



17 February 2021

The Manager
Company Announcements Office
Australian Securities Exchange

Dear Sir or Madam

Coles Group Limited – 2021 Half Year Results Release

Please find attached for immediate release to the market the 2021 Half Year Results Release for Coles Group Limited.

This announcement is authorised for release by the Board.

Yours faithfully,

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

Daniella Pereira
Company Secretary

Results Release

colesgroup

17 February 2021

2021 Half Year Results Release

Continued strategic progress with significantly improved customer metrics in eCommerce

First half performance summary (non-IFRS basis)

- Sales revenue increased by 8.1% to \$20.4 billion
- Comparable sales growth of 7.2% in Supermarkets, 15.1% in Liquor and 9.9% in Express
- Strong Group EBIT and earnings per share growth of 12.1% and 14.5% respectively
- Cash realisation of 120%
- Fully-franked interim dividend of 33 cents per share declared, a 10% increase on the 1H20 interim dividend
- Supermarkets customer satisfaction up by 3.9pp to 89.8% compared to 2H20
- Improved safety with 15% reduction in Total Recordable Injury Frequency Rate (TRIFR) compared to 2H20

Financial results - 27 weeks ended 3 January 2021

	1H21	1H20	CHANGE
Sales revenue (\$m)	20,378	18,846	8.1%
EBIT (\$m)	1,020	910	12.1%
Net profit after tax (NPAT) (\$m)	560	489	14.5%
Basic earnings per share (cents)	42.0	36.7	14.5%
Interim dividend per share ¹ (cents)	33.0	30.0	10.0%

¹ Dividends announced.

Financial results for 1H21 and the prior comparable period include the adoption of AASB 16 Leases. 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.

Strategic highlights

Inspire Customers – Supermarkets customer satisfaction improved by 3.9pp to 89.8% in H1

- eCommerce B2C sales growth of 61% with strategic investments made in user experience and capacity leading to significant improvements in Perfect Order Rate and customer satisfaction
- Led the industry in removing door-to-door paper catalogues and the launch of coles&co, with customers citing an improved experience and more relevant specials with the digital catalogue
- Provided a tailored offer for customers with more than 340 range changes completed during the half including pet, paper and coffee categories
- Delivered trusted value by more than doubling the number of stores ranging Coles Best Buys to almost 200, allowing customers access to a broader based variety of great value, general merchandise products
- Own Brand revenue growth of 10% with 11 Own Brand products winning Product of the Year awards
- MasterChef collectable stainless-steel knives proved popular with home cooks
- Embedded refreshed Liquor strategy to become a “simpler, accessible, locally relevant drinks specialist with a differentiated offer”, including opening three eCommerce dark stores to increase capacity, streamline order fulfilment and improve speed of delivery for customers, supporting strong eCommerce growth of 90%
- Completed roll out of new self-serve coffee machines to 99% of the Coles Express network, serving award winning Urban Coffee Culture blend and driving a strong uplift in coffee sales

Smarter Selling – On track to deliver cost savings in excess of \$250 million in FY21

- Smarter Selling cost savings during the period include:
 - Improved end-to-end flow of fresh goods to store with a more efficient supply chain providing greater shelf life for customers
 - Profit protection measures through dynamic markdowns (e.g. use of Artificial Intelligence to optimise markdowns in meat) and loss prevention (e.g. entry gates, public view monitors)
 - Data and technology enhancements in-store to reduce manual handling of cartons and improve availability for customers (e.g. guided splits, gap scan improvements)
- New Smarter Selling initiatives commenced during the half:
 - Customer packing benches rolled out to almost 300 stores, delivering a safe and flexible packing experience for customers while increasing team member productivity
 - Paperless operations giving transport partners a frictionless experience as they enter and exit distribution centres
- Progress achieved on both the Ocado and Witron automation projects despite COVID-19 restrictions, with construction at the Melbourne Ocado customer fulfilment centre continuing and Sydney now underway, while structural work at Witron automated distribution centre in Queensland is continuing and approvals received on the New South Wales distribution centre
- Launched a new people and payroll system (myhub) through our strategic partnership with SAP, replacing over 16 disparate systems, providing a 'one-stop shop' for all our team members' needs, simplifying and improving ways of working
- Transitioned Returnable Plastic Crates to CHEP to drive increased penetration of reusable crates for Coles' fresh suppliers, reducing cardboard packaging
- Tailored store format strategy continued with 30 renewals completed during the half, including seven Format A, 10 Format C and two Coles Local supermarkets

Win Together – improvements in safety scores (TRIFR 15% improvement)

- Focused on the mental wellness of team members including support of RUOK? Day and Social Connection activities where all team members were provided with resources and ways to connect with team mates, friends and family. More than \$580,000 also raised for the Movember Foundation, the largest corporate contribution in Australia, to support mental health and cancer care
- Invested in safety including the launch of "Threatening Situations De-Escalation" training for all team members and the delivery of a company-wide Safety Week
- Entered into a 10-year agreement with CleanCo to source more than 90% of Queensland electricity requirements from renewable sources from July 2022
- Partnered with RED Group and Replas to pioneer and install a concrete slab carpark at Coles Horsham made partly out of recycled soft plastics recovered from the REDcycle program available in all Coles supermarkets
- Coles Local Chatswood opened with sustainability features including trolleys made from recycled plastic milk bottles and REDcycle plastics, free recycled carry boxes and team member uniforms featuring part-recycled materials
- Extended direct milk sourcing model by partnering with dairy farmers in Western Australia to supply Coles with fresh milk for Coles Brand milk bringing the total number of Australian farms directly supplying milk to Coles to almost 60 across four states – Victoria, New South Wales, South Australia and Western Australia
- Most successful Christmas fundraising campaign ever with almost \$3.2 million raised for charity partners SecondBite and Redkite to help feed vulnerable Australians and support families affected by childhood cancer
- Extended partnership with Rowing Australia to support community participation in rowing and fuel the national rowing team. Continued support of Little Athletics with over \$520,000 in grants donated to more than 150 Little Athletics centres

Statement from Coles Group CEO, Steven Cain

"We have now delivered the first 18 months of our refreshed strategy whilst ensuring that we support our team members, customers, suppliers and community partners through a volatile and unpredictable COVID-19 year. I would like to thank all our stakeholders for pulling together to make Australia one of the safest countries in the world.

In the half we have made significant progress in our Own Brand product development, online operations and supply chain automation.

Whilst COVID-19 will continue to present challenges it will also continue to present opportunities for change. With a strong balance sheet and team, Coles is well placed to continue delivering on our vision of becoming the most trusted retailer in Australia and grow long-term shareholder value."

COVID-19 update

Supermarkets

Coles continued to experience elevated sales as a result of COVID-19 which saw the prior trends of basket consolidation and fewer shopping trips persist during the half, however, transactions were supported in December by international border restrictions which saw more Australians stay at home over the Christmas holiday period.

In terms of the store network, neighbourhood stores continued to perform strongly while CBD stores remained subdued. There was a marginal improvement in shopping centre store performance during the second quarter and some resort stores also benefitted from customers travelling domestically.

Total eCommerce sales grew 48% (while B2C eCommerce sales grew 61%) for the half driven by very strong growth in Victoria across Click & Collect and home delivery. The Online business responded to Victorian demand by adding flexible, low cost capacity in the network. As demand eased in the second quarter, with revenue growing at 40%, the business was able to successfully contract capacity. Pleasingly, B2B sales began to recover during the half as businesses, particularly in Victoria, re-opened and some workers returned to the office.

Liquor

Consistent with the first quarter, Liquor maintained strong sales throughout the half however, these did taper off in the second quarter as restrictions around the country eased. Other trends which continued included the preference for larger pack sizes across the beer, ready-to-drink (RTD) and spirits categories as well as strong eCommerce sales.

Express

The recovery from initial COVID-19 restrictions continued to progress with fuel volumes improving in the second quarter across all states. As restrictions in Victoria began to ease fuel volumes trended positively in the early part of December prior to the seasonally quieter Christmas period.

Convenience (c-store) sales growth was also strong as Express continued to benefit from the shift in customer behaviour towards the convenience channel and avoiding larger, busier stores. The food-to-go and confectionery categories which had been negatively impacted by COVID-19 restrictions continued to recover throughout the half.

Costs

Coles successfully managed COVID-19 costs throughout the half including during the second quarter as restrictions eased, while maintaining a safe in-store environment for team members and customers. COVID-19 costs incurred in the first half were approximately \$105 million with approximately \$40 million incurred in the second quarter.

Group performance overview

Retail calendar results

\$ MILLION	1H21	1H20	CHANGE
Supermarkets	17,800	16,583	7.3%
Liquor	1,946	1,691	15.1%
Express	632	572	10.5%
Group sales revenue	20,378	18,846	8.1%

\$ MILLION	1H21	1H20	CHANGE
Supermarkets	903	789	14.4%
Liquor	104	76	36.8%
Express	32	28	14.3%
Other	(19)	17	N/M
Group EBIT	1,020	910	12.1%

N/M denotes not meaningful

Group sales revenue increased by 8.1% to \$20.4 billion with strong sales revenue growth across Supermarkets, Liquor and Express. Group EBIT increased by 12.1% to \$1.0 billion with Smarter Selling benefits and operating leverage driving growth across all segments.

The Coles Board has declared a fully-franked interim dividend of 33 cents per share, a 10% increase on the interim dividend of the prior period with a record date of 1 March 2021 and a payment date of 26 March 2021. Coles retains its annual target dividend payout ratio of 80% to 90%.

Segment performance review

Supermarkets

Retail calendar results

\$ MILLION	1H21	1H20	CHANGE
Sales revenue	17,800	16,583	7.3%
EBITDA	1,555	1,421	9.4%
EBIT	903	789	14.4%
Gross margin (%)	25.8	25.1	71bps
CODB (%)	(20.7)	(20.3)	(40)bps
EBIT margin (%)	5.1	4.8	31bps

Operating metrics

	1H21	2Q21	1Q21
Comparable sales growth (%)	7.2	5.0	9.7
Sales per square metre ¹ (MAT \$/sqm)	18,101	18,101	17,909
Net selling area (MAT sqm)	1,926,420	1,926,420	1,918,420
Customer satisfaction ² (%)	89.8	90.1	89.5
Inflation / (deflation) (%)	2.3	2.0	2.6
Inflation / (deflation) excl. tobacco and fresh (%)	0.7	0.6	0.8

¹ Sales per square metre is on a moving annual total (MAT), or exit rate calculated on a rolling 12 months of data basis.

² Based on Tell Coles data.

Performance highlights

Supermarkets sales revenue was \$17.8 billion for the half, an increase of 7.3% on the prior corresponding period, with comparable sales growth of 7.2%. For the second quarter, sales revenue increased by 5.2% and comparable sales growth was 5.0% driven by the successful execution of the Christmas campaign, range changes and strong growth in eCommerce sales. Ongoing benefits from increased in-home consumption associated with COVID-19 also contributed positively to sales in the half.

Customer satisfaction, as measured by Tell Coles, increased in the first half to 89.8% (2H20: 85.9%) with improvements across availability, range and price. Customer satisfaction in the second quarter peaked at a record of 90.1%.

Contributing to the strong Christmas period was the introduction of more than 250 new products with particularly strong growth in fresh food categories. Coles was also pleased to support Australian seafood suppliers impacted by trade to China with the sale of \$20 Lobsters which were well received by customers.

eCommerce contributed \$1 billion of sales revenue for the half, growing by 48% (61% for B2C) as Coles continued to invest in user experience and capacity. Customers responded positively to enhancements made to the user experience including the single-click check out and improved navigation. Further improvements in the Perfect Order Rate positively impacted customer satisfaction. Investments were also made in capacity to take advantage of the peaks in demand during the Victoria lockdown in the first quarter and over the Christmas period. eCommerce continued to make a positive contribution to Supermarkets profit for the half with improved delivery rates per van due to better traffic conditions earlier in the half as a result of COVID-19 restrictions.

Customer-led range change activity continued during the half with more than 340 range changes completed across categories such as frozen meals, health foods and nutritional snacks. Coles also delivered trusted value with more than 1,400 products placed on everyday low prices.

Own Brand continued to drive a strong sales performance through innovation and value for customers, delivering \$5.7 billion of sales in the half, an increase of 9.8% compared to the prior corresponding period. Over 1,200 new products were launched in the half, the most successful of these new products were in the convenience and Christmas ranges, including the Coles Kitchen Family Ranch salad kit in the convenience range and Own Brand's Pork Loin Roast with apple, cranberry and thyme stuffing in the Christmas range. With a focus on providing healthy and nutritional meal solutions for customers, the Coles Kitchen 'Balanced for you' healthy meals range was also launched and has been well received by customers. During the half, Own Brand won 24 product awards including a record 11 Product of the Year awards across products such as Coles Finest Chocolate and Hazelnut Mousse, Urban Coffee Culture dark roasted beans and KOi Jasmine and Sandalwood Handwash.

Own Brand continues to drive industry change in responsible sourcing practices with sustainability commitments delivered during the half including ensuring that timber, pulp and paper products are sourced from forest plantations independently certified or made with post-consumer recycled fibre, and all single ingredient tea, coffee and cocoa used in solid block chocolates for Own Brand products are independently certified or verified by Fairtrade, Cocoa Horizons and Rainforest Alliance/UTZ.

Coles recorded inflation excluding tobacco and fresh of 0.7% for the half and 0.6% for the second quarter. Total Supermarkets price inflation of 2.3% was recorded for the half and 2.0% in the second quarter. Inflation in the second quarter was largely a result of cost inflation driven by tobacco and product supply constraints due to adverse growing conditions, particularly across avocados, citrus lines and apples. Inflation in red meat also continued in the second quarter with cattle prices at record highs. These impacts were partially offset by deflation in vegetables such as cucumbers, lettuce and broccoli as a result of cycling heatwaves in South Australia and droughts in Queensland in the prior corresponding period.

Coles completed 30 renewals during the half including seven Format A and 10 Format C and two Coles Local stores. Coles has now completed 35 Format A, 43 Format C and six Coles Local stores across the network. For the half, 11 new store openings and two closures were completed. At the end of the period there were 833 Supermarkets.

Gross margin increased by 71bps to 25.8% driven by improved shelf margin from strategic sourcing initiatives particularly in Own Brand as well as a more efficient supply chain due to the Smarter Selling program, despite additional business continuity costs as a result of the industrial action at the Smeaton Grange distribution centre and COVID-19 costs.

Cost of doing business (CODB) as a percentage of sales increased by 40 bps to 20.7% largely due to cost inflation, strategic investments in digital and technology initiatives, and approximately \$70 million of COVID-19 costs. These additional costs were partially offset by Smarter Selling benefits.

EBIT for the half year increased by 14.4% to \$903 million and EBIT margin improved by 31 bps to 5.1%.

Liquor

Retail calendar results

\$ MILLION	1H21	1H20	CHANGE
Sales revenue	1,946	1,691	15.1%
EBITDA	159	127	25.2%
EBIT	104	76	36.8%
Gross margin (%)	21.5	21.9	(34)bps
CODB (%)	(16.2)	(17.4)	122bps
EBIT margin (%)	5.3	4.5	88bps

Operating metrics

	1H21	2Q21	1Q21
Comparable sales growth (%)	15.1	13.1	17.8
Sales per square metre ¹ (MAT \$/sqm)	16,603	16,603	16,023
Net selling area (MAT sqm)	215,448	215,448	214,930

¹ Sales per square metre is on a moving annual total (MAT), or exit rate calculated on a rolling 12 months of data basis.

Key highlights

Liquor sales revenue was \$1.9 billion for the half, an increase of 15.1% on the prior corresponding period, with comparable sales growth also growing by 15.1%. For the second quarter, Liquor sales revenue increased by 13.4% and comparable sales growth was 13.1% relative to the prior corresponding period. Sales growth was driven by a strong performance across all banners, channels and categories, particularly eCommerce and larger format stores, and the spirits and RTD categories.

Progress during the half was made under the "Simplify and refocus" horizon of Liquor's refreshed strategy including the implementation of a new customer focused organisational structure and simplifying the operating model with the roll out of simplified ticketing. An investment in service and team capability, particularly leading into the peak Christmas trading period, supported strong improvements in customer metrics and availability. An enhanced range was a strategic focus during the half with range changes implemented at Liquorland stores across key growth categories such as gin, rose, craft beer and RTDs. Complementing the range activity, local product contribution continued to grow with 126 local lines launched during the half.

Recent investments in systems, customer experience and capacity supported strong eCommerce sales growth of 90% for the half. Three dark stores in Victoria, Queensland and Western Australia were opened to increase capacity, streamline order fulfilment and improve speed of delivery for customers. Enhancements were also made to the online shopping experience through greater website personalisation features.

Renewal activity continued across all three Liquor banners during the half. The new Liquorland trial concept was expanded to a multi-site trial and continues to show encouraging signs with customers responding positively to the range and space enhancements. First Choice Liquor Market conversions also continued to perform strongly with the format now rolled out to 70% of the First Choice network. The Vintage Cellars trial concept store in Ashburton continues to show promising growth with the concept rolled out to three more stores during the half and successful low-cost elements beginning to be rolled out across the wider fleet.

Optimisation of the Liquor store network continued during the half with 20 new stores opened and five stores closed, taking the total network to 925 Liquor sites. Coles Liquor continues to maintain a focus on underperforming stores whilst developing a pipeline for future growth.

Gross margin decreased by 34 bps to 21.5% largely due to ongoing changes in mix as a result of COVID-19, with customers shifting towards larger pack sizes.

CODB as a percentage of sales improved by 122 bps to 16.2% largely driven by the volume growth from higher sales fractionalising Liquor's fixed cost base.

Liquor EBIT increased by 36.8% for the half to \$104 million and EBIT margin increased by 88 bps to 5.3%.

Express

Retail calendar results

\$ MILLION	1H21	1H20	CHANGE
Convenience (c-store) sales revenue	632	572	10.5%
EBITDA	103	95	8.4%
EBIT	32	28	14.3%
Gross margin (%)	50.9	56.2	(532)bps
CODB (%)	(45.8)	(51.2)	541bps
EBIT margin (%)	5.0	4.9	9bps

Operating metrics

	1H21	2Q21	1Q21
Comparable c-store sales growth ¹ (%)	9.9	9.6	10.2
Weekly fuel volumes (mL)	55.5	58.4	52.3
Fuel volume growth (%)	(13.8)	(8.5)	(19.4)
Comparable fuel volume growth (%)	(14.9)	(10.0)	(20.1)

Key highlights

C-store sales revenue was \$632 million for the half, an increase of 10.5% on the prior corresponding period, with comparable c-store sales growth of 9.9%. For the second quarter, c-store sales revenue increased by 10.4% and comparable c-store sales growth was 9.6% relative to the prior corresponding period. Sales growth was driven by the drinks category, supported by recent investments in fridges and targeted range reviews in healthier drink alternatives, as well as strong forecourt and tobacco sales. Sales growth was also supported by improved momentum in Victoria following the easing of Government imposed COVID-19 restrictions.

During the half, a network wide roll out of new self-service coffee machines was largely completed, with the improved customer offer driving a strong uplift in coffee sales. Express' high quality and Rainforest Alliance Certified Urban Coffee Culture blend also won five awards at the international Golden Bean Competition, making it the most awarded single coffee offer at the competition. During the half, 12 new sites were opened and two closed, taking the total network to 723 sites.

Fuel volumes declined by 13.8% during the half with comparable fuel volumes declining by 14.9%. Average weekly fuel volumes of 55.5mL per week were recorded during the half. For the second quarter, average weekly fuel volumes improved to 58.4mL per week, growing by 12% quarter-on-quarter with improvements in all states, particularly Victoria following the easing of COVID-19 restrictions.

CODB as a percentage of sales improved by 541 bps to 45.8% as a result of a strong focus on cost control throughout the half. Gross margin decreased by 532 bps to 50.9% largely due to declining fuel volumes and lower fuel margin income.

Strong c-store sales and favourable mix supported an increase in Express EBIT by 14.3% for the half to \$32 million with EBIT margin increasing by 9 bps to 5.0%.

Other

Coles reported net costs of \$19 million for the half. Other includes corporate costs, Coles' 50% share of flybuys' net result, the net gain or loss generated by Coles' property portfolio and self-insurance provisions.

As foreshadowed at the full year results announcement, higher corporate costs of \$39 million as a result of a market-wide increase in insurance costs were partially offset by earnings from property operations of \$20 million which as previously disclosed, are expected to be largely first half weighted. Coles' 50% share of flybuys' net result was nil for the half.

Balance sheet

\$ MILLION	3 JAN 2021	28 JUN 2020	5 JAN 2020
Inventories	2,423	2,166	2,473
Trade and other receivables	415	434	353
Trade and other payables	(4,173)	(3,737)	(3,665)
Working capital	(1,335)	(1,137)	(839)
Property, plant and equipment and equity investments	4,496	4,344	4,139
Right-of-use assets	7,703	7,660	7,347
Intangibles	1,620	1,597	1,553
Provisions	(1,358)	(1,333)	(1,218)
Other assets / (liabilities)	(64)	38	39
Capital employed	11,062	11,169	11,021
Net cash / (debt)	38	(362)	(566)
Lease liabilities	(9,168)	(9,083)	(8,761)
Net tax balances	860	891	825
Total net assets	2,792	2,615	2,519
Inventory days	29	29	30
Trade payable days	(33)	(33)	(31)

Key highlights

Net assets were \$2,792 million as at 3 January 2021, an increase of \$177 million compared to the full year.

Working capital of (\$1,335) million improved by \$496 million compared to the prior corresponding period largely as a result of an increase in trade and other payables which were impacted by the timing of month end payments compared to the prior corresponding period.

Net debt (excluding lease liabilities) reduced by \$400 million compared to the full year driven by positive seasonal working impacts. Net leverage including lease liabilities was 2.9x. In August 2020, Coles issued \$450 million Australian dollar medium term notes comprising \$300 million ten-year fixed rate and \$150 million five-year floating rate notes. The ten-year notes were priced at a coupon of 2.1% and the five-year notes were priced at a margin of 0.97% over three-month BBSW. The proceeds of the notes were used to retire existing bank debt facilities.

Property, plant and equipment and equity investments increased \$152 million compared to the full year as a result of capital spend on the store renewal program in addition to milestone payments for strategic projects, including Supply Chain Modernisation and Ocado. Provisions increased by \$25 million compared to the full year largely as a result of higher employee entitlement provisions with fewer team members taking leave due to COVID-19.

Right-of-use assets of \$7,703 million increased by \$43 million compared to the full year with the recognition of reasonably certain lease options partially offset by depreciation.

Inventory days decreased compared to 5 January 2020 with the impact of the change in recognition of duties and taxes on tobacco inventory and the removal of fuel inventory more than offset by the business being able to

successfully manage inventory through the periods of heightened demand as a result of COVID-19. The above factors, as well as the timing of month end payments, also impacted trade payable days.

Cash flows before financing activities

\$ MILLION	1H21	1H20
EBIT	1,020	910
Depreciation and amortisation	782	755
EBITDA	1,802	1,665
Movement in working capital	221	(220)
Movement in provisions and other	134	91
Net cash from operating activities – excluding interest and tax	2,157	1,536
Income tax paid	(207)	(301)
Interest component of lease payments	(199)	(193)
Net interest (paid) / received	(15)	(18)
Net cash from operating activities	1,736	1,024
Net capital expenditure	(503)	(151)
Other	(4)	(9)
Net cash from investing activities	(507)	(160)
Net cash flow before financing activities	1,229	864
Cash realisation ratio	120%	92%

Key highlights

Net cash flow before financing activities increased by \$365 million to \$1,229 million compared to the prior corresponding period, due to strong earnings, a reduction in working capital and income tax paid partially offset by an increase in net capital expenditure.

Cash realisation ratio of 120% reflects a working capital inflow of \$221 million largely driven by the timing of the half year end, resulting in fewer payments in the first half compared to the prior corresponding period. This is expected to reverse in the second half of FY21.

Income tax paid was lower for the period largely as a result of an adjustment to the instalment rate reflecting Coles' position as a stand-alone taxpayer.

Capital expenditure

Net capital expenditure increased by \$352 million to \$503 million compared to the prior corresponding period. On an accrued basis, gross operating capital expenditure was \$532 million, an increase of \$216 million on the prior corresponding period. The capital expenditure program was deployed during a half that presented many challenges, particularly with the ongoing impact of COVID-19 and the Victorian lockdown.

Within Supermarkets, capital expenditure increased due to the launch of 11 stores during the half, accelerated investments in the store renewal program, with 30 stores renewed during the half, in-store investments for loss prevention initiatives and customer packing benches as well as investments in the Supply Chain Modernisation project of approximately \$85 million. Liquor capital expenditure was focused on new store openings with 20 stores launched in the first half, while investment in First Choice Liquor Market conversions also continued.

Coles continued to optimise its property portfolio during the half with a focus on further redevelopment activities. Divestment income reduced compared to the prior corresponding period which was a particularly active half. This resulted in a net property inflow of \$24 million on an accrued basis.

Outlook for the remainder of FY21

Over recent months Australia has successfully managed to avoid a large scale COVID-19 outbreak, however, short-term outbreaks have impacted a number of cities and communities across Australia. Depending on COVID-19, vaccine roll out and efficacy, and other factors, sales in the supermarket sector may moderate significantly or even decline in the second half of FY21 and into FY22.

Coles will be cycling elevated sales from COVID-19 in Supermarkets late in the third quarter, for the remainder of the second half, and most of FY22 associated with:

- Pantry stocking
- People working and eating from home
- Customers shopping online to avoid physically shopping in-store
- More Australians in Australia due to border closures

While the outlook remains uncertain, the following trends are likely:

- Some reversal of the local shopping trend as customers become more confident in shopping in larger centres resulting in stronger performance of shopping centre stores
- Increased movement as COVID-19 restrictions ease which will assist in the restoration of fuel volumes relative to pre-COVID-19 levels
- Reduced immigration which has underpinned population growth, an important sales growth driver, in prior years
- Furthermore, the benefits of recent improvements in both employment numbers and consumer confidence may be partly offset by a reduction in fiscal stimulus measures introduced during the height of the pandemic

Supermarkets comparable sales growth has continued to moderate and in the first six weeks of the third quarter was 3.3%. However, there continues to be significant variation in sales performance between states, store locations and from week-to-week as a result of customer shopping trends as well as any short-term outbreaks that have occurred around the country. In Online, sales growth has moderated to 37%. As the business begins to cycle the COVID-19 impacts in the second half of FY21, Supermarkets sales and EBIT growth are expected to face challenges relative to the prior corresponding period.

Based on the current operating environment, Coles expects to incur COVID-19 costs of up to \$10 million per month with the majority of costs to be related to store remuneration and cleaning and hygiene.

In Liquor, sales remained elevated for the first six weeks of the third quarter with comparable sales growth of 12.5% cycling the impact of the bushfires in the prior corresponding period. Consistent with Supermarkets, Liquor will also be cycling the elevated sales due to COVID-19 which will present challenges given the fixed cost nature of the Liquor business. Investments in service and capability as part of Liquor's refreshed strategy will continue in the second half.

In Other, as outlined in FY20 results, net earnings from property operations are expected to be weighted to the first half.

Gross operating capital expenditure for the full year is now expected to be approximately \$1.1 billion (revising previous guidance of approximately \$1 billion). The additional funds will be used to invest in opportunities that have arisen out of COVID-19 including Coles Local acceleration, eCommerce and operational efficiencies in stores such as the customer packing benches.

Coles' store network and format renewal program for FY21 remains unchanged with plans to renew approximately 65 stores and to open in the range of 15 to 20 new stores over the course of the year.

Coles intends to host a Strategy Day on Wednesday, 9 June 2021 to provide an update on the progress on the strategy announced in June 2019. Further details will be provided closer to the time.

For further information, please contact:

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Appendix 1 – Number of retail stores

	OPEN AS AT 28 JUN 2020	OPENED	CLOSED	OPEN AS AT 3 JAN 2021
NSW & ACT	255	6	(1)	260
QLD	180	2	0	182
VIC & TAS	231	2	0	233
SA & NT	62	1	(1)	62
WA	96	0	0	96
Supermarkets	824	11	(2)	833
Liquor	910	20	(5)	925
Express	713	12	(2)	723
Group store numbers	2,447	43	(9)	2,481

Appendix 2 – pre-AASB 16 information

\$ MILLION	1H21 REPORTED	AASB 16 ADJUSTMENT	1H21 PRE-AASB 16	1H20 PRE-AASB 16	CHANGE
Supermarkets EBIT	903	(155)	748	637	17.4%
Liquor EBIT	104	(9)	95	67	41.8%
Express EBIT	32	(23)	9	4	125.0%
Other EBIT	(19)	(0)	(19)	17	N/M
Group EBIT	1,020	(187)	833	725	14.9%
Group EBITDA	1,802	(635)	1,167	1,054	10.7%
Group NPAT	560	8	568	498	14.1%

N/M denotes not meaningful

Appendix 3 – Glossary of terms

Non-IFRS financial information

- This Results Release contains non-IFRS financial information which in the ordinary course, is not subject to audit or review.
- IFRS or Statutory financial information is financial information that is presented in accordance with all relevant accounting standards.
- Any non-IFRS financial information is clearly labelled to differentiate it from the Statutory/IFRS financial information.
- The use of non-IFRS information in the 2021 Half Year Results Release provides readers of these documents with meaningful insights into Coles' financial performance.
- Balance Sheet and Cash Flow information presented in this Results Release is consistent with underlying information disclosed in Appendix 4D Half Year Financial Report

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

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

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 net financial debt, add lease liabilities, divided by EBITDA (post-AASB 16)

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, or exit rate calculated on a rolling 12 months of data basis.

Perfect Order Rate - the percentage of total Home Delivery orders (excluding Click&Collect) that were fulfilled on time without any missing items or substitution

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

Tell Coles - A post-shop customer satisfaction survey completed by over two million customers annually, through which Coles monitors customer satisfaction with service, product availability, quality and price

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)