18 February 2020

The Manager
Company Announcements Office
Australian Securities Exchange

Dear Sir or Madam

Coles Group Limited (Coles) – Appendix 4D and Half Year Report for the period ended 5 January 2020

In accordance with ASX Listing Rule 4.2A and the *Corporations Act 2001* (Cth), I enclose the following for immediate release to the market:

1. Appendix 4D;
2. Half Year Directors' Report;
3. Half Year Financial Report; and
4. Independent Auditor's review report,

for the half year ended 5 January 2020.

Coles will conduct an analyst briefing on the half year results from 10.00am AEDT. This briefing will be audio webcast and is accessible via the Company's website at www.colesgroup.com.au.

Yours faithfully,

Daniella Pereira
Company Secretary

Appendix 4D and Half Year Financial Report

For the half year ended 5 January 2020

Coles Group Limited
ABN 11 004 089 936

APPENDIX 4D

Under Listing Rule 4.2A.3

Current reporting period	1 July 2019 to 5 January 2020
Previous corresponding period (PCP)	1 July 2018 to 30 December 2018

This information should be read in conjunction with the Coles Group Limited 2019 Annual Report.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

The Group's statutory results for the half year ended 5 January 2020 vary significantly from the PCP due to a number of differences between the current and comparative period, namely:

- The adoption of AASB 16 *Leases* ('AASB 16') in 1H20 with no restatement of comparatives
- The transition to the New Alliance Agreement in Express which involved Coles becoming a commission agent for fuel sales and no longer recognising gross fuel revenue and the associated cost of sales from March 2019
- The recognition of a $146 million restructuring provision associated with the Group's Supply Chain Modernisation program in 1H19 (presented as a Significant Item in the Half Year Financial Report for 1H19)
- Net profit for 1H19 includes profit attributable to the Kmart, Target and Officeworks businesses up until the date they were transferred to Wesfarmers Limited prior to the demerger of Coles. These entities were classified as discontinued operations of the Group in 1H19.

STATUTORY RESULTS

	1H20 27 WEEKS $M				1H19 26 WEEKS + 1 DAY $M
Total revenue from ordinary activities	19,046	down	5.7%	from	20,193
Earnings before interest and tax (EBIT)	910	up	60.5%	from	567
Profit from ordinary activities after tax	489	up	28.3%	from	381
Net profit for the period (including discontinued operations in the PCP)	489	down	33.7%	from	738

Total revenue from ordinary activities decreased 5.7% to $19,046 million largely driven by the New Alliance Agreement in Express under which commission income rather than gross fuel sales revenue has been recognised from March 2019. This was partially offset by increased sales revenue for Supermarkets and Liquor from improved trading performance and the impact of an additional 6 days of sales in 1H20 (27 weeks) compared to 1H19 (26 weeks and 1 day).

EBIT increased 60.5% to $910 million primarily due to the impact of the adoption of AASB 16 in 1H20, higher sales in Supermarkets due to improved trading performance and an additional 6 days of trading compared to 1H19 and the $146 million restructuring provision associated with the Group's Supply Chain Modernisation program presented as a Significant Item in the Half Year Financial Report for 1H19. Partly offsetting this are higher administration expenses due to the additional 6 days of trading in 1H20 compared to 1H19.

Net profit for the half year decreased by 33.7% to $489 million largely driven by 1H19 including profit attributable to the Kmart, Target and Officeworks businesses which were transferred to Wesfarmers Limited prior to the demerger of Coles.

RETAIL RESULTS (NON-IFRS)

Retail results have been provided below to enhance comparability across reporting periods. Further information on the Retail results can be found in the Coles Group Limited 2020 Half Year Results Release. Non-IFRS information is not subject to audit or review.

	1H20 27 WEEKS $M	1H19[1] 27 WEEKS $M	CHANGE %
Sales revenue	18,846	18,237	3.3%
EBIT (excluding significant items and impact of AASB 16)	725	722	0.4%
Net profit after tax (excluding significant items and impact of AASB 16)	498	489	1.7%

[1] 1H19 Retail results reported in the Appendix 4D for the half year ended 30 December 2018 included sales revenue of $20,867 million and EBIT of $587 million. For greater comparability across reporting periods, 1H19 Retail results have been adjusted as follows: (i) fuel sales revenue has been removed as the Group now recognises commission income following commencement of the New Alliance Agreement in March 2019; (ii) sales revenue and EBIT associated with Spirit Hotels have been removed to reflect the sale of this business in April 2019; and (iii) sales revenue has been restated to reflect the reclassification of the cost of flybuys points as a reduction in sales revenue.

APPENDIX 4D (CONTINUED)

RESULTS FOR ANNOUNCEMENT TO THE MARKET (CONTINUED)

IMPACT OF AASB 16 *LEASES*

The Group applied AASB 16 for the first time in this half year reporting period. The impact of the adoption of AASB 16 on the Group's 1H20 results is set out below:

	PRE-AASB 16 1H20 $M	AASB 16 IMPACT $M	STATUTORY 1H20 $M
EBIT	**725**	**185**	**910**
Financing costs	(22)	(198)	(220)
Profit before tax	**703**	**(13)**	**690**
Income tax expense	(205)	4	(201)
Profit after income tax	**498**	**(9)**	**489**

Under AASB 16 operating lease expenses are no longer recognised. Depreciation of the right-of-use assets and financing costs associated with lease liabilities are recognised in the Statement of Profit or Loss. The application of AASB 16 resulted in a favourable impact to Group EBIT of $185 million due to the recognition of depreciation being less than operating lease expenses no longer recognised.

The application of AASB 16 resulted in an unfavourable impact to profit after income tax of $9 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.

DIVIDENDS

NAME	AMOUNT PER SECURITY	FRANKED AMOUNT PER SECURITY
Current period		
Interim dividend	30.0 cents	30.0 cents
Previous corresponding period		
Interim dividend	nil	nil
Year end (30 June 2019)		
Final dividend	24.0 cents	24.0 cents
Special dividend	11.5 cents	11.5 cents
Total dividend	35.5 cents	35.5 cents

Conduit foreign income component:	nil
Record date for determining entitlement to the interim dividend:	28 February 2020
Payment date of interim dividend:	27 March 2020

The Dividend Reinvestment Plan (the DRP) will operate at nil discount. The last date to elect to participate in the DRP is 2 March 2020. In accordance with the DRP Rules, the offer price will be calculated as the arithmetic average of the daily volume weighted average market price of the Company's shares during the 10 trading days commencing on 6 March 2020.

NET TANGIBLE ASSETS PER SHARE

	5 JANUARY 2020[1]	30 DECEMBER 2018
Net tangible assets per share ($)	0.72	0.76

[1] Net tangible assets are calculated by deducting intangible assets from the net assets of the Group. Following the adoption of AASB 16 *Leases* on 1 July 2019, the net assets at 5 January 2020 include the right-of-use assets and corresponding lease liabilities recognised under the new standard.

APPENDIX 4D (CONTINUED)

ENTITIES WHERE CONTROL WAS GAINED DURING THE PERIOD

NAME	DATE
Coles Export Asia Limited[1]	Incorporated on 22 October 2019
Coles Trading (Shanghai) Co. Limited[2]	Incorporated on 6 December 2019

ENTITIES WHERE CONTROL WAS LOST DURING THE PERIOD

NAME	DATE
Tyremaster Pty Ltd	Deregistered on 3 July 2019
Waratah Cove Pty Ltd	Deregistered on 3 July 2019
Now.com.au Pty Ltd	Deregistered on 3 July 2019
Coles Group Finance (USA) Pty Ltd	Deregistered on 3 July 2019

DETAILS OF EQUITY ACCOUNTED INVESTMENTS

		OWNERSHIP INTEREST	
NAME	TYPE	5 JANUARY 2020	30 DECEMBER 2018
Loyalty Pacific Pty Ltd	Joint venture	50%	50%
Queensland Venue Co. Pty Ltd	Associate	50%	-

Additional Appendix 4D disclosure requirements can found in the accompanying Half Year Financial Report. The Coles Group Limited 2020 Half Year Results Release also provides further information on the results of the Group.

[1] Registered in Hong Kong.
[2] Registered in China.

COLES GROUP LIMITED AND CONTROLLED ENTITIES

ABN 11 004 089 936

HALF YEAR FINANCIAL REPORT
FOR THE PERIOD ENDED
5 JANUARY 2020

DIRECTORS' REPORT

This Half Year Financial Report is presented by the directors in respect of Coles Group Limited (the 'Company') and the entities it controlled at the end of and during the half year period from 1 July 2019 to 5 January 2020 (collectively, the 'Group' or the 'Consolidated Entity').

DIRECTORS

The following persons were directors of the Company during the entire half year period and up to the date of this report:

James Graham AM	Chairman and Non-Executive Director
Steven Cain	Managing Director and Chief Executive Officer
David Cheesewright	Non-executive Director
Jacqueline Chow	Non-executive Director
Abigail Cleland	Non-executive Director
Richard Freudenstein	Non-executive Director
Wendy Stops	Non-executive Director
Zlatko Todorcevski	Non-executive Director

REVIEW AND RESULTS OF OPERATIONS

REVIEW OF OPERATIONS

The Group's reportable segments are set out below:

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

RESULTS OF OPERATIONS

The Group statutory results for continuing operations for the half year ended 5 January 2020, and the comparative half year ended 30 December 2018, are presented below:

	HALF YEAR ENDED 5 JANUARY 2020	HALF YEAR ENDED 30 DECEMBER 2018	
	27 WEEKS	26 WEEKS + 1 DAY	CHANGE
	$M	$M	%
Sales revenue from continuing operations	18,846	20,083	(6.2)
EBIT from continuing operations	910	567	60.5

The key highlights for the half year ended 5 January 2020 are as follows:

- Sales revenue decreased 6.2% to $18,846 million largely driven by the New Alliance Agreement in Express under which commission income rather than gross fuel sales revenue has been recognised from March 2019. This was partially offset by increased sales revenue for Supermarkets and Liquor from improved trading performance and the impact of an additional 6 days of sales in 1H20 (27 weeks) compared to 1H19 (26 weeks and 1 day).
- EBIT increased 60.5% to $910 million primarily due to the impact of the adoption of AASB 16 Leases ('AASB 16') in 1H20, higher sales in Supermarkets due to improved trading performance and an additional 6 days of trading compared to 1H19 and the $146 million restructuring provision associated with the Group's Supply Chain Modernisation program recognised as a Significant Item in 1H19. Partly offsetting this are higher administration expenses due to the additional 6 days of trading in 1H20 compared to 1H19.

Net assets of the Group decreased by $838 million (25.0%) in the half year period from $3,357 million to $2,519 million. The decrease is largely attributable to the adoption of AASB 16.

DIRECTORS' REPORT (CONTINUED)

REVIEW AND RESULTS OF OPERATIONS (CONTINUED)

Impact of AASB 16 Leases

The Group applied AASB 16 for the first time in this half year reporting period. The adoption of AASB 16 impacted the following items in the Statement of Financial Position on 1 July 2019 (being the date of transition):

- 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 recognised under the previous lease accounting standard: $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 1H20 results and segment performance is set out below:

SEGMENT EBIT	PRE-AASB 16 HALF YEAR ENDED 5 JANUARY 2020 $M	AASB 16 IMPACT $M	STATUTORY HALF YEAR ENDED 5 JANUARY 2020 $M
Supermarkets	637	152	789
Liquor	67	9	76
Express	4	24	28
Other	17	-	17
EBIT	**725**	**185**	**910**
Financing costs	(22)	(198)	(220)
Profit before tax	**703**	**(13)**	**690**
Income tax expense	(205)	4	(201)
Profit after income tax	**498**	**(9)**	**489**

Under AASB 16 operating lease expenses are no longer recognised. Depreciation of the right-of-use assets and financing costs associated with lease liabilities are recognised in the Statement of Profit or Loss. The application of AASB 16 resulted in a favourable impact to Group EBIT of $185 million due to the recognition of depreciation being less than operating lease expenses no longer recognised.

The application of AASB 16 resulted in an unfavourable impact to profit after income tax of $9 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.

SUPERMARKETS

The Supermarkets statutory results for the half year ended 5 January 2020, and the comparative half year ended 30 December 2018, are presented below:

	HALF YEAR ENDED 5 JANUARY 2020 27 WEEKS $M	HALF YEAR ENDED 30 DECEMBER 2018 26 WEEKS + 1 DAY $M	CHANGE %
Sales revenue	16,583	15,574	6.5
EBIT	789	441	78.9

The key highlights for the half year ended 5 January 2020 are as follows:

- Sales revenue for Supermarkets increased 6.5% to $16,583 million driven by successful value campaigns. The 1H20 period also includes an additional 6 trading days compared to 1H19.
- EBIT for Supermarkets increased 78.9% to $789 million driven by the impact of AASB 16, higher sales and the $146 million restructuring provision associated with the Group's Supply Chain Modernisation program recognised in the comparative half year.

DIRECTORS' REPORT (CONTINUED)

REVIEW AND RESULTS OF OPERATIONS (CONTINUED)

LIQUOR

The Liquor statutory results for the half year ended 5 January 2020, and the comparative half year ended 30 December 2018, are presented below:

	HALF YEAR ENDED 5 JANUARY 2020 27 WEEKS $M	HALF YEAR ENDED 30 DECEMBER 2018 26 WEEKS + 1 DAY $M	CHANGE %
Sales revenue	1,691	1,674	1.0
EBIT	76	84	(9.5)

The key highlights for the half year ended 5 January 2020 are as follows:

- Sales revenue for Liquor increased 1.0% to $1,691 million largely driven by improved trading performance and the additional 6 trading days in 1H20 compared to 1H19, partially offset by hotel revenue no longer recognised post the sale of Spirit Hotels in April 2019.
- EBIT for Liquor decreased 9.5% to $76 million largely the result of the Group no longer recognising gaming revenue post the sale of Spirit Hotels and the impact of clearance and promotional activity, partially offset by the impact of AASB 16.

EXPRESS

The Express statutory results for the half year ended 5 January 2020, and the comparative half year ended 30 December 2018, are presented below:

	HALF YEAR ENDED 5 JANUARY 2020 27 WEEKS $M	HALF YEAR ENDED 30 DECEMBER 2018 26 WEEKS + 1 DAY $M	CHANGE %
Sales revenue	572	2,835	(79.8)
EBIT	28	47	(40.4)

The key highlights for the half year ended 5 January 2020 are as follows:

- Sales revenue for Express decreased 79.8% to $572 million primarily due to the New Alliance Agreement under which commission income rather than gross fuel sales revenue has been recognised from March 2019.
- EBIT for Express decreased 40.4% to $28 million driven by the move to a commission model for retail fuel sales, partly offset by growth in convenience store earnings and the impact of AASB 16.

The Company's 2020 Half Year Results Release and the associated 2020 Half Year Results Presentation provide further information on the Retail results of the Group.

EVENTS AFTER THE REPORTING PERIOD

Dividends

On 18 February 2020, the directors declared an interim dividend of 30.0 cents per fully paid ordinary share with a payment date of 27 March 2020, fully franked at the corporate tax rate of 30%. The aggregate amount of the interim dividend to be paid out of profits, but not recognised as a liability at 5 January 2020, is $400 million[1].

The Group is not aware of any other matter or circumstance that has occurred since the end of the half year reporting date that has significantly affected or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in subsequent reporting periods.

[1] Estimated interim dividend payable, subject to variations in the number of shares up to the record date.

DIRECTORS' REPORT (CONTINUED)

ROUNDING OF AMOUNTS

The amounts contained in the Half Year 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.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration is set out on page 10.

This report is made in accordance with a Resolution of the directors of the Company on 18 February 2020.

James Graham AM
Chairman

Steven Cain
Managing Director and Chief Executive Officer

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

As lead auditor for the review of the half year financial report of Coles Group Limited for the half year ended 5 January 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 review; and

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

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

Ernst & Young

Ernst & Young

Fiona Campbell
Partner
18 February 2020

STATEMENT OF PROFIT OR LOSS

FOR THE HALF YEAR ENDED 5 JANUARY 2020

		CONSOLIDATED	
		HALF YEAR ENDED 5 JANUARY 2020	HALF YEAR ENDED 30 DECEMBER 2018
		27 WEEKS	26 WEEKS + 1 DAY
	NOTES	$M	$M
Continuing operations			
Sales revenue	2	18,846	20,083
Other operating revenue		200	110
Total operating revenue		**19,046**	**20,193**
Cost of sales		(14,248)	(15,579)
Gross profit		**4,798**	**4,614**
Other income		76	64
Administration expenses		(3,964)	(3,971)
Other expenses		-	(146)
Share of net profit of equity accounted investments		-	6
Earnings before interest and tax (EBIT)		**910**	**567**
Financing costs		(220)	(7)
Profit before income tax		**690**	**560**
Income tax expense	4	(201)	(179)
Profit for the half year from continuing operations		**489**	**381**
Discontinued operations			
Profit from discontinued operations after tax		-	357
Profit for the half year		**489**	**738**
Profit attributable to:			
Equity holders of the parent entity		489	738
Earnings per share (EPS) attributable to equity holders of the Company:			
Basic and diluted EPS (cents)		36.7	55.3
EPS attributable to equity holders of the Company from continuing operations:			
Basic and diluted EPS (cents)	3	36.7	28.6

The accompanying notes form part of the Half Year Financial Report.

STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 5 JANUARY 2020

	CONSOLIDATED	
	HALF YEAR ENDED 5 JANUARY 2020 27 WEEKS $M	HALF YEAR ENDED 30 DECEMBER 2018 26 WEEKS + 1 DAY $M
Profit for the half year	**489**	**738**
Other comprehensive income		
Items that may be reclassified to profit or loss:		
Net movement in the fair value of cash flow hedges	(10)	16
Income tax effect	3	(5)
Other comprehensive income which may be reclassified to profit or loss in subsequent periods	**(7)**	**11**
Total comprehensive income attributable to:		
Equity holders of the parent entity	482	749
Total comprehensive income from continuing operations attributable to:		
Equity holders of the parent entity	482	392

The accompanying notes form part of the Half Year Financial Report.

STATEMENT OF FINANCIAL POSITION

AS AT 5 JANUARY 2020

		CONSOLIDATED		
		5 JANUARY 2020	30 JUNE 2019	30 DECEMBER 2018
	NOTES	$M	$M	$M
Assets				
Current assets				
Cash and cash equivalents	5	797	940	582
Trade and other receivables		353	360	462
Inventories		2,473	1,965	2,429
Income tax receivable / (payable)		53	-	(78)
Assets held for sale		106	94	118
Other assets		63	47	125
Total current assets		**3,845**	**3,406**	**3,638**
Non-current assets				
Property, plant and equipment		3,918	4,119	4,201
Right-of-use assets	1	7,347	-	-
Intangible assets		1,553	1,541	1,660
Deferred tax assets	4	772	365	537
Equity accounted investments		221	212	12
Other assets		118	134	24
Total non-current assets		**13,929**	**6,371**	**6,434**
Total assets		**17,774**	**9,777**	**10,072**
Liabilities				
Current liabilities				
Trade and other payables		3,665	3,380	3,991
Provisions	6	754	743	703
Lease liabilities	1	1,205	-	-
Interest-bearing liabilities	7	8	-	-
Other		226	168	233
Total current liabilities		**5,858**	**4,291**	**4,927**
Non-current liabilities				
Interest-bearing liabilities	7	1,355	1,460	1,630
Deferred tax liabilities		-	-	192
Provisions	6	464	598	589
Lease liabilities	1	7,556	-	-
Other		22	71	62
Total non-current liabilities		**9,397**	**2,129**	**2,473**
Total liabilities		**15,255**	**6,420**	**7,400**
Net assets		**2,519**	**3,357**	**2,672**
Equity				
Contributed equity		1,608	1,628	1,631
Reserves		40	42	51
Retained earnings		871	1,687	990
Total equity		**2,519**	**3,357**	**2,672**

The accompanying notes form part of the Half Year Financial Report.

STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 5 JANUARY 2020

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				
	CONTRIBUTED EQUITY	SHARE-BASED PAYMENTS RESERVE	CASH FLOW HEDGE RESERVE	RETAINED EARNINGS	TOTAL
	$M	$M	$M	$M	$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 half year	-	-	-	489	489
Other comprehensive income	-	-	(7)		(7)
Total comprehensive income for the half year	**-**	**-**	**(7)**	**489**	**482**
Share-based payments expense	-	5	-	-	5
Purchase of shares under Equity Incentive Plan	(20)	-	-	-	(20)
Dividends paid	-	-	-	(474)	(474)
Balance as at 5 January 2020	**1,608**	**48**	**(8)**	**871**	**2,519**
At 1 July 2018	**2,193**	**39**	**-**	**1,018**	**3,250**
Net profit for the half year	-	-	-	738	738
Other comprehensive income	-	-	11	-	11
Total comprehensive income for the half year	**-**	**-**	**11**	**738**	**749**
Capital return	(538)	-	-	-	(538)
Share-based payments expense	-	1	-	-	1
Purchase of shares under Equity Incentive Plan	(24)	-	-	-	(24)
Distributions to Wesfarmers	-	-	-	(766)	(766)
Balance as at 30 December 2018	**1,631**	**40**	**11**	**990**	**2,672**

The accompanying notes form part of the Half Year Financial Report.

STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 5 JANUARY 2020

		CONSOLIDATED	
		HALF YEAR ENDED 5 JANUARY 2020	HALF YEAR ENDED 30 DECEMBER 2018
		27 WEEKS	26 WEEKS + 1 DAY
	NOTES	$M	$M
Cash flows from operating activities from continuing operations			
Receipts from customers		20,221	21,695
Payments to suppliers and employees		(18,685)	(20,094)
Interest paid		(211)	(4)
Income tax received		-	389
Income tax paid		(301)	(405)
Net cash flows from operating activities from continuing operations		**1,024**	**1,581**
Cash flows used in investing activities from continuing operations			
Purchase of property, plant and equipment and intangibles		(372)	(556)
Proceeds from sale of property, plant and equipment		221	88
Proceeds from sale of controlled entities		-	359
Investments in joint venture		(9)	(6)
Acquisition of subsidiaries, net of cash acquired		-	(2)
Net cash flows used in investing activities from continuing operations		**(160)**	**(117)**
Cash flows used in financing activities from continuing operations			
Proceeds from borrowings		3,520	3,725
Repayment of borrowings		(3,625)	(2,095)
Proceeds from borrowings with related parties		-	170
Repayment of borrowings with related parties		-	(3,678)
Payment of principal elements of lease payments		(416)	-
Distributions to Wesfarmers		-	(320)
Redemption of redeemable preference shares		-	1,322
Dividends paid		(474)	-
Capital return		-	(538)
Purchase of shares under Equity Incentive Plan		(20)	(24)
Net cash flows used in financing activities from continuing operations		**(1,015)**	**(1,438)**
Net increase in cash and cash equivalents from continuing operations		**(151)**	**26**
Cash at the beginning of the financial period from continuing operations		940	556
Cash at the end of the financial period from continuing operations		**789**	**582**

The accompanying notes form part of the Half Year Financial Report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Half Year 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 half year ended 5 January 2020 (collectively, the 'Group' or the 'Consolidated Entity') were authorised for issue in accordance with a resolution of the directors on 18 February 2020.

References in this report to 'half year' are the 27 week period from 1 July 2019 to 5 January 2020 (1H19: 26 weeks and 1 day from 1 July 2018 to 30 December 2018) unless otherwise stated.

REPORTING ENTITY

Coles Group Limited 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 2 Segment reporting.

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The general purpose Half Year Financial Report for the period 1 July 2019 to 5 January 2020 has been prepared in accordance with AASB 134 *Interim Financial Reporting* ('AASB 134') and the *Corporations Act 2001*.

In accordance with AASB 134, the Half Year Financial Report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the 2019 Financial Report and any public announcements made by the Group during the half year reporting period in accordance with the continuous disclosure requirements of the ASX listing rules.

The accounting policies adopted are consistent with those of the previous financial year and corresponding half year reporting period, except for the adoption of AASB 16 *Leases* ('AASB 16') as of 1 July 2019 as set out below.

The Half Year Financial Report is presented in Australian dollars and all values are rounded to the nearest million dollars unless otherwise stated, in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. The Company is an entity to which the class order applies.

This Half Year Financial Report presents reclassified comparative information where required for consistency with the current half year's presentation.

KEY JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires judgement and the use of estimates and assumptions in applying the Group's accounting policies, which affect amounts reported for assets, liabilities, income and expenses. Actual results may differ from these judgements, estimates and assumptions.

The judgement, estimates and assumptions applied in the Half Year Financial Report, including the key sources of estimation uncertainty are the same as those applied in the 2019 Financial Report except for the new key judgements relating to lessee accounting under AASB 16 *Leases*, which are described below.

NEW AND AMENDED STANDARDS AND INTERPRETATIONS ADOPTED FROM 1 JULY 2019

The Group applied AASB 16 *Leases* ('AASB 16') for the first time in this half year 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 half year reporting period but do not have an impact on the 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 has 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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 equal to the lease liability. Non-property right-of-use assets have been measured at the amount equal to the lease liability. Right-of-use assets recognised at transition have been adjusted by the amount of any prepaid or accrued lease payments relating to leases recognised in the Statement of Financial Position at 30 June 2019.

The recognised right-of-use assets relate to the following:

	1 JULY 2019 $M	5 JAN 2020 $M
Property Leases	7,339	7,222
Non-property Leases	142	125
Total right-of-use assets	**7,481**	**7,347**

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 recognised under previous lease accounting: $188 million

The net impact to retained earnings on 1 July 2019 was a decrease of $831 million.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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*.

Significant accounting policy

Until 30 June 2019, leases were classified as operating leases whenever the terms of the lease did not transfer substantially all the risks and rewards of ownership to the lessee. Payments made under operating leases were recognised in the Statement of Profit or Loss on a straight-line basis over the lease term.

From 1 July 2019, 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 over the shorter of the asset's useful life and the lease term on a straight-line basis. Payments associated with short-term leases (leases with a term of 12 months or less) 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.

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.

As the interest rate implicit in the lease cannot be readily determined, the lease payments are discounted using the lessee's incremental borrowing rate.

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.

Key estimate: Incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore 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 estimation when no observable rates are available or when adjustments need to be made to reflect the terms and conditions of the lease. The Group estimates the IBR using observable market inputs when available and is required to make certain estimates specific to the Group (such as credit risk).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

NEW AND REVISED AUSTRALIAN ACCOUNTING STANDARDS AND INTERPRETATIONS ON ISSUE BUT NOT YET EFFECTIVE

There are no other standards, amendments or interpretations that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

SEASONALITY OF OPERATIONS

The financial performance of the Group is affected by seasonality whereby earnings are typically greater in the half year due to Christmas trading.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. 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:

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 material operations in other geographic areas or economic exposure to any individual customer that is in excess of 10% of sales revenue.

	SUPERMARKETS	LIQUOR	EXPRESS	OTHER	TOTAL
	$M	$M	$M	$M	$M
Half year ended 5 January 2020					
Sales revenue	16,583	1,691	572	-	18,846
Segment EBIT	**789**	**76**	**28**	**17**	**910**
Financing costs					(220)
Profit before income tax					**690**
Income tax expense					(201)
Profit for the half year					**489**
Share of net profit of equity accounted investments included in EBIT					-
Half year ended 30 December 2018					
Sales revenue	15,574	1,674	2,835	-	20,083
Segment EBIT	**441**	**84**	**47**	**(5)**	**567**
Financing costs					(7)
Profit before income tax for continuing operations					**560**
Income tax expense for continuing operations					(179)
Profit for the half year for continuing operations					**381**
Share of net profit of equity accounted investments included in EBIT					6

3. EARNINGS PER SHARE (EPS)

	HALF YEAR ENDED 5 JANUARY 2020	HALF YEAR ENDED 30 DECEMBER 2018
EPS attributable to equity holders of the Company from continuing operations:		
Basic and diluted EPS (cents)	36.7	28.6
Basic and diluted EPS excluding significant items (cents)	36.7	36.2[1]
Profit for the half year from continuing operations ($M)	489	381
Weighted average number of ordinary shares for basic and diluted EPS (shares, million)	1,334	1,334

CALCULATION METHODOLOGY

EPS is the profit after tax (from continuing operations) attributable to ordinary equity holders of Coles Group Limited, divided by the weighted average number of ordinary shares during the half 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 half year, the potential dilution to the weighted average number of ordinary shares from employee options and performance rights was nil.

Between the half year reporting date and the issue date of this half year 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.

4. INCOME TAX

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

	CONSOLIDATED	
	HALF YEAR ENDED 5 JANUARY 2020 $M	HALF YEAR ENDED 30 DECEMBER 2018 $M
Current income tax expense	248	237
Deferred income tax relating to origination and reversal of temporary differences	(47)	(58)
Income tax expense reported in Statement of Profit or Loss	**201**	**179**

[1] Calculation excludes the $146 million ($102 million after tax) restructuring provision.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. INCOME TAX (CONTINUED)

Reconciliation of the Group's applicable tax rate to the effective tax rate

	CONSOLIDATED	
	HALF YEAR ENDED 5 JANUARY 2020 $M	HALF YEAR ENDED 30 DECEMBER 2018 $M
Profit before tax from continuing operations	690	560
Profit before tax from discontinued operations	-	509
Profit before income tax	**690**	**1,069**
At Australia's corporate tax rate of 30% (30 December 2018: 30%)	207	321
Adjustments in respect of current income tax of previous years	-	4
Share of results of joint venture	-	(2)
Non-deductible expenses for tax purposes	1	5
Non-assessable income for tax purposes	(7)	-
Adjustments in respect of demerger clear exit	-	3
At the effective income tax rate of 29.1% (30 December 2018: 31.0%)	**201**	**331**
Income tax expense reported in the Statement of Profit or Loss	201	179
Income tax attributable to discontinued operations	-	152
	201	**331**

Deferred income tax balances recognised in the Statement of Financial Position

	CONSOLIDATED	
	5 JANUARY 2020 $M	30 JUNE 2019 $M
Provisions	100	92
Employee benefits	220	215
Trade and other payables	20	15
Inventories	46	41
Property, plant and equipment	133	127
Lease liabilities	2,584	-
Cash flow hedges	4	1
Other individually insignificant balances	23	22
Deferred tax assets	**3,130**	**513**
Accelerated depreciation for tax purposes	92	88
Intangible assets	-	7
Right-of-use assets	2,204	-
Other individually insignificant balances	62	53
Deferred tax liabilities	**2,358**	**148**
Net deferred tax assets	**772**	**365**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

	CONSOLIDATED	
	5 JANUARY 2020 $M	30 JUNE 2019 $M
Cash on hand and in transit	555	530
Cash at bank and on deposit	242	410
Total cash and cash equivalents	**797**	**940**

For the purpose of the cash flow statement, cash and cash equivalents includes cash on hand and in transit, and at bank and on deposit, net of outstanding bank overdrafts which are repayable on demand (refer to Note 7).

6. PROVISIONS

	CONSOLIDATED	
	5 JANUARY 2020 $M	30 JUNE 2019 $M
Current		
Employee benefits	637	601
Restructuring provision	6	18
Lease provision	-	7
Self-insurance liabilities	102	108
Other	9	9
Total current provisions	**754**	**743**
Non-current		
Employee benefits	85	87
Restructuring provision	127	150
Lease provision	-	105
Self-insurance liabilities	252	256
Total non-current provisions	**464**	**598**

7. INTEREST-BEARING LIABILITIES

	CONSOLIDATED	
	5 JANUARY 2020 $M	30 JUNE 2019 $M
Current		
Bank overdraft	8	-
Total current interest-bearing liabilities	**8**	**-**
Non-current		
Bank debt	760	1,460
Capital market debt	595	-
Total non-current interest-bearing liabilities	**1,355**	**1,460**

On 6 November 2019, Coles issued $600 million unsecured fixed rate Australian dollar medium term notes (Notes), comprising $300 million of seven-year Notes and $300 million of 10-year Notes. The seven-year Notes were priced with a coupon of 2.20% and the 10-year Notes were priced with a coupon of 2.65%.

All interest-bearing loans and borrowings are initially recognised at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

8. DIVIDENDS PAID AND PROPOSED

DIVIDEND DECLARED AND PAID DURING THE PERIOD

During the half year, the directors declared and paid a total fully franked dividend of 35.5 cents per fully paid ordinary share for the year ended 30 June 2019. This comprised a final dividend of 24.0 cents per fully paid ordinary share and a special dividend of 11.5 cents per fully paid ordinary share. The aggregate amount of the total dividend paid out of profits on 26 September 2019 was $474 million.

DIVIDEND PROPOSED AND NOT RECOGNISED AS A LIABILITY

Since the half year reporting date the directors have declared an interim dividend of 30.0 cents per fully paid ordinary share with a payment date of 27 March 2020, fully franked at the corporate tax rate of 30%. The total amount of the interim dividend to be paid out of profits, but not recognised as a liability at 5 January 2020, is $400 million[1].

During the half year, the Company established a Dividend Reinvestment Plan (DRP) under which eligible holders of ordinary shares are able to reinvest either all or part of their dividend payments into additional fully paid Coles Group Limited shares.

9. IMPAIRMENT OF NON-FINANCIAL ASSETS

In accordance with Australian Accounting Standards, the Group tests property, plant and equipment, right-of-use assets 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).

Goodwill was subject to full annual impairment testing as at 30 June 2019. A review of indicators of impairment relating to goodwill was performed as at 5 January 2020. As a result of this review, no indicators of impairment were identified that would require a full impairment test to be performed as at 5 January 2020.

[1] Estimated interim dividend payable, subject to variations in the number of shares up to the record date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

The financial statements for the year ended 30 June 2019 detail the most recent annual impairment tests undertaken for goodwill. The Group's impairment tests for goodwill are based on value in use (VIU). VIU calculations are based on the discounted cash flows expected to arise from the asset or cash generating unit (CGU).

The key assumptions used to determine the recoverable amounts for the CGUs to which goodwill relates are disclosed in the 30 June 2019 financial statements.

Detailed impairment testing has been completed for non–current assets where an indication of impairment has been identified. No material impairment has been recognised in the half year ended 5 January 2020.

10. FINANCIAL INSTRUMENTS

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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 best 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 estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
LEVEL 3	Fair value is estimated using inputs for the asset or liability that are not based on observable market data (unobservable inputs)

All of the Group's financial instruments carried at fair value were valued using market observable inputs (Level 2).

For financial instruments that are carried at fair value on a recurring basis, the Group determines whether 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.

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.

The methods and assumptions used to estimate the fair value of financial instruments are as follows:

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. RELATED PARTY DISCLOSURES

Parent entity

The ultimate parent entity within the Group is the Company, which is domiciled and incorporated in Australia. Prior to the demerger from Wesfarmers and subsequent listing as a standalone entity on the ASX, the ultimate 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 associates

Various transactions occurred between the Group and Loyalty Pacific Pty Ltd (operator of flybuys) during the half year ended 5 January 2020, including:

- reimbursement of costs incurred
- sale of goods to members of flybuys
- purchase of points from Loyalty Pacific Pty Ltd

As at 5 January 2020 there were amounts owing to Loyalty Pacific Pty Ltd of $164.331 million (30 June 2019: $169.811 million).

Various transactions occurred between the Group and Queensland Venue Co Pty Ltd (QVC) during the half year ended 5 January 2020, including:

- service fees paid
- sales to QVC of inventory

As at 5 January 2020 there were amounts owing from QVC of $34.349 million (30 June 2019: $39.905 million).

Transactions with Wesfarmers Limited and its controlled entities ('Wesfarmers Group')

Various transactions occurred between the Group and Wesfarmers Group during the half year ended 5 January 2020, including:

- rental income received
- rental expenses paid
- sales to Wesfarmers Limited and its controlled entities
- purchases from Wesfarmers Limited and its controlled entities

As part of the demerger, certain members of the Wesfarmers Group and Coles 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.

The transitional services to be provided by the Wesfarmers Group to the Coles Group include services such as support of a merchandise ordering system.

The transitional services to be provided by the Coles Group to the Wesfarmers Group are:

- 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 remain in place, the Group or its related party settles the liabilities on each other's behalf and subsequently recovers the costs by on-charging without a margin.

As at 5 January 2020 there were amounts owing to Wesfarmers Limited and its controlled entities of $3.365 million (30 June 2019: $6.141 million).

11 RELATED PARTY DISCLOSURES (CONTINUED)

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 half year 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.

As at 5 January 2020, the Group has not recognised a provision for expected credit losses relating to amounts owed by related parties (30 June 2019: $nil).

12. COMMITMENTS

Capital expenditure commitments of the Group are set out below:

	CONSOLIDATED	
	5 JANUARY 2020 $M	30 JUNE 2019 $M
Within one year	267	140
Between one and five years	440	514
Total capital commitments for expenditure	**707**	**654**

At 5 January 2020, the Group also has commitments relating to lease agreements that have not yet commenced with respect to its Supply Chain Modernisation program and Customer Fulfilment Centres.

13. CONTINGENCIES

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.

14. EVENTS AFTER THE HALF YEAR REPORTING PERIOD

On 18 February 2020, the directors declared an interim dividend of 30.0 cents per fully paid ordinary share with a payment date of 27 March 2020, fully franked at the corporate tax rate of 30%. The aggregate amount of the interim dividend to be paid out of profits, but not recognised as a liability at 5 January 2020, is $400 million[1].

The Group is not aware of any other matter or circumstance that has occurred since the end of the half year reporting date that has significantly affected or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in subsequent reporting periods.

[1] Estimated interim dividend payable, subject to variations in the number of shares up to the record date

DIRECTORS' DECLARATION

The directors declare that, in their opinion:

a) the financial statements and notes of the Group for the half year ended 5 January 2020 are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the financial position as at 5 January 2020 and the performance for the half year ending on that date of the Group; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

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.

Signed in accordance with a resolution of the directors.

James Graham AM

Chairman

18 February 2020

Building a better working world

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Independent Auditor's Review Report to the Members of Coles Group Limited

Report on the Half Year Financial Report

Conclusion

We have reviewed the accompanying half year financial report of Coles Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 5 January 2020, the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the half year ended on that date, notes comprising significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of the Group is not 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 5 January 2020 and of its consolidated financial performance for the half year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half Year Financial Report

The directors of the Company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 5 January 2020 and its consolidated financial performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

F Campbell

Fiona Campbell
Partner
Melbourne
18 February 2020