



22 February 2022

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 2 January 2022**

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 2 January 2022.

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

This announcement is authorised by the Board.

Yours faithfully,

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

**Daniella Pereira**  
Company Secretary

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# Appendix 4D and Half Year Financial Report

For the 27 weeks ended 2 January 2022

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## APPENDIX 4D

Under ASX Listing Rule 4.2A.3

Current reporting period ('1H22')	28 June 2021 to 2 January 2022 (27 weeks)
Previous corresponding period ('1H21')	29 June 2020 to 3 January 2021 (27 weeks)

This Appendix 4D and Half Year Financial Report presents the results of Coles Group Limited ('the Company') and the entities it controlled at the end of or during the 27 weeks ended 2 January 2022 (collectively, 'the Group').

This information should be read in conjunction with the Coles Group Limited 2021 Annual Report.

### RESULTS FOR ANNOUNCEMENT TO THE MARKET

	1H22				1H21
	\$m				\$m
Revenue from ordinary activities	20,785	up	1.0%	from	20,581
Earnings before interest and income tax (EBIT)	975	down	-4.4%	from	1,020
Profit from ordinary activities after tax attributable to members	549	down	-2.0%	from	560
Profit after tax attributable to members	549	down	-2.0%	from	560

### DIVIDENDS

NAME	AMOUNT PER SECURITY	FRANKED AMOUNT PER SECURITY
<b>Current period</b>		
Interim dividend	33.0 cents	33.0 cents
<b>Previous corresponding period</b>		
Interim dividend	33.0 cents	33.0 cents
<b>Year end (27 June 2021)</b>		
Final dividend	28.0 cents	28.0 cents
Conduit foreign income component:		nil
Record date for determining entitlement to the interim dividend:		4 March 2022
Payment date of interim dividend:		31 March 2022

The Company operates a Dividend Reinvestment Plan (DRP) under which eligible holders of ordinary shares are able to reinvest all or part of their dividend payments into additional fully paid Coles Group Limited shares. The DRP will operate at nil discount. The last date to elect to participate in the DRP is 7 March 2022. 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 5 trading days commencing on 15 March 2022.

### NET TANGIBLE ASSETS PER SHARE

	1H22	1H21
Net tangible assets per share (\$) <sup>1</sup>	0.90	0.88

<sup>1</sup> 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, net assets include the right-of-use assets and corresponding lease liabilities recognised under the standard.

## APPENDIX 4D (CONTINUED)

### ENTITIES WHERE CONTROL WAS GAINED DURING THE PERIOD

NAME	DATE
CNSCV Pty Ltd	Incorporated on 23 August 2021

### ENTITIES WHERE CONTROL WAS LOST DURING THE PERIOD

NAME	DATE
Coles Retail Services Pty Ltd	Deregistered on 4 July 2021
WFPL Security SPV Pty Ltd	Deregistered on 4 July 2021
WFPL No 2 Pty Ltd	Deregistered on 4 July 2021
e.colesgroup Pty Ltd	Deregistered on 7 July 2021

### DETAILS OF EQUITY ACCOUNTED INVESTMENTS

NAME	TYPE	OWNERSHIP INTEREST	
		1H22	1H21
Loyalty Pacific Pty Ltd	Joint venture	50%	50%
Queensland Venue Co. Pty Ltd	Associate	50%	50%

Additional Appendix 4D disclosure requirements can be found in the accompanying Half Year Financial Report. The Coles Group Limited 2022 Half Year Results Release also provides further information on the results of the Group.

# COLES GROUP LIMITED AND CONTROLLED ENTITIES

ABN 11 004 089 936

## HALF YEAR FINANCIAL REPORT FOR THE 27 WEEKS ENDED 2 JANUARY 2022

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## DIRECTORS' REPORT

The directors present their report on the consolidated entity consisting of Coles Group Limited ('the Company') and the entities it controlled at the end of or during the 27 weeks ended 2 January 2022 (collectively, 'the Group').

### DIRECTORS

The following persons were directors of the Company during the 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
Paul O'Malley	Non-executive Director

## REVIEW AND RESULTS OF OPERATIONS

### REVIEW OF OPERATIONS

The Group's reportable segments are set out below:

<b>SUPERMARKETS</b>	Fresh food, groceries and general merchandise retailing (includes Coles Online and Coles Financial Services)
<b>LIQUOR</b>	Liquor retailing, including online services
<b>EXPRESS</b>	Convenience store operations and commission agent for retail fuel sales

### RESULTS OF OPERATIONS

The Group results for the half year ended 2 January 2022, and the comparative half year ended 3 January 2021, are presented below:

	1H22 \$m	1H21 \$m	CHANGE %
Sales revenue	20,593	20,390	1.0%
EBIT	975	1,020	-4.4%

**Sales revenue** increased by 1.0% to \$20,593 million driven by elevated sales as a result of lockdowns across New South Wales, the Australian Capital Territory and Victoria, as well as a strong Christmas trade period in the Supermarkets and Liquor segments. Sales growth was delivered despite cycling significantly elevated COVID-19 related sales in the prior corresponding period.

**EBIT** decreased by 4.4% to \$975 million, impacted by higher COVID-19 disruption costs, related travel restrictions on Express' earnings and transformation project costs. Approximately \$150 million of COVID-19 costs were incurred during the period, an increase of \$45 million compared with the prior period. Approximately \$20 million of implementation operating costs attributable to the Supermarkets segment, in relation to the Witron and Ocado transformation projects, were also incurred. Smarter Selling benefits in excess of \$100 million were delivered during the period.

### IMPACTS OF COVID-19

#### Supermarkets

Sales remained elevated in the first quarter of the reporting period and in the early part of the second quarter, largely a result of lockdowns across New South Wales, the Australian Capital Territory and Victoria.

#### Liquor

Liquor sales remained elevated during the half, cycling the COVID-19 related sales growth in the prior corresponding period. The re-opening of on-premise venues in the second quarter led to a softening of Liquor sales prior to strong trade over the Christmas period.

## DIRECTORS' REPORT (CONTINUED)

### REVIEW AND RESULTS OF OPERATIONS (CONTINUED)

#### Express

Lower fuel volumes as a result of reduced traffic on the roads negatively impacted fuel commissions and convenience (c-store) sales revenue in the first half. The end of lockdowns in the early part of the second quarter saw the trajectory of fuel volumes improve.

#### Costs

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

#### AWARD COVERED SALARIED TEAM MEMBER REVIEW

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

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

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

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

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

#### BALANCE SHEET

The key balance sheet highlights for the half year ended 2 January 2022 are as follows:

**Cash and cash equivalents** increased by 39.5% to \$1,098 million largely driven by strong operating activities associated with the peak Christmas trading period falling at the end of the half year.

**Inventories** increased by 13.3% to \$2,387 million primarily driven by the seasonal build of inventory associated with the Christmas and New Year trading period.

**Trade and other payables** increased by 17.0% to \$4,282 million largely driven by a higher volume of stock purchases to cover Christmas trading.

**Interest-bearing liabilities** decreased by 8.6% to \$1,044 million driven by the repayment of \$100 million term debt in August 2021.

#### SUPERMARKETS

The Supermarkets results for the half year ended 2 January 2022, and the comparative half year ended 3 January 2021, are presented below:

	1H22 \$m	1H21 \$m	CHANGE %
Sales revenue	18,016	17,812	1.1%
EBIT	896	903	-0.8%

**Sales revenue** for Supermarkets increased by 1.1% to \$18,016 million. Sales growth was driven by strong trade over the Christmas period, growth in Exclusive to Coles and eCommerce sales. Sales growth in eCommerce was also supported by expanded customer offers such as double Flybuys points for Coles Plus members, and investments in capacity which supported the elevated demand.

## DIRECTORS' REPORT (CONTINUED)

### REVIEW AND RESULTS OF OPERATIONS (CONTINUED)

**EBIT** decreased by 0.8% to \$896 million driven by COVID-19 costs incurred in the half, which was partially offset by strategic sourcing and Smarter Selling benefits such as supply chain and loss prevention initiatives. In addition, EBIT was impacted by approximately \$20 million of implementation operating costs associated with the Witron and Ocado transformation projects.

#### LIQUOR

The Liquor results for the half year ended 2 January 2022, and the comparative half year ended 3 January 2021, are presented below:

	1H22 \$m	1H21 \$m	CHANGE %
Sales revenue	1,999	1,946	2.7%
EBIT	99	104	-4.8%

**Sales revenue** for Liquor increased by 2.7% to \$1,999 million driven by strong eCommerce sales growth, with Liquorland being the strongest performing banner. Spirits, ready-to-drink (RTD) and wine performed strongly at the category level, supported by recent range activity in key growth products including gin and seltzers, and trending wine categories such as lighter red varietals and rose. Exclusive Liquor Brand and local product contribution continued to grow.

**EBIT** decreased by 4.8% to \$99 million due to investments in customer service, team capability, systems, and eCommerce, more than offsetting improved margin, supported by growth in Exclusive Liquor Brands and local product contribution.

#### EXPRESS

The Express results for the half year ended 2 January 2022, and the comparative half year ended 3 January 2021, are presented below:

	1H22 \$m	1H21 \$m	CHANGE %
Sales revenue	578	632	-8.5%
EBIT	12	32	-62.5%

**Sales revenue** for Express decreased by 8.5% to \$578 million. Sales growth was negatively impacted by lower forecourt traffic due to lockdowns in New South Wales, Victoria and the Australian Capital Territory during the half, as well as cycling strong tobacco sales in the prior corresponding period.

**EBIT** decreased by 62.5% to \$12 million driven by lower fuel commissions and convenience store sales as a result of a decline in fuel volumes with COVID-19 restrictions impacting traffic flows and mobility in New South Wales, Victoria and the Australian Capital Territory despite focused cost control.

#### OTHER

Other includes corporate costs, 50% share of flybuys' net result, the net gain generated by Coles' property portfolio and self-insurance provisions. Coles 50% share of flybuys' net result was a loss of \$4 million for the half. In aggregate, this resulted in a \$32 million net cost for the half year driven by higher insurance costs and lower earnings from property operations.

### EVENTS AFTER THE REPORTING PERIOD

#### Dividends

On 22 February 2022, the directors declared an interim dividend of 33.0 cents per fully paid ordinary share with a payment date of 31 March 2022, 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 as at 2 January 2022 is \$441 million<sup>1</sup>.

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.

<sup>1</sup> 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 9.

This report is made in accordance with a resolution of the directors of the Company on 22 February 2022.



**James Graham AM**  
Chairman



**Steven Cain**  
Managing Director and Chief Executive Officer

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**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 review of the half-year financial report of Coles Group Limited for the half-year ended 2 January 2022, 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;
- b. No contraventions of any applicable code of professional conduct in relation to the review; and
- c. No non-audit services provided that contravene 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

David Shewring  
Partner  
22 February 2022

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## INCOME STATEMENT

FOR THE 27 WEEKS ENDED 2 JANUARY 2022

	NOTES	CONSOLIDATED	
		1H22 \$m	1H21 \$m
Sales revenue	2	20,593	20,390
Other operating revenue		192	191
<b>Total operating revenue</b>		<b>20,785</b>	<b>20,581</b>
Cost of sales		(15,347)	(15,226)
<b>Gross profit</b>		<b>5,438</b>	<b>5,355</b>
Other income		41	53
Administration expenses		(4,500)	(4,387)
Share of net loss of equity accounted investments		(4)	(1)
<b>Earnings before interest and tax (EBIT)</b>		<b>975</b>	<b>1,020</b>
Financing costs		(198)	(219)
<b>Profit before income tax</b>		<b>777</b>	<b>801</b>
Income tax expense	4	(228)	(241)
<b>Profit for the half year</b>		<b>549</b>	<b>560</b>
<b>Profit attributable to:</b>			
Equity holders of the parent entity		<b>549</b>	<b>560</b>
<b>Earnings per share (EPS) attributable to equity holders of the Company:</b>			
Basic EPS (cents)	3	41.2	42.0
Diluted EPS (cents)	3	41.1	42.0
<b>Other comprehensive income</b>			
Items that may be reclassified to profit or loss:			
Net movement in the fair value of cash flow hedges		8	(9)
Income tax effect	4	(3)	2
<b>Other comprehensive income/(loss) which may be reclassified to profit or loss in subsequent periods</b>		<b>5</b>	<b>(7)</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the parent entity		554	553

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

# BALANCE SHEET

AS AT 2 JANUARY 2022

		CONSOLIDATED		
		2 JANUARY 2022	27 JUNE 2021	3 JANUARY 2021
	NOTES	\$m	\$m	\$m
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	5	1,098	787	1,178
Trade and other receivables		336	368	415
Inventories		2,387	2,107	2,423
Assets held for sale		57	85	48
Other assets		97	87	69
<b>Total current assets</b>		<b>3,975</b>	<b>3,434</b>	<b>4,133</b>
<b>Non-current assets</b>				
Property, plant and equipment		4,432	4,463	4,276
Right-of-use assets		7,162	7,288	7,703
Intangible assets		1,806	1,698	1,620
Deferred tax assets	4	852	873	870
Equity accounted investments		221	220	220
Other assets		144	147	137
<b>Total non-current assets</b>		<b>14,617</b>	<b>14,689</b>	<b>14,826</b>
<b>Total assets</b>		<b>18,592</b>	<b>18,123</b>	<b>18,959</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables		4,282	3,660	4,173
Provisions		834	950	877
Income tax payable		11	60	10
Lease liabilities		905	897	910
Other		313	252	294
<b>Total current liabilities</b>		<b>6,345</b>	<b>5,819</b>	<b>6,264</b>
<b>Non-current liabilities</b>				
Interest-bearing liabilities	6	1,044	1,142	1,140
Provisions		459	458	481
Lease liabilities		7,730	7,859	8,258
Other		5	32	24
<b>Total non-current liabilities</b>		<b>9,238</b>	<b>9,491</b>	<b>9,903</b>
<b>Total liabilities</b>		<b>15,583</b>	<b>15,310</b>	<b>16,167</b>
<b>Net assets</b>		<b>3,009</b>	<b>2,813</b>	<b>2,792</b>
<b>Equity</b>				
Contributed equity		1,602	1,585	1,590
Reserves		72	69	48
Retained earnings		1,335	1,159	1,154
<b>Total equity</b>		<b>3,009</b>	<b>2,813</b>	<b>2,792</b>

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

## STATEMENT OF CHANGES IN EQUITY

FOR THE 27 WEEKS ENDED 2 JANUARY 2022

	CONTRIBUTED EQUITY	SHARE-BASED PAYMENTS RESERVE	CASH FLOW HEDGE RESERVE	RETAINED EARNINGS	TOTAL
	\$m	\$m	\$m	\$m	\$m
<b>1H22</b>					
<b>Balance at beginning of half year</b>	1,585	88	(19)	1,159	2,813
Net profit for the half year	-	-	-	549	549
Other comprehensive income	-	-	5	-	5
<b>Total comprehensive income for the half year</b>	-	-	<b>5</b>	<b>549</b>	<b>554</b>
Share-based payments expense	-	15	-	-	15
Issue/(Transfer) of shares to satisfy equity investment plan	17	(17)	-	-	-
Dividends paid	-	-	-	(373)	(373)
<b>Balance at end of half year</b>	<b>1,602</b>	<b>86</b>	<b>(14)</b>	<b>1,335</b>	<b>3,009</b>
<b>1H21</b>					
<b>Balance at beginning of half year</b>	1,611	56	(13)	961	2,615
Net profit for the half year	-	-	-	560	560
Other comprehensive loss	-	-	(7)	-	(7)
<b>Total comprehensive income for the half year</b>	-	-	<b>(7)</b>	<b>560</b>	<b>553</b>
Share-based payments expense	-	12	-	-	12
Purchase of shares under Equity Incentive Plan	(21)	-	-	-	(21)
Dividends paid	-	-	-	(367)	(367)
<b>Balance at end of half year</b>	<b>1,590</b>	<b>68</b>	<b>(20)</b>	<b>1,154</b>	<b>2,792</b>

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

## CASH FLOW STATEMENT

FOR THE 27 WEEKS ENDED 2 JANUARY 2022

	NOTES	CONSOLIDATED	
		1H22 \$m	1H21 \$m
<b>Cash flows from operating activities</b>			
Receipts from customers		21,956	21,814
Payments to suppliers and employees		(19,892)	(19,657)
Interest paid		(21)	(18)
Interest component of lease payments		(181)	(199)
Interest received		-	3
Income tax paid		(259)	(207)
<b>Net cash flows from operating activities</b>		<b>1,603</b>	<b>1,736</b>
<b>Cash flows used in investing activities</b>			
Purchase of property, plant and equipment and intangibles		(451)	(615)
Proceeds from sale of property, plant and equipment		77	112
Investments in joint venture		(3)	(4)
<b>Net cash flows used in investing activities</b>		<b>(377)</b>	<b>(507)</b>
<b>Cash flows used in financing activities</b>			
Proceeds from borrowings		2,158	4,236
Repayment of borrowings		(2,256)	(4,450)
Payment of principal elements of lease payments		(444)	(441)
Dividends paid		(373)	(367)
Purchase of shares under Equity Incentive Plan		-	(21)
<b>Net cash flows used in financing activities</b>		<b>(915)</b>	<b>(1,043)</b>
<b>Net increase in cash and cash equivalents</b>		<b>311</b>	<b>186</b>
Cash at the beginning of the half year		787	992
<b>Cash at the end of the half year</b>	5	<b>1,098</b>	<b>1,178</b>

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 its subsidiaries (collectively, 'the Group') for the 27 weeks ended 2 January 2022 were authorised for issue in accordance with a resolution of the directors on 22 February 2022.

References in this report to 'half year' are the 27 week period from 28 June 2021 to 2 January 2022 (1H21: 27 weeks, 29 June 2020 to 3 January 2021) 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 Half Year Financial Report for 27 weeks ended 2 January 2022 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 2021 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.

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 judgements, 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 2021 Financial Report.

### NEW AND AMENDED STANDARDS AND INTERPRETATIONS ADOPTED FROM 28 JUNE 2021

A number of 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.

### 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.

### IMPACTS OF COVID-19

The Group continues to monitor business performance and relevant external factors including the ongoing government response to COVID-19. No adjustments to the key judgements, estimates or assumptions impacting the consolidated financial statements at the reporting date have been identified.

## 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:

<b>SUPERMARKETS</b>	Fresh food, groceries and general merchandise retailing (includes Coles Online and Coles Financial Services)
<b>LIQUOR</b>	Liquor retailing, including online services
<b>EXPRESS</b>	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 financial 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
<b>1H22</b>					
Sales revenue	18,016	1,999	578	-	20,593
<b>Segment EBIT</b>	<b>896</b>	<b>99</b>	<b>12</b>	<b>(32)</b>	<b>975</b>
Financing costs					(198)
<b>Profit before income tax</b>					<b>777</b>
Income tax expense					(228)
<b>Profit for the half year</b>					<b>549</b>
Share of net profit / (loss) of equity accounted investments included in EBIT					(4)
<b>1H21</b>					
Sales revenue	17,812	1,946	632	-	20,390
<b>Segment EBIT</b>	<b>903</b>	<b>104</b>	<b>32</b>	<b>(19)</b>	<b>1,020</b>
Financing costs					(219)
<b>Profit before income tax</b>					<b>801</b>
Income tax expense					(241)
<b>Profit for the half year</b>					<b>560</b>
Share of net profit / (loss) of equity accounted investments included in EBIT					(1)



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 3. EARNINGS PER SHARE (EPS)

	1H22	1H21
<b>EPS attributable to equity holders of the Company:</b>		
Basic EPS (cents)	41.2	42.0
Diluted EPS (cents)	41.1	42.0
Profit for the half year (\$m)	549	560
Weighted average number of ordinary shares for basic and diluted EPS (shares, million)	1,335	1,334

#### CALCULATION METHODOLOGY

EPS is the profit after tax 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.

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 Income Statement are set out below:

	CONSOLIDATED	
	1H22 \$m	1H21 \$m
Current income tax expense	210	260
Deferred income tax relating to origination and reversal of temporary differences	18	(19)
<b>Income tax expense reported in the Income Statement</b>	<b>228</b>	<b>241</b>

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

	CONSOLIDATED	
	1H22 \$m	1H21 \$m
Profit before tax	777	801
<b>Profit before income tax</b>	<b>777</b>	<b>801</b>
At Australia's corporate tax rate of 30% (3 January 2021: 30%)	233	240
Share of results of joint venture	1	-
Non-deductible expenses for tax purposes	-	1
Non-assessable income for tax purposes	(6)	-
<b>At the effective income tax rate of 29.3% (3 January 2021: 30.1%)</b>	<b>228</b>	<b>241</b>
<b>Income tax expense reported in the Income Statement</b>	<b>228</b>	<b>241</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 4. INCOME TAX (CONTINUED)

#### The major components of income tax expense recognised in other comprehensive income (OCI)

	CONSOLIDATED	
	1H22 \$m	1H21 \$m
Deferred tax related to items recognised in OCI during the year:		
Net loss/(income) on revaluation of cash flow hedges	(3)	2
<b>Deferred tax charged to OCI</b>	<b>(3)</b>	<b>2</b>

#### Deferred income tax balances recognised in the Balance Sheet

	CONSOLIDATED	
	2 JANUARY 2022 \$m	27 JUNE 2021 \$m
Provisions	94	92
Employee benefits	230	257
Trade and other payables	20	19
Inventories	54	45
Property, plant and equipment	165	153
Intangible assets	10	18
Lease liabilities	2,590	2,627
Cash flow hedges	6	9
Other individually insignificant balances	3	12
<b>Deferred tax assets</b>	<b>3,172</b>	<b>3,232</b>
Accelerated depreciation for tax purposes	110	116
Right-of-use assets	2,149	2,186
Other assets	9	9
Other individually insignificant balances	52	48
<b>Deferred tax liabilities</b>	<b>2,320</b>	<b>2,359</b>
<b>Net deferred tax assets</b>	<b>852</b>	<b>873</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

	CONSOLIDATED	
	2 JANUARY 2022 \$m	27 JUNE 2021 \$m
Cash on hand and in transit	574	576
Cash at bank and on deposit	524	211
<b>Total cash and cash equivalents</b>	<b>1,098</b>	<b>787</b>

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.

### 6. INTEREST-BEARING LIABILITIES

	CONSOLIDATED	
	2 JANUARY 2022 \$m	27 JUNE 2021 \$m
<b>Non-current</b>		
Bank debt	-	98
Capital market debt	1,044	1,044
<b>Total non-current interest-bearing liabilities</b>	<b>1,044</b>	<b>1,142</b>

In August 2021 the Group refinanced its bilateral debt facilities and replaced \$1.3 billion of existing facilities with Sustainability Linked Loans (SLL). The SLL draws a direct line between Coles' sustainability performance and cost of capital through margin adjustment incentives by achieving sustainability targets linked to specific metrics. The SLL was undrawn at 2 January 2022.

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.

### 7. DIVIDENDS PAID AND PROPOSED

	CENTS PER SHARE		TOTAL \$m	
	1H22	1H21	1H22	1H21
<b>Fully franked dividends determined and paid during the period</b>				
Prior year final dividend	28.0	27.5	373	367
	<b>28.0</b>	<b>27.5</b>	<b>373</b>	<b>367</b>
<b>Fully franked dividends proposed and unrecognised at reporting date</b>				
Interim dividend proposed and unrecognised at reporting date	33.0	33.0	441 <sup>1</sup>	440
	<b>33.0</b>	<b>33.0</b>	<b>441</b>	<b>440</b>

<sup>1</sup>Estimated interim dividend payable, subject to variations in the number of shares up to the record date.

The Company operates a Dividend Reinvestment Plan (DRP) under which eligible holders of ordinary shares are able to reinvest all or part of their dividend payments into additional fully paid Coles Group Limited shares.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 8. 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 27 June 2021. The Group's impairment tests for goodwill are based on fair value less costs of disposal (FVL COD). FVL COD calculations are based on the discounted cash flows expected to arise from the asset or cash generating unit (CGU) using assumptions that a market participant would use when pricing the asset or CGU. The key assumptions used to determine the recoverable amounts for the CGUs to which goodwill relates are disclosed in the Financial Report for the year ended 27 June 2021.

A review of indicators of impairment relating to goodwill was performed as at 2 January 2022. Indicators of impairment were identified for the Express CGU and a full impairment test was performed. A post-tax discount rate of 7.8% and a nil terminal growth rate were applied.

Sensitivity analysis was performed to determine the point at which the recoverable amount is equal to the carrying amount for the Express CGU. Based on current economic conditions and CGU performance, no reasonably possible change in a key assumption used in the determination of the recoverable value is expected to result in an impairment.

Impairment calculations for the Group's other CGUs have not been updated as no indicators of impairment were identified as at 2 January 2022 for these CGUs.

No material impairment has been recognised in the half year ended 2 January 2022.

### 9. 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.

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<b>LEVEL 1</b>	Fair value is calculated using quoted prices in active markets for identical assets or liabilities
<b>LEVEL 2</b>	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)
<b>LEVEL 3</b>	Fair value is estimated using inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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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 reporting 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, interest rate swap contracts and power purchase agreements 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, interest rate curves and electricity futures. Accordingly, these derivatives are classified as Level 2.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 9. FINANCIAL INSTRUMENTS (CONTINUED)

#### 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 for the reporting period are materially the same as disclosed in the Financial Report for the period ended 27 June 2021.

### 10. RELATED PARTY DISCLOSURES

#### Parent entity

The ultimate parent entity within the Group is the Company, which is domiciled and incorporated in Australia.

#### Transactions with subsidiaries

Intercompany transactions, assets and liabilities between entities within the Group have been eliminated in the consolidated financial statements.

#### 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 2 January 2022, including:

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

Transactions remain materially the same as disclosed in the Financial Report for the period ended 27 June 2021.

Various transactions occurred between the Group and Queensland Venue Co Pty Ltd (QVC) during the half year ended 2 January 2022, including:

- service fees paid
- sales of inventory to QVC

Transactions remain materially the same as disclosed in the Financial Report for the period ended 27 June 2021.

#### 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.

As at 2 January 2022, the Group has not recognised a provision for expected credit losses relating to amounts owed by related parties (27 June 2021: \$nil).

### 11. COMMITMENTS

Capital expenditure commitments of the Group are set out below:

	CONSOLIDATED	
	2 JANUARY 2022 \$m	27 JUNE 2021 \$m
Within one year	305	244
Between one and five years	154	177
<b>Total capital commitments for expenditure</b>	<b>459</b>	<b>421</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 12. CONTINGENCIES

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

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

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

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

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

### 13. EVENTS AFTER THE HALF YEAR REPORTING PERIOD

Other than events disclosed elsewhere in this report, the Group is not aware of any 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.

## DIRECTORS' DECLARATION

The directors of Coles Group Limited (the Company) declare that, in their opinion:

- a) the financial statements and notes of the Group for the half year ended 2 January 2022 are in accordance with the *Corporations Act 2001*, including:
  - I. giving a true and fair view of the financial position as at 2 January 2022 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

22 February 2022



**Steven Cain**

Managing Director and Chief Executive Officer

22 February 2022

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**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

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

### **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 Balance Sheet as at 2 January 2022, the Income Statement, Statement of Other Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group does not comply with the *Corporations Act 2001*, including:

- a. Giving a true and fair view of the consolidated financial position of the Group as at 2 January 2022 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*.

### **Basis for conclusion**

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year 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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

### **Directors' responsibilities 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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## Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us 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 financial position as at 2 January 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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.

A handwritten signature in black ink, appearing to read 'Ernst &amp; Young', written over a faint, larger version of the same text.

Ernst & Young

A handwritten signature in black ink, appearing to read 'David Shewring', written over a faint, larger version of the same text.

David Shewring  
Partner  
Melbourne  
22 February 2022

