Results Release

colesgroup

19 February 2019

2019 Half Year Results Release

Laying the foundations for long term sustainable growth

Performance summary

- Delivered 45th consecutive quarter of Supermarkets comparable sales growth, with Group sales up 2.6% in the first half
- Group EBIT (Retail calendar basis excluding significant items) decline of 5.8% to $733 million primarily driven by lower Express EBIT and additional corporate costs associated with being a standalone ASX company
- Over 30% online sales growth generating $1 billion in sales on a rolling 12 month basis, as well as improved customer satisfaction scores
- Innovation trials launched with new store formats in Supermarkets and standalone Express
- New Alliance Agreement signed with Viva Energy, positioning Express to be Australia's leading convenience retailer
- Announced partnership with Witron for an approximately $950 million investment over the next six years in world class automated distribution centres to build structural competitive advantage in supply chain
- Improvements in team member safety and engagement scores
- Continued community and supplier support through drought relief, Redkite, SecondBite and Coles Nurture Fund
- Strong cash realisation (normalised) of 141% due to favourable seasonal working capital movements
- Robust balance sheet providing significant flexibility for long term growth
- Wesfarmers intend to pay an interim dividend in March 2019 which reflects in part Coles' earnings up to and including 27 November 2018 (28 November being the effective date of the demerger). The Coles Board reconfirms its target dividend payout ratio of 80 – 90% of earnings from 28 November 2018 to 30 June 2019 payable in September 2019
- Group strategic refresh underway – Strategy Day planned for mid-June 2019

Coles Group CEO Steven Cain said the result for the first half of the 2019 financial year was a solid outcome in a challenging retail environment, and Coles was now laying the foundations for long term growth – including a $950 million investment in supply chain automation and the New Alliance Agreement between Coles Express and Viva Energy. Mr Cain said, "we have delivered strong cash generation and we have a robust balance sheet which will enable us to reposition the business in the years ahead."

Retail calendar results

	1H19 $'M	1H18 $'M	CHANGE (%)
Sales revenue	20,867	20,345	2.6%
EBIT pre significant items	**733**	**778**	**(5.8)%**

Changes to the reporting period

As foreshadowed in the Demerger Scheme Booklet, and advised in the Advance Notice – 2019 Interim Results dated 23 January 2019, Coles has adopted a Retail calendar for statutory reporting purposes. Retail calendars are adopted by a number of ASX listed and global retailers and enable greater alignment between external statutory results and the way the business is reported and managed internally.

Reporting calendars

The change to a Retail calendar has been applied prospectively from 1 July 2018 for statutory reporting purposes. The prior corresponding period statutory results reflect a Gregorian calendar and have not been restated. Coles' statutory result will fully transition to a Retail calendar for both the current and comparative financial periods in 1H21.

Under a Gregorian calendar, the annual reporting period is 12 months (from 1 July to 30 June), whilst under a Retail calendar the reporting period is based on a defined number of weeks, with the annual reporting period ending on the last Sunday in June.

In a typical year, the Retail calendar has 52 weeks, with 27 weeks in the first half and 25 weeks in the second half. Every fifth or sixth year the retail calendar has 53 weeks. FY19 is a year that has 53 weeks, 27 weeks in the first half and 26 weeks in the second half.

Comparison of statutory and Retail calendar reporting periods

	STATUTORY 1H19	STATUTORY 1H18	RETAIL 1H19	RETAIL 1H18
Reporting period	1 Jul – 30 Dec	1 Jul – 31 Dec	25 Jun – 30 Dec	26 Jun – 31 Dec
Number of days	183 days	184 days	189 days	189 days
Number of weeks	26 weeks 1 day	26 weeks 2 days	27 weeks	27 weeks

Refer Appendix 1 for the Retail calendar dates for FY19, FY20 and FY21.

Non-IFRS financial information

	STATUTORY 1H19 $'M	STATUTORY 1H18 $'M	RETAIL 1H19 $'M	RETAIL 1H18 $'M
Sales revenue	20,235	19,844	20,867	20,345
EBIT pre significant items	**713**	**779**	**733**	**778**

Refer Appendix 2 for a comparison of statutory to Retail calendar results for the half.

To support an understanding of comparable business performance, this Results Release and the associated 2019 half year financial results presentation also present profit & loss disclosures as follows:

- on a Retail calendar basis – applied consistently for the current and comparative period
- on a continuing operations basis – excluding the impact of Kmart, Target & Officeworks which were transferred to Wesfarmers as part of the demerger
- excluding significant items – the impact of the $146 million Supply Chain Modernisation restructuring provision. This significant item is disclosed in Coles' Half Year Financial Report for the period ended 30 December 2018.

Retail profit & loss disclosures constitute non-IFRS information which has not been audited but is based on IFRS information where available. Coles' external auditors have performed a review of the adjustments between the Gregorian and Retail profit & loss disclosures for the current and prior corresponding period. Balance sheet and cash flow information is consistent with the statutory results presented in Coles' Half Year Financial Report.

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Refer Appendix 5 for a glossary of terms.

Segment performance overview

Retail calendar results

	1H19 $'M	1H18 $'M	CHANGE (%)
Sales revenue			
Supermarkets	16,195	15,629	3.6%
Liquor	1,731	1,721	0.6%
Express	2,941	2,996	(1.8)%
Group sales revenue	**20,867**	**20,345**	**2.6%**
EBIT			
Supermarkets	602	600	0.4%
Liquor	85	80	7.0%
Express	51	84	(39.3)%
Other	(5)	15	N/M
Group EBIT pre significant items	**733**	**778**	**(5.8)%**

Note: The results for the half and the prior corresponding period reflect the elimination of a $20 million brand fee previously charged from Supermarkets to Express (previously called Convenience). Refer Appendix 3 for further detail. N/M denotes not meaningful.

Segment performance review

Supermarkets

Retail calendar results

	1H19 $'M	1H18 $'M	CHANGE (%/BPS)
Sales revenue	16,195	15,629	3.6%
EBITDA	887	891	(0.5)%
EBIT	**602**	**600**	**0.4%**
Comparable sales growth (%)	3.0	0.9	219bps
NYE adjusted comparable sales growth (%)	3.2	N/A	N/A
Gross margin (%)	24.1	24.0	15bps
CODB (%)	(20.4)	(20.2)	(27)bps
EBIT margin (%)	3.7	3.8	(12)bps
Sales per square metre ($)	16,533	16,469	0.4%
Price inflation / (deflation) (%)	0.5	(1.6)	203bps
Price inflation / (deflation) ex tobacco and fresh (%)	(0.8)	(1.1)	30bps

Note: The results for the half and the prior corresponding period reflect the elimination of a $20 million brand fee previously charged from Supermarkets to Express (previously called Convenience). Refer Appendix 3 for further detail. N/A denotes not applicable.

Key highlights

Supermarkets sales revenue was $16.2 billion for the half, an increase of 3.6% on the prior corresponding period.

Comparable sales growth of 3.0% for the half was largely driven by the highly successful 'Coles Little Shop' campaign and improved in-store execution.

For the second quarter, Supermarkets sales revenue increased 1.8% and comparable sales growth was 1.3%. Comparable sales growth in the second quarter was impacted by New Year's Eve (NYE), typically a strong trading day, which falls in the third quarter of this financial year compared to the second quarter last year. Comparable sales growth was 3.2% for the half year and 1.5% in the second quarter adjusted for NYE.

During the half, strong growth in average basket size (up 3.1%) was the key driver of sales, largely underpinned by an improvement in items per basket, particularly for larger basket customers. Transactions grew by 0.5% in the half, with second quarter trading adversely impacted by performance in New South Wales and unfavourable weather relative to the prior year.

Customer satisfaction was maintained during the period despite the transition from single-use plastic bags, which was a significant change for Coles' customers. Coles invested to *make life easier* for customers through increased service hours and transitional support of free re-usable bags.

Coles Online achieved over 30% sales growth for the half, to achieve ~$1.0 billion of sales revenue on a rolling 12 month basis. Further investment was made in the rollout of Click & Collect which continued to contribute strongly to sales growth and now represents 30% of online sales. In the half, online customer satisfaction also improved, particularly in the area of delivery options.

During the half, Supermarkets continued to move to trusted value by increasing the amount of products on everyday low prices (EDLP) and reducing the reliance on promotions. At the end of December, approximately 4,700 products were on EDLP, an increase of 13% on the prior corresponding period.

The drought in New South Wales impacted input costs, placing pressure on fresh categories. This drove price inflation of 0.5% for the half, with price inflation reducing slightly in the second quarter to 0.4%. In particular, the higher cost of grain and lower supply of livestock impacted pricing in the bakery and meat categories during the period. Fresh produce returned to deflation in the second quarter as improved supply of tomatoes, avocados and berries more than offset inflation of bananas. Excluding fresh and tobacco, underlying price deflation was 0.8% for the half and 0.7% in the second quarter, as Coles continued to invest in lowering prices for customers. Coles recognises the importance of supporting farmers through the unprecedented impacts of drought and, together with customers, raised in excess of $16 million to assist farmers.

Progress was made on initiatives focused on *making life easier* for customers through more convenient product offerings and fresher, higher quality products. Approximately 200 fresh convenience product lines were launched, a range of which can now be found in over 150 stores.

Own Brand sales growth outpaced total sales in the half, reaching 29% penetration, up 55bps from the prior corresponding period as approximately 700 new products were added. A focus on product innovation saw over 55 awards won during the period. Some Product of the Year award highlights included Coles Ultimate Mini Apple and Cherry Pies, Coles Finest by Laurent White Sourdough Vienna and Pane Di Casa with Toasted Sesame, and Coles Ultimate 40% Choc Brownie.

Supermarkets continued to invest in the store network, with the rollout of new formats and innovation trials a highlight. Coles opened its new smaller format, Coles Local, in Surrey Hills, Melbourne on 23 November, which featured a range tailored to meet the needs of the local community. Innovation trials in Eastgardens, Sydney, focused on convenience and a premium fresh food offer, and Ardeer, Melbourne, focused on convenience and driving operational efficiencies.

Supermarkets also expanded and improved its network during the period. In the half, Supermarkets completed 25 refurbishments, opened 14 supermarkets and closed seven, ending the period with 816 supermarkets. The majority of this new store and refurbishment activity occurred in the second quarter, with benefits expected to flow through in the second half.

Gross margin increased by 15bps to 24.1% primarily due to improved promotional effectiveness compared to the prior year. This was partially offset by more flybuys promotions, online prices being harmonised with the bricks and mortar channel and input cost pressure in fresh categories.

Costs of doing business (CODB) as a percentage of sales increased 27bps to 20.4%. As previously indicated, significant cost headwinds for the half included higher labour costs as a result of the implementation of the new store enterprise bargaining agreement (EBA), additional costs from the transition from single-use plastic bags and higher energy costs. Despite these headwinds, EBIT remained broadly in line with the prior corresponding period at $602 million.

Liquor

Retail calendar results

	1H19 $'M	1H18 $'M	CHANGE (%/BPS)
Sales revenue	1,731	1,721	0.6%
EBITDA	112	106	5.1%
EBIT	**85**	**80**	**7.0%**
Comparable sales growth (%)	(0.1)	1.6	177bps
NYE adjusted comparable sales growth (%)	1.0	N/A	N/A
Gross margin (%)	28.3	28.2	9bps
CODB (%)	(23.4)	(23.6)	20bps
EBIT margin (%)	4.9	4.6	29bps

Note: N/A denotes not applicable.

Key highlights

Liquor sales revenue was $1.7 billion for the half, including hotels, an increase of 0.6% on the prior corresponding period.

Comparable sales growth was impacted by NYE, typically a strong trading day in the liquor calendar, which fell in the third quarter of this financial year compared to the second quarter last year. NYE adjusted comparable sales growth was 1.0% for the half and 0.7% for the second quarter.

Trading in the second quarter was impacted by unfavourable weather relative to the prior year, which impacted transaction growth particularly in beer and ready-to-drink (RTD) categories. Transaction growth accelerated in December across all brands, particularly over the key Christmas period.

Average basket size continued to increase across the period driven by general market trends of premiumisation and a favourable mix impact from overall spirit category growth.

Liquorland continued to be the strongest performer during the period through a continued focus on improving range, innovation through exclusive brands and provision of more convenient solutions to customers through Click & Collect and same-day and next-day delivery.

The First Choice format continued to evolve with 15 First Choice Liquor Market brand conversions completed during the period. Conversions are driving trading improvements, with customers responding positively to the refreshed format and offer.

Trading conditions for Vintage Cellars remained challenging during the half, with a store closure also impacting the result.

Investment in the store network continued in the half with 14 Liquorland renewals in the next evolution format. During the period, 16 new stores were opened and seven closed, resulting in a total of 908 retail liquor sites at end of the half.

Gross margin increased by 9bps to 28.3% primarily due to margin improvements from exclusive brand expansion and improved supplier collaboration. During the half, over 50 new exclusive lines were launched, including a number of award-winning products.

EBIT growth of 7.0% for the half was largely driven by productivity efficiencies, with CODB as a percentage of sales decreasing by 20bps to 23.4%.

Express

Retail calendar results

	1H19 $'M	1H18 $'M	CHANGE (%/BPS)
Sales revenue	2,941	2,996	(1.8)%
EBITDA	64	97	(34.2)%
EBIT	**51**	**84**	**(39.3)%**
C-store sales growth (%)	2.0	0.9	109bps
Comparable c-store sales growth (%)	1.5	0.4	107bps
Fuel volume growth (%)	(15.8)	(18.6)	281bps
Comparable fuel volume growth (%)	(16.7)	(19.3)	255bps
Gross margin (%)	12.2	12.6	(39)bps
CODB (%)	10.5	9.8	(67)bps
EBIT margin (%)	1.7	2.8	(107)bps

Note: The results for the half and the prior corresponding period reflect the elimination of a $20 million brand fee previously charged from Supermarkets to Express (previously called Convenience). Refer Appendix 3 for further detail.

Key highlights

Express sales revenue, including fuel, was $2.9 billion for the half, a decline of 1.8% on the prior corresponding period due to lower fuel volumes.

Convenience store (c-store) sales growth was 2.0% for the half and 1.5% on a comparable c-store sales growth basis. Growth in c-store sales continued to be driven by the food-to-go (FTG) category with an improved and expanded range. The full FTG offer has now been rolled out to approximately 75% of sites. In response to changing customer trends toward healthier food options, fresh food was rolled out into 11 stores in the second quarter, with the aim of offering customers a convenient option to top up their weekly shop.

C-store sales for the second quarter increased by 1.6% and on a comparable c-store sales declined by 0.2%. The slowdown in trading was underpinned by lower transactions as a result of lower fuel volumes and unfavourable weather, which adversely impacted seasonal categories including ice creams and drinks.

During the half, Express continued to optimise the network, opening four new sites and closing two, growing the total network to 713 sites. This included the opening of one new non-fuel site in Richmond, Melbourne.

Fuel volumes declined 15.8% and comparable fuel volumes declined 16.7% for the half. For the second quarter, fuel volumes declined by 16.8% and comparable fuel volumes declined 17.5%.

Gross margin was impacted due to co-investment in fuel trials that formed the basis for the New Alliance. CODB margin deteriorated as lower sales made it more difficult to fractionalise the fixed cost base. EBIT declined by 39% in the half to $51 million due to lower fuel volumes.

Transition to New Alliance Agreement

On 6 February 2019, Coles announced a New Alliance Agreement with Viva Energy until 2029. The New Alliance is expected to deliver a more competitive customer offer, provide an opportunity to expand the network and better align contributions and incentives for each party to jointly grow the business going forward. The New Alliance will allow each party to leverage their core competencies – Coles in respect of convenience retailing and Viva Energy in respect of fuel retailing – together in a competitive, integrated offering.

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

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

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

The new arrangements are expected to come into effect in early March 2019. Coles expects EBIT for FY19 for its Express business to be in the order of $50 million. From March 2019, fuel sales will no longer be reported in Express' sales revenue.

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

Under the terms of the New Alliance, based on volumes increasing to an average of 75 million litres weekly as indicated by Viva Energy, the Express business is expected to generate yearly pro forma EBIT in the order of that expected to be achieved in FY19, assuming increased Express shop sales in line with the expected fuel volume growth.

Other segment

The Other segment reported a $5 million EBIT loss for the half. As outlined in the Demerger Scheme Booklet, the Other segment includes Coles' 50% share of flybuys net profit, and gains and losses from the property portfolio. Corporate costs, e.g. company secretarial, CEO Office, treasury, corporate affairs, Board remuneration, ASX listing costs, share registry, insurance and external audit fees, have been allocated to the Other segment.

As outlined in the Demerger Scheme Booklet, Coles estimated that $25 million of one-off costs would be incurred in FY19 as part of the demerger. Approximately $10 million of these one-off demerger costs were incurred in the half, which included costs associated with the establishment of new functions. Coles expects to incur a further $10 - $15 million for the remainder of FY19.

Furthermore, Coles estimated that ongoing incremental corporate costs would be $66 million per annum. Only a portion of these ongoing corporate costs were incurred in the half, dependent upon the date in which each function was established.

Coles' share of net profit for its 50% equity interest in flybuys for the half was $6 million. This compared to $8 million in the prior corresponding period, with the decline primarily due to increased operating costs associated with flybuys operating independently of Coles.

The Other segment reflected a one-off gain in the half, from the actuarial valuation of the self-insurance provisions transferred from Wesfarmers at the date of demerger.   Coles notes that the Other segment will also include gains and losses on property and insurance events in future periods.

Group balance sheet

As at 30 Dec 2018

	30 DECEMBER 2018 $'M
Cash and cash equivalents	484
Inventories	2,429
Trade and other receivables	560
Trade and other payables	(3,991)
Working capital	**(518)**
Property, plant and equipment and investments	4,213
Intangibles	1,660
Provisions	(1,292)
Other	(28)
Capital employed	**4,035**
Interest bearing liabilities	(1,630)
Net tax balances	267
Total net assets	**2,672**
Inventory days	25
Trade payable days	29

Note: The above balance sheet is presented on a statutory basis.

Key highlights

Coles demerged from Wesfarmers with a strong balance sheet that provides it with future flexibility. In November, Standard & Poor's and Moody's Investor Services initiated with investment grade credit ratings. Coles' target is to maintain investment grade credit ratings to ensure it has sufficient balance sheet flexibility into the future.

Initial committed debt facilities of $4.0 billion raised by Coles are from a diverse range of domestic and international banks and provide funding certainty, with maturities of three, five and seven years. The weighted average debt maturity is 3.7 years. Undrawn committed capacity at reporting date was $2.1 billion, providing headroom for growth, and Coles will assess its options to access various debt capital markets over time to further increase its average debt maturity.

Initial gross drawn debt at the time of demerger was $2.0 billion the proceeds of which were paid to Wesfarmers as part of the demerger process. Gross drawn debt reduced to $1.6 billion at reporting date due to Christmas trading and timing of supplier payments.

The leverage ratio at reporting date was 0.8x, which provides headroom within current published credit ratings.

Borrowing costs for the period from 27 November 2018 to reporting date averaged approximately 3.1% per annum.

Coles' strategy to lease the majority of its property portfolio has continued the history of disciplined management of off-balance sheet operating leases, in the half. Undiscounted lease commitments at reporting date were $9.9 billion, with weighted average lease expiry of 6.0 years. Further options provide Coles with the ability to extend tenure and maintain flexibility.

Group cash flow

Normalised cash flow

	1H19 $'M	1H18 $'M
EBIT pre significant items	713	779
Depreciation and amortisation	321	330
EBITDA pre significant item	1,033	1,109
Movement in working capital	286	268
Movement in provisions & other	141	134
Net cash from operating activities – excluding interest and tax	**1,460**	**1,510**
Cash realisation ratio – excluding interest and tax (%)	**141%**	**136%**
Interest and tax paid	(409)	(283)
Other demerger related items	663	-
Net cash from operating activities	1,714	1,227

Note: Cash flows have been normalised for demerger items relating to Insurance provisions transferred for self-insurance program and intercompany balances. The above cash flow is presented on a statutory basis.

Key highlights

Normalised cash flow before interest and tax decreased by $50 million to $1.5 billion compared to the prior corresponding period, primarily driven by lower Express EBIT and higher corporate costs associated being a standalone ASX company.

The working capital movement was broadly in line with the prior year.

Cash realisation is typically higher in the half due to favourable working capital movements, however, this is expected to reverse in the second half of FY19.

Coles will continue to report cash realisation excluding interest and tax for FY19 as payments relating to these items only commenced in November 2018. Furthermore, a tax refund (included in other demerger related items) associated with the demerger distorted the cash realisation ratio including these items. From FY20, Coles will measure cash realisation on the traditional method of operating cash flow divided by NPAT.

Capital expenditure

Capex increased by $125 million (excluding property divestments) during the period, with Wesfarmers supporting investment into the business through the demerger process to ensure Coles was well set up as a standalone ASX listed company.

Within Supermarkets, capex increased on the prior corresponding period primarily due to a higher number of major renewals and additional investment in Click & Collect locations to support online growth.

In Liquor, there was a continued focus on investment in Liquorland renewals and First Choice Liquor Market conversions.

Express opened a new standalone trial format, with additional spend on fit-out to support the rollout of the FTG category, fresh food in key sites and car wash replacements.

Property investment increased over prior year on land purchases and centre developments to secure future growth opportunities.

Outlook for the second half

Guidance for net capex for FY19 has been narrowed to $700 – 800 million due to greater certainty over timing of project commitments for the remainder of the year.

The initial payments for Coles' Supply Chain Modernisation project will be made in the second half. As previously announced, total project spend is expected to be approximately $950 million over six years. Five existing distribution centres will be replaced with two 70,000 square metre ambient facilities, one in Queensland and one in New South Wales, each with a 20 year lease.

Net proceeds from asset sales were lower in the half due to the timing of property disposals. Seven properties have reached contracting stage and are expected to reach financial close in the second half generating disposal proceeds.

Coles will continue to assess the returns it has been generating from various projects to ensure it can maximise returns from capital allocation decisions over the medium term.

Outlook for the remainder of FY19

Coles listed on the ASX on the 21 November 2018, with the investment thesis that Coles operates in resilient and growing markets, with leading positions in an evolving competitive environment, an established national store network, strong cash flow generation and a highly experienced Board and executive leadership team.

Coles is committed to *making life easier* for customers with an increasing focus on driving greater convenience solutions.

Overall sales momentum into the third quarter of FY19 remains broadly in line with the second quarter. The newly announced Supermarkets and Express collectables program 'Fresh Stikeez' is designed to encourage Aussie kids and their parents to eat more fresh fruit and veggies and make healthy eating fun for the whole family.

Cost headwinds from the new store EBA, energy and drought impacts on input costs are expected to continue.

As noted in the Reporting calendars section on page 2, FY19 is a year of 53 weeks, and as a result, Coles will report 26 weeks in the second half.

As outlined in the Demerger Scheme Booklet, Wesfarmers intends to pay an interim dividend in March 2019 which reflects in part Coles' earnings up to and including 27 November 2018 (28 November being the effective date of the demerger). Coles expects to pay its first dividend in September 2019, which will be a final dividend for the year ending 30 June 2019, reflecting seven months of earnings post demerger. The dividend will be determined with regard to current earnings and cash flows, available franking credits, future cash flow requirements and targeted credit metrics. Coles Board reconfirms its target dividend payout ratio of 80-90% of earnings from 28 November 2018 to 30 June 2019 payable in September 2019.

Coles will undertake a strategic refresh to address current headwinds that affect both Coles and the market, and will continue to build on the foundations for long term sustainable growth.

In particular, the refresh will focus on:

- "Fresh Tomorrow" strategy
- *making life easier* for customers
- pace of execution
- efficiency programs to simplify the business & offset inflation
- investment to lead in automation and digital
- "Winning Together" sustainably with suppliers and communities.

An update on this will be provided at the Strategy Day planned for mid-June 2019.

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Appendix 1 – Retail calendar dates for FY19, FY20 and FY21

	RETAIL 1H19	RETAIL 2H19	RETAIL 1H20	RETAIL 2H20	RETAIL 1H21	RETAIL 2H21
Reporting period	25 Jun – 30 Dec	31 Dec – 30 Jun	1 Jul – 5 Jan	6 Jan – 28 Jun	29 Jun – 3 Jan	4 Jan – 27 Jun
Number of days	189 days	182 days	189 days	175 days	189 days	175 days
Number of weeks	27 weeks	26 weeks	27 weeks	25 weeks	27 weeks	25 weeks

Appendix 2 – Comparison of statutory to Retail calendar results

	STATUTORY 1H19 $'M	RETAIL 1H19 $'M	CHANGE $'M	STATUTORY 1H18 $'M	RETAIL 1H18 $'M	CHANGE $'M
Sales revenue						
Supermarkets	15,716	16,195	(479)	15,249	15,629	(380)
Liquor	1,679	1,731	(52)	1,682	1,721	(39)
Express	2,840	2,941	(102)	2,913	2,996	(82)
Other	0	0	0	0	0	0
Group sales revenue	20,235	20,867	(632)	19,844	20,345	(501)
EBIT						
Supermarkets	587	602	(15)	602	600	2
Liquor	84	85	(1)	81	80	1
Express	47	51	(4)	82	84	(2)
Other	(5)	(5)	0	14	15	0
EBIT Pre significant items	**713**	**733**	**(20)**	**779**	**778**	**1**
Significant items	(146)	(146)	0	0	0	0
Group EBIT	**567**	**587**	**(20)**	**779**	**778**	**1**

Note: The $146 million pre-tax significant item relates to the development of the two new automated ambient distribution centres, relating to redundancies and lease exit costs for a number of the existing distribution centres that will be closed over a five year period as part of the Supply Chain Modernisation project.

Appendix 3 – Brand fee reconciliation

	RETAIL 1H19 $'M	RETAIL 1H18 $'M
Supermarkets EBIT including brand fee	622	620
Brand fee charge	(20)	(20)
Supermarkets EBIT as reported	**602**	**600**
Express EBIT including brand fee	31	64
Brand fee	20	20
Express EBIT as reported	**51**	**84**

Appendix 4 – Number of stores

	OPEN AS AT 30 JUNE 2018	OPENED	CLOSED	OPEN AS AT 30 DECEMBER 2018
Supermarkets	809	14	(7)	816
Retail Liquor	899	16	(7)	908
Spirit Hotels	88	-	(1)	87
Express	711	4	(2)	713

Appendix 5 – Glossary of terms

Non-IFRS financial information

- This Results Release contains non-IFRS financial information.
- 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 all relevant accounting standards e.g. EBITDA and EBIT.
- Any non-IFRS financial information is clearly labelled to differentiate it from reported/IFRS financial information and is defined in this glossary.
- A reconciliation between statutory results and the restated Retail calendar is provided to allow the reader to clearly reconcile between the IFRS and non-IFRS financial information.
- Coles believes that the use of additional non-IFRS information in its 2019 half year financial results presentation provides readers of these documents with a greater understanding into the way in which management analyses the business as well as meaningful insights into Coles' financial performance.
- The Australian Securities and Investments Commission in its regulatory guidance states that non-IFRS financial information can be useful for investors and other users as long as it does not mislead the reader.

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

Cash realisation – Calculated as operating cash flow (inclusive of capex) less tax, divided by EBIT (excluding significant items). From FY20, Coles will measure cash realisation on the traditional method of operating cash flow divided by NPAT

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

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

EBIT – Earnings before interest and tax

EBITDA – Earnings before interest, tax, depreciation and amortisation

Gregorian basis – a reporting calendar based on annual (12 months) and six monthly periods

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

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

IFRS – International Financial Reporting Standards

Leverage ratio – Gross debt excluding cash on hand and cash in transit, divided by last 12 months EBITDA

NPAT – Net profit after tax

Retail calendar basis – a reporting calendar based on a defined number of weeks

Significant items – Significant items are large gains, losses or events that are not in the ordinary course of business. They are typically gains or losses arising from events that are not considered part of the core operations of the business. These items have been highlighted to help users of this financial report understand the financial performance of the Group in the half year reporting period. Significant income items are included in 'other income', whilst significant expenditure items are included within 'other expenses' in the consolidated statement of profit or loss

Working capital – Includes all current assets and liabilities that form part of the day-to-day operations of the business (cash on hand, cash in transit, inventory, receivables and payables)