24 August 2022

The Manager
Company Announcements Office
Australian Securities Exchange

Dear Sir or Madam

Coles Group Limited – 2022 Full Year Results Release

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

This announcement is authorised by the Board.

Yours faithfully,

Daniella Pereira
Company Secretary

Results Release

colesgroup

24 August 2022

2022 Full Year Results Release

Third year of strategy execution delivers solid Supermarkets sales and earnings despite significant COVID-19 and flood disruptions

Full Year Group performance highlights

- Sales revenue growth of 2.0% to $39.4 billion with strong eCommerce performance in Supermarkets and Liquor cycling elevated COVID-19 related prior year sales
- Three-year headline sales growth of 12.0% in Supermarkets, 18.0% in Liquor and 8.1% in Express
- Q4 comparable sales growth of 3.7% in Supermarkets, 1.9% in Liquor and 1.1% in Express
- Stable EBITDA and EBIT of $3,440 million and $1,869 million respectively, despite significant COVID-19 costs, transformation project costs, flood events and lower Express earnings as a result of reduced mobility from COVID-19 lockdowns
- Smarter Selling benefits of approximately $230 million in FY22, on track to deliver our four year program of $1 billion of benefits by end of FY23
- Cash realisation of 104%, capital expenditure of $1.2 billion and net debt of $506 million
- Fully-franked final dividend of 30.0 cents per share declared, taking total FY22 dividends to 63.0 cents per share, an increase of 3.3% compared to FY21
- Improved safety with 14.7% reduction in TRIFR compared to FY21

Key financial results - 52 weeks ended 26 June 2022

	FY22	FY21	CHANGE
Sales revenue[1] ($ millions)	**39,369**	**38,585**	**2.0%**
EBITDA[2] ($ millions)	3,440	3,432	0.2%
EBIT[2] ($ millions)	**1,869**	**1,873**	**(0.2)%**
Net profit after tax ($ millions)	**1,048**	**1,005**	**4.3%**
Basic earnings per share (cents)	78.8	75.3	4.6%
Interim dividend per share[3] (cents)	33.0	33.0	-
Final dividend per share[3] (cents)	30.0	28.0	7.1%
Total dividend per share[3] (cents)	**63.0**	**61.0**	**3.3%**

[1] FY21 sales revenue has been restated to reflect a reclassification of fulfilment income to Sales revenue (previously reported within Other Income).
[2] FY22 includes approximately $30 million of implementation operating costs in relation to the Witron and Ocado transformation projects ($7 million in FY21).
[3] Dividends announced.

Statement from Coles Group CEO, Steven Cain

"We have now delivered the third year of our transformation strategy, including significant growth in our eCommerce operations, coupled with additional efficiencies from our Smarter Selling program. We continue to focus on delivery of our vision to be the most trusted retailer in Australia and grow long-term shareholder value.

I want to acknowledge the hard work of our team members, suppliers and community partners who have done an outstanding job in overcoming significant supply chain challenges including managing the impact of flooding on product availability, as well as continuing to support each other through elevated COVID-19 and flu cases which have resulted in higher levels of absenteeism. It is encouraging to see that domestic product availability is steadily improving whilst the international supply chain remains more volatile due to the ongoing shipping disruptions and the conflict in Ukraine.

With Australian families facing increased pressure on household budgets, our commitment to delivering trusted value remains more important than ever. As examples, we are beginning to see our customers buying significantly more $1 Coles pasta and our $1 coffee at Coles Express has never been more popular.

The ongoing headwind of rising cost inflation further underscores the importance of our Smarter Selling program. The commissioning commencement of three of our four automated distribution centres and online customer fulfilment centres in 2023 will also allow us to drive future efficiencies while delivering an enhanced offer to inspire customers."

Statement from Coles Group Chairman, James Graham

"This year reflected significant progress across all areas of the business and the critical role of investment in new technology and new systems to underpin long-term performance. The need for the Group to evaluate and respond quickly to a changing operating environment has never been more important as we focus on ensuring value for customers in an inflationary environment."

FY22 Strategic highlights

Inspire Customers

- Delivered trusted value with an extensive Exclusive to Coles range of almost 6,000 products, innovated through the launch of more than 1,300 Coles Own Brand products during the year, while successful value campaigns focused on lowering the cost of living for customers
- Supermarkets eCommerce sales growth of 41% with progress made in the unified customer experience through the launch of a new shoppable App enabling customers to shop anytime, anywhere, anyhow; capacity increased through the expansion of Click & Collect Rapid to more than 450 stores (more than 50 added over the year) and same day home delivery to more than 520 stores (more than 200 added over the year)
- Differentiated Liquor offer through strong growth in Exclusive Liquor Brand and local sales; Liquor eCommerce sales growth of 49% through an expanded range, continued roll out of Click & Collect and on demand (immediacy delivery) offer now available in more than 400 stores
- Ranked for the third year in a row as one of Australia's most trusted brands by Roy Morgan
- Provided additional value for Flybuys members with new customer offers and the addition of Bunnings and Officeworks to the Flybuys portfolio

Smarter Selling

- Delivered Smarter Selling benefits of approximately $230 million in FY22 and on track to deliver our four year program of $1 billion of benefits by FY23. The following key initiatives were delivered in FY22:
  - Dynamic markdowns rolled out to the fresh produce and dairy categories, following deployment of this technology in meat in the prior year
  - Continued roll out of front of store loss prevention initiatives with more than 80% of stores now protected with entry gates and glass balustrading
  - Alignment of meat operating models nationally to deliver high quality retail ready meat for customers
  - Service transformation in store with continued roll out of trolley assisted check outs and customer bagging benches, enabling greater customer choice while improving team member productivity
  - Streamlined distribution centre operations through automated (paperless) truck entry / exit for 45,000 supplier vehicles
  - Energy savings through the installation of demand-based heating, ventilation and air-conditioning as well as energy efficient LED lights across the Coles Express network
  - eCommerce van optimisation through adjusting store catchments, optimising routes, shift times and customer offerings
- Refreshed Coles career website and recruitment processes using technology to deliver a more streamlined and efficient process
- Ocado Sydney and Melbourne customer fulfilment centres (CFCs) handed over for robotic fit-out during the year; Internal fit-out of automation equipment and racking progressed in Witron Queensland automated distribution centre (DC) and fit-out of automation commenced in New South Wales automated DC
- Renewed 50 supermarkets as part of Coles' store format strategy including 12 Format A, 22 Format C, six Coles Local stores while in Liquor, 191 Black and White Liquorland, eight First Choice Liquor Market and nine Vintage Cellar Evolution stores were renewed

Win Together

- Significant improvements in team member safety and engagement, with a 14.7% reduction in TRIFR compared to FY21 and advances in mysay employee engagement survey with three percentage point improvement in overall team member engagement, and four percentage point increase in '*our company values the mental health of its team members*'
- Ranked the number two food retailer globally for sustainable business practices in the World Benchmarking Alliance's 2021 Food and Agriculture Benchmark[1]
- Secured path to 100% renewable electricity by end of FY25 through three additional renewable energy contracts to purchase large-scale generation certificates with Origin Energy, ACCIONA Energia, and ENGIE
- Achieved our highest Net Favourable score in Advantage Supplier Survey, the fourth consecutive year of improvement; partnered with farmers in Victoria and New South Wales to launch Coles Finest Certified Carbon Neutral Beef range[2], providing customers with more sustainable options and in Liquor, launched 100% recyclable eco-bottle wine range, reducing carbon emissions and saving energy in production and recycling
- Committed $10 million over 10 years to our 'Blue Carbon Partnership'[3] with the Great Barrier Reef Foundation, supporting programs to capture and store atmospheric carbon in marine ecosystems that are 30-50 times more efficient at this task than land-based forests
- Ranked number one for community contribution by an Australian company in the GivingLarge corporate philanthropy report, measured as a percentage of pre-tax profit over a three-year period, and second-largest overall
- In addition to our long standing programs of support in providing edible food for charities through our partnerships with SecondBite and Foodbank, significant contributions to other charities and community organisations were made in FY22. More than $8.6 million raised for FightMND to help fund research and treatments for Motor Neurone Disease, more than $4.1 million raised for Redkite to help families affected by childhood cancer and more than $1.8 million raised for the Red Cross Queensland and New South Wales Flood Appeal
- Recognised as a Gold tiered employer for the second year in a row at the 2022 Australian LGBTQ Inclusion Awards, based off the Australian Workplace Equality Index and by the Australian Network on Disability as a top employer for people with disability at the 2022 Disability Confidence Awards
- Strengthened Executive Leadership Team with the appointment of John Cox as Chief Technology Officer. Charlie Elias appointed as Chief Financial Officer (CFO) with Leah Weckert (former CFO) appointed to the role of Chief Executive, Commercial and Express

[1] Based on 2021 Food and Agriculture Benchmark of 350 food and agriculture companies globally by the World Benchmarking Alliance. Benchmark across four key measurement areas of social inclusion, nutrition, governance & strategy, and environment. Coles ranked #12/350 companies overall and #2/62 of food retailers globally.

[2] Product is certified carbon neutral from paddock to shelf under Climate Active's Carbon Neutral Standard and ranged in selected Victorian stores.

[3] Coles' partnership with the Great Barrier Reef Foundation will dedicate funds towards a number of innovative projects based on 'blue carbon' – the process of capturing and storing carbon in oceanic or coastal ecosystems such as mangroves, tidal marshes and seagrasses. These ecosystems have the potential to capture and store more carbon than tropical rainforests, helping in the fight against climate change. More information can be found at: https://www.colesgroup.com.au/media-releases/?page=coles-commits-10-million-to-help-protect-the-great-barrier-reef

Group performance overview

$ MILLION	FY22	FY21	CHANGE	3-YEAR CHANGE[1]
Supermarkets[2]	34,624	33,868	2.2%	12.0%
Liquor	3,613	3,525	2.5%	18.0%
Express	1,132	1,192	(5.0)%	8.1%
Group sales revenue	**39,369**	**38,585**	**2.0%**	**12.4%**

[1] Three-year growth is calculated as growth between FY22 and FY19 (retail calendar basis).
[2] FY21 sales revenue has been restated to reflect a reclassification of fulfilment income to Sales revenue (previously reported within Other Income).

$ MILLION	FY22	FY21	CHANGE	3-YEAR CHANGE[1]
Supermarkets	35,668	34,645	3.0%	13.0%
Liquor	3,627	3,542	2.4%	18.0%
Express	1,201	1,262	(4.8)%	7.0%
Group gross retail sales[2] (non-IFRS)	**40,496**	**39,449**	**2.7%**	**13.3%**

[1] Three-year growth is calculated as growth between FY22 and FY19 (retail calendar basis).
[2] Gross retail sales comprises retail sales on a gross basis before adjusting for concession sales and the cost of Flybuys scheme points. Fuel concession sales are excluded from Express Gross retail sales on the basis Coles does not control retail pricing.

$ MILLION	FY22	FY21	CHANGE
Supermarkets[1]	3,022	3,001	0.7%
Liquor	278	276	0.7%
Express	181	207	(12.6)%
Other	(41)	(52)	21.2%
Group EBITDA	**3,440**	**3,432**	**0.2%**

[1] FY22 includes approximately $30 million of implementation operating costs in relation to the Witron and Ocado transformation projects ($7 million in FY21).

$ MILLION	FY22	FY21	CHANGE
Depreciation and amortisation	**1,571**	**1,559**	**0.8%**

$ MILLION	FY22	FY21	CHANGE
Supermarkets[1]	1,715	1,702	0.8%
Liquor	163	165	(1.2)%
Express	42	67	(37.3)%
Other	(51)	(61)	16.4%
Group EBIT	**1,869**	**1,873**	**(0.2)%**

[1] FY22 includes approximately $30 million of implementation operating costs in relation to the Witron and Ocado transformation projects ($7 million in FY21).

FY22 performance summary and dividend

Despite cycling significantly elevated COVID-19 driven demand in the prior corresponding period, FY22 Group sales revenue of $39.4 billion increased by 2.0% in FY22 and 12.4% on a three-year basis. Group gross retail sales of $40.5 billion increased by 2.7% and 13.3% on a three-year basis.

Group EBITDA of $3.4 billion increased by 0.2% and Group EBIT of $1.9 billion decreased by (0.2)%. EBIT includes COVID-19 costs of approximately $240 million and project implementation operating costs in relation to the Witron and Ocado transformation projects of approximately $30 million. Smarter Selling benefits of approximately $230 million were also realised during the year. The vast majority of these EBIT impacts were borne by Supermarkets while Liquor comprised a minor component. Express earnings softened during the year due to reduced mobility from COVID-19 travel restrictions.

The Coles Board has declared a fully-franked final dividend of 30.0 cents per share with a record date of 5 September 2022 and a payment date of 28 September 2022.

Update on COVID-19 and flood impacts

Supermarkets

Extended lockdowns in New South Wales, the Australian Capital Territory and Victoria for much of the first half led to higher sales and customers preferring or having to shop locally rather than in larger, shopping centre stores. As restrictions eased, sales growth remained elevated with a strong Christmas trading period and the contribution from shopping centre stores increasing.

As Omicron became more prevalent early in the second half and despite the lack of formal restrictions, local shopping trends re-emerged. In addition, availability issues in store as a result of a large number of Coles and supplier team members requiring to isolate again led to customers choosing to shop at their local store network. The availability challenges also impacted Coles' promotional program which was restored by the end of the year. Pleasingly availability metrics improved throughout the fourth quarter.

With no formal COVID-19 restrictions, local shopping trends subsided with the contribution from shopping centre stores increasing over the fourth quarter.

The highly disruptive flood events in South Australia, New South Wales and Queensland early in the second half caused severe road and rail logistics disruptions, including the longest recorded road and rail outage to Western Australia, impacting availability. This also led to approximately 30 temporary store closures and by the end of the year, one store remained closed and one store was permanently closed.

eCommerce growth remained elevated early in FY22 with penetration reaching 8.8% in the first quarter. As the year progressed and restrictions eased, customers returned to shopping in store with penetration in the fourth quarter at 7.4%, however eCommerce sales are more than two times pre-pandemic levels.

Liquor

Liquor sales remained elevated in the first half with the closure of on-premise venues in New South Wales, the Australian Capital Territory and Victoria. However the COVID-19 sales impacts tapered over the year as restrictions eased and on-premise venues re-opened. The emergence of Omicron early in the second half also impacted sales with limited social gatherings and associated liquor consumption with customers still preferring larger pack sizes. Consistent with Supermarkets, availability was also impacted as a result of Liquor and supplier team members requiring to isolate.

Liquor stores were also disrupted due to the flood events in February with 66 Liquor stores initially impacted with seven stores remaining closed at the end of the year.

eCommerce performed strongly across the year with penetration peaking at 5.0% in the second quarter and ending the fourth quarter at 4.5%.

Express

Fuel volumes were negatively impacted from reduced mobility and traffic flows as a result of lockdowns in the first half. The recovery from COVID-19 restrictions slowed throughout the second half due to the flood events, inclement weather as well as higher fuel prices driven by global oil prices, in part, due to the conflict in Ukraine. More than 30 Express sites were closed as a result of the floods with three remaining closed at the end of the year.

Costs

COVID-19 costs of approximately $240 million were incurred during the year, compared to approximately $130 million of COVID-19 costs incurred in FY21. After peaking at approximately $30 million in January, costs significantly reduced over the remainder of the year to approximately $26 million in the fourth quarter. COVID-19 costs were incurred primarily in the Supermarkets and Liquor segments and largely related to store remuneration, including costs in relation to team member absenteeism, recruitment, rapid antigen testing and additional door greeters to ensure QR code compliance in the early part of the first half.

Coles incurred direct costs from the flood events in the second half of approximately $30 million including the loss of stock, asset write-offs and increased freight costs through rail and road disruptions. The majority of these costs were recovered through insurance in the fourth quarter.

Update on Witron and Ocado transformation projects

Witron

Coles' commitment towards modernising its supply chain led to the partnership in October 2018 with Witron to develop two automated DCs located in Redbank, Queensland and Kemps Creek, New South Wales.

Our investment in this exclusive partnership with Witron, the automated DC market leader delivering over 70 facilities globally, is a foundation of our sustainable strategic differentiation by delivering long-term structural cost advantage through automation, data and technology.

The benefits of the automated DCs include:

- Safer working environments with improved service at a lower cost
- Reduced lead time to deliver better availability, with both sites providing full case pick ambient range in each state
- Double the volume on half the footprint and approximately two-thirds operating costs of a standard site

Construction and installation of the automated DCs is progressing well despite the challenges, in particular of COVID-19, and disrupted global transport and supply chains. These factors, together with elevated commodity prices and higher labour costs, have increased the estimated capital investment over the four and a half year period, inclusive of contingency, to approximately $1,040 million from the previously advised $950 million.

The facilities are due to be commissioned within the previously communicated timeframes. The Redbank Qld facility in 3Q23 and Kemps Creek NSW in 3Q24.

Ocado

Our partnership with Ocado, the world's leading technology provider in automated single pick fulfilment technology and home delivery solutions, is a core foundation of Coles' strategic differentiator to "win in food and drink with a unique omnichannel offering".

The Ocado program is focused on NSW and Victoria and includes:

- Seamless digital customer experience with a unified App and website
- Improved product availability and freshness with delivered in full on time expected to be industry leading
- Greater product range. The CFCs will open with an expanded range compared to our current average home delivery store range and growing to approximately 40k SKU's over time, approximately double our existing home delivery store range
- Increased network capacity with spokes to extend the CFC catchment areas for efficient last mile delivery

Coles' eCommerce sales are now 2.7x the level at the time of entering our partnership with Ocado in March 2019. The rate of increase is higher than previously anticipated, largely driven by COVID-19. Our strategic plans have adapted to meet this significant uplift in demand and include significant investment in digital platforms and nationwide capacity.

As advised in February 2022, as a result of Coles' significant investments in customer experience and the rapid acceleration in eCommerce revenue and penetration since the onset of COVID-19, Coles and Ocado agreed to update arrangements regarding how the Ocado Smart Platform (OSP) will integrate with these new initiatives. Coles will manage the online store and web presence for the intake of orders, and Ocado will provide OSP automated fulfilment functionality through the CFCs and store pick channels, as well as last-mile solutions.

At the time Coles announced the Ocado partnership in March 2019, it expected capital expenditure, inclusive of upfront Ocado fees, to be in the range of $130-150 million over the four-year development and construction period.

In order to maximise the potential of the CFCs, in addition to the significant eCommerce investments, Coles has enhanced the customer offer to include features such as onsite bakeries and fresh cut produce rooms (a world first) and expanded the catchment zones within the hub and spoke model.

These investments together with COVID-19 schedule delays, expanded scope and integration costs have increased the estimated total capital expenditure of the program to approximately $330 million, inclusive of contingency and upfront fees.

The automated CFCs are due to open within the previously communicated timeframes. The NSW facility is due to open in 1Q24 and the Victorian facility in mid-FY24.

Implementation capital and operational expenditure

In FY23 Coles expects to spend approximately $310 million in capital expenditure in relation to Witron and Ocado and this is included within group capital expenditure guidance. The cumulative spend for both projects to the end of FY23 is estimated to account for approximately 75% of the total project capital expenditure.

FY23 and FY24 will be landmark years for Coles with the proposed commissioning of the four automated distribution centres and online customer fulfilment centres. The estimated financial impact of the project implementation operating expenditure, including the ramp-up, dual running and transition costs partially offset by early benefits, is detailed below.

$ MILLION	FY23	FY24
Project implementation opex[1,2]	~(115)	~(135)
Depreciation	~(25)	~(85)
EBIT Impact	**~(140)**	**~(220)**

[1] Previous guidance was up to $75m and $160m for FY22 and FY23 respectively. Actual spend in FY22 was $30m. FY23 and balance of FY22 now re-phased in line with project delivery.
[2] Project implementation operating expenditure is inclusive of ramp up, dual running and transition costs (net of early benefits).

As previously communicated, net EBIT benefits from Witron are expected to commence from FY25 and sales benefits from Ocado are expected from FY24 as the customer fulfilment centres build volumes.

Segment performance review

Supermarkets

$ MILLION	FY22	FY21	CHANGE
Sales revenue[1]	**34,624**	**33,868**	**2.2%**
EBITDA[2]	3,022	3,001	0.7%
EBIT[2]	**1,715**	**1,702**	**0.8%**
Gross margin (%)	26.3	25.9	42bps
CODB[1] (%)	(21.4)	(20.9)	(50bps)
EBIT margin (%)	5.0	5.0	(7bps)

[1] FY21 sales revenue and CODB have been restated to reflect a reclassification of fulfilment income to Sales revenue (previously reported within Other Income).
[2] FY22 includes approximately $30 million of implementation operating costs in relation to the Witron and Ocado transformation projects ($7 million in FY21).

Operating metrics (non-IFRS)

	FY22	2H22	1H22	FY21
Gross retail sales[1] ($ billions)	35.7	17.1	18.6	34.6
Gross retail sales growth (%)	3.0	4.0	2.0	3.0
Comparable sales growth (%)	2.6	3.8	1.5	2.5
eCommerce sales[2] ($ billions)	2.8	1.3	1.5	2.0
eCommerce penetration[2] (%)	7.9	7.6	8.2	5.8
Sales density per square metre[3] (MAT $/sqm)	18,209	18,209	17,919	17,847
Net promoter score (point increase/(decrease))	(3.6)	(7.5)	0.2	2.3
Inflation / (deflation) (%)	1.7	3.8	(0.2)	0.8
Inflation / (deflation) excl. tobacco and fresh (%)	1.6	3.6	(0.2)	(0.8)

[1] Gross retail sales comprises retail sales on a gross basis before adjusting for concession sales and the cost of Flybuys scheme points.
[2] eCommerce sales include Liquor sold through coles.com.au. FY21 eCommerce penetration has been restated to reflect a reclassification of fulfilment income to Sales revenue (previously reported within Other Income).
[3] Sales density per square metre is on a moving annual total (MAT), calculated on a rolling 52-week basis.

Performance highlights

Supermarkets sales revenue was $34.6 billion for the year, an increase of 2.2% on the prior corresponding period and 12.0% on a three-year basis. Gross retail sales of $35.7 billion increased by 3.0% and comparable sales grew by 2.6% on the prior corresponding period. For the fourth quarter, sales revenue increased by 3.0% year-on-year and 12.6% on a three-year basis (10.9% on a three-year basis in the third quarter), while comparable sales growth was 3.7%.

Sales revenue growth was driven by the successful execution of trade plans throughout the year including the seasonal Christmas and Easter campaigns, the KitchenAid Ovenware and MasterChef Knives customer continuity programs, as well as value campaigns focused on lowering the cost of living for customers. eCommerce also contributed to sales revenue growth, particularly in the first half during the lockdowns in New South Wales, Victoria and the Australian Capital Territory. Supplier cost price increases resulted in inflation of 3.8% in the second half, compared to deflation of (0.2)% in the first half.

Customer satisfaction, as measured by Net Promoter Score (NPS), was negatively impacted as a result of supply chain challenges which impacted availability for customers, particularly in the second half.

eCommerce sales of $2.8 billion grew by 41% year-on-year with penetration of 7.9% in FY22, compared to 5.8% in the prior corresponding period. During the year, Coles Online increased its network coverage with 95% of Australians now having access to home delivery. The Click & Collect network expanded to more than 740 stores with Click & Collect to the boot of car available at more than 670 stores. With a focus on immediacy, Click & Collect Rapid was expanded to more than 450 stores and same day home delivery expanded to more than 520 stores.

The unified customer experience was enhanced through the launch of a shoppable Coles App. Benefits for Coles Plus members were also expanded during the year offering a differentiated omnichannel experience with online and instore shopping benefits.

Total Supermarkets price inflation of 1.7% was recorded for the year and 4.3% for the fourth quarter. In the fourth quarter, fresh inflation was 4.7% and driven by both bakery, reflecting higher wheat prices, and fresh produce, due to the Queensland and New South Wales floods impacting supply, particularly in vine and soft vegetables such as tomatoes, capsicums and broccoli. This was partly offset by fruit deflation, particularly in bananas and grapes. Supermarkets recorded packaged inflation of 1.6% for the year and 4.3% for the fourth quarter. Raw material, commodity, shipping and fuel costs remained the key driver to supplier input cost requests received in the fourth quarter impacting inflation in packaged.

Trusted value was delivered during the year through the Exclusive to Coles range with sales revenue growing by 4.2% to $11.4 billion in FY22. More than 1,300 new Coles Own Brand products were launched during the year, including Coles' liquid Breakfast on the Move (BOM) range and Coles PerForm sports nutrition products and supplements, ranging from performance meals and soups to high protein bars and powders. Coles was also the first major Australian supermarket to launch a certified own brand carbon neutral beef product. During the year, Coles Own Brand won 91 product awards including nine consumer-voted Product of the Year awards for product innovation across a range of products including Coles' Ultimate 40% Choc Chip Cookies, DALEY ST Dark Ground Coffee, Finest Beef Herbs and Spices Sausages and Coles Kitchen Green Goddess Salad Kit.

Coles continues to deliver trusted value to customers. With an Exclusive to Coles range of almost 6,000 products, Coles provides extensive value-oriented options to support customers as cost of living pressures increase. Seasonal value campaigns and everyday pricing have continued to support strong value offers across the year, with prices maintained on many essential everyday items. This includes Coles Durum Wheat Pasta (500 gms), Coles Tuna (85 gms), Coles Baked Beans (420 gms) and Coles Italian Diced Tomatoes (400 gms) which continue to be priced at '$1 or less'.

Coles completed 50 store renewals during the year including 12 Format A, 22 Format C and six Coles Local stores. For the year, 11 new openings and ten closures were completed. At the end of FY22 there were 835 Supermarkets in the fleet.

Gross margin of 26.3% increased by 42 bps year-on-year with strategic sourcing and Smarter Selling benefits such as supply chain and loss prevention initiatives partially offset by COVID-19 costs incurred in the year.

Cost of doing business (CODB) as a percentage of sales increased by 50 bps to 21.4% due to COVID-19 costs (approximately $160 million compared to approximately $90 million incurred in the prior corresponding period), higher fuel costs and underlying cost inflation. Strategic investments continued to be made in eCommerce, IT and digital. This was partially offset by Smarter Selling benefits. For the full year, approximately $30 million of implementation operating costs were incurred in relation to the Witron and Ocado transformation projects.

Supermarkets EBIT of $1.7 billion increased by 0.8% with an EBIT margin of 5.0%.

Liquor

$ MILLION	FY22	FY21	CHANGE
Sales revenue	**3,613**	**3,525**	**2.5%**
EBITDA	278	276	0.7%
EBIT	**163**	**165**	**(1.2)%**
Gross margin (%)	22.5	21.8	64bps
CODB (%)	(17.9)	(17.1)	(79bps)
EBIT margin (%)	4.5	4.7	(16bps)

Operating metrics (non-IFRS)

	FY22	2H22	1H22	FY21
Gross retail sales[1] ($ billions)	3.6	1.6	2.0	3.5
Gross retail sales growth (%)	2.4	2.1	2.6	6.8
Comparable sales growth (%)	2.1	2.4	1.8	6.3
eCommerce sales[2] ($m)	165	71	95	111
eCommerce penetration (%)	4.6	4.4	4.8	3.1
Net Promoter Score[3] (point increase/(decrease))	(0.8)	(2.6)	1.2	4.9
Sales density per square metre[4] (MAT $/sqm)	16,354	16,354	16,315	16,287

[1] Gross retail sales comprises retail sales on a gross basis before adjusting for concession sales and the cost of Flybuys scheme points.
[2] eCommerce sales exclude Liquor sold through coles.com.au which is reported in Supermarkets' eCommerce sales. FY21 eCommerce sales and penetration has been restated to reflect a reclassification of fulfilment income to Sales revenue (previously reported within Other Income).
[3] Net Promoter Score is based on Liquorland NPS results.
[4] Sales density per square metre is on a moving annual total (MAT), calculated on a rolling 52-week basis.

Key highlights

Liquor sales revenue was $3.6 billion for the year, an increase of 2.5% on the prior corresponding period and 18.0% on a three-year basis while comparable sales grew by 2.1%. Gross retail sales of $3.6 billion increased by 2.4%. For the fourth quarter, Liquor sales revenue increased by 1.6% and 14.3% on a three-year basis (12.0% on a three-year basis in the third quarter) while comparable sales growth was 1.9%.

Sales revenue growth was delivered as a result of solid trading across the year, particularly in the first half during the lockdowns in New South Wales, Victoria and the Australian Capital Territory when on-premise venues were closed. The Christmas and Easter trading periods were strong. Liquorland was the strongest performing banner with 191 Black and White Liquorland renewals completed, providing customers with an enhanced range of local wines, craft beers and boutique spirits. At a category level, Ready-To-Drink and Spirits were the key drivers of growth.

Customer satisfaction, as measured by NPS, was impacted by availability challenges early in the second half as a result of Omicron and flood impacts on supply chain. NPS began to recover during the fourth quarter as a result of a focus on team and availability metrics.

eCommerce sales grew by 49% with penetration of 4.6% in FY22, compared to 3.1% in the prior corresponding period. During the year, capacity was increased through the continued roll out of Click & Collect, the expansion of on demand (immediacy delivery) which is available in more than 400 stores, while 1,400 products were added to the online range.

Trusted value for customers was delivered through lowering prices for longer with more than 2,000 Price Drops across Liquourland and First Choice Liquor Market, pleasingly reflected in improved value metrics during the year. Exclusive Liquor Brand (ELB) and local product contribution grew strongly, delivered through improved range planning and market-leading sustainability innovations such as the 100% recyclable eco-bottle wine range launched during the year. The ELB portfolio continues to be recognised with more than 420 awards received during the year including ELB brand Smithy's winning the Australian Lager of the Year at the Melbourne International Beer Competition.

During the year, in order to achieve its vision of becoming "a simpler, more accessible and locally relevant drinks specialist", the strategic focus shifted to the "differentiate and grow" phase of Liquor's strategy (from "simplify and refocus"). This will further enable Liquor to differentiate and serve customers better, grow the ELB range and continue to build relationships with local suppliers across all channels and formats. Liquor will also focus on its eCommerce offering, including via Ocado, the renewal program, evolve its formats and optimise the network. Investments will continue in customer service, delivering trusted value and core IT systems.

Liquor completed 208 store renewals during the year including nine Vintage Cellar Evolution stores, in addition to the 191 Black & White Liquorland renewals. For the year, 16 new openings and 12 closures were completed. At the end of the period there were 933 Liquor stores.

Gross margin of 22.5% increased by 64 bps largely due to the strong performance in ELB and local.

CODB as a percentage of sales increased by 79 bps to 17.9% largely due to investments in customer service and team capability, as well as transformation costs in relation to IT systems. COVID-19 costs in relation to team member absenteeism and recruitment also increased throughout the second half. Depreciation and amortisation also increased by $4 million as a result of investments in renewals and new stores.

Liquor EBIT of $163 million decreased by 1.2% for the year driven by increased depreciation and amortisation, with an EBIT margin of 4.5%.

Express

$ MILLION	FY22	FY21	CHANGE
Convenience (c-store) sales revenue	**1,132**	**1,192**	**(5.0)%**
EBITDA	181	207	(12.6)%
EBIT	**42**	**67**	**(37.3)%**
Gross margin (%)	52.3	52.4	(12bps)
CODB (%)	(48.5)	(46.7)	(184bps)
EBIT margin (%)	3.7	5.7	(196bps)

Operating metrics (non-IFRS)

	FY22	2H22	1H22	FY21
C-store gross retail sales[1] ($ millions)	1,201	586	615	1,262
C-store gross retail sales growth[1] (%)	(4.8)	(1.0)	(8.1)	7.4
Comparable c-store sales growth (%)	(3.9)	0.1	(7.4)	6.8
Weekly fuel volumes (mL)	54.4	56.4	52.6	57.1
Fuel volume growth (%)	(4.7)	(4.2)	(5.2)	(4.0)
Comparable fuel volume growth (%)	(3.8)	(3.1)	(4.4)	(5.4)

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

Key highlights

C-store sales revenue was $1.1 billion for the year, a decrease of 5.0% on the prior corresponding period, however increased by 8.1% on a three-year basis. Gross retail sales of $1.2 billion decreased by 4.8% and comparable sales declined by 3.9%. For the fourth quarter, c-store sales revenue decreased by 0.2% however grew by 10.6% on a three-year basis while comparable sales growth was 1.1%.

C-store sales growth was negatively impacted by lower forecourt traffic due to lockdowns in New South Wales, Victoria and the Australian Capital Territory in the first half, while reduced mobility from the Omicron variant and flood events in New South Wales and Queensland impacted sales in the second half. The cycling of strong tobacco sales in the prior corresponding period due to the impacts of COVID-19 also had an impact. Excluding tobacco, c-store sales grew by 0.9% in FY22 with strong growth in food-to-go, including coffee and hot fast food, as well as drinks following recent range review activity.

During the year, Express completed the successful national roll-out of the Shell Coles Express App, providing customers with Pay at Pump and Store Locator functionality as well as monthly c-store offers.

Fuel volumes declined by 4.7% during the year with comparable fuel volumes declining by 3.8% driven by COVID-19 lockdowns, the flood events in New South Wales and Queensland as well as record-high fuel prices in the second half. Average weekly fuel volumes of 54.4mL per week were recorded during the year. For the fourth quarter, average weekly fuel volumes were 56.9mL per week.

For the year, one Express site was opened and seven closed, taking the total network to 711 sites.

Gross margin declined by 12 bps to 52.3% largely due to the declining fuel volumes. CODB as a percentage of sales of 48.5% increased by 184 bps largely due to lower sales, however overall CODB reduced relative to the prior corresponding period as a result of a strong focus on cost control.

Express EBIT for the year was $42 million with an EBIT margin of 3.7%.

coles group

Other

Coles reported net costs of $51 million for the year. Other includes corporate costs, Coles' 50% share of Flybuys' net result and the net gain or loss generated by Coles' property portfolio.

Corporate costs of $82 million were incurred for the year, broadly flat on the prior corresponding period of $83 million. Coles' 50% share of Flybuys' net result was a $7 million loss, due to increasing investment in technology and data, while earnings from property operations were $38 million for the year compared to $27 million in the prior corresponding period.

Balance sheet

$ MILLION	26 JUN 2022	2 JAN 2022	27 JUN 2021
Inventories	2,448	2,387	2,107
Trade and other receivables	470	336	368
Trade and other payables	(4,335)	(4,282)	(3,660)
Working capital	**(1,417)**	**(1,559)**	**(1,185)**
Property, plant and equipment and equity investments	5,026	4,653	4,683
Right-of-use assets	7,199	7,162	7,288
Intangibles	1,864	1,806	1,698
Provisions	(1,278)	(1,293)	(1,408)
Other assets / (liabilities)	53	(20)	35
Capital employed	**11,447**	**10,749**	**11,111**
Net (debt) /cash	(506)	54	(355)
Lease liabilities	(8,681)	(8,635)	(8,756)
Net tax balances	864	841	813
Total net assets	**3,124**	**3,009**	**2,813**
Inventory days	28	28	29
Trade payable days	(33)	(33)	(33)

Key highlights

Net assets were $3,124 million as at 26 June 2022, an increase of $311 million compared to the prior corresponding period.

Working capital of ($1,417) million improved by $232 million compared to the prior corresponding period, with higher inventories held at year end to support availability. Higher year end inventories combined with the 26 June year end also led to an increased trade payables balance with higher cost of sales stabilising the trade payables days compared to the prior corresponding period. Despite higher year end inventories, inventory days improved relative to the prior corresponding period as a result of sales growth and fluctuations in inventory balances throughout the year as availability was challenged at certain times.

Property, plant and equipment and equity investments of $5,026 million increased by $343 million compared to the prior corresponding period driven by increased capital expenditure.

Intangible assets of $1,864 million increased by $166 million compared to the prior corresponding period largely driven by the capital investment in technology, partially offset by amortisation.

Provisions of $1,278 million decreased by $130 million compared to the prior corresponding period driven by lower employee entitlements as team members utilised leave balances as COVID-19 restrictions eased. In addition, the Witron transformation provision was utilised throughout the year following the closure of the Goulburn distribution centre in the first half.

Net debt (excluding lease liabilities) of $506 million was $151 million higher compared to the prior corresponding period. At year end, Coles' average debt maturity was 6.0 years, with undrawn facilities of $2.3 billion.

Coles remains committed to maintaining diversified funding sources and extending its debt maturity profile over time. The lease-adjusted leverage ratio at year end was 2.8x with current published credit ratings of BBB+ with Standard & Poor's and Baa1 with Moody's. Coles retains headroom within our rating agency credit metrics with a strong balance sheet that remains ready to support growth initiatives.

Cash flows before financing activities

$ MILLION	FY22	FY21
EBIT	1,869	1,873
Depreciation and amortisation	1,571	1,559
EBITDA	**3,440**	**3,432**
Movement in working capital	232	48
Movement in provisions and other	(94)	148
Net cash from operating activities – excluding interest and tax	**3,578**	**3,628**
Income tax paid	(485)	(358)
Interest component of lease payments	(363)	(390)
Net interest paid	(40)	(43)
Net cash from operating activities	**2,690**	**2,837**
Net capital expenditure	(1,136)	(1,156)
Other	(6)	50
Net cash from investing activities	**(1,142)**	**(1,106)**
Net cash flow before financing activities	**1,548**	**1,731**
Cash realisation ratio	**104%**	**106%**

Key highlights

Net cash from operating activities excluding interest and tax was $3,578 million with cash realisation of 104% reflecting a reduction in net working capital and the utilisation of employee entitlement and Witron provisions.

Net cash flow before financing activities decreased by $183 million relative to the prior corresponding period driven by higher net capital expenditure (refer below) and a $127 million increase in income tax due a revised PAYG instalment rate and the payment timing of the FY21 tax return.

Capital expenditure

Gross operating capital expenditure on an accrued basis was $1.2 billion, an increase of $88 million compared to the prior corresponding period. The increase in capital expenditure occurred in a year that continued to present challenges, particularly with the ongoing impact of COVID-19 impacting the delivery of many projects.

Within Supermarkets, capital expenditure increased due to accelerating eCommerce growth, investments related to in-store service transformation including trolley assisted checkouts and Fresh Produce Easy Ordering. Capital expenditure in relation to the Ocado and Witron transformation projects was also incurred. In Liquor, capital expenditure increased during the year driven by new store openings and renewals, as well as investments in IT systems.

Coles continued to optimise its property portfolio during the year with redevelopment activities reducing $35 million compared to the prior corresponding period, resulting in net property income of $12 million.

Outlook for FY23

In FY23, Supermarket sales growth will be cycling COVID-19 lockdowns in the first half of FY22 (NSW, Vic and the ACT), and price inflation in the second half of FY22.

In July, we have seen further cost price inflation in produce due to recent flooding, in bakery due to wheat commodity prices, and in packaged groceries due to various supply chain cost increases including wages, packaging, raw ingredients and freight.

In Liquor, sales growth is also expected to be impacted by the cycling of COVID-19 lockdowns in the first half of FY22.

In Express weekly fuel volumes and sales are expected to benefit from increased mobility, having been impacted by lockdowns in FY22. The scale of this benefit will depend on fuel prices and the impact of the Government's reinstatement of the full fuel excise in September.

In Other, FY23 corporate costs are expected to be approximately $95 million. Property earnings are expected to be slightly below that achieved in FY22.

With increasing inflation and rising interest rates placing pressure on many households, Coles will continue to focus on delivering trusted value to customers through our differentiated Exclusive to Coles range, our Exclusive Liquor Brands and our Flybuys loyalty program. We have also LOCKED the price of 1,168 products across Supermarkets and online until at least 31 January 2023 and begun lowering the price of an additional 500 products.

Consistent with our suppliers and customers, we are also seeing inflationary pressures impacting our own cost base with increasing wages, rent, fuel, supply chain and capital costs. In addition, COVID-19 and the flu has seen increased team member absenteeism costs continue to impact the business.

Pleasingly, our Smarter Selling program is on track to deliver cumulative benefits under our four-year program of $1 billion in FY23, allowing us to partly mitigate some of the underlying cost pressures on our cost of doing business and enabling us to make further strategic investments in eCommerce, digital and technology. This year we expect to open approximately 20 new stores, close nine stores and renew approximately 40 stores in Supermarkets, and in Liquor, accelerate new space and renew stores at a similar level to FY22.

FY23 will be another year of significant investment for Coles as we continue to commit resources and capital to transformational projects which will underpin our customer experience and efficiency. Capital expenditure is expected to be between $1.2 and $1.4 billion, inclusive of Witron and Ocado projects.

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Appendix 1 – Number of retail stores

	OPEN AS AT 28 JUN 2021	OPENED	CLOSED	OPEN AS AT 26 JUN 2022
NSW & ACT	261	2	(3)	260
QLD	182	3	(3)	182
VIC & TAS	234	4	(2)	236
SA & NT	61	-	(1)	60
WA	96	2	(1)	97
Supermarkets	**834**	**11**	**(10)**	**835**
Liquor	929	16	(12)	933
Express	717	1	(7)	711
Group store numbers	**2,480**	**28**	**(29)**	**2,479**

Appendix 2 – Reporting calendar dates for FY23 and FY24

	1Q23	2Q23	3Q23	4Q23
Reporting period	27 Jun 2022 - 25 Sep 2022	26 Sep 2022 - 1 Jan 2023	2 Jan 2023 - 26 Mar 2023	27 Mar 2023 - 25 Jun 2023
Number of days	91 days	98 days	84 days	91 days
Number of weeks	13 weeks	14 weeks	12 weeks	13 weeks

	1Q24	2Q24	3Q24	4Q24
Reporting period	26 Jun 2023 - 24 Sep 2023	25 Sep 2023 - 31 Dec 2023	1 Jan 2024 - 24 Mar 2024	25 Mar 2024 - 30 Jun 2024
Number of days	91 days	98 days	84 days	98 days
Number of weeks	13 weeks	14 weeks	12 weeks	14 weeks

Appendix 3 – Non-IFRS financial information and forward-looking statements

- This release contains IFRS and non-IFRS financial information which in the ordinary course, is not subject to audit or review.
- IFRS financial information is financial information that is presented in accordance with all relevant accounting standards.
- Non-IFRS financial information is financial information that is presented other than in accordance with relevant accounting standards and may not be directly comparable with other companies' information.
- Any non-IFRS financial information is clearly labelled to differentiate it from the statutory or IFRS financial information. Non-IFRS measures are used by management to assess and monitor business performance at the Group and segment level and should be considered in addition to, and not as a substitute for, IFRS information. Operating metrics that are prepared on a non-IFRS basis have been included in the segment commentary to support an understanding of comparable business performance. Non-IFRS information is not subject to audit or review.
- Balance Sheet and Cash Flow information presented in this release is consistent with underlying information disclosed in the Appendix 4E Full Year Financial Report.

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

Any forward-looking statements are based on Coles' current knowledge and assumptions, including with respect to financial, market, risk, regulatory and other relevant environments that will exist and affect Coles' business and operations in the future. Coles does not give any assurance that the assumptions will prove to be correct. The forward-looking statements involve known and unknown risks, uncertainties and assumptions, that could cause the actual results, performance or achievements of Coles to be materially different from the relevant statements. There are also limitations with respect to scenario analysis, and it is difficult to predict which, if any, of the scenarios might eventuate. Scenario analysis is not an indication of probable outcomes and relies on assumptions that may or may not prove to be correct or eventuate.

Readers are cautioned not to place undue reliance on forward-looking statements. Except as required by applicable laws or regulations, Coles does not undertake to publicly update, review or revise any of the forward-looking statements or to advise of any change in assumptions on which any such statement is based. Past performance cannot be relied on as a guide for future performance.

Appendix 4 – Glossary of terms

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

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

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

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

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

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

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

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

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

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

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

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

Hub and spoke model - under our hub and spoke model, customer orders are delivered from our CFCs ("hub") to cross dock facilities ("spoke") prior to delivery

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

IFRS – International Financial Reporting Standards

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

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

Net Promoter Score – metric used to measure customer advocacy, derived from an externally facilitated survey with a nationally representative sample. The point movement reported represents the NPS measured over the relevant period relative to the prior corresponding period. Liquor NPS is based on Liquorland NPS results pp - Percentage point

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

SKU – Stock Keeping Unit

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

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