ASX Release

6 February 2019

NEW ALLIANCE PARTNERSHIP TO RESTORE LEADERSHIP POSITION AND CONVENIENCE TRADING UPDATE

Key highlights:

- **Coles Group and Viva Energy have entered into a New Alliance agreement until 2029**
- **The New Alliance is a strategic step in positioning the Coles Convenience business to be Australia's leading convenience retailer**
- **The parties are committed and incentivised to jointly grow the Alliance**
- **Coles Convenience customers will continue to enjoy loyalty benefits and will benefit from a more compelling customer offer**
- **Coles' Convenience business will move to a commission agent model and Viva will set the retail price of fuel**
- **Coles will continue to operate the Alliance sites and has the opportunity to expand the network**
- **Viva Energy will pay Coles $137 million at transaction close**

Coles Group Limited (Coles, ASX: COL) today announced it has entered into an agreement to restructure the terms of the Fuel and Convenience Alliance (New Alliance) with Viva Energy Limited (Viva Energy). The parties have also agreed to extend the Alliance until 2029.

The New Alliance is expected to deliver a more competitive customer offer, provide an opportunity to expand the network and better align contributions and incentives for each party to jointly grow the business going forward. The New Alliance will allow each party to leverage their core competencies – Coles in respect of convenience retailing and Viva Energy in respect of fuel retailing – together in a competitive, integrated offering.

Under the New Alliance, Coles will receive a commission per litre from Viva Energy based on fuel volumes achieved. Furthermore, Viva Energy will be responsible for setting the retail price of fuel and receive the retail fuel margin. As a result, Coles will no longer have direct exposure to retail fuel price movements. Viva Energy will pay Coles $137 million at transaction close and a payment for net working capital upon expiry or early termination of the Alliance. In addition, Coles will also receive a further payment for the Convenience business upon expiry or early termination of the Alliance.

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As an additional protection for Coles' Convenience business, certain terms relating to achieving a satisfactory return on capital over the medium term have been included in the New Alliance Agreement.

Coles' Convenience business will continue to operate the Alliance sites as usual, so customers and suppliers will not see any change to the market-leading merchandising and service levels they have become accustomed to when visiting a Coles Express store. There are also potential wholesaling opportunities for Coles Convenience outside the Alliance to supply Viva Energy's broader network of independent retailers.

Existing loyalty benefits will continue to be available to Coles Convenience customers, including:

- Coles' four cent per litre fuel docket discount across all Alliance sites; and

- Ability to earn flybuys points on fuel and merchandise across all Alliance sites.

Coles CEO Steven Cain said: "We believe the benefits of the New Agreement are compelling for all customers, team members and shareholders. We look forward to jointly working with Viva Energy to re-establishing the Alliance as Australia's leading petrol and convenience retailer."

Scott Wyatt, Viva Energy CEO, said "Today's announcement signals a significant step forward in our long-standing Alliance with Coles Express. Together, we represent Australia's leading fuel and convenience offer and we look forward to growing the Alliance with Coles Express in the years to come. I am excited by the benefits these new arrangements will enable us to deliver for both our customers and our shareholders."

The terms of the New Alliance are not subject to any conditions precedent and are expected to come into effect in early March 2019.

Convenience trading update

As previously advised by Wesfarmers at its last Quarterly Sales update in October 2018 and at its AGM in November 2018, trading conditions in the Convenience division in the first half had been challenging due to the ongoing impact of previous changes of commercial terms in the Alliance, higher global oil prices and a lower Australian dollar. Second quarter trading conditions remained challenging, leading to further volume declines.

Subject to the finalisation of the half year reporting process, the Convenience division is expected to report for the half an EBIT range of $47 million to $51 million, based on a retail reporting calendar ending 30 December 2018. The decline in comparable fuel volumes in the second quarter of the 2019 financial year was 17.5% (first quarter 15.9%) and was the primary driver of lower earnings.

The below table shows the average weekly volumes achieved each half from the commencement of the 2018 financial year.

	1H18	**2H18**	**1H19**
Ave. weekly fuel volume (million litres)	74.1	65.8	62.4

Convenience store comparable growth was 1.5% for the first half of the 2019 financial year with food-to-go sales growth at 11.8% indicating the success of recent investments in this offer across the network. This sales growth was partially offset by the impact of unfavourable weather conditions on categories such as soft drinks in the lead up to Christmas.

Convenience has historically paid an annual brand fee to Coles' Supermarkets division of $30m (1H: $20m; 2H $10m). Following the demerger, intercompany brand fee charges will no longer continue. As a result, Convenience segment earnings will increase and a corresponding reduction in Supermarkets segment earnings will be reflected in financial statements. This change will also be reflected in the prior corresponding period so divisional results are on a comparable basis. The below table shows the breakdown on Coles Convenience earnings and brand adjustments.

	1H18	**2H18**	**1H19**
Previously reported EBIT – incl. brand fee ($m)	62	72	~27 – 31
Adj. brand fee no longer payable ($m)	20	10	20
EBIT – excl. brand fee ($m)	**82**	**82**	**~47 – 51**

With the New Alliance Agreement commencing in early March 2019, Coles expects EBIT for the 2019 financial year for the Coles Convenience business to be in the order of $50 million.

Under the New Alliance, Coles and Viva Energy expect volumes to grow over the medium to long term. Future Coles Convenience earnings will be lower than the segment has reported in the past after moving to a commission model that reduces volatility in earnings.

Under the terms of the New Alliance, based on volumes increasing to an average of 75 million litres weekly as indicated by Viva Energy, the Convenience business is expected to generate yearly pro-forma EBIT in the order of that expected to be achieved in 2019 financial year, assuming increased Convenience shop sales in-line with the expected fuel volume growth.

Conference Call

Coles Group CEO Steven Cain will today be hosting a 30 minute conference call to discuss this update:

Date: Wednesday, 6 February 2019

Time: 10:00 am (AEDT)

Dial-in Details			
Conference ID:		**4650447**	
Participant Numbers			
Participants can dial either of the numbers below to join the call. You will need to quote the conference ID provided above. To ask questions, you will need to dial *1 on the telephone keypad.			
Participant toll:		+612 8038 5221	
Participant toll free:		1800 123 296	
International Dial-in Details			
These numbers are toll-free dial-in numbers for each country listed below. For countries not listed below, the Australian Participant Toll number listed above can be dialled. To ask a question, you will need to dial *1 on the telephone keypad.			
Hong Kong	800 908 865	Singapore	800 616 2288
Japan	0120 994 669	United Kingdom	0808 234 0757
New Zealand	0800 452 782	United States	1855 293 1544

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