

Melbourne 1914



Winning in our Second Century

Coles Investor Day
June 2019

Melbourne 2023



Today's agenda

| Topic | Time | Presenter |
|---------------------------------------|-------------------|--|
| 1 Growing long-term shareholder value | 9:40am – 10:00am | Steven Cain |
| 2 Inspire Customers | 10:00am – 10:35am | Steven Cain |
| 3 Smarter Selling | 10:35am – 10:55am | Leah Weckert & Matt Swindells |
| Morning tea break | 10:55am – 11:25am | |
| 4 Win Together | 11:25am – 11:40am | Steven Cain |
| 5 Coles' financial framework | 11:40am – 12:00pm | Leah Weckert |
| 6 Concluding comments & Q&A | 12:00pm – 12:40pm | Steven Cain, Leah Weckert & Matt Swindells |
| Lunch | 12:40pm – 1:20pm | Coles' Own Brand chefs |
| Store visits | 1:20pm – 4:00pm | |



coles

Coles wishes to acknowledge the Traditional Custodians of this land

We recognise their strength and resilience and pay our respects to their Elders past and present.

Coles extends that respect to all Aboriginal and Torres Strait Islander people, and recognises their rich cultures and their continuing connection to land and waters.

About the artwork

The design portrays a bush totem uniquely designed to represent the Coles national community, existing towards greater confidence, welcoming pathways and respectful self-governance. The circular rings radiate expressing our ambitions, development and success in our life cycle and beyond.

This original artwork design was created for Coles by Marcus Lee Design, a creative design agency accredited by Supply Nation.

Safety briefing

BUILDING SECURITY

03 9829 6900

EMERGENCY LINE

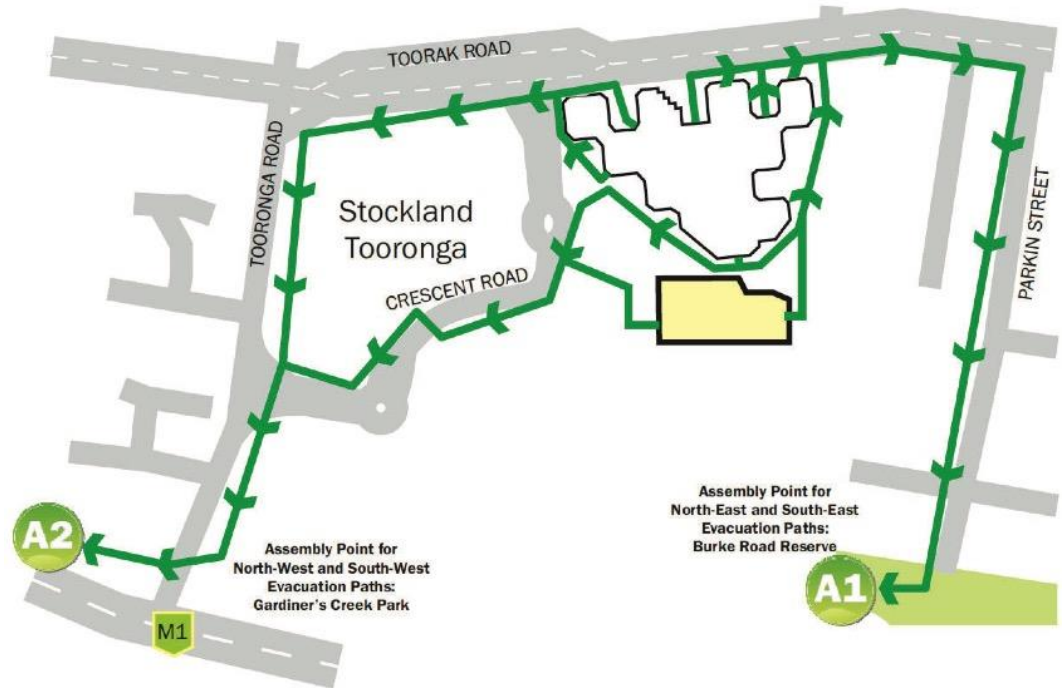
EXT. 99

**IN AN EMERGENCY, FOLLOW YOUR
WARDEN'S INSTRUCTIONS.**

Emergency Warning Tones

Alert: BEEP BEEP

Evacuation: WOOP WOOP



Disclaimer

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Non-IFRS financial information

Retail profit & loss disclosures constitute non-IFRS information which has not been audited but is based on IFRS information where available. 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.



Growing long-term shareholder value

Steven Cain – Chief Executive Officer

Overview of Coles Group

105

years in
Australian retailing

114,000



engaged team
members,
leading
indigenous
employer



2,450

stores - supermarkets,
liquor, fuel & convenience

80%

of Australians are
within a 10 minute
drive of a Coles store

\$39bn sales¹
\$1.4bn EBIT¹

46↑

quarters consecutive
comp growth

Flybuys

6.6m

active households

Investing

\$1bn+

in Witron & Ocado
supply chain
automation

80m
meals donated to
SecondBite



... built on strong foundations

¹ Demerger of Coles scheme booklet

Wesfarmers / Coles demerger investment highlights, Nov 2018

#1

Operates in resilient and growing markets

#2

Market leading position in an evolving competitive landscape

#3

Established, non-replicable national store network

#4

Making life easier for customers strategy

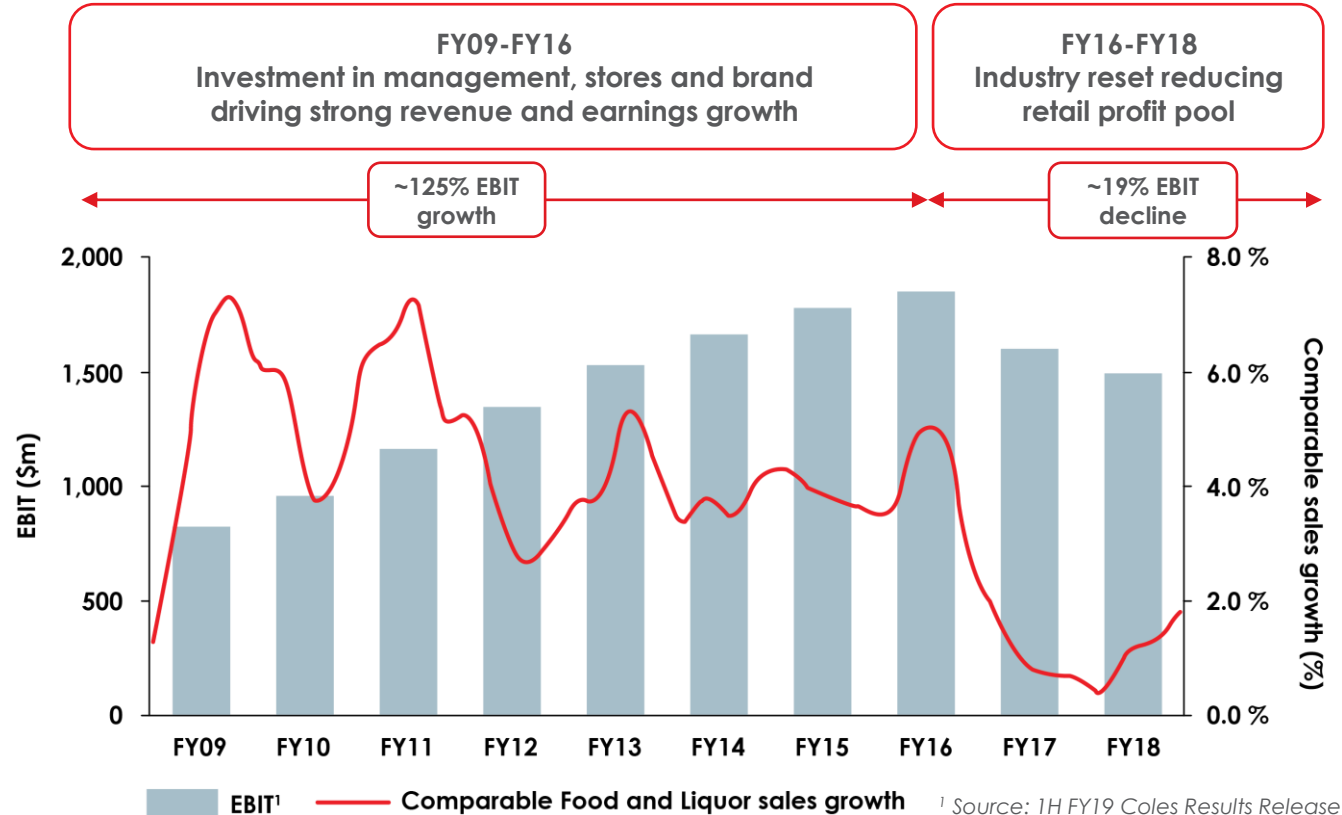
#5

Strong cash generation, attractive dividend payout ratio and robust balance sheet

#6

Highly experienced Board and executive leadership team

It's time for a new era at Coles to grow long-term shareholder value



Recap on initial CEO observations, Feb 2019

Coles' specific factors

Competitive pressures continue:

- NSW supermarkets, higher demographics, convenience foods
- Vintage Cellars & First Choice Liquor Market
- Fuel

Online growth but at a lower margin

CODB rising faster than sales

Further systems upgrades required & renewal performance needs to improve

Market wide factors

Customer expectations & behaviours changing faster than ever

Market growth being chipped away by convenient & discount food alternatives

Greater alignment required between retailers and suppliers on long term domestic investment and innovation priorities

Supermarkets 'High / Low' promotions impacting trust and efficiency

Early progress to address headwinds

1

NSW Supermarkets, higher demographics, convenience food

2

Vintage Cellars and First Choice Liquor

3

Fuel

4

Online growth but at lower margin

5

CODB rising faster than sales

6

Further systems upgrades required and renewal performance needs to improve

1

- ✓ NSW operational focus has improved sales
- ✓ Launched 75 convenience meals with more to come

2

- ✓ First Choice Liquor Market gaining traction and new Vintage Cellars format in FY20
- ✓ Core retail focus through QLD retail liquor JV with AVC

3

- ✓ Viva Alliance restructured; business reset for future growth

4

- ✓ Announced Ocado partnership to provide leading online customer experience and drive profitable growth

5

- ✓ Smarter Selling program introduced, targeting ~\$1bn cumulative cost savings by FY23

6

- ✓ SAP support systems, high speed store network roll-out with Optus
- ✓ New format renewal returns encouraging

The Australian retail landscape is changing faster than ever



Evolution of retail

- Shift to online: home delivery and Click and Collect
- Hard discounters growing
- New international entrants coming
- More smaller store formats



Changing consumer behaviours

- Trusted value, premiumisation, ethnicity
- Convenience and immediacy
- Health focus
- Ever increasing digital engagement



Automation & data

- Automation
- AI and machine learning
- Personalisation
- Cloud computing



Sustainability

- Food waste
- Packaging
- Supply chain
- Energy resources (e.g. power, water)

Coles' strategic differentiators

- ✓ Win in online food and drinks with an optimised store and supply chain network
- ✓ Be a great value Own Brand powerhouse and destination for health
- ✓ Achieve long term structural cost advantage through automation and technology partnerships
- ✓ Create Australia's most sustainable supermarket
- ✓ Deliver through team engagement and pace in execution



Our vision.

Become the most trusted retailer
in Australia and grow long-term
shareholder value

Coles' purpose

Our purpose.
Sustainably feed all
Australians to help
them lead healthier,
happier lives



Coles' strategy

1. Inspire Customers
through best value food
and drink solutions to
make lives easier



2. Smarter Selling through efficiency and pace of change



3. Win Together with our team members, suppliers and communities



Coles' purpose and strategy



Strengthening Coles' leadership team in FY19



Daniella Pereira
Company Secretary



Kris Webb
Chief People Officer



Lisa Ronson
Chief Marketing Officer



Ian Bowring¹
Group Executive, Transformation

¹ Announced FY19 to commence in FY20

Coles' strategy aligns to long-term shareholder value

- Long-term revenue growth at least in-line with market growth
- Cumulative cost-out of ~\$1bn by FY23
- Increased levels of capital expenditure at returns in excess of cost of capital
- Strong cash generation and balance sheet to fund growth and pay attractive dividend payout ratio





Inspire Customers

Steven Cain – Chief Executive Officer

Customer expectations and behaviours are changing faster than ever



Weaker wage growth (~2%)
and household debt ratio
high (1.9x disposable income)

Top 30% of customers are
growing faster than the market

**Trusted value &
premiumisation**



~64% of population growth
driven by immigration

~30% of population born outside
of Australia and forecast to grow

Tailored range



Increasingly time poor – full time
employees working longer &
rising female workforce
participation (~61%)

1 in 3 adults use food delivery
services with an average annual
spend of ~\$1,600 per household

**Convenience meals and
home delivery**



67% of population are
obese or overweight

1 in 3 have special dietary
requirements

Health focus

Inspire Customers expected to deliver revenue growth at least in-line with market

Inspire Customers



**Inspire Customers
through best value
food and drink
solutions to make
lives easier.**

- Customer obsessed
- Tailored offer with trusted and targeted value
- Own Brand powerhouse
- Destination for convenience and health
- Leading anytime, anywhere shopping
- Accelerate growth through new markets

Customer obsessed

Insights to drive decision making

- Utilise ~27k Tell Coles surveys per week, Mum's panel and proprietary research to drive insights
- Leverage flybuys customer (6.6m active households) transaction data to build a full picture of customer needs
- ~35 data scientists to analyse >1bn customer transactions per annum
- Using advanced analytics to make decisions on range, forecasting, promotions, markdowns etc



Tailored offer with trusted and targeted value

Tailor range to stores, expand online range

- Tailoring 40% of layouts to ensure stores are optimised for demographics and operating efficiencies
- Leverage Ocado to double online range (~40,000 SKUs) at minimal incremental cost

Embed trusted value

- Accelerate Own Brand across price tiers to ~40% of sales by lowering the price of shopping and differentiate
- Continue to move towards EDLP and reduce ineffective promotions
- Build on strong marketing assets



Own Brand powerhouse



World class innovation

| Unique brand identities

| Partnerships

Destination for convenience and health



Convenience

- Expanded choice in convenience range
- Trial meal solutions
- Dedicated front of store convenience space starting with 100 stores by end of CY19
- Establish last-mile solution partnerships



Health

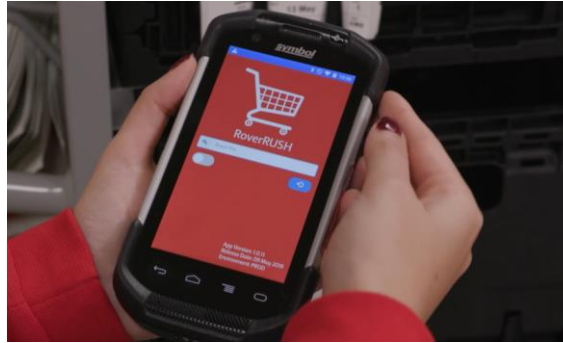
- Expand choice in Fresh departments through improved availability and shelf life through faster fresh flows
- Grow Own Brand to become a leading health focussed food offer (e.g. Eureka blueberries, Cone Bay barramundi, Caulini)
- Target growing non-food categories to address share gaps (e.g. vitamins)

Leading anytime, anywhere shopping



Customer offer

- Increased home delivery slots in peak times
- Same-day delivery available nationally
- Click and Collect at 1,200 locations
- Single digital ecosystem to drive loyalty



Profitability

- Picking efficiency through technology improvements
- Volume driven cost fractionalisation
- Improved margin through user experience enhancements



Ocado

- Expanded range in growth categories
- Best-in-class product availability and order fulfilment
- Increased product life, fresh product quality and reduced wastage
- World's leading grocery website for customers

Accelerate growth through new markets - export



Asia:
4bn people

Australia:
25m people

Focus on meat

- Focus on meat export – Coles has a significant meat export business today with ~\$400m in annualised revenue across 40+ countries
- Expand into other product areas once meat strategy scaled

¹Source: ABC Index Report 2019, Australian Brands in China



Australian Brands in China Index 2019¹

Top FMCG and retail brands

1. Dairy Farmers
2. Capilano Honey
- 3. Coles**
4. Chemist Warehouse
5. T2 Teas

Leverage competitive advantage and invest in capability

- Leverage Australian and Coles credentials to support the development of new sales channels
- Invest in systems, process and capability to enable growth

Accelerate growth through new markets - flybuys

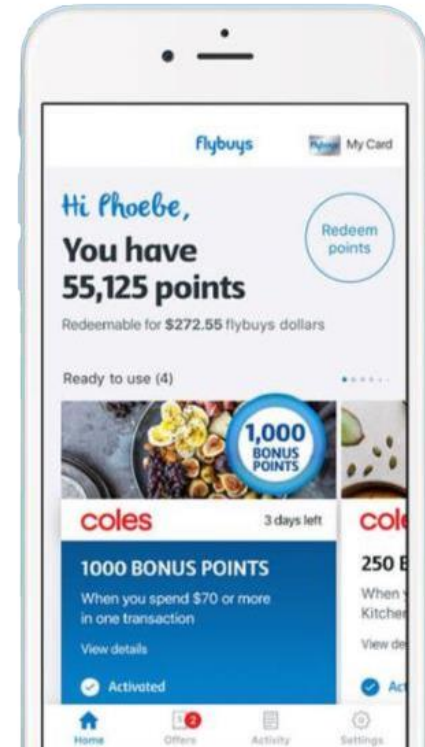


Today

- 50:50 JV with Wesfarmers
- flybuys supports Coles on value, loyalty and data insights
- Key part of offer to customers with targeted offers driving incremental sales

Strategy

- Modernised loyalty
 - Expanded partners and rewards
 - Subscription program
- Data products and services
 - Digital audiences
 - Retail insights
- Payments and financial services
 - Mobile payment solutions
 - New services



Inspire Customers: Liquor

- Re-platform website and rollout on-demand services
- Increase personalised offers through flybuis and Vintage Cellars Wine Club
- Range tailoring facilitated by new range and space systems
- Drive Exclusive Liquor Brand penetration and increase innovation in low/no alcohol drinks
- Continue value investment and reduction of promotional intensity
- Renewal program across all banners



Inspire Customers: Express

- Enhanced coffee offer through roll-out of new machines
- Compelling meal solutions range across breakfast, lunch, dinner and snacking
- Leverage food-to-go infrastructure across ~90% of the network
- Deliver fresh bakery, healthy snacking, fresh produce, meat and chilled offer to support weekly top-up shops



Inspire Customers: summary

- Analyse >1bn transactions per annum to anticipate our customers' needs
- New innovative convenience meals range to be rolled-out following successful Pagewood trial. Expand range to be a leading health focussed retailer
- Tailored layouts to land the right range in stores. Move towards EDLP
- Continue to improve online customer experience while improving profitability. Successfully execute Ocado partnership to win in online shopping
- Grow revenue outside the core retail business (export and flybuys)





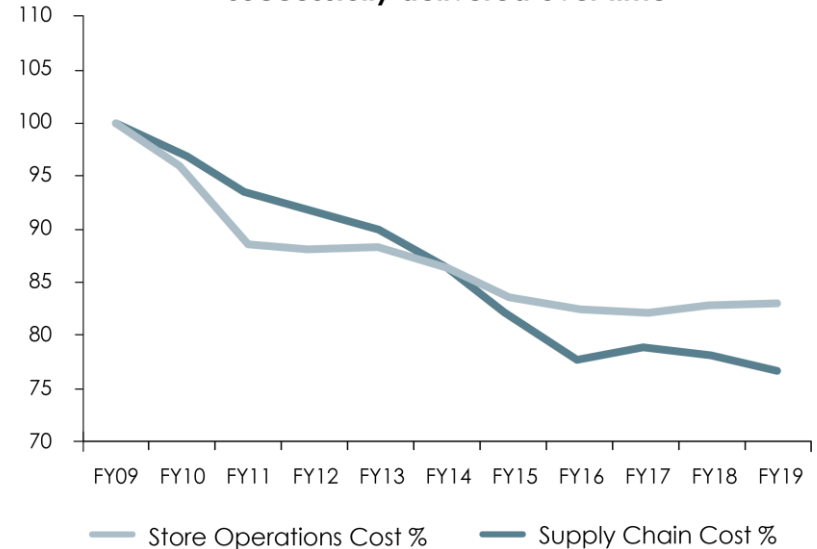
Smarter Selling

Leah Weckert & Matt Swindells

Cost headwinds require intensified and disciplined approach

- Wage costs are significant and increasing ahead of comparable store sales growth
- Energy and fuel input costs as well as waste are all growing
- Sales transfer to online channel picking up pace, putting pressure on profitability of bricks and mortar
- Under investment in some core IT systems, particularly in store support centre (SSC)
- Supply chain network approaching capacity
- Future cost reduction program needs to focus on E2E integration

Efficiency programs have been successfully delivered over time



Productivity programs such as Easy Ordering, One Shop and Stockless Stockrooms have delivered step change improvements in the cost base

\$1bn cumulative cost reduction by FY23 through Smarter Selling



Smarter Selling through efficiency & pace of change.

- Technology-led stores & supply chain
- Strategic sourcing
- Optimised network and formats
- Efficient and agile SSC

Technology-led (stores)



Store operating model

- Automation of manual tasks (e.g. Easy Ordering in fresh, wearable technology)
- Stockless Stockrooms process improvements
- Simpler checkout (e.g. New ACO software, trolley friendly ACOs)
- Investment in service in key departments and stores



Profit protection

- Next generation security (e.g. smart EAS gates)
- Simpler stocktake
- Markdown optimisation through AI



Expenses

- Energy cost reductions through reduced usage and switch to renewables
- Waste diversion from landfill through donation, recycling and reverse logistics

Technology-led (supply chain)



One Coles supply chain

- Automation program execution (Ocado and Witron)
- Primary and secondary transport integration
- Network consolidation



Productivity gains

- Labour planning tools
- Transport control towers
- Store friendly deliveries



Improved freshness

- Faster fresh flows to give product life back to customer at lower cost to serve
- Fresh automated ordering to maximise freshness and availability whilst increasing network capacity

Strategic sourcing



Smarter buying

- Monitoring input prices
- Simplified and transparent supplier terms
- Grocery code training and compliance



Global sourcing and value

- Own Brand program to improve quality and engineer cost-out
- Own Brand global sourcing via buying groups and partnerships



Deepen supplier relationships

- Strategic partnerships to create competitive advantage and manage supply risks
- Joint business plans with key suppliers
- Focus on collaboration and supporting innovation (e.g. Coles Nurture Fund)



System and process enablers

- SAP Ariba implementation to support procurement process
- Focus on building 'owner's mentality' culture and greater accountability

COGS

GNFR

Optimised network



Future store network





- Slow the rate of bricks and mortar network growth
- Optimise future fleet size via rationalisation of low profitability stores, if alternative actions to improve are not possible
- Shorter lease terms tailored to format and market



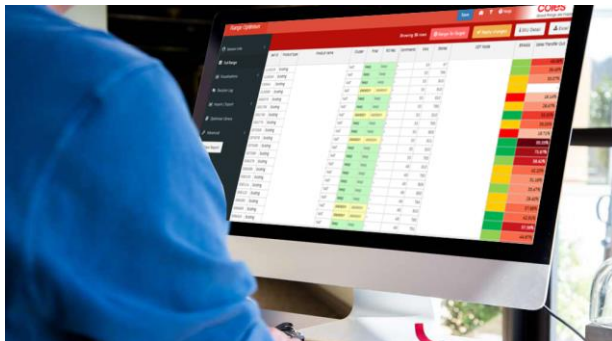
Focus on greenfield and quality growth

- Focus supermarket store openings in sites with significant population growth
- Reduce the amount of infill locations, opening only where high population density and low market share deliver a superior financial return
- Coles Local potential upside opportunity

A tailored store format strategy

| | | | | |
|-----------------------|--|---|--|--|
| | <div><div>coles</div><div>Format A</div><div></div></div> | <div><div>coles</div><div>Format B</div><div></div></div> | <div><div>coles</div><div>Format C</div><div></div></div> | <div><div>coles local</div><div>SURREY HILLS</div><div></div></div> |
| Proposition | A premium, foodie and convenience offer with extended range | Standard Coles offering | Low cost, self service operating model and simple to shop | Premium offer focused on health, fresh and convenience |
| Demographics & volume | Mid-high affluence, high volume | Medium affluence, medium volume | Mid-low affluence, low volume | High affluence low-medium volume |
| FY20 roll-out plan | ~10 new supermarkets and 3 replacements | | – | ~4 new stores and conversions |
| | ~75 renewals | | | |
| Store examples | Eastgardens | Coburg North | Ardeer, Clayton | Surrey Hills |

Efficient and agile



Investing in systems

- Systems implementation to facilitate self service of insights and data (e.g. SAP Success Factors)
- Increased use of data analytics in decision making
- Automation of manual tasks reducing errors and rework



SSC operating model

- Simpler, streamlined organisation removing duplication
- More empowered decision making
- Business Units to drive E2E accountability with stores' operations

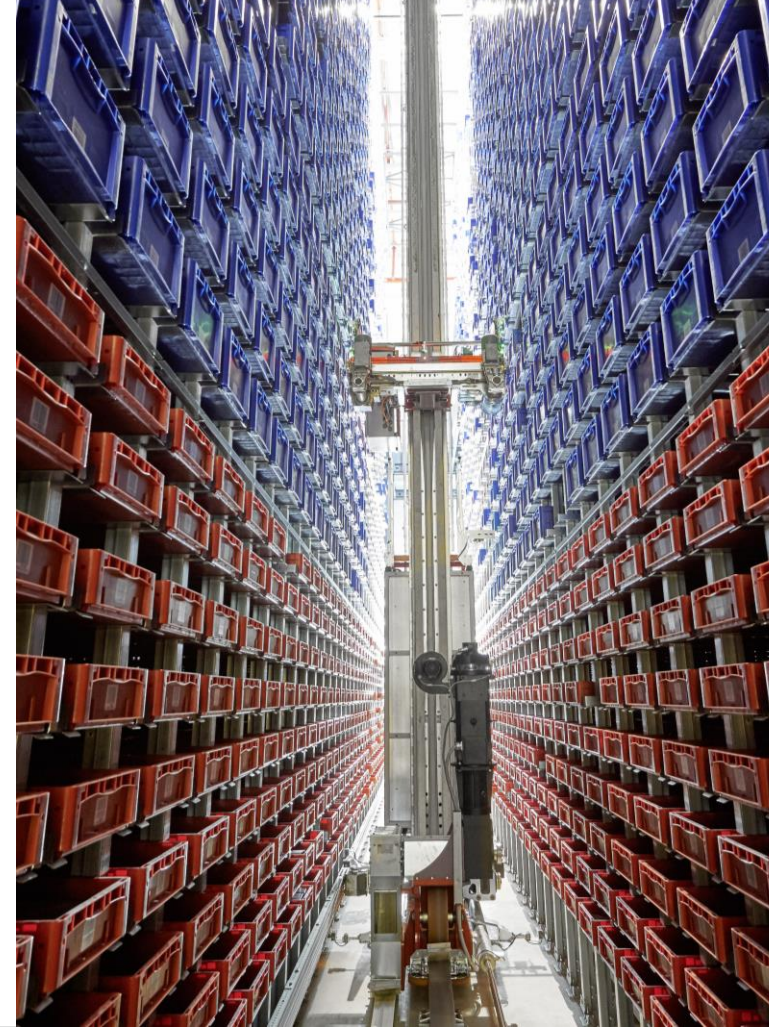


Increased pace of change

- Future focussed
- Building agile capability across key projects
- Introduction of Quarterly Business Review cadence to speed up strategy delivery

Smarter Selling: summary

- Reduce costs through more efficient and agile organisation
- Deploy technology to transform productivity
- Partnering better with world class suppliers to reduce costs
- Optimising the existing bricks and mortar property network to grow sales density whilst focussing on greenfield and quality growth of the network





Win Together

Steven Cain – Chief Executive Officer

Coles employs **9%**
of **total employees**
in the retail trade sector

We employ over
4,200

indigenous team members
Coles is the **largest corporate
sector employer** of indigenous
team members in Australia

Gross capital
expenditure
almost
\$1bn
per year
on average
more than **30%**
of the **entire food
and beverage**
manufacturing sector

\$30bn
in payments to
suppliers per year



\$92m
in direct and
indirect community
support

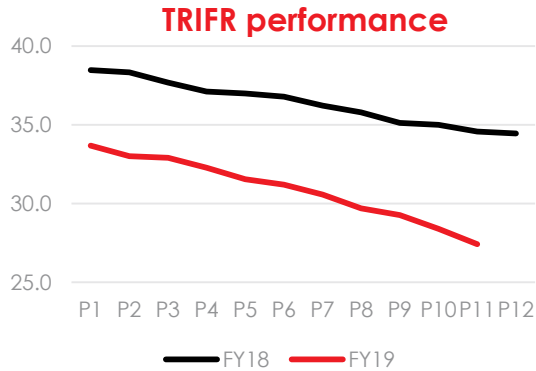
Win Together



**Win Together
with our team
members,
suppliers and
communities.**

- Wellbeing and safety in our DNA
- Great place to work – increase engagement
- Drive generational sustainability
- Better together through diversity
- Innovation through partnerships

Wellbeing and safety in our DNA



Safety leadership & culture

- Health, safety & wellbeing in the DNA of Coles
- Savings made on workers' compensation
- TRIFR performance improvement of 20%

Critical risk reduction

- Coles is recognised for innovation in safety
- ~800 fewer team members injured than this time last year

Health & wellbeing

- Coles is known for being a mentally healthy workplace
- 40,000 individuals completed mental wellbeing program

Great place to work – increase engagement

LEaD

Our LEaD behaviours



Look ahead



Energise everyone



Deliver with pride

LEaD behaviours

- The behaviours we demonstrate when Coles is at its best
- Embedded in our induction and development programs



Engaged team

- 80,000 of our team members responded to recent mysay survey with a ~3% increase in team member engagement
- Detailed action plan executed post each survey
- Key action to communicate Coles' strategy to team members commences post Investor Day



Talent development and retention

- Retail Leaders program in Supermarkets and Express stores
 - Almost ~3,000 participants over past 3 years
- Leading graduate program
 - More than 800 graduates since 2014
- Coles' functional academies

Drive generational sustainability



Sustainable communities

- 'Australia First' sourcing policy
- Coles Nurture Fund - \$19m contributed since launch to 50 suppliers
- Community partners – SecondBite, Redkite, Children's hospitals
- Coles contributed \$92m to community and charity partners
- Local store initiatives



Sustainable products

- Ethical, sustainable and welfare credentialed sourcing
 - No hormone beef, Own Brand cage free eggs, sow stall free pork, RSPCA Approved chicken & turkey and sustainably sourced seafood
- Encourage healthy food choices
- Reduce packaging waste
 - Own Brand water bottles 100% recycled material, removal of single use plastic bags



Sustainable practices

- Greener stores with reduced greenhouse emissions
 - Greenhouse gases reduced ~2.5% in FY18 and \$25m invested in energy efficient stores
- Significantly reduced food waste, supported by SecondBite
 - Over 100m meals donated since 2003, including over 80m meals to SecondBite since 2012
- REDcycle in all Coles' supermarkets

Better together through diversity - FY23 charter

Accessibility

1 **>90%** of our team members across Supermarkets, Coles Express and Liquor to have completed **Disability Confidence Training**, ensuring that we are offering the best quality service and support to our Team Members and customers.

2  **Quiet hour** offered in all eligible stores nationally.

3  **Strive for best practice towards disability inclusion** in our stores, sites and workplaces by scoring in the **top 25th percentile** in the Australian Network on Disability's Access and Inclusion index.

Gender Balance

1  Be recognised as an Employer of Choice for **Gender Equality** by achieving and maintaining citation.

2 Make year on year progress to achieving representation of women in leadership positions at an organisational level and at least **40%** representation of any gender at an overall functional level.

3 **Achieve pay parity** by having the right policies, practices and governance in place to reach **balance** and offer the **same opportunities** to all Team Members to build great careers at Coles.

Flexibility

1 All roles to support **flexible working**.


2 Provide anywhere, anytime work by ensuring we have the right **IT infrastructure** and workplaces to **create a truly flexible working culture**.

3 Offer a range of leading policies that **support** all Team Members to **balance** their **work and life commitments**.



Pride

1 Be recognised as an active and influential leader in **LGBTI workplace inclusion**, by achieving and maintaining status in the Australian Workplace Equality Index.

2  **Build a strong ally network at Coles** by establishing state based pride networks and immersing ourselves in local LGBTI communities and events at a state level.

3 **Increase** our Team Members' **confidence** to be their authentic selves at work by offering both **mandatory and optional training** to all Team Members and allies **on LGBTI inclusion in the workplace**.

Indigenous

1 Aboriginal and Torres Strait Islander Team Members to represent of all **trade skilled and leadership positions** and **3%** of our total workforce demonstrating our commitment to build great careers at Coles.

2 **Continue to support Aboriginal and Torres Strait Islander suppliers** by increasing the number of opportunities available to participate in our supply chain.

3  Develop mutually beneficial and **sustainable relationships** with Indigenous community organisations.

Win Together: summary

- Sustainably embed wellbeing and safety into Coles' culture to provide a great place to work, shop and partner with
- Attract, engage and retain talented team members to deliver on Coles' purpose
- Be recognised as Australia's most sustainable supermarket
- Become an employer of choice by building and retaining a diverse team
- Step change the pace of innovation across Business Units and functions through partnerships





Coles' financial framework

Leah Weckert – Chief Financial Officer

Coles' financial framework aligns with shareholder objectives



Sustainable cash flow generation

Cash flow
realisation > 100%



Disciplined approach to capital allocation

Focus capex on growth &
efficiency initiatives
Returning surplus capital to
shareholders



Maintain a strong balance sheet

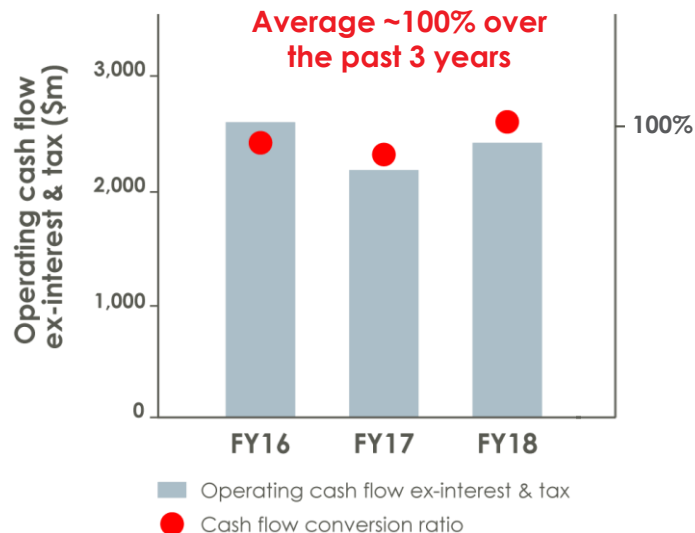
Maintain solid credit
metrics

Objective to provide shareholders with sustainable EPS growth and attractive dividend payout over the long-term



Sustainable cash flow generation

Historical cash flow realisation¹



Key areas of focus

- Improved working capital management
- Disciplined focus on operating costs
- Enhanced capital allocation framework

Coles is a highly cash generative business which aims to achieve cash realisation >100%

¹ Cash realisation represents cash flow before interest + tax divided by EBITDA



Disciplined approach to capital allocation

Historic focus on...

- ~1.5% - 2% space growth
- Roll-out of capital spend across entire store network

Renewed focus on...

- Targeted new space – focus on population growth corridors
- Store renewal capital expenditure targeted to drive better and more consistent returns
- Capital spend focused on growth and efficiency initiatives
- Robust internal hurdle rates
- Recycle capital tied up in non-core assets where appropriate

Coles revised capital expenditure framework to focus on returns above cost of capital





Disciplined approach to capital allocation

- FY19 net capital expenditure guidance unchanged. Net capital expenditure to be \$700-800m
- Going forward focus will be on gross operating capital expenditure given property capital expenditure and disposals are dependent on market conditions
- FY20 capital expenditure outlook
 - Gross operating capital expenditure (excluding property) of \$700m - \$900m, broadly consistent with FY19
 - Capital expenditure skewed toward growth and efficiency initiatives
- Property acquisitions/divestments to be managed but in any given year should not exceed +/- \$100m on a net basis
- Gross operating capital expenditure not expected to exceed \$1.0bn per annum in peak years of supply chain modernisation project (FY21/FY22)

**Increased capital expenditure to support
Coles' sales and earnings growth**



Disciplined approach to capital allocation

FY20 capital expenditure examples

Store renewals

- ~75 supermarket renewals (~50 FY19)
- Format innovation

Growth initiatives

- ~10 new supermarket stores (~21 FY19)
- Convenience meals roll-out
- Online store footprint

Efficiency initiatives

- DC automation
- Dynamic markdowns
- Fresh easy ordering roll out

Maintenance

- Systems investment and upgrades (People and Culture (HR) / Procurement)
- Critical refrigeration



Disciplined approach to capital allocation

- Target dividend payout ratio of 80% - 90%
- Coles Board reconfirms a target dividend payout ratio of 80% - 90% of underlying earnings from 28 November 2018 to 30 June 2019 which will be payable in September 2019
- Dividend decision to be considered by the Coles' Board periodically
- Dividends will be franked to the maximum extent possible

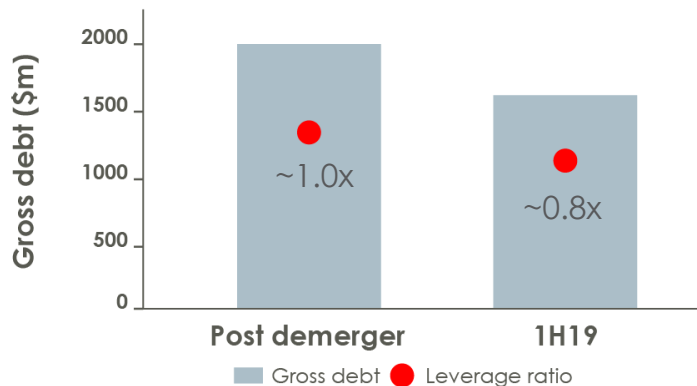
Objective to maintain an attractive dividend pay out ratio





Maintain a strong balance sheet

Gross debt and leverage



1H19 balance sheet position

- Undrawn committed credit facilities A\$2.1bn with an average maturity equating to 3.7 years
- Gross debt of A\$1.6bn (impacted by favourable working capital seasonality)
- Exploring potential capital market alternatives to diversify funding sources and extend maturity profile
- Moody's rating: Baa1 (stable outlook) and S&P rating: BBB+ (stable outlook)

Objective to maintain an investment grade credit rating

Financial framework: summary

- Aim to achieve cash realisation greater than 100%
- Refocus capital expenditure on growth and efficiency initiatives and deliver returns above cost of capital
- Smarter Selling to deliver cumulative ~\$1bn cost-out by FY23
- Commitment to maintain investment grade credit rating
- Coles' financial framework aligns with shareholder objectives



Coles Group Ltd
ASX : COL

Updated outlook and summary of significant items

- Supermarkets expect Q4 FY19 comparable sales to be in the upper half of the range between Q2 and Q3 adjusted results
- Net capex remains within guidance of \$700m - \$800m
- Smarter Selling restructuring provision of \$15m - \$20m to be included in FY19 Full Year Results, however, offset by other initiatives
- Summary of significant items:

| Item | \$m | Comment |
|------------------------------------|---------|--|
| Supply chain modernisation project | (146) | Provision associated with lease exit costs and redundancies for existing DCs |
| Revised alliance with Viva | 137 | Cash gain in relation to payment from Viva for forgoing retail fuel margin under revised Alliance Agreement |
| Queensland Retail Liquor JV | 100-140 | Includes non-cash loss on disposal of economic interest in Spirit Hotels business, transaction costs, and non-cash gain on fair value recognition of Coles' interest relating to the Queensland Retail Liquor Business in the QVC JV |

Total significant items

91-131

Note: the amounts in the table are unaudited

Estimated impact of AASB 16

AASB 16 lease accounting to be adopted from 1 July 2019

- Estimated proforma opening balance sheet impact on FY19 financials:
 - Additional \$8 - 9bn lease liability (as at 1 July 2018)
 - Additional \$7 - 8bn right-of-use asset (as at 1 July 2018)
 - Net impact, adjusted for deferred tax and reversal of current lease accounting recognised against retained earnings
 - No expected impact on credit rating
 - No impact on cash flows
- FY19 accounts will be presented on a pre-AASB 16 basis, however, an update will be provided as part of the full year disclosures

Coles is actively managing its lease liabilities and WALE (6.0 years) given market dynamics

Note: Estimate may differ to actual impact on initial application in FY20 due to: changes in composition of the Group's lease portfolio; future economic conditions, including the Group's borrowing rates at 1 July 2019; changes to material judgement areas, such as final determination of reasonably certain renewal options on 1 July 2019; final determination of contracts containing a lease. The impacts are subject to finalisation and audit review.



Summary of today

Measures of success of Coles' strategy

 **Safety
TRIFR**



Increased customer
satisfaction



Increased
sales density

EBIT
growth



Increased team
member
engagement



Sales growth at least
in line with market

Cost-out of
~\$1bn
by FY23

>100%
cash conversion

Q&A
