment	127	-	12	-	-	139
Lease Liabilities	-	2,681	35	-	9	2,725
Cash flow hedges	1	-	-	5	-	6
Other individually insignificant balances	22	(18)	15	-	-	19
Deferred tax assets	**513**	**2,629**	**116**	**5**	**10**	**3,273**
Accelerated depreciation for tax purposes	88	-	8	-	-	96
Intangible assets	7	-	(24)	-	-	(17)
Right-of-use assets	-	2,280	8	-	9	2,297
Other individually insignificant balances	53	(7)	2	-	-	48
Deferred tax liabilities	**148**	**2,273**	**(6)**	**-**	**9**	**2,424**
Net deferred tax assets	**365**	**356**	**122**	**5**	**1**	**849**

30 June 2019	OPENING BALANCE $M	CHARGE TO PROFIT OR LOSS $	[illegible]	ACQUISITIONS/ DISPOSALS $M	CLOSING BALANCE $M
Provisions	80	48	-	(36)	92
Employee benefits	277	7	-	(69)	215
Trade and other payables	12	(3)	-	6	15
Inventories	65	(2)	-	(22)	41
Property, plant and equipment	241	(2)	-	(112)	127
Cash flow hedges	-	-	1	-	1
Other individually insignificant balances	49	2	-	(29)	22
Deferred tax assets	**724**	**50**	**1**	**(262)**	**513**
Accelerated depreciation for tax purposes	59	30	-	(1)	88
Intangible assets	70	(57)	-	(6)	7
Other individually insignificant balances	55	(3)	-	1	53
Deferred tax liabilities	**184**	**(30)**	**-**	**(6)**	**148**
Net deferred tax assets	**540**	**80**	**1**	**(256)**	**365**

Tax assets and liabilities

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to set off current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

The Group has unrecognised deferred tax assets largely relating to deductible temporary differences arising from its investment in Loyalty Pacific Pty Ltd (operator of the flybuys loyalty program) and QVC. A deferred tax asset has not been recognised for this item because the Group has determined that at the reporting date, it is not probable that eligible capital gains will be available against which the Group can utilise these benefits. The unrecognised deferred tax asset is $112 million (2019: $55 million).

An uncertain tax treatment is any tax treatment applied by the Group where there is uncertainty over whether it will be accepted by the relevant tax authority. If it is not probable that the treatment will be accepted, the effect of the uncertainty is reflected in the period in which that determination is made (for example, by recognising an additional tax liability). The Group measures the impact of the uncertainty using the method that best predicts the resolution of the uncertainty: either the most likely amount method or the expected value method. The judgements and estimates made to recognise and measure the effect of uncertain tax treatments are reassessed whenever circumstances change or when there is new information that affects those judgements.

The Group determined, based on its tax compliance, that it is probable that its tax treatments applied at 28 June 2020 will be accepted by the taxation authorities.

Goods and services tax (GST)

Revenue, expenses and assets are recognised net of GST, except:

- when the GST incurred o overable from the taxation authority, in which case G art of the cost of acquisition of the asset; or
- when receivables are stated with the amount of GST included.

The net amount of GST recoverable from or payable to the taxation a ceivables or payables in the Statement of Financial Position. Commitments and contingencies nt of GST recoverable from or payable to the taxation authority.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities where recoverable or payable to the taxation authority is classified as part of operating cash flows.

2. Assets and liabilities

This section details the assets used in the Group's operations and the liabilities incurred as a result.

2.1 Cash and cash equivalents

Cash and cash equivalents are comprised of the following:

	CONSOLIDATED	
	28 JUNE 2020 $M	30 JUNE 2019 $M
Cash on hand and in transit	540	530
Cash at bank and on deposit	452	410
Total cash and cash equivalents	**992**	**940**

All receivables from EFT, credit card and debit card point of sale transactions during the period are classified as cash and cash equivalents.

For the purpose of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and in transit, at bank and on deposit, net of outstanding bank overdrafts which are repayable on demand.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits earn interest at the respective short-term deposit rates.

Reconciliation of profit for the period to net cash flows from operating activities

	CONSOLIDATED	
	YEAR ENDED 28 JUNE 2020 $M	YEAR ENDED 30 JUNE 2019 $M
Profit for the period	**978**	**1,078**
Adjustments for:		
Depreciation and amortisation	1,495	640
(Impairment reversals) / impairment and write-off of non-current assets	(41)	42
Net gain on sale of controlled entities	-	(133)
Net loss on disposal of non-current assets	39	5
Share of loss / (profit) of equity accounted investments	6	(5)
Share-based payments expense	13	4
Other	-	(4)
Changes in assets and liabilities net of the effects of acquisitions and disposals of businesses and impacts of AASB 16:		
(Increase) / decrease in inventories	(201)	137
Increase in trade and other receivables	(78)	(45)
Increase in prepayments	(20)	(1)
Increase in other assets	(4)	(11)
Increase in deferred tax assets	(121)	(91)
(Increase) / decrease in income tax receivable	(42)	143
Increase / (decrease) in trade and other payables	339	(9)
Increase in provisions	138	586
Increase / (decrease) in other liabilities	51	(61)
Net cash flows from operating activities	**2,552**	**2,275**

2.2 Trade and other receivables

Trade and other receivables are comprised of the following:

	CONSOLIDATED	
	28 JUNE 2020 $M	30 JUNE 2019 $M
Trade receivables[1]	314	226
Other receivables	130	142
	444	**368**
Allowance for expected credit losses	(10)	(8)
Total trade and other receivables	**434**	**360**

1 Includes commercial income due from suppliers of $140 million (2019: $102 million).

Trade receivables and other receivables are classified as financial assets held at amortised cost.

Trade receivables

Trade receivables are initially recognised at the amount due and subsequently at amortised cost using the effective interest method, less an allowance for expected credit losses (impairment provision). The carrying value of trade and other receivables, less impairment provisions, is considered to approximate fair value, due to the short-term nature of the receivables.

Impairment of trade receivables

The collectability of trade and other receivables is reviewed on an ongoing basis. Individual debts which are known to be uncollectable are written off when identified.

The Group recognises an impairment provision based upon anticipated lifetime losses of trade receivables. The anticipated lifetime losses are determine d and updated.

The amount of the impairme istration expenses.

2.3 Other assets

Other assets are comprised of the following:

	CONSOLIDATED	
	28 JUNE 2020 $M	30 JUNE 2019 $M
Prepayments	69	46
Other assets	1	1
Total other current assets	**70**	**47**
Prepayments	21	24
Other assets	99	110
Total other non-current assets	**120**	**134**

2.4 Inventories

Inventories comprise goods held for resale and are valued at the lower of cost and net realisable value, which is the estimated selling price less estimated costs to sell.

The cost of inventory is based on purchase cost, after deducting certain types of commercial income and including logistics and store remuneration incurred in bringing inventories to their present location and condition.

Volume-related supplier rebates, and supplier promotional rebates where they exceed spend on promotional activities, are accounted for as a reduction in the cost of inventory and recognised in the Statement of Profit or Loss when the inventory is sold.

Key estimate: Net realisable value

An inventory provision is recognised where the realisable value from sale of inventory is estimated to be lower than the inventory's carrying value. Inventory provisions for different product categories are estimated based on various factors, including expected sales profile, prevailing sales prices, seasonality and expected losses associated with slow-moving inventory items.

Commercial income

Commercial income represents various discounts or rebates provided by suppliers. These include:

- settlement discounts for the purchase of inventory
- discounts based on purchase or sales volumes
- contributions towards promotional activity for a supplier's product

Depending on the type of arrangement with the supplier, commercial income will either be deducted from the cost of inventory (where it relates to [illegible] d expenses (where it relates to the sale of goods).

Amounts due from suppliers [illegible] e the Group currently has the legal right and the intention to offset, in which case only the net [illegible] is presented. Refer to Note 4.3 Financial instruments for details of amounts offset in the cons[illegible] l Position.

Key estimate: Commercial income

The recognition of certain types of commercial income requires the following estimates:

- the volume of inventory purchases that will be made during a specific period
- the amount of the related product that will be sold
- the balance remaining in inventory at the reporting date.

Estimates are based on historical and forecast sales and inventory turnover levels.

2.5 Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and any recognised impairment. Cost comprises expenditure that is directly attributable to the acquisition of the item and subsequent costs incurred that are eligible for capitalisation. Repairs and maintenance costs are charged to the Statement of Profit or Loss during the period in which they are incurred. Property, plant and equipment is depreciated on a straight-line basis to its residual value over its expected useful life.

	LAND $M	BUILDINGS $M	PLANT & EQUIPMENT $M	LEASEHOLD IMPROVEMENTS $M	TOTAL $M
Useful life (range)	*Not applicable*	*20 – 40 years*	*3 – 20 years*	*Term of lease*	
At 28 June 2020					
Cost	413	240	6,653	1,054	8,360
Accumulated depreciation and impairment	-	(9)	(3,644)	(580)	(4,233)
Net carrying amount	**413**	**231**	**3,009**	**474**	**4,127**
Carrying amount at beginning of the financial year	[illegible]	251	2,947	449	4,119
Additions	[illegible]	57	615	96	778
Transfer to assets held for sale	[illegible]	(13)	(6)	-	(46)
Depreciation	[illegible]	(3)	(469)	(71)	(543)
Impairment reversal	[illegible]	-	(1)	-	43
Disposals and write-offs[1]	[illegible]	(61)	(77)	-	(224)
Carrying amount at end of the financial year	[illegible]	**231**	**3,009**	**474**	**4,127**
Construction work in progress included above	[illegible]	82	483	80	645
At 30 June 2019					
Cost	[illegible]	260	6,245	968	7,945
Accumulated depreciation and impairment	[illegible]	(9)	(3,298)	(519)	(3,826)
Net carrying amount	[illegible]	**251**	**2,947**	**449**	**4,119**
Carrying amount at beginning of the financial year	[illegible]	335	3,801	459	5,223
Additions	[illegible]	64	864	88	1,076
Transfers between classes	[illegible]	-	10	4	14
Transfer to assets held for sale	[illegible]	(10)	(14)	(1)	(94)
Depreciation	[illegible]	(6)	(533)	(68)	(607)
Impairment	(38)	-	(4)	-	(42)
Disposals and write-offs[1]	(109)	(132)	(1,177)	(33)	(1,451)
Carrying amount at end of the financial year	**472**	**251**	**2,947**	**449**	**4,119**
Construction work in progress included above	-	92	345	57	494

1 Net loss on disposal of property, plant and equipment during the year was $39 million (2019: $5 million net loss)

2.6 Intangible assets

The Group's intangible assets comprise licences, software and goodwill.

Licences and software

Licences and software are measured initially at acquisition cost or costs incurred to develop the asset. Intangible assets acquired in a business combination are recognised at fair value at the acquisition date. Following initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. They are amortised on a straight-line basis over their estimated useful lives. Intangible assets with indefinite useful lives are not amortised. Instead they are tested for impairment annually or more frequently if events or changes in circumstances indicate they may be impaired.

Licences have been assessed as having indefinite lives on the basis that the licences are expected to be renewed in line with business continuity requirements.

For internally generated software, research costs are expensed as incurred. Development expenditure is capitalised when management has the intention to develop the asset, it is probable that future economic benefits will flow to the Group and the cost can be reliably measured.

Goodwill

Goodwill recognised by the Group has arisen as a result of business combinations and represents the future economic benefits that arise from assets that are not capable of being individually identified and separately recognised.

Goodwill is initially measured as the amount the Group has paid in acquiring a business over and above the fair value of the individual assets and liabilities acquired. Goodwill is considered to have an indefinite useful economic life. It is therefore not amortised but is instead tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less any accumulated impairment losses and, for the purpose of impairment testing, is allocated to cash generating units.

Refer to Note 4.1 Impairment

	GOODWILL $M	BRANDS $M	SOFTWARE $M	LICENCES $M	OTHER $M	TOTAL $M
Useful life (range)	*Not applicable*	*Indefinite*	*5 years*	*Indefinite*	*2 years*	
At 28 June 2020						
Cost	1,153	-	1,332	28	3	2,516
Accumulated amortisation and impairment	-	-	(918)	(1)	-	(919)
Net carrying amount	**1,153**	**-**	**414**	**27**	**3**	**1,597**
Carrying amount at beginning of the financial year	1,153	-	362	26	-	1,541
Additions	-	-	145	1	3	149
Impairment	-	-	(2)	-	-	(2)
Amortisation	-	-	(91)	-	-	(91)
Carrying amount at end of the financial year	**1,153**	**-**	**414**	**27**	**3**	**1,597**
Development work in progress included above	-	-	186	-	-	186
At 30 June 2019						
Cost	1,153	-	1,191	27	-	2,371
Accumulated amortisation and impairment	-	-	(829)	(1)	-	(830)
Net carrying amount	**1,153**	**-**	**362**	**26**	**-**	**1,541**
Carrying amount at beginning of the financial year	3	100	517	156	-	1,966
Additions	1	-	87	-	-	88
Transfers between classes	-	-	(14)	-	-	(14)
Disposals and write-offs	(1)	(100)	(104)	(130)	-	(375)
Amortisation	-	-	(124)	-	-	(124)
Carrying amount at end of the financial year	**3**	**-**	**362**	**26**	**-**	**1,541**
Development work in progress included above	-	-	82	-	-	82

2.7 Leases

The Group has lease agreements for properties and various items of machinery, vehicles and other equipment used in its operations.

Set out below are the carrying amounts of recognised right-of-use assets and movements during the period:

	CONSOLIDATED		
	PROPERTY LEASES $M	NON-PROPERTY LEASES $M	TOTAL $M
As at 1 July 2019	**7,339**	**142**	**7,481**
Additions[1]	1,024	16	1,040
Depreciation expense	(822)	(39)	(861)
At 28 June 2020	**7,541**	**119**	**7,660**

1 Includes reasonably certain options, remeasurements and new leases, net of leases terminated.

Set out below are the carrying amounts of recognised lease liabilities and movements during the period:

	CONSOLIDATED $M
As at 1 July 2019	**8,856**
Additions[1]	1,073
Accretion of interest	399
Payments	(1,245)
At 28 June 2020	**9,083**
Current	885
Non-current	8,198

1 Includes reasonably certain options, remeas

The maturity analysis of lease liabilities is disclosed in Note 4.2 Financial risk management.

Variable lease payments based on sales

Some of the Group's retail property lease agreements contain variable d to sales. These lease payments are based on a percentage of sales recorded by a particular store. The specific percentage rent adjustment mechanism varies by individual lease agreement. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base for newly established stores. Variable lease payments are recognised in profit or loss in the period in which the condition that triggers those payments occurs and are generally payable for future periods in the lease term.

The following provides information on the Group's variable lease payments, including the magnitude in relation to fixed payments:

	CONSOLIDATED		
28 June 2020	FIXED PAYMENTS $M	VARIABLE PAYMENTS $M	TOTAL PAYMENTS $M
Leases with lease payments based on sales	511	39	**550**

Extension options

Extension options are included in the majority of property leases across the Group. Where practicable, the Group seeks to include extension options when negotiating leases to provide flexibility and align with business needs. Leases may contain multiple extension options and are exercisable only by the Group and not by the lessors.

Extension options are only reflected in the lease liability when it is reasonably certain they will be exercised. When assessing if an option is reasonably certain to be exercised, a number of factors are considered including the option expiry date, whether formal approval to extend the lease has been obtained, store trading performance and the strategic importance of the site. Where a lease contains multiple extension options, only the next option is considered in the assessment. Option periods range from one to 15 years.

Details of the Group's extension options as at 28 June 2020 are set out below:

Leases with extension options	73%
Leases without extension options	27%
Total leases	100%

Of the leases with extension options:

Leases with an extension option included in the lease liability	32%[1]
Leases with an extension option not included in the lease liability	68%
Total leases with extension options	100%

1 50% of these leases contain one or more future extension options not included in the lease liability.

The following amounts have been recognised in the Statement of Profit or Loss:

	CONSOLIDATED 28 JUNE 2020 $M
Depreciation of right-of-us	861
Interest expense on lease l	399
Expenses relating to short-t	7
Variable lease payments (i	48
Total amount recognised in the Statement of Profit or Loss	**1,315**

The Group recognised a total gain of $14 million relating to six sale an g the year.

The Group had total cash outflows for leases of $1,245 million during the year. The future cash outflows relating to leases that have not yet commenced are disclosed in Note 6.1 Commitments.

Policy applicable from 1 July 2019

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases (leases with a term of 12 months or less) and leases of low-value assets. The Group recognises lease liabilities to make future lease payments and right-of-use assets representing the right to use the underlying assets. A right-of-use asset and a corresponding lease liability are recognised at the date at which the leased asset is available for use by the Group.

Each lease payment is apportioned between the liability and financing costs. Financing costs are recognised in the Statement of Profit or Loss over the lease term so as to produce a constant periodic rate of interest on the remaining liability.

The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term (which includes options that are considered 'reasonably certain'). Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis in the Statement of Profit or Loss.

Cash payments for the principal portion of the lease liability are presented within financing activities in the Statement of Cash Flows, while payments relating to short-term leases, low-value assets and variable lease components not included in the measurement of the lease liability are presented within cash flows from operating activities.

2.7 Leases (continued)

Lease liabilities are initially measured at net present value and comprise the following:

- fixed payments (including in-substance fixed payments), less any lease incentives
- variable lease payments based on an index or rate, using the index or rate at the commencement date
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payment of termination penalties if the lessee is reasonably certain to terminate the lease and incur penalties.

If the interest rate implicit in the lease cannot be readily determined, the lease payments are discounted using the lessee's incremental borrowing rate at the lease commencement date.

Right-of-use assets are measured at cost and comprise the following:

- the initial measurement of the lease liability
- any lease payments made at or before the commencement date, less any lease incentives received
- any initial direct costs
- any restoration costs.

Right-of-use assets are also subject to impairment testing. Refer to the accounting policies in Note 4.1 Impairment of non-financial assets.

Key estimate: Incremental borrowing rate

If the Group cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The IBR requires estimati … s need to be made to reflect the terms and c … ble market inputs when available and is required … k).

Key judgement: Determining the lease term

Extension options are included in the majority of property leases across the Group. In determining the lease term, all facts and circumstances that create an economic incentive to exercise an extension option are considered. Extension options are only included in the lease term if the lease is reasonably certain to be exercised. The assessment is reviewed if a significant event or change in circumstance occurs which affects this assessment and is within the control of the lessee.

Changes in the assessment of the lease term are accounted for as a reassessment of the lease liability at the date of the change.

Group as lessor

The Group leases out some of its freehold properties and sub-leases some of its right-of-use assets. The Group has classified these leases as operating leases because they do not transfer all of the risks and rewards incidental to ownership of the assets.

The undiscounted lease payments to be received are set out below:

	CONSOLIDATED	
	28 JUNE 2020 $M	30 JUNE 2019 $M
Within one year	20	15
Between one and two years	16	13
Between two and three years	15	11
Between three and four years	10	10
Between four and five years	5	5
More than five years	8	1
Total	**74**	**55**

Rental income is accounted for on a straight-line basis over the lease term and is included in 'other operating revenue' in the Statement of Profit or Loss. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Variable lease income not dependent on an index or rate is recognised as revenue in the period in which it is earned. The Group recognised income of $17 million for the year with respect to subleasing of its right-of-use assets.

2.8 Trade and other payables

Trade and other payables are comprised of the following:

	CONSOLIDATED	
	28 JUNE 2020 $M	30 JUNE 2019 $M
Trade payables	2,898	2,662
Other payables	839	718
Total trade and other payables	**3,737**	**3,380**

Trade payables are non-interest-bearing and are recognised initially at [illegible]asured at amortised cost using the effective interest method.

2.9 Provisions

	CONSOLIDATED	
	28 JUNE 2020 $M	30 JUNE 2019 $M
Current		
Employee benefits	746	601
Restructuring provision	6	18
Lease provision	-	7
Self-insurance liabilities	100	108
Other	9	9
Total current provisions	**861**	**743**
Non-current		
Employee benefits	89	87
Restructuring provision	127	150
Lease provision	-	105
Self-insurance liabilities	256	256
Total non-current provisions	**472**	**598**

2.9 Provisions (continued)

Movements in restructuring, leases, self-insurance and other provisions

	RESTRUCTURING $M	LEASE $M	SELF-INSURANCE $M	OTHER $M	TOTAL $M
At 30 June 2019	**168**	**112**	**365**	**9**	**654**
Effect of adoption of AASB 16 *Leases*	(34)	(112)	-	-	(146)
At 1 July 2019	**134**	**-**	**365**	**9**	**508**
Arising during the year	19	-	117	6	142
Utilised	(22)	-	(112)	(6)	(140)
Unused amounts reversed	-	-	(24)	-	(24)
Unwind / changes in discount rate	2	-	10	-	12
At 28 June 2020	**133**	**-**	**356**	**9**	**498**
Current	6	-	100	9	115
Non-current	127	-	256	-	383

Provisions are:

- recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that cash will be required to settle the obligation and the amount can be reliably estimated
- measured at the present value of the estimated cash outflow required to settle the obligation.

Where a provision is non-current, and the effect is material, the nominal amount is discounted. The discount is recognised as a financing cost in the Statement of Profit or Loss.

PROVISION	KEY ESTIMATES
Employee benefits Provisions for employee entitlements to annual leave, long service leave and employee incentives (where the Group do not have an unconditional right to defer payment for at least twelve months after the reporting date) are recognised within the current provision for employee benefits, and represent the amount which the Group has a present obligation to pay, resulting from employees' services up to the reporting date. All other short-term employee benefit obligations are presented as payables. Liabilities for long service leave where the Group have an unconditional right to defer payment for at least twelve months after the reporting date are recognised within the non-current provision for employee benefits.	Employee benefits provisions are based on a number of estimates including, but not limited to: • expected future wages and salaries • attrition (applicable to long service leave provisions only) • discount rates • expected salary related payments, interest and on-costs following a review of the pay arrangements for award-covered salaried team members
Restructuring Restructuring provisions ar[...] commenced or has raised a[...] the Group has a detailed for[...] • the business or part of the business impacted • the location and approximate number of employees impacted • an estimate of the associated costs • the timeframe for restructuring activities	Restructuring provisions are based on a [...]timates including, but not [...] of employees impacted [...]ure and costs [...]eframes
Self-insurance The Group is self-insured for workers compensation and general liability risks. The Group seeks external actuarial advice in determining self-insurance provisions. Provisions are discounted and are based on claims reported and an estimate of claims incurred but not reported. These estimates are reviewed bi-annually, and any reassessment of these estimates will impact self-insurance expense.	Self-insurance provisions are based on a number of estimates including, but not limited to: • discount rates • future inflation • average claim size • claims development • risk margin

3. Capital

This section provides information relating to the Group's capital structure and financing.

The Group's capital management strategy aims to ensure the Group has continued access to funding for current and future business activities by maintaining a mix of equity and debt financing, while maximising returns to shareholders.

The Group's objective is to maintain an investment grade credit rating to optimise the weighted average cost of capital over the long term, enable access to long term debt capital markets and build investor confidence.

The Directors consider the capital structure at least twice a year and provide oversight of the Group's capital management. Capital is managed through the following:

- repaying or raising debt in line with ongoing business requirements and growth opportunities aligned with the Group's strategic objectives
- amount of ordinary dividends paid to shareholders
- raising and returning capital.

3.1 Interest-bearing liabilities

	CONSOLIDATED	
	28 JUNE 2020 $M	30 JUNE 2019 $M
Non-current		
Bank debt	758	1,460
Capital market debt	596	-
Total non-current interest-b[illegible]	**1,354**	**1,460**

On 6 November 2019, Coles is[illegible]m notes (Notes), comprising $300 million of seven-year N[illegible]re priced with a coupon of 2.20% and the 10-year Notes were priced with a coupon of 2.65%.

In addition to the capital market debt, the Group is funded through [illegible] option[illegible] term loan facilities. These bilateral bank loan facilities in aggregate total $3,300 m[illegible]es facilities have the following maturities: $750 million in November 2021, $1,290 million in November 2022, $1,110 million in November 2023 and $150 million in November 2025. At 28 June 2020, $610 million of the facilities maturing in November 2023 were drawn and the November 2025 facility was fully drawn.

Interest-bearing loans and borrowings are initially recorded at fair value, net of attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method. Gains and losses are recognised in the Statement of Profit or Loss when the liabilities are derecognised.

3.2 Contributed equity and reserves

	ORDINARY SHARES	
	No. (millions)	$M
At 30 June 2019	**1,334**	**1,628**
Acquisition of shares on-market under Equity Incentive Plan	-	(17)
At 28 June 2020	**1,334**	**1,611**

Ordinary shares

Ordinary shares on issue are classified as equity, are fully paid and carry one vote per share and the right to dividends. Incremental costs directly attributable to the issue of new shares are recognised as a deduction from equity, net of any related income tax benefit.

Cash flow hedge reserve

The hedging reserve records the portion of the gain or loss on a cash flow hedging instrument that is determined to be in an effective hedge relationship. The effective portion of the gain or loss on the hedging instrument is recognised in the Statement of Other Comprehensive Income within the cash flow hedge reserve, while any ineffective portion is recognised immediately in the Statement of Profit or Loss.

Share-based payments reserve

The share-based payments reserve reflects the fair value of awards recognised as an expense in the Statement of Profit or Loss.

3.3 Dividends paid and proposed

The Company considers current earnings, future cash flow requirements, targeted credit metrics and availability of franking credits in determining the amount of dividends to be paid.

Dividends are recognised as a liability in the Statement of Financial Position in the period in which they are determined by the Board.

	CENTS PER SHARE		TOTAL $M	
	28 JUNE 2020	30 JUNE 2019	28 JUNE 2020	30 JUNE 2019
Determined and paid during the period				
Paid final dividend (30% franked)	24.0	nil	320	nil
Paid special dividend (30% franked)	11.5	nil	154	nil
Paid interim dividend (30% franked)	30.0	nil	399	nil
	65.5	**-**	**873**	**-**
Proposed and unrecognised at reporting date[1]				
Final dividend proposed and unrecognised at reporting date (30% franked)	27.5	24.0	367	320
Special dividend proposed unrecognised at reporting date (30% franked)	-	11.5	-	154
	27.5	**35.5**	**367**	**474**

1 Estimated final dividend payable, subject to variations in the number of shares up to the record date.

During the year, the Compa[illegible] eligible holders of ordinary shares are able to reinvest al[illegible] Group Limited shares.

Franking account

	AR ENDED JUNE 2020 $M	YEAR ENDED 30 JUNE 2019 $M
Total franking credits available for subsequent financial years based on a tax rate of 30% (2019: 30%)	408	277

4. Financial risk

This section details the Group's exposure to various financial risks, explains how these risks may impact the Group's financial performance or position, and details the Group's approach to managing these risks.

4.1 Impairment of non-financial assets

The Group tests property, plant and equipment and intangible assets for impairment to ensure they are not carried above their recoverable amounts:

- at least annually for goodwill
- where there is an indication that assets may be impaired (which is assessed at least at each reporting date).

These tests are performed by assessing the recoverable amount of each individual asset or, if this is not possible, the recoverable amount of the cash generating unit (CGU) to which the asset belongs. CGUs are the lowest levels at which assets are grouped and generate separately identifiable cash inflows. The recoverable amount, measured at the asset or CGU level, is the higher of fair value less costs of disposal (FVLCOD), or value in use (VIU). A discounted cash flow model is used to determine the recoverable amount under both FVLCOD and VIU. FVLCOD is based on a market participant approach and is estimated using assumptions that a market participant would use when pricing the asset or CGU. VIU is determined by discounting the future cash flows expected to be generated from the continuing use of an asset or CGU.

Key estimate: Assessment of recoverable amount

FVLCOD valuations are considered Level 3 in the fair value hierarchy due to the use of unobservable inputs in the calculation. The assumptions represent management's assessment of future trends in the industry and have been based on historical data from both external and internal sources. VIU calculation represent management's best estimate of the economic conditions that will exist over the remaining useful life of the asset or CGU in its current condition.

Both FVLCOD and VIU calculations use judgements and estimates. In particular, significant judgements and estimates are made in relation to the following:

Forecast future cash flows

Forecast future cash flows are based on the Group's latest Board approved internal five-year forecasts and reflect management's best estimate of income, expenses, capital expenditure and cash flows for each asset or CGU. Internal forecasts have considered the potential future impacts of the COVID-19 pandemic on income and expenses. Changes in selling prices and direct costs are based on past experience and management's expectation of future changes in the markets in which the Group operates.

In addition, consideration has been given to the potential financial impacts of climate change related risks on the carrying value of goodwill through a qualitative review of the Group's climate change risk assessment. This review did not identify any material financial reporting impacts.

When calculating the FVLCOD of an asset or CGU, future forecast cash flows also incorporates reasonably available market participant assumptions such as enhancement capital expenditure.

Discount rates

Estimated future cash flows are discounted to their present value using discount rates that reflect the Group's weighted average cost of capital, adjusted for risks specific to the asset or CGU. The rates have been calculated in conjunction with indep

Expected long-term gro

Cash flows beyond the five-year period are extrapolated using estimated long-term growth rates. The growth rates are based on historical performance as well as expected long-ter s specific to each asset or CGU and are consistent with long term average industry g e been calculated with the assistance of independent valuation experts.

The judgements and estimates used in assessing impairment are best estimates based on current and forecast market conditions and are subject to change in the event of shifting economic and operational conditions. Actual cash flows may therefore differ from forecasts and could result in changes to impairment recognised in future years.

For the year ended 28 June 2020, a net impairment reversal for non-financial assets of $41 million was recognised, of which $44 million ($52 million reversal offset by $8 million impairment expense) relates to the Group's property portfolio. The impairment reversal arose from the disposal of a number of the Group's properties during the year to the extent that an impairment loss had previously been recognised with respect to the properties disposed.

The net impairment is included in 'administration expenses' in the Statement of Profit or Loss as it relates to the day-to-day management of the Group's freehold property portfolio (included within 'other' for segment reporting purposes).

For the year ended 30 June 2019, net impairment of non-financial assets of $42 million was recognised for the Group, of which $38 million ($88 million offset by $50 million reversal) relates to the Group's property portfolio. This has been included in 'administration expenses' in the Statement of Profit or Loss and within 'other' for segment reporting purposes.

Recognised impairment

An impairment loss is recognised in the Statement of Profit or Loss if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of other assets in the CGU.

4.1 Impairment of non-financial assets (continued)

Reversal of impairment

Where there is an indication that previously recognised impairment losses may no longer exist or may have decreased, the asset is re-tested for impairment. The impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised. Impairments recognised for goodwill are not reversed.

Goodwill impairment testing

For the purpose of impairment testing, goodwill is allocated to CGUs or groups of CGUs according to the level at which management monitors goodwill. The FVLCOD valuation methodology was applied to determine the recoverable amount of CGUs.

The following table presents a summary of the goodwill allocation and the key assumptions used in determining the recoverable amount of each CGU:

	28 JUNE 2020		
	SUPERMARKETS	LIQUOR	EXPRESS
Goodwill allocation ($M)	983	125	45
Indefinite life intangible assets ($M)	-	27	-
Post-tax discount rate (%)	8.1	8.1	8.4
Growth rate (%)	3.0	3.0	2.0

For the year ended 30 June 2019, goodwill and indefinite life intangibles were allocated to CGUs on a consistent basis. A post-tax discount rate of 8.3% and a growth rate of 3.0% for Supermarkets and Liquor were applied, along with a post-tax discount rate of 8.6% and a growth rate of 2.0% for Express. The growth rates applied for FY20 are consistent with those applied in FY19 and in line with long-term average industry growth rates for each CGU.

Sensitivity analysis is performe ual to the carrying amount for each CGU. For the Gro erformance, no reasonably possible change in a key assu ected to result in a material impairment.

4.2 Financial risk management

The following note outlines the Group's exposure to and management of financial risks. These arise from the Group's requirement to access financing (bank loans and overdrafts), from the Group's operational activities (cash, trade receivables and payables) and from instruments held as part of the Group's risk management activities (derivative financial instruments).

The Group's financial risk management is carried out by the Group Treasury function and governed by the Board-approved Treasury Policy (the 'Policy'). The Policy strictly prohibits speculative positions to be taken.

Management of financial risks is undertaken by the Group in line with its risk management principles and includes the following key steps: risk identification, risk measurement, setting risk tolerances and hedging objectives, strategy design and strategy implementation.

The Policy requires periodic reporting of financial risks to the Board, and its application is subject to oversight from the Chief Financial Officer and the Chair of the Audit and Risk Committee.

The Policy allows the use of various derivatives to hedge financial risks and provides guidance in relation to volume and tenor of these instruments.

In the normal course of business, the Group is exposed to various risks as set out below:

RISK	EXPOSURE	MANAGEMENT
Market risks		
Interest rate risk	The Group's exposure to interest rate risk relates primarily to interest-bearing liabilities where interest is charged at variable rates.	The Group manages interest rate risk by having access to both fixed and variable debt facilities. In line with the Policy, this risk is further managed by hedging a portion of the variable rate debt exposures with derivative financial instruments to convert floating rate debt obligations to fixed rate obligations.
Foreign exchange risk	The Group has exposure to foreign exchange risk principally arising from purchases of inventory and capital equipment denominated in foreign currencies.	To manage foreign currency transaction risk, the Group hedges material foreign currency denominated expenditure at the time of the commitment and hedges a proportion of foreign currency denominated forecast exposures (mainly relating to the purchase of inventory) through the use of forward foreign exchange contracts.
Liquidity risk	The Group is exposed to liquidity and funding risk from operations and external borrowings. Liquidity risk is the risk that unforeseen events cause pressure on, or curtail, the Group's cash flows. timely manner.	Liquidity risk is measured under both normal market operating conditions and under a crisis situation which curtails cash flows for an extended period. This approach is designed to ensure that the Group's funding framework is sufficiently flexible to ensure liquidity under a wide range of market conditions. The Group regularly reviews its short, medium and long-term funding requirements. The Policy requires that sufficient committed funds are available to meet medium term nd headroom in the event a arise. The Group maintains a undrawn facilities of at least
Credit risk	The Group is exposed to credit risk from its financing activities, including deposits with financial institutions and other financial instruments. With respect to credit risk arising from cash and cash equivalents, trade and other receivables and certain derivative instruments, the Group's exposure arises from default of the counterparty. Credit risk for the Group also arises from various financial guarantees in which members of the Group act as guarantor.	The re on a cash basis, and the from customer sales is ther The Group's trade and other receivables relate largely to commercial income due from suppliers and other receivables from creditworthy third parties. Counterparty limits, credit ratings and exposures are actively managed in accordance with the Policy. The Group's exposure to bad debts is not significant, and default rates have historically been very low. The credit quality of trade and other receivables neither past due nor impaired has been assessed as high on the basis of credit ratings (where available) or historical information about counterparty default. Since the Group trades only with recognised creditworthy third parties, there is no requirement for collateral by either party. The carrying amount of trade and other receivables and other financial assets in the Statement of Financial Position represents the Group's maximum exposure to credit risk. There is also exposure to credit risk where members of the Group have entered into guarantees, however the probability of being required to make payments under these guarantees is considered remote. Refer to Note 6.2 Contingent liabilities for further details.

4.2 Financial risk management (continued)

Foreign exchange risk

The Group is primarily exposed to foreign exchange risk in relation to the United States dollar (USD), the Euro (EUR) and the British Pound (GBP). The Group considers its exposure to USD, EUR and GBP arising from purchases to be a long-term and ongoing exposure that is highly probable.

The table below sets out the total forward exchange contracts at the reporting date and the carrying value of the derivative asset / (liability) positions:

	NOTIONAL VALUE		CARRYING VALUE		WEIGHTED AVERAGE HEDGE RATE	
BUY / SELL	28 JUNE 2020 $M	30 JUNE 2019 $M	28 JUNE 2020 $M	30 JUNE 2019 $M	28 JUNE 2020	30 JUNE 2019
USD / AUD	72	63	-	1	0.69	0.71
EUR / AUD	411	420	(20)	(13)	0.58	0.58
GBP / AUD	46	11	(1)	-	0.54	0.55

At the reporting date, the Group has the following exposures to USD, EUR and GBP:

	USD $M		EUR €M		GBP £M	
	28 JUNE 2020	30 JUNE 2019	28 JUNE 2020	30 JUNE 2019	28 JUNE 2020	30 JUNE 2019
Financial assets						
Cash and cash equivalents	4	2	-	-	-	-
Forward exchange contracts	49	45	237[1]	242[1]	25	6
Financial liabilities						
Trade and other payables	(63)	(39)	(21)	(16)	(5)	(2)
Net exposure				**6**	**20**	**4**

1 EUR forward exchange contracts of $121 milli[illegible]urrent and future trade payables denominated in EUR.

Foreign exchange rate sensitivity

At the reporting date, had the Australian dollar moved against th[illegible]l other variables held constant), the Group's post-tax profit and OCI would have been affec[illegible] its financial assets and financial liabilities.

The following sensitivities are based on the foreign exchange risk exposures in existence at the reporting date and the determination of reasonably possible movements based on management's assessment of reasonable fluctuations:

		POST-TAX PROFIT INCREASE (DECREASE):		POST-TAX OCI INCREASE (DECREASE):	
RATE	CHANGE	28 JUNE 2020 $M	30 JUNE 2019 $M	28 JUNE 2020 $M	30 JUNE 2019 $M
AUD / USD	+10%	2	-	(1)	(1)
	-10%	(2)	-	1	1
AUD / EUR	+10%	-	(1)	(22)	(23)
	-10%	-	1	27	28
AUD / GBP	+10%	-	-	(2)	-
	-10%	-	-	3	-

Interest rate risk

At the reporting date, the Group has the following financial assets and liabilities exposed to variable interest rate risk that, with the exception of interest rate swaps, are not designated as cash flow hedges:

	28 JUNE 2020		30 JUNE 2019	
	EXPOSURE $M	WEIGHTED AVERAGE INTEREST RATE %	EXPOSURE $M	WEIGHTED AVERAGE INTEREST RATE %
Financial assets				
Cash at bank and on deposit	452	0.6	410	1.6
Financial liabilities				
Bank loans	(760)	(1.3)	(1,460)	(2.4)
Less: interest rate swaps (notional principal amount)	250	(1.6)	400	(0.4)
Net exposure to cash flow interest rate risk	**(58)**		**(650)**	

Interest rate sensitivity

A 100 basis point increase represents management's assessment of the reasonably possible change in interest rates. Based on the variable interest rate exposures in existence at the reporting date, if interest rates increased by 100 basis points, with all other variables held constant, the impact would be:

	POST-TAX PROFIT INCREASE (DECREASE):		POST-TAX OCI INCREASE (DECREASE):	
	28 JUNE 2020 $M	30 JUNE 2019 $M	28 JUNE 2020 $M	30 JUNE 2019 $M
Impacts of reasonably possible movements:				
+1.0% (100 basis points)			6	8

Liquidity risk

The Group aims to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans with a variety of counterparties.

The committed facilities of the Group are set out below:

	CONSOLIDATED	
	28 JUNE 2020 $M	30 JUNE 2019 $M
Financing facilities available:		
Bank overdrafts	13	13
Revolving multi-option facilities	2,640	2,640
Term loan facilities	660	1,360
	3,313	**4,013**
Financing facilities utilised:		
Revolving multi-option facilities	100	100
Guarantees issued[1]	358	342
Term loan facilities	660	1,360
	1,118	**1,802**
Financing not utilised:		
Bank overdrafts	13	13
Revolving multi-option facilities[1]	2,182	2,198
	2,195	**2,211**

1 As at 28 June 2020, bank guarantees totalling $358 million (2019: $342 million) have been issued on behalf of the Company through the revolving multi-option facilities. While the Company has entered into these guarantees, the probability of having to make payments under these guarantees is considered remote. Refer to Note 6.2 Contingent liabilities for further details.

The Group holds $992 million cash and cash equivalents at the reporting date (30 June 2019: $940 million).

4.2 Financial risk management (continued)

Assets pledged as security

A controlled entity has issued a floating charge over assets, capped at $80 million (30 June 2019: $80 million), as security for payment obligations for fuel sales collected on behalf of Viva in accordance with the New Alliance Agreement. The assets are, therefore, excluded from financial covenants in all debt documentation.

Maturity analysis

The table below sets out the Group's financial liabilities across the relevant maturity periods based on their contractual maturity date. At the reporting date, the remaining undiscounted contractual maturities of the Group's financial liabilities and their carrying amounts are as follows:

	CONSOLIDATED					
	< 12 MONTHS $M	1-2 YEARS $M	2-5 YEARS $M	> 5 YEARS $M	TOTAL CONTRACTUAL CASH FLOWS $M	CARRYING AMOUNT $M
28 June 2020						
Trade and other payables	3,737	-	-	-	3,737	3,737
Bank debt (principal and interest)	21	19	633	151	824	760
Capital market debt (principal and interest)	15	15	44	646	720	598
Lease liabilities	1,250	1,219	3,325	5,592	11,386	9,083
Interest rate swaps	4	2	7	-	13	11
Forward exchange contracts	6	8	7	-	21	21
Total					**16,701**	**14,210**
30 June 2019						
Trade and other payables	[illegible]	[illegible]	[illegible]	-	3,378	3,378
Bank debt (principal and interest)	44	44	[illegible]	[illegible]	1,644	1,462
Interest rate swaps	1	1	[illegible]	[illegible]	6	7
Forward exchange contracts	1	3	[illegible]	[illegible]	13	12
Total	**3,424**	**48**	**1,412**	**157**	**5,041**	**4,859**

For variable rate instruments, the amount disclosed is determined by reference to the interest rate at the last re-pricing date. Contractual cash flows are undiscounted and as such will not necessarily agree with their carrying amounts.

Changes in liabilities arising from financing activities

	NOTE	1 JULY 2019 $M	CASH FLOWS $M	CHANGES IN FAIR VALUE $M	LEASES RECOGNISED $M	28 JUNE 2020 $M
Bank debt	3.1	1,460	(702)	-	-	758
Capital market debt	3.1	-	596	-	-	596
Lease liabilities	2.7	8,856	(846)	-	1,073	9,083
Derivatives	4.3	19	-	13	-	32
Total liabilities from financial activities		**10,335**	**(952)**	**13**	**1,073**	**10,469**

4.3 Financial instruments

Financial assets and liabilities measured at fair value

The following table sets out the fair value measurement hierarchy of the Group's derivative financial instruments:

	LEVEL 2 FAIR VALUE HIERARCHY			
	28 JUNE 2020		30 JUNE 2019	
	ASSET $M	LIABILITY $M	ASSET $M	LIABILITY $M
Cash flow hedges				
Forward exchange contracts	1	(22)	1	(14)
Interest rates swaps	-	(11)	-	(6)
Power Purchase Agreement	-	(3)	-	-

The Group measures certain financial instruments, such as derivatives, at fair value at each reporting date. Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic interest. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole.

LEVEL 1	Fair value is calculated using quoted prices in active markets for identical assets or liabilities
LEVEL 2	Fair value is est ... that are observable for the asset or liability
LEVEL 3	Fair value is es ... observable market data (unobservabl

All of the Group's financial instruments carried at fair value were value ... uts (Level 2).

For financial instruments that are carried at fair value on a recurring ... hether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There were no transfers between Level 1 and Level 2 during the period. The Group does not hold any material Level 3 financial instruments.

Derivatives

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign exchange forward contracts and interest rate swap contracts are valued using forward pricing techniques. This includes the use of market observable inputs, such as foreign exchange spot and forward rates, yield curves of the respective currencies and interest rate curves. Accordingly, these derivatives are classified as Level 2.

Carrying amounts versus fair values

The carrying amounts and fair values of the Group's financial assets and financial liabilities recognised in the financial statements are materially the same.

4.3 Financial instruments (continued)

Offsetting of financial instruments

The Group presents its derivative assets and liabilities on a gross basis, with the exception of derivative financial instruments which it intends to settle on a net basis and which are subject to enforceable master netting arrangements, such as an International Swaps and Derivatives Association (ISDA) master netting agreement. In certain circumstances, for example when a credit event such as default occurs, all outstanding transactions under an ISDA agreement are terminated. The termination value is assessed, and only a single net amount is payable in settlement of all transactions.

Commercial income due from suppliers is recognised within trade receivables, except in cases where the Group currently has a legally enforceable right of set-off and the intention to settle on a net basis, in which case only the net amount receivable or payable is recognised.

The following table sets out the Group's financial assets and financial liabilities which have been offset in the consolidated Statement of Financial Position at the reporting date:

	CONSOLIDATED		
	GROSS FINANCIAL ASSETS / (LIABILITIES) $M	GROSS FINANCIAL (LIABILITIES) / ASSETS SET OFF $M	NET FINANCIAL ASSETS / (LIABILITIES) PRESENTED IN THE STATEMENT OF FINANCIAL POSITION $M
28 June 2020			
Trade and other receivables	560	(126)	434
Trade and other payables	(3,863)	126	(3,737)
30 June 2019			
Trade and other receivables	500	(140)	360
Trade and other payables			(3,380)

Hedge accounting

Where the Group undertake saction the type of hedge, the relationship between hedging instruments and hedged items a tive and strategy for undertaking the hedge. The documentation also demonstrates both n ongoing basis, that the hedge has been, and is expected to continue to be, highly effect

The Group uses derivative financial instruments for cash flow hedging purposes and designates them as such.

Cash flow hedge	Derivatives or other financial instruments that hedge the exposure to variability in cash flows attributable to a particular risk associated with an asset, liability or forecast transaction. The Group uses cash flows hedges to mitigate the risk of variability of: • future cash flows attributable to foreign currency fluctuations over the hedging period where the Group has highly probable purchase or settlement commitments denominated in foreign currencies; and • interest rate fluctuations over the hedging period where the Group has variable rate debt obligations.
Recognition date	The date the hedging instrument is entered into
Measurement	Fair value
Changes in fair value	Changes in the fair value of derivatives designated as cash flow hedges are recognised directly in OCI and accumulated in equity in the hedging reserve to the extent that the hedge is highly effective. To the extent that the hedge is ineffective, changes in fair value are recognised immediately in the Statement of Profit or Loss.

5. Group structure

This section provides information relating to subsidiaries and other material investments of the Group.

5.1 Equity accounted investments

NAME OF COMPANY	PRINCIPAL ACTIVITY	PLACE OF INCORPORATION	TYPE	OWNERSHIP INTEREST 28 JUNE 2020	OWNERSHIP INTEREST 30 JUNE 2019
Loyalty Pacific Pty Ltd	Operator of the flybuys loyalty program	Australia	Joint Venture	50%	50%
Queensland Venue Co. Pty Ltd	Operator of Spirit Hotels and Queensland retail liquor business	Australia	Associate	50%	50%

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. An associate is an entity that is not controlled or jointly controlled by the Group, but over which the Group has significant influence.

The Group accounts for its investments in joint ventures and associates using the equity method of accounting in the consolidated financial statements. Under the equity method, the investment in a joint venture or associate is initially recognised at cost. Thereafter, the carrying amount of the investment is adjusted to recognise the Group's share of profit after tax of the joint venture or associate, which is recognised in profit or loss. The Group's share of OCI is recognised within the Statement of Other Comprehensive Income. Dividends received from a joint venture or associate reduce the carrying amount of the investment.

After application of the equi ognise an impairment loss for its investment in a joint ve s whether there is objective evidence that the investmen nce, the Group calculates the amount of impairment as the difference between the recovera re or associate and its carrying value. Any impairment loss will be recognised within 'share o d investments' in the Statement of Profit or Loss.

Key judgement: Control and significant influence

The Group has a number of management agreements relating to its joint venture and associate investments which it considers when determining whether it has control, joint control or significant influence. The Group assesses whether it has the power to direct the relevant activities of the investee by considering the rights it holds to appoint or remove key management and the decision-making rights and scope of powers specified in the agreements.

The Group's interests in Loyalty Pacific Pty Ltd and Queensland Venue Co. Pty Ltd are accounted for using the equity method in the Statement of Financial Position.

Loyalty Pacific Pty Ltd

A reconciliation of the carrying amount of the Group's investment in Loyalty Pacific Pty Ltd is set out below:

	CONSOLIDATED YEAR ENDED 28 JUNE 2020 $M	CONSOLIDATED YEAR ENDED 30 JUNE 2019 $M
Beginning of the period	**11**	-
Additions	11	6
(Loss) / profit for the period	(6)	5
End of the period	**16**	**11**

5.1 Equity accounted investments (continued)

Queensland Venue Co. Pty Ltd

During the year ended 30 June 2019, the Company entered into an incorporated joint venture with AVC for the operation of Spirit Hotels (the 'Hotel business') and the retail liquor stores linked to Spirit Hotels venues (collectively the 'Retail Liquor business').

As part of the transaction, a group subsidiary company, Liquorland (Qld) Pty Ltd was converted into an incorporated joint venture company, QVC. To facilitate the transaction, QVC restructured its share capital by issuing two classes of shares: R-Shares which confer the right to the full economic benefit of the Retail Liquor business and H-Shares which confer the right to the full economic benefit of the Hotel business.

The Company sold the H-shares to AVC, while retaining the R-shares. The transaction was implemented through a number of agreements, including the Share Sale Agreement, Shareholders' Deed, the Retail Liquor Business Operations Agreement (RLBOA) and the Supply Agreement.

Under the Shareholders' Deed the Company holds all R-shares in QVC and operates the Retail Liquor business through its wholly owned subsidiary, Liquorland (Australia) Pty. Ltd. (LLA), subject to the terms of the RLBOA. Through its ownership of R-shares, the Company has significant influence over QVC for accounting purposes and its investment in QVC is classified as an investment in an associate. The Company initially recognised its interest in QVC at fair value, and subsequently measured using the equity method.

For accounting purposes, and under the operation of the RLBOA and Supply Agreement, LLA is considered the principal in relation to retail liquor sales due to its exposure to the economic risks and benefits associated with the Retail Liquor business. Accordingly, LLA recognises revenue from retail liquor sales by QVC directly in its Statement of Profit or Loss. Revenue recognised by QVC relates solely to Spirit Hotels.

Furthermore, due to the application of service fees and cost recoveries between the Company and QVC net profit relating to the Retail Liquor business as recognised by QVC is nominal.

A reconciliation of the carryin

	CONSOLIDATED	
	YEAR ENDED JUNE 2020 $M	YEAR ENDED 30 JUNE 2019 $M
Beginning of the period	201	-
Additions	-	201
Profit for the period	-	-
End of the period	**201**	**201**

5.2 Assets held for sale

At 28 June 2020, four of the Group's properties with a total carrying value of $47 million and $28 million of plant and equipment have been classified as held for sale (2019: $94 million).

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. A sale is considered highly probable when actions required to complete the sale indicate that it is unlikely significant changes to the sale will be made or that the decision to sell will be withdrawn, and where management is committed to a plan to sell the asset and the sale is expected to be completed within one year from the date of the classification.

5.3 Discontinued operations

The Group presents as discontinued operations any component of the Group that has either been disposed of or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations; and
- is part of a single coordinated plan to dispose of a separate major line of business, or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

The net results of discontinued operations are presented separately in the Statement of Profit or Loss.

As presented in the Group's FY19 financial report, the following entities were material wholly-owned subsidiaries during the prior financial year until 19 November 2018 when the Company transferred control of these entities to Wesfarmers as part of the corporate restructure prior to the Group's demerger from Wesfarmers:

- Kmart Australia Limited and controlled entities ('Kmart')
- Target Australia Pty Ltd and controlled entities ('Target')
- Officeworks Ltd and controlled entities ('Officeworks')

The profit for Kmart, Target and Officeworks which was presented as discontinued operations in the prior year is set out below:

	YEAR ENDED 28 JUNE 2020 $M	YEAR ENDED 30 JUNE 2019[1] $M
Revenue	-	4,341
Expenses	-	(3,832)
Profit before income tax	-	**509**
Income tax expense	-	(152)
Profit for the period from disc	-	**357**

1 Financial performance reflects period up to d

Assets and liabilities of the Kmart, Target and Officeworks discontinue ansfer to Wesfarmers are set out below:

	19 NOVEMBER 2018 $M
Assets	
Cash and cash equivalents	138
Trade and other receivables	77
Inventories	1,707
Property, plant and equipment	997
Goodwill and intangibles	236
Other assets	280
Total assets disposed	**3,435**
Liabilities	
Trade and other payables	2,205
Other liabilities	875
Total liabilities disposed	**3,080**
Net assets disposed	**355**

5.3 Discontinued operations (continued)

Cash flows for the Kmart, Target and Officeworks discontinued operations during the prior year are set out below:

	YEAR ENDED 28 JUNE 2020 $M	YEAR ENDED 30 JUNE 2019[1] $M
Net cash flows from operating activities	-	322
Net cash flows from investing activities	-	219
Net cash flows used in financing activities	-	(532)
Net increase in cash and cash equivalents from discontinued operations	**-**	**9**

1 Cash flows reflect period up to 19 November 2018

EPS from the Kmart, Target and Officeworks discontinued operations is set out below:

	YEAR ENDED 28 JUNE 2020	YEAR ENDED 30 JUNE 2019[1]
Basic and diluted EPS (cents)	-	27

1 EPS reflects period up to 19 November 2018

Gain / loss on disposal

Gain or loss on disposal is the difference between:

a) the carrying amount of the net assets plus any attributable goodwill and amounts accumulated in OCI (for example, foreign translation adjustments and available-for-sale reserves); and

b) the proceeds of sale.

No gain or loss was recorded

5.4 Subsidiaries

The ultimate parent of the Group is Coles Group Limited, a company incorporated in Australia. Subsidiaries are fully consolidated from the date of acquisition, being the date Coles Group Limited obtains control, and continue to be consolidated until the date control ceases. Control exists where the Group has the power to govern the financial and operating policies of the entity in order to obtain benefits from its activities.

Set out below are the subsidiaries of the Group. All entities were incorporated in Australia and wholly-owned unless stated otherwise.

Andearp Pty Ltd	Coles Retail Services Pty Ltd
Australian Liquor Group Ltd*	Coles Supermarkets Australia Pty Ltd*
Bi-Lo Pty. Limited*	Coles WFS Pty Ltd (formerly Wesfarmers Finance Pty Ltd)
Charlie Carter (Norwest) Pty Ltd	CSA Retail (Finance) Pty Ltd
Chef Fresh Pty Ltd	e.colesgroup Pty Ltd
CMPQ (CML) Pty Ltd	Eureka Operations Pty Ltd*
Coles Ansett Travel Pty Ltd (97.5%)	GBPL Pty Ltd
Coles Export Australia Pty Ltd (formerly Tooronga Holdings Pty Ltd)*	Grocery Holdings Pty Ltd*
Coles Financial Services Pty Ltd	Katies Fashions (Aust) Pty Limited
Coles FS Holding Company Pty Ltd (formerly Wesfarmers Finance Holding Company Pty Ltd)	Liquorland (Australia) Pty. Ltd*
Coles Group Deposit Services Pty Ltd	Newmart Pty Ltd
Coles Group Finance Limited*	Procurement Online Pty Ltd
Coles Group Properties Holdings Ltd*	Retail Ready Operations Australia Pty. Ltd*
Coles Group Property Developments Ltd*	Richmond Plaza Shopping Centre Pty Ltd
Coles Group Superannuation Fund Pty Ltd	Tickoth Pty Ltd
Coles Group Supply Chain Pty Ltd*	WFPL Funding Co Pty Ltd
Coles Group Treasury Pty Ltd (formerly Coles Group Paym[illegible]	
Coles Online Pty Ltd*	[illegible]
Coles Property Management Pty Ltd	WFPL SPV Pty Ltd
Entities formed/incorporated or acquired during the financial year	
Coles Export Asia Limited (incorporated in Hong Kong)	Coles [illegible] (incorporated in China)
Entities deregistered during the financial year	
Tyremaster Pty Ltd	Now.com.au Pty Ltd
Waratah Cove Pty Ltd	Coles Group Finance (USA) Pty Ltd

* These entities are parties to the Deed of Cross Guarantee and members of the Closed Group as at 28 June 2020

Deed of cross guarantee

Pursuant to *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785* ('ASIC Instrument') the wholly-owned subsidiaries listed above (*) are relieved from the *Corporations Act 2001*(Cth) requirements for preparation, audit and lodgement of financial reports, and Directors' Reports.

As a condition of the ASIC Instrument, the Company and the subsidiaries listed above have entered into a Deed of Cross Guarantee (the Deed). The effect of the Deed is that the Company guarantees to pay any deficiency in the event of winding up any controlled entity, or if they do not meet their obligations under the terms of any overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that the Company is wound up or if it does not meet its obligations under the terms of any overdrafts, loans, leases or other liabilities subject to the guarantee.

A Statement of Comprehensive Income and retained earnings and a Statement of Financial Position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between the parties to the Deed, for the year ended 28 June 2020 are set out below:

5.4 Subsidiaries (continued)

Deed of cross guarantee (continued)

Statement of Comprehensive Income and retained earnings

	CLOSED GROUP	
	YEAR ENDED 28 JUNE 2020 $M	YEAR ENDED 30 JUNE 2019 $M
Continuing Operations		
Sales revenue	37,408	37,262
Other operating revenue	376	186
Total operating revenue	**37,784**	**37,448**
Cost of sales	(28,048)	(28,591)
Gross profit	**9,736**	**8,857**
Other income	114	417
Administration expenses	(8,076)	(8,199)
Other expenses	-	(146)
Share of net (loss) / profit of equity accounted investments	(6)	5
Earnings before interest and tax	**1,768**	**934**
Financing costs	(443)	(42)
Profit before income tax	**1,325**	**892**
Income tax expense	(337)	(291)
Profit for the year	**988**	**601**
Items that may be reclassified to profit or loss		
Net movement in the fair value of cash flow hedges	(17)	(2)
Income tax effect	5	1
Other comprehensive income in subsequent periods	**(12)**	**(1)**
Total comprehensive income	**976**	**600**
Retained earnings		
Retained earnings at the beginning of the year	1,756	1,497
Effect of adoption of AASB 16 *Leases*	(331)	-
Profit for the year	988	601
Dividends paid	(873)	(342)
Retained earnings at the end of the year	**1,040**	**1,756**

Statement of financial position

	CLOSED GROUP	
	28 JUNE 2020 $M	30 JUNE 2019 $M
Assets		
Current assets		
Cash and cash equivalents	992	940
Trade and other receivables	434	359
Inventories	2,161	1,964
Income tax receivable	43	-
Assets held for sale	75	91
Other assets	69	47
Total current assets	**3,774**	**3,401**
Non-current assets		
Property, plant and equipment	4,091	4,103
Right-of-use assets	7,655	-
Intangible assets	1,594	1,541
Deferred tax assets	847	365
Investment in subsidiaries	238	238
Investment in joint venture	217	212
Other assets	120	134
Total non-current assets	**14,762**	**6,593**
Total assets	**18,536**	**9,994**
Liabilities		
Current liabilities		
Trade and other payables	3,858	3,528
Provisions	858	743
Lease liabilities	884	-
Other	198	168
Total current liabilities	**5,798**	**4,439**
Non-current liabilities		
Interest-bearing liabilities	1,354	1,460
Provisions	472	599
Lease liabilities	8,193	-
Other	25	70
Total non-current liabilities	**10,044**	**2,129**
Total liabilities	**15,842**	**6,568**
Net assets	**2,694**	**3,426**
Equity		
Contributed equity	1,611	1,628
Reserves	43	42
Retained earnings	1,040	1,756
Total equity	**2,694**	**3,426**

5.5 Parent entity information

Summary financial information for the Company is set out below:

	YEAR ENDED 28 JUNE 2020 $M	YEAR ENDED 30 JUNE 2019 $M
Profit for the period	3,267	1,266
Other comprehensive income	-	-
Total comprehensive income for the period	**3,267**	**1,266**

	28 JUNE 2020 $M	30 JUNE 2019 $M
Assets		
Current assets	3,840	1,903
Non-current assets	5,090	5,071
Total assets	**8,930**	**6,974**
Liabilities		
Current liabilities	1,059	741
Non-current liabilities	2,669	3,405
Total liabilities	**3,728**	**4,146**
Equity		
Contributed equity	1,611	1,628
Share-based payments reserve	36	39
Retained earnings	3,555	1,161
Total equity	**5,202**	**2,828**

As at 28 June 2020, the Com[illegible] 2019: $nil).

As at 28 June 2020, the Company has no contingent liabilities (2019: $nil). As at 28 June 2020, the Company has bank guarantees totalling $324 million (2019: $310 million).

As at 28 June 2020, the Company has contractual commitments to [illegible] plant and equipment totalling $512 million (2019: $590 million).

6. Unrecognised items

This section provides information about items that are not recognised in the consolidated financial statements but could potentially have a significant impact on the Group's financial performance or position in the future.

6.1 Commitments

A commitment represents a contractual obligation to make a payment in the future. The Group's commitments relate to capital expenditure and operating leases. Commitments are not recognised in the Statement of Financial Position, but are disclosed.

Capital expenditure commitments of the Group at the reporting date are set out below:

	CONSOLIDATED	
	28 JUNE 2020 $M	30 JUNE 2019 $M
Within one year	264	140
Between one and five years	378	514
Total capital commitments for expenditure for continuing operations	**642**	**654**

The commitment amounts disclosed above represent the maximum amounts that the Group is obliged to pay.

At 28 June 2020, the Group also has commitments relating to lease agreements that have not yet commenced. The future lease payments (undiscounted) for non-cancellable periods are $22 million within one year, $584 million between one and five years and $2,482 million thereafter. The commitments relate to lease agreements associated with new stores, the Supply Chain Modernisation program and online fulfilment centres.

6.2 Contingent liabiliti[illegible]

Contingent liabilities are po[illegible] potential but remote but is not considered probable or ca[illegible] nised in the Statement of Financial Position but are disclosed.

As at 28 June 2020, the Group has bank guarantees totalling $358 milli[illegible]

While the entities in the Group have entered into these guarantees, [illegible] ake payments under these guarantees is considered remote. The nature of the guarantees provided is set out below:

- guarantees in the normal course of business relating to conditions set out in property development applications and for the sale of properties
- guarantees relating to workers compensation self-insurance liabilities as required by State WorkCover authorities. These guarantees provide the authorities with security in the event that the Group is unable to meet its workers compensation insurance obligations. The guarantees required are determined by reference to the value of the self-insurance provisions for workers compensation which form part of the self-insurance provisions recognised by the Group and disclosed in Note 2.9 Provisions.

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 court proceeding is at an early stage, and therefore the potential outcome and total costs associated with this matter are uncertain as at the date of this report.

From time to time, entities within the Group are party to various legal actions as well as inquiries from regulators and government bodies that have arisen in the ordinary course of business. Consideration has been given to such matters and it is expected that the resolution of these contingencies will not have a material impact on the financial position of the Group, or are not at a stage to support a reasonable evaluation of the likely outcome.

Key estimate: Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or present obligations that are not recognised because it is not probable that a settlement will be required or the value of such a payment cannot be reliably estimated.

7. Other disclosures

This section provides other disclosures required by Australian Accounting Standards that are considered relevant to understanding the Group's financial performance or position.

7.1 Related party disclosures

	YEAR ENDED 28 JUNE 2020 $M	YEAR ENDED 30 JUNE 2019 $M
Joint ventures and associates		
Loyalty Pacific Pty Ltd		
Sale of goods to members of flybuys	134	146
Purchase of points from Loyalty Pacific Pty Ltd	228	269
Amounts owing to Loyalty Pacific Pty Ltd	201	169
Queensland Venue Co. Pty Ltd		
Sales to QVC	3	1
Amounts paid to QVC	56	9
Amounts receivable from QVC	32	40
Other related parties		
Wesfarmers Limited and its controlled entities[1]		
Rental income received	2	3
Rental expenses paid	13	15
Sales to Wesfarmers Limited and its controlled entities	2	2
Purchases from Wesfarmers Li	37	57
Amounts owing to Wesfarme	n/a[1]	6

1 Includes transactions up until 31 March 2020 d party of the Group.

Parent entity

The ultimate parent entity of the Group is Coles Group Limited, which d in Australia. Prior to the demerger from Wesfarmers and subsequent listing as a standalon e parent entity of the Group was Wesfarmers Limited.

Transactions with subsidiaries

Intercompany transactions, assets and liabilities between entities within the Group have been eliminated in the consolidated financial statements. Transactions with entities transferred from the Group to Wesfarmers have been treated as related party transactions following the transfer of these entities to Wesfarmers. The nature of these transactions is set out below.

Transactions with joint venture and associate

Various transactions occurred between the Group and Loyalty Pacific Pty Ltd (operator of flybuys) during the year ended 28 June 2020, including:

- sale of goods to members of flybuys
- purchase of points from Loyalty Pacific Pty Ltd
- reimbursement of costs incurred

Various transactions occurred between the Group and QVC during the year ended 28 June 2020, including:

- service fees paid
- sales of inventory to QVC

Transactions with Wesfarmers Limited and its controlled entities ('Wesfarmers Group')

As part of the demerger, certain members of the Wesfarmers Group and the Group entered into Transitional Services Agreements (TSA) for the provision of services for up to 24 months. All services provided under a TSA are charged at cost. Amounts disclosed relate to transactions up until 31 March 2020 being the date that Wesfarmers Limited and its controlled entities ceased to be a related party of the Group.

The transitional services provided by the Group to the Wesfarmers Group included:

- information technology services
- payroll services and business process outsourcing
- finance services and systems support
- other services including the management and facilitation of telecommunications and other third-party recharge products

In addition, the Company is party to arrangements with third parties which were negotiated on behalf of all subsidiaries of Wesfarmers prior to demerger. These arrangements include amongst others, property leases where the Group is a head lessee and a sub-lessor to its related parties and vice versa. Where these arrangements were in place up until 31 March 2020, the Group or its related party settled the liabilities on each other's behalf and subsequently recovered the third-party costs by on-charging without a margin.

The Group views the on-charging of third-party costs without a margin as transactions with a third party. Therefore, these transactions have not been disclosed as related party transactions.

Transactions with key management personnel

The transactions with Key Management Personnel (KMP) for the year ended 28 June 2020 include compensation of the Company's Executive Director. Non-executive Director compensation is detailed in the Remuneration Report.

Compensation of KMP of the Group:

	CONSOLIDATED	
	YEAR ENDED 28 JUNE 2020 $	YEAR ENDED 30 JUNE 2019 $
Short-term employee benefits	9,617,535	9,446,947
Post-employment benefits	84,012	59,143
Other long-term benefits	45,365	33,043
Share-based payments	5,096,297	1,492,103
Total compensation paid to key management personnel	**14,843,209**	**11,031,236**

The increase in the total compensation value for FY20 compared t [illegible] s in KMP composition and the pro-rating of remuneration in FY19. Pro-rating for FY19 was a [illegible] h each individual was considered KMP, as well as the timing of the Company ceasing to be [illegible] esfarmers.

Other transactions with KMP

During the year ended 28 June 2020, Mr Freudenstein, a Non-executive Director, sold livestock to Coles via a livestock agent for an aggregate amount of $65,832. The transaction occurred on an arm's length basis with normal commercial terms.

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the reporting date are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

For the year ended 28 June 2020, the Group has not recognised a provision for expected credit losses relating to amounts owed by related parties (2019: $nil).

7.2 Share-based payments

The Group continues to operate the Coles Group Limited Equity Incentive Plan ('the Plan') to assist in the motivation, retention and reward of employees. The Plan provides flexibility for the Group to offer rights, options and/or restricted shares as incentives, subject to the terms of individual offers and the satisfaction of performance and/or service conditions determined by the Board. It also provides the Group with the ability to invite employees to acquire Coles Group Limited Shares through a salary sacrifice arrangement.

7.2 Share-based payments (continued)

Additional information on award schemes

Details of grants made under the Plan during the year are set out in the Remuneration Report.

Key estimate: Share-based payments

The fair value of share-based payment transactions has been determined by an independent valuation expert.

Estimating the fair value of share-based payment transactions requires the determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. Assumptions regarding the most appropriate inputs to the valuation model must be made. This includes, but is not limited to, share price volatility, discount rate and dividend yield.

In measuring the fair value of awards issued under the Long-Term Incentive (LTI) plan subject to the relative total shareholder return (TSR) vesting condition, an adjusted form of the Black-Scholes Model that includes a Monte Carlo Simulation Model has been utilised. The Monte Carlo Simulation Model has been modified to incorporate an estimate of the probability of achieving the TSR hurdle. In valuing the awards subject to non-market based vesting conditions, the Black-Scholes Model has been utilised.

7.3 Auditor's remuneration

	CONSOLIDATED	
	YEAR ENDED 28 JUNE 2020 $000	YEAR ENDED 30 JUNE 2019 $000
Amounts received, or due a		
Audit services:		
Audit or review of the Financi	2,631	3,650[1]
Assurance related	695	385[1, 2]
Non-audit services:		
Tax compliance services	135	140
Total auditor's remuneration	**3,461**	**4,175**

1 Includes audit services associated with the Group's demerger from Wesfarmers. These fees have been reclassified from assurance related services to audit related services in accordance with the ASIC guidance released following the Parliamentary Joint Committee on Corporations and Financial Services' Inquiry into the Regulation of Auditing in Australia.

2 Certain FY19 services were in progress at the time of disclosure. These amounts have now been updated following completion of these services in FY20.

The auditor of the Group is Ernst & Young (EY). Fees charged by EY for 'Assurance related services' are for services that are reasonably related to the performance of the audit or review of financial reports, for other assurance engagements (such as assurance over the Group's Sustainability Report) and for other assurance related engagements which are appropriate for our external auditor to perform.

The total fees for non-audit services of $135,000 represent 3.9% (2019: 3.4%) of the total fees paid or payable to EY and related practices for the year ended 28 June 2020.

7.4 Acquisitions

In May 2020, Coles Group Limited acquired certain assets and assumed certain liabilities of Jewel Fine Foods (Jewel). The assets acquired included leasehold improvements and plant and equipment. As part of the transaction, property leases were assigned to the Company and right-of-use assets and corresponding lease liabilities have been recognised in the Statement of Financial Position. Under the provisional accounting performed by the Group, the purchase consideration paid materially equalled the fair value of assets acquired and liabilities assumed.

7.5 New accounting standards and interpretations

The Group applied AASB 16 *Leases* ('AASB 16') for the first time in this reporting period. The nature and effect of the changes as a result of the adoption of AASB 16 are described below.

Several other amendments and interpretations apply for the first time in this financial year but do not have a material impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

AASB 16 *Leases*

The Group adopted AASB 16 from 1 July 2019 using the modified retrospective approach, under which the reclassifications and adjustments arising from the new standard have been recognised in the opening Statement of Financial Position at 1 July 2019. The comparative information for the 30 June 2019 reporting period has not been restated as permitted under the transitional provisions in the standard.

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases previously classified as operating leases under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 July 2019. The weighted average incremental borrowing rate applied to the lease liabilities at 1 July 2019 was 4.68%.

A reconciliation of operating lease commitments disclosed at 30 June 2019 to lease liabilities recognised under AASB 16 at transition date is provided below:

	1 JULY 2019 $M
Operating lease commitments disclosed as at 30 June 2019	10,577
Less: application of discounting	(2,320)
Add: adjustment previously made to remove base rent escalations that were considered contingent at lease inception	399
Discounted lease commitments using the lessee's incremental borrowing rate at the date of transition to AASB 16	8,656
Less: short-term leases not accounted for under AASB 16 in accordance with the practical expedient	(5)
Add: extension options reasonably certain to be exercised	723
Less: separation of non-lease components	(518)
Total lease liabilities recognised under AASB 16 at 1 July 2019	**8,856**

The associated right-of-use assets for property leases have been measured either on a retrospective basis as if AASB 16 had always applied, or equa measured at the amount equal to the lease liability. Ri he amount of any prepaid or accrued lease payments at 30 June 2019.

The recognised right-of-use assets relate to the following:

	1 JULY 2019 $M
Property Leases	7,339
Non-property Leases	142
Total right-of-use assets	**7,481**

The application of AASB 16 impacted the following items in the Statement of Financial Position on 1 July 2019:

- recognition of right-of-use assets: $7,481 million
- recognition of lease liabilities: $8,856 million
- increase in deferred tax assets: $356 million
- elimination of lease related provisions and accruals recognised under previous lease accounting: $188 million

The net impact to retained earnings on 1 July 2019 was a decrease of $831 million.

The impact of the adoption of AASB 16 on the Group's Statement of Profit or Loss is set out below:

	PRE-AASB 16 28 JUNE 2020 $M	AASB 16 IMPACT $M	STATUTORY 28 JUNE 2020 $M
EBIT	**1,387**	**375**	**1,762**
Financing costs	(44)	(399)	(443)
Profit before tax	**1,343**	**(24)**	**1,319**
Income tax expense	(348)	7	(341)
Profit after income tax	**995**	**(17)**	**978**

7.5 New accounting standards and interpretations (continued)

Practical expedients applied

In applying AASB 16 for the first time, the Group has applied the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous onerous lease assessments
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- the exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group has relied on its previous assessment under AASB 117 and Interpretation 4 *Determining whether an arrangement contains a lease*.

New and revised Australian Accounting Standards and Interpretations on issue but not yet effective

There are no standards that are not yet effective that would be expected to have a material impact on the Group in the current or future reporting periods.

7.6 Events after the reporting period

On 18 August 2020, the Directors determined a final dividend of 27.5 cents per fully paid ordinary share to be paid on 29 September 2020, fully franked at the corporate tax rate of 30%. The aggregate amount of the final dividend to be paid out of profits, but not recognised as a liability at 28 June 2020, is expected to be $367 million.

Subsequent to the reporting date, the Group has monitored business performance and relevant external factors including the ongoing government re y judgements, estimates or assumptions impacting the c identified.

Directors' Declaration

1. The directors of Coles Group Limited (the Company) declare that, in the directors' opinion:
   (a) the financial statements and the Notes are in accordance with the *Corporations Act 2001* (Cth), including:
      (i) complying with the accounting standards and *Corporations Regulations 2001*; and
      (ii) giving a true and fair view of the financial position and performance of the Company and its consolidated entities;
   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. A statement of compliance with the International Financial Reporting Standards is included in the Basis of Preparation and Accounting Policies in the Notes to the consolidated financial statements.
3. The directors have been given the declaration required by section 295A of the *Corporations Act 2001* from the Managing Director and Chief Executive Officer and Chief Financial Officer for the financial year ended 28 June 2020.
4. As at the date of this declaration, there are reasonable grounds to believe that the members of the closed group identified in Note 5.4 Subsidiaries to the financial statements will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in Note 5.4 Subsidiaries.

Signed in accordance with a resolution of the directors.

James Graham AM
Chairman

18 August 2020

Steven Cain
Managing Director and Chief Executive Officer

18 August 2020

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Independent Auditor's Report to the Members of Coles Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the Financial Report of Coles Group Limited (the Company) and its subsidiaries (collectively, the Group), which comprises the Consolidated Statement of Financial Position as at 28 June 2020, the Consolidated Statement of Profit or Loss, Consolidated Statement of Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' Declaration.

In our opinion, the accompanying Financial Report of the Group is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated financial position of the Group as at 28 June 2020 and of its consolid [illegible] date; and

(b) complying with A [illegible] *egulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian A [illegible] sponsibilities under those standards are further described in the *Auditor's R* [illegible] *it of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current year. These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the Financial Report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying Financial Report.

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1. Commercial income

Why significant	How our audit addressed the key audit matter
Commercial income (also referred to in the retail industry as "Supplier rebates") comprises discounts and rebates received by the Group from its suppliers. The value and timing of commercial income recognised through the Consolidated Statement of Profit or Loss requires judgement and the consideration of a number of factors including: ▶ The terms of each individual rebate agreement ▶ The nature and substance of the arrangement to determine whether the amount reflects ... price of inventor... be applied again... inventory or can... the Consolidated Statement of Profit or Loss ▶ The application of Australian Accounting Standards and the Group's related processes and controls to these arrangements. Disclosures relating to the measurement and recognition of commercial income can be found in *Note 2.4 Inventories*.	Our audit procedures in respect of commercial income included the following: ▶ We gained an understanding of the nature of each material type of commercial income and assessed the significant agreements in place; ▶ We assessed the design and effectiveness of relevant controls in place relating to the recognition and measurement of amounts related to these arrangements; ▶ We performed comparisons of the various arrangements against the prior year, ... ageing profiles and ...nces were identified, ...evidence; ▶ ...le of supplier ...d whether ...or other ...d the recognition ... rebates in the 28 June 2020 Financial Report, including an assessment of amounts recorded before and after the balance date; and ▶ We inquired of the Group including business category managers, supply chain managers and procurement management as to the existence of any non-standard agreements or side arrangements.

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2. Impairment of non-current assets including intangible assets

Why significant

The determination of the recoverable amounts of non-current assets including property, plant and equipment, right of use assets, goodwill and other intangible assets required significant judgement by the Group.

Impairment assessments are complex and involve significant management judgement. The assessment completed by the Group includes numerous assumptions and estimates that will be impacted by future performance and market conditions. This includes the potential future impacts of the COVID-19 pandemic on income and expenses.

Key assumptions, jud
applied in the Group'
are set out in *Note 4*.

Based upon the disclosed sensitivity analysis, changes to the key assumptions applied in the impairment test are not expected to give rise to an impairment of the carrying value of the Group's cash generating units.

How our audit addressed the key audit matter

Our audit procedures included an evaluation of the following assumptions utilised in the Group's assessment:

- Determination of cash generating units;
- Forecast cash flows, which were based on the Group's Board approved internal five-year forecasts;
- Long term inflation and growth rates;
- Discount rates;
- Comparative industry valuation multiples; and

nce.

ures, we considered
ecasts considered the
pot e COVID-19
pan enses.

We up's impairment
mo ith Australian
Accounting Standards, as well as the mathematical accuracy of the calculations.

We also considered the adequacy of the Financial Report disclosures regarding the impairment testing approach, key assumptions and sensitivity analysis.

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3. IT environment

Why significant

A significant part of the Group's financial processes are heavily reliant on IT systems with automated processes and controls over the capturing, valuing and recording of transactions.

This was a key audit matter because of the:

- complex IT environment supporting diverse business processes, with varying levels of integration between them;
- mix of manual and automated controls;
- multiple internal and outsourced support arrangements; and
- continuing enha
systems which a

How our audit addressed the key audit matter

We performed procedures to understand the IT environment, including procedures to identify the Group's manual and automated controls relevant to Financial Reporting.

We tested the Group's controls which included assessing the key IT controls over changes made to the material Financial Reporting systems and controls over appropriate access to these systems.

4. AASB 16 *Leases*

Why significant

The Group adopted AASB 16 *Leases* ("AASB 16") from 1 July 2019. The adoption of this accounting standard is inherently complex due to the need to apply its requirements to:

- existing commitments, including embedded lease agreements;
- the volume of operating leases held by the Group; and
- the judgements applied by management when determining how to apply key requirements of this standard such as the impact of lease extension options and the calculation of incremental borrowing rates.

Key assumptions, judgements and estimates applied to the Group's leases are set out in *Notes 2.7 and 7.5*.

How our audit addressed the key audit matter

We assessed the Group's process for determining the impact of the new standard.

We assessed the analysis of the financial impact of the new standard and the accounting policies, estimates and judgements made in respect of the Group's right of use assets and lease liabilities, as well as related depreciation and interest expense recognised through the Consolidated Statement of Profit or Loss.

We selected a sample of lease agreements to determine the appropriateness of the judgements applied including:

- the treatment of lease extension options;
- the treatment of sub-lease arrangements;
- the identification of non-lease components;
- the treatment of adjustments to lease payments (both fixed and variable rate adjustments);
- the impact of contract variations;
- the incremental borrowing rate determined by the Group;

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Why significant	How our audit addressed the key audit matter
	► the application of practical expedients available under AASB 16; and ► whether there were any material contracts containing a lease. We evaluated the effectiveness of the Group's processes and controls to capture and measure the right of use asset and associated liability including the completeness of the balances. We involved our capital and debt advisory specialists to assess the Group's incremental borrowing rates. We assessed the calculation of the adjustment to opening retained earnings calculated by the cy of disclosures Report.

5. Inventory existence

Why significant	How our audit addressed the key audit matter
At 28 June 2020, the Group held inventories of $2,166 million. Being one of the most significant balances on the Consolidated Statement of Financial Position, the Group's inventory verification process is extensive and occurs routinely throughout the financial year. This inventory is held at geographically diverse locations around Australia at various stores and distribution centres. The Group's key estimates in respect of inventories is disclosed in *Note 2.4* of the Financial Report.	Our audit procedures included the following: ► Selected a sample of stores so as to observe and assess the Group's stocktake processes throughout the year. This included observing a number of stocktakes virtually through video conferencing technology due to the Government's recommendations to work from home as a result of the COVID-19 pandemic; ► For the stocktakes we observed, we assessed whether the required adjustment to inventory determined by the stocktake was accurate and processed correctly; ► Observed and assessed the daily stocktake process at a sample of distribution centres near period end; ► Assessed whether daily counts occurred at distribution centres during the year; and ► For a select number of distribution centres managed by third parties, we obtained stock confirmation letters.

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Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2020 Annual Report, but does not include the Financial Report and our auditor's report thereon. We obtained the Operating and Financial Review, Board of Directors section and Directors' Report that are to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual report after the date of this auditor's report.

Our opinion on the Financial Report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we c her information, we are required to report tha

Responsibilities o

The Directors of the Company are responsible for the pr l Report that gives a true and fair view in accordance with Australian Accoun *orporations Act 2001* and for such internal control as the Directors determine e preparation of the Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the Financial Report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's re r, if such disclosures are inadequate, to udit evidence obtained up to the date of o rs may cause the Group to cease to con

- Evaluate the overall presentation, structure and c eport, including the disclosures, and whether the Financial Report rep ansactions and events in a manner that achieves fair presentatio

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Financial Report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the Financial Report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the Directors' report for the year ended 28 June 2020.

In our opinion, the Remuneration Report of Coles Group Limited for the year ended 28 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Fiona Campbell
Partner
Melbourne
18 August 2020

Shareholder Inform

Shareholder Information

Listing information

Coles Group Limited is listed, and our issued shares are quoted on the Australian Securities Exchange (ASX) under the code: COL.

Substantial shareholdings in Coles Group Limited as at 26 August 2020

The number of shares to which each substantial holder and the substantial holders' associates have a relevant interest, as disclosed in substantial holding notices given to Coles, are as follows:

Holder	Number of fully paid shares
Vanguard Group	66,784,433
Blackrock Group	83,226,846

Twenty largest ordinary fully paid shareholders as at 26 August 2020

Coles Group Limited	Number of fully paid shares	% of issued capital
1. HSBC Custody Nominees (Australia) Limited	350,905,773	26.31
2. J P Morgan Nominees Australia Pty Limited	208,029,606	15.60
3. Citicorp Nominees Pty Limited	102,343,788	7.67
4. Wesfarmers Retail Holdings Pty Ltd	65,362,556	4.90
5. National Nominees Limited	47,703,846	3.58
6. BNP Paribas Nominees Pty Ltd < Ag	28,552,492	2.14
7. BNP Paribas Noms Pty Ltd <DRP>	17,285,476	1.30
8. Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	11,951,758	0.90
9. Australian Foundation Investment Company Limited	6,722,590	0.50
10. HSBC Custody Nominees (Australia) Limited- GSCO ECA	6,551,616	0.49
11. HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	6,375,955	0.48
12. ARGO Investments Limited	5,040,027	0.38
13. Netwealth Investments Limited <Wrap Services A/C>	3,786,781	0.28
14. Milton Corporation Limited	2,877,375	0.22
15. HSBC Custody Nominees (Australia) Limited	2,312,794	0.17
16. Australian Executor Trustees Limited <IPS Super A/C>	2,271,455	0.17
17. CPU Share Plans Pty Ltd <Col RSA Control A/C>	2,138,253	0.16
18. AMP Life Limited	1,939,779	0.15
19. BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd <DRP A/C>	1,589,206	0.12
20. Mr Peter Alexander Brown	1,552,825	0.12

Distribution of shareholders and shareholdings as at 26 August 2020

Size of holding	Number of shareholders	Number of shares	% of issued capital
1 – 1,000	361,252	109,453,158	8.21
1,001 – 5,000	74,930	157,254,119	11.79
5,001 – 10,000	8,876	61,678,364	4.62
10,001 – 100,000	4,450	88,954,194	6.67
100,001 and over	144	916,589,861	68.71
Total	**449,652**	**1,333,929,696**	**100**

There were 27,346 shareholders holding less than a marketable parcel ($500).

Voting rights

Votes of shareholders are governed by the Company's Constitution. In broad summary, but without prejudice to the provisions of these rules, the Constitution provides for votes to be cast:

(a) on a show of hands, one vote for each shareholder; and

(b) on a poll, one vote for each fully paid share.

Unquoted equity securities

As at 26 August 2020, 1,051,774 performance rights with 10 holders were on issue pursuant to Coles' equity incentive plan.

On market share acquisitions

During FY20, 1,648,620 Coles ordinary shares were purchased on market at an average price of $15.64 per share for the purposes of various Coles employee incentive schemes.

There is no current on-market buy-back of the Company's shares.

Corporate Governance Statement

A copy of the Corporate Governance Statement can be found on our website at www.colesgroup.com.au/corporategovernance.

Corporate Directory

Registered office

800-838 Toorak Road
Hawthorn East
VIC 3123 Australia

Telephone
+61 3 9829 5111

Website
www.colesgroup.com.au

Chairman

Mr James Graham AM

Managing Director and Chief Executive Officer

Mr Steven Cain

Non-executive Directors

Mr James Graham AM
Mr David Cheesewright
Ms Jacqueline Chow
Ms Abi Cleland
Mr Richard Freudenstein
Ms Wendy Stops
Mr Zlatko Todorcevski

Company Secretary

Ms Daniella Pereira

Auditor

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia

Coles Share Registry

Computershare Investor Service Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford
VIC 3067 Australia

Postal address
GPO Box 2975
Melbourne VIC 3001 Australia

Telephone
1300 171 785 (within Australia)
+61 3 9415 4078 (outside Australia)

Online
www.investorcentre.com/contact

Website
www.computershare.com

r*

	Date
d	28 August 2020
Fina	29 September 2020
Col Ann	5 November 2020
Half	3 January 2021
Year-end	27 June 2021

* Timing of events is subject to change.

Annual General Meeting

The 2020 Annual General Meeting of Coles Group Limited will be held as a virtual meeting via an online platform on Thursday 5 November 2020, commencing at 10.30am (AEDT). Information on how shareholders and proxyholders can view and participate in the meeting can be found on the Company's website and in the Notice of Meeting.

Coles' Notice of Annual General Meeting has been released on the ASX Market Announcements Platform.

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Coles Group Limited
ABN 11 004 089 936
800-838 Toorak Road
Hawthorn East VIC 3123