Operating and Financial Review

The Operating and Financial Review relates to Coles Group Limited ('the Company') and its controlled entities (together, 'Coles', 'Coles Group', or 'the Group').

Forward-looking statements

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

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

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

Non-IFRS information

This report contains International Financial Reporting Standards ('IFRS') and 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 relevant accounting standards and may not be directly comparable with other companies' information.

Any non-IFRS financial information included in this report has been labelled to differentiate it from statutory or IFRS financial information. Non-IFRS measures are used by management to assess and monitor business performance at the Group and segment level, and should be considered in addition to, and not as a substitute for, IFRS information. Operating metrics that are prepared on a non-IFRS basis have been included in the segment commentary to support an understanding of comparable business performance. Non-IFRS information is not subject to audit or review.

Business Model and Strategy

Coles is one of Australia's leading retailers, with an extensive national supermarket and liquor store footprint and a range of digital platforms allowing us to deliver a full service omnichannel experience for customers. We employ more than 120,000 team members, engage with more than 8,000 suppliers, have more than 430,000 direct shareholders and we welcome millions of customers through our store network and digital platforms every week.

Our vision is to become the most trusted retailer in Australia and grow long-term shareholder value.

The Group's reportable segments from continuing operations are:

- **Supermarkets**: fresh food, groceries and general merchandise retailing (includes Coles Online and Coles Financial Services)
- **Liquor**: liquor retailing, including online delivery services.

Other business operations that are not separately reportable, such as Property and a product supply arrangement, as well as costs associated with enterprise functions, which include Insurance and Treasury, are included in Other.

Coles is one of the most trusted brands[1] in Australia. Coles' brand portfolio includes Coles Group, Coles, Coles Local, Liquorland, First Choice Liquor Market, Vintage Cellars and Coles Financial Services. Coles is also a 50% shareholder of Flybuys, a loyalty program with more than nine million active members.

The Group's core competencies include merchandising, product development and supplier relationships, marketing, customer service and maintaining and operating a national store and digital network. Coles also operates an integrated supply chain, including logistics, and a national distribution centre network.

On 21 September 2022, the Group entered into an agreement to sell its Coles Express fuel and convenience retailing operations to Viva Energy Group Limited ('Viva Energy'), which resulted in the Express business being classified as a discontinued operation from that date. Consequently, Express is no longer presented in the segment disclosures from continuing operations for the current and prior periods. The sale completed on 1 May 2023.

The Group's four-year "**Winning in our second century**" strategy was set in FY19 and was in place until the end of FY23. In FY23, Coles achieved several key milestones against this strategy which are detailed below. Building on these strong foundations, we have refreshed our strategy as set out in the Looking to the Future section.

Inspire Customers

Coles has continued to invest in trusted value to ease the burden for those households experiencing challenges with cost of living pressures through our value campaigns. The continued success of our exclusive brand offering is supported by the launch of 1,421 new Exclusive to Coles products and 259 Exclusive Liquor Brand ('ELB') products with strong sales growth across these portfolios. Coles received 103 Coles Own Brand product awards and 511 Exclusive Liquor Brand awards. In addition, we expanded our Coles Finest premium range to include products such as Coles Finest Beef and Margaret River Shiraz Sausages and the Coles Finest lamb range. Alongside this, we launched our 'LOCKED' and 'DROPPED & LOCKED' value campaigns. These campaigns include a range of key pantry staples and provide certainty for customers who are shopping to a budget. They have proven popular, particularly in light of the inflationary environment and rising cost of living pressures and have been at the centre of our commitment to deliver trusted value to our customers.

Smarter Selling

This year, the business successfully achieved our target of $1 billion of cumulative Smarter Selling benefits across our four-year program that was established in 2019, delivering in year benefits of approximately $220 million. These benefits have helped to offset rising cost pressures within the business and allowed us to reinvest in our value proposition and in our growth drivers such as digital.

Coles achieved a major milestone in modernising its supply chain with the opening of our first Automated Distribution Centre ('ADC') located in Redbank, Queensland and initial commissioning work commencing at the New South Wales ADC in line with schedule. Our investment commenced in FY19 when we entered into our exclusive partnership with Witron, a global leader in automated distribution centres. We expect this investment to deliver long-term structural cost advantage in our supply chain through automation, data and technology, as well as improvements in safety, availability and sustainability.

In Supermarkets, 17 new stores were opened and 46 renewals were completed during the year, including our innovation store at Southland, Victoria. In Liquor, we opened 35 new stores and renewed 236, including opening our first Liquorland in Tasmania and renewing our 475th Black & White Liquorland store in Ocean Grove, Victoria.

Win Together

Coles has continued to make progress against key areas of our sustainability strategy. We were recognised as an Employer of Choice for Gender Equality by the Workplace Gender Equality Agency. We also reached our target to have more than 40% of our leadership positions filled by women and have recorded our highest ever *mysay* engagement score, three percentage points above the May 2022 survey and 10 percentage points above the FY19 survey. Coles has achieved a 9.2% reduction in Total Recordable Injury Frequency Rate ('TRIFR') compared to FY22. This was delivered through a focus on risk management, including manual handling and mental wellbeing. Coles also invested in partnerships and programs that support communities across Australia and help conserve the environment.

Coles has maintained its focus on reducing emissions and waste, making further progress towards our target to reduce combined Scope 1 and 2 greenhouse gas emissions by more than 75% (from an FY20 baseline) by the end of FY30. We also set a Scope 3 supplier engagement target, validated by the Science Based Targets initiative[1]. In June 2023, we phased out soft-plastic shopping bags in-store and online, a move that is estimated to remove 230 million plastic bags from circulation in one year[2].

Detailed information on our sustainability performance will be available in our 2023 Sustainability Report.

Portfolio Updates

In April 2023, Coles entered into a binding agreement to acquire two automated milk processing facilities from Saputo Dairy Australia, to improve the security of milk supply and accessing capacity to facilitate growth through product innovation. The acquisition of these sites is subject to Australian Competition and Consumer Commission ('ACCC') approval and other customary closing conditions. As referenced earlier, the Group also completed the divestment of our fuel and convenience retailing business in May 2023, enabling us to focus on growing our omnichannel supermarket and liquor businesses.

Further information can be found in the Group Performance section.

Our brands

Supermarkets

Liquor

Pictured: Team members Lily and Lachlan. In FY23 Coles was recognised as an Employer of Choice for Gender Equality.

1 December 2022 Roy Morgan 'Net Trust' rankings

1 The Science Based Targets initiative ('SBTi') is a partnership between CDP, the United Nations Global Compact, World Resources Institute and the World Wide Fund for Nature. It provides an independent assessment and validation of net-zero science-based targets in line with a 1.5°C future.
2 Based on unit sales over 52 week period until 30 April 2023.

Group Performance

Group sales revenue ($m)	FY23	FY22	CHANGE
Supermarkets	36,746	34,624	6.1%
Liquor	3,610	3,613	(0.1%)
Other	127	-	n/m
Sales revenue – continuing operations	**40,483**	**38,237**	**5.9%**
Express – discontinued operations[1]	988	1,132	(12.7%)
Total Group sales revenue	**41,471**	**39,369**	**5.3%**

n/m denotes not meaningful.
1 Express FY23 sales are for the ten months until completion on 1 May 2023.

Group EBIT ($m)	FY23	FY22	CHANGE
Supermarkets[1]	1,765	1,715	2.9%
Liquor	157	163	(3.7%)
Other	(63)	(51)	23.5%
EBIT – continuing operations	**1,859**	**1,827**	**1.8%**
Financing costs	(394)	(360)	9.4%
Income tax expense	(423)	(422)	0.2%
Profit from continuing operations	**1,042**	**1,045**	**(0.3%)**
Profit from discontinued operations, after tax[2]	56	3	n/m
Net profit after tax	**1,098**	**1,048**	**4.8%**

n/m denotes not meaningful.
1 Includes major project implementation operating expenditure relating to ADCs and CFCs (FY23: $58 million, FY22: $32 million).
2 FY23 includes impacts from the Express divestment including depreciation and amortisation ceasing from the date the assets were held for sale, transaction costs and a $16 million loss on completion.

Highlights

- Sales revenue growth from continuing operations of 5.9% to $40,483 million.
- EBIT growth from continuing operations of 1.8% to $1,859 million.
- Cash realisation of 102% and net debt of $521 million.
- Fully-franked final dividend of 30.0 cents per share declared, taking total dividends in relation to FY23 to 66.0 cents.

On 1 May 2023, the Group completed the sale of its fuel and convenience retailing business to Viva Energy for $319 million ($300 million proceeds and $19 million working capital adjustment) and has assigned leases, which represented a liability at completion, of $728 million. This resulted in Express being classified as a discontinued operation in the FY23 Financial Report. The divestment enables the Group to focus on growing its omnichannel supermarket and liquor businesses.

Performance overview from continuing operations

Group sales revenue from continuing operations of $40,483 million increased by 5.9% with growth in Supermarkets sales revenue of 6.1% and Liquor sales revenue broadly flat, due to cycling COVID-19 elevated demand in the prior year. Group sales revenue from continuing and discontinued operations of $41,471 million increased by 5.3%.

Group EBIT from continuing operations increased by 1.8% supported by Smarter Selling benefits and a net reduction in direct COVID-19 costs compared to the prior year.

Major project implementation operating expenditure of $58 million was incurred during the year in relation to the two ADCs and two automated Customer Fulfilment Centres ('CFCs'), up from $32 million in FY22. This was lower than previously forecast largely due to delays in the construction and commissioning of the automated CFCs. Depreciation in relation to the Redbank ADC of $15 million was also incurred during the year.

Financing costs from continuing operations increased by 9.4% to $394 million with interest on lease liabilities increased due to a combination of new leases, including the Redbank ADC, and higher borrowing costs impacting lease renewals. Also contributing to higher financing costs was interest on debt and borrowings which increased as a result of higher interest rates on the short-term revolving debt facilities.

Award covered salaried team member review

In February 2020, Coles announced it was conducting a review into the pay arrangements for all team members who received a salary and were covered by the General Retail Industry Award 2010 ('GRIA'). The review assessed the remuneration paid to 15,011 team members against the GRIA. Coles conducted a remediation program, and to date Coles has incurred $13 million of remediation costs. A provision of $37 million (FY22: $12 million) is reflected in the FY23 financial statements.

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

In December 2021, the FWO filed proceedings in the Federal Court of Australia which include issues relating to the interpretation and application of various provisions of the GRIA and the *Fair Work Act 2009* (Cth). FWO alleges that Coles is obligated to pay a further $108 million in remediation payments to 7,687 team members for the period 1 January 2017 to 31 March 2020. This group is a subset of the award covered salaried employees which were assessed as part of the 2020 review by Coles. Additionally, the period of time covered in the proceedings is a lesser period than the period covered in Coles' remediation.

Following further consideration of the issues as they have evolved, Coles announced on 2 June 2023 that it intends to conduct a further remediation relating to the reconciliation of available records of the days and hours of work of salaried supermarket managers. A provision of $25 million was subsequently recognised which is included in the provision balance of $37 million noted in the first paragraph of this section.

The FWO matter was heard in a seven week trial that commenced on 5 June 2023 and judgment is pending. The judgment is expected to include consideration of threshold issues, including interpretation of the GRIA and Fair Work Act provisions. As such, the potential outcome, extent to which further remediation may be necessary, and costs associated with this matter remain uncertain as at the date of this report.

In May 2020, a class action proceeding was filed in the Federal Court of Australia in relation to payment of Coles managers employed in supermarkets. This matter was heard in conjunction with the FWO proceedings and judgment has also been reserved. The potential outcome and total costs associated with this matter remain uncertain as at the date of this report.

Earnings Per Share and dividends

Basic Earnings per Share ('EPS') from continuing operations was 78.1 cents, a 0.6% decrease from the prior year.

	FY23	FY22
Profit for the period ($m)		
Continuing operations	1,042	1,045
Discontinued operations	56	3
Total profit for the period	**1,098**	**1,048**
Weighted average number of ordinary shares for basic EPS (shares, million)	1,334	1,330
Weighted average number of ordinary shares for diluted EPS (shares, million)	1,338	1,331
EPS attributable to equity holders of the Company		
Basic EPS (cents)	82.3	78.8
Diluted EPS (cents)	82.1	78.7
EPS attributable to equity holders of the Company from continuing operations		
Basic EPS (cents)	78.1	78.6
Diluted EPS (cents)	77.9	78.5

The Board has determined a fully franked final dividend of 30.0 cents per share (cps).

In respect of the year:	CPS	FRANKED AMOUNT PER SECURITY
FY23		
Interim dividend	36.0 cents	36.0 cents
Final dividend	30.0 cents	30.0 cents
FY22		
Interim dividend	33.0 cents	33.0 cents
Final dividend	30.0 cents	30.0 cents

Balance Sheet

A summary of key balance sheet accounts for the Group:

$m	FY23	FY22	CHANGE
Assets			
Cash and cash equivalents	597	589	1.4%
Trade and other receivables	605	470	28.7%
Inventories	2,323	2,448	(5.1%)
Property, plant and equipment	4,985	4,807	3.7%
Right-of-use assets	6,507	7,199	(9.6%)
Intangible assets	2,035	1,864	9.2%
Deferred tax assets	740	822	(10.0%)
Other	500	637	(21.5%)
Total assets	**18,292**	**18,836**	**(2.9%)**
Liabilities			
Trade and other payables	4,434	4,335	2.3%
Provisions	1,281	1,278	0.2%
Interest-bearing liabilities	1,118	1,095	2.1%
Lease liabilities	7,849	8,681	(9.6%)
Other	254	323	(21.4%)
Total liabilities	**14,936**	**15,712**	**(4.9%)**
Net assets	**3,356**	**3,124**	**7.4%**

Trade and other receivables increased to $605 million largely driven by trade receivables relating to a product supply arrangement and an increase in GST receivable.

Inventories decreased to $2,323 million largely driven by the divestment of the Express business.

Property, plant and equipment increased to $4,985 million largely reflecting the investment in the Group's annual capital program, partly offset by depreciation and property divestments during the year.

Right-of-use assets decreased to $6,507 million primarily as a result of the divestment of the Express business.

Intangible assets increased to $2,035 million driven by the Group's continued investment in technology, partly offset by amortisation for the year.

Lease liabilities decreased to $7,849 million as a result of the sale of the Express business and the derecognition of associated lease liabilities by $728 million.

Capital management

Interest-bearing liabilities reflect external borrowings and debt capital funding commitments.

At 25 June 2023, Coles' average debt maturity was 5.0 years, with undrawn facilities of $2,303 million. Coles remains committed to maintaining diversified funding sources and extending its debt maturity profile over time.

The lease-adjusted leverage ratio at the reporting date was 2.6x on a continuing basis, with current published credit ratings of BBB+ with Standard & Poor's and Baa1 with Moody's.

Cash Flow

Summary cash flows of the Group:

$m	FY23	FY22	CHANGE
Cash flows from operating activities			
Receipts from customers	44,043	41,887	5.1%
Payments to suppliers and employees	(40,439)	(38,309)	5.6%
Interest paid	(57)	(41)	39.0%
Interest component of lease payments	(372)	(363)	2.5%
Interest received	2	1	100%
Income tax paid	(370)	(485)	(23.7%)
Net cash flows from operating activities	**2,807**	**2,690**	**4.3%**
Net cash flows used in investing activities	**(1,000)**	**(1,142)**	**(12.4%)**
Net cash flows used in financing activities	**(1,799)**	**(1,746)**	**3.0%**
Net increase/(decrease) in cash and cash equivalents	**8**	**(198)**	**n/m**

Net cash flows from operating activities increased to $2,807 million reflecting an increase in EBITDA and a decrease in income tax paid as a result of FY22 income tax refunds received.

Net cash flows used in investing activities decreased to $1,000 million, largely driven by the net proceeds from the sale of the Express business offset by an increase in the Group's annual capital program.

Pictured: Coles Florida Beach was opened in August 2022.

Supermarkets

Segment overview

$m	FY23	FY22	CHANGE
Sales revenue	36,746	34,624	6.1%
EBITDA	3,157	3,022	4.5%
EBIT	1,765	1,715	2.9%
Gross margin (%)	26.4	26.3	5bps
Cost of doing business ('CODB') (%)	(21.6)	(21.4)	20bps
EBIT margin (%)	4.8	5.0	(15bps)

Operating metrics (non-IFRS)

	FY23 (52 WEEKS)	2H23 (25 WEEKS)	1H23 (27 WEEKS)	FY22 (52 WEEKS)
Gross retail sales[1] ($ billions)	38.0	18.4	19.6	35.7
Gross retail sales growth (%)	6.6	8.1	5.3	3.0
Comparable sales growth (%)	5.8	6.7	4.9	2.6
eCommerce sales[2] ($ billions)	2.8	1.4	1.4	2.8
eCommerce penetration (%)	7.5	7.7	7.2	7.9
Sales density per square metre[3] (MAT $/sqm)	19,201	19,201	18,651	18,209
Net Promoter Score (point increase/(decrease))	(4.3)	(2.7)	(5.7)	(3.6)
Inflation / (deflation) (%)	6.7	6.0	7.4	1.7
Inflation / (deflation) excl. tobacco and fresh (%)	7.6	7.7	7.6	1.6

1 Gross retail sales are comprised of retail sales on a gross basis before adjusting for concession sales and the cost of Flybuys scheme points.
2 eCommerce gross retail sales include Liquor sold through coles.com.au.
3 Sales density per square metre is a moving annual total ('MAT'), calculated on a rolling 52-week basis.

Highlights

Supermarkets sales revenue of $36,746 million for the year increased by 6.1% on the prior year, with growth in the second half increasing by 7.7% over the prior corresponding period compared to 4.6% in the first half.

Sales growth was delivered through the 'DROPPED & LOCKED' value campaigns and the successful execution of trade plans, including festive events such as Easter, Christmas and Mother's Day. More targeted and personalised customer experiences and offers, and collectible and continuity campaigns, also supported sales growth throughout the year. Excluding tobacco sales, sales revenue increased by 7.4%.

Customer satisfaction, as measured by Net Promoter Score ('NPS'), was impacted during the year, due to availability as well as cost of living pressures that impacted price and value metrics. Pleasingly, improvements were seen in some lead indicators in the fourth quarter.

More than 1,400 Exclusive to Coles products were launched during the year including Coles Kitchen Chicken Pesto Pasta Bake and the Coles Finest lamb range. In the growing pet segment, pet treats such as the Woofin' Good Peanut Butter Flavour Dog Biscuits and Elevate Joint Support Chew Dog Treats were launched. The Coles Own Brand portfolio won 103 product awards including 11 consumer-voted Product of the Year awards for products such as our Coles Finest Certified Carbon Neutral Beef Scotch Fillet Steak, Coles Frozen Sweet Potato Chips and Coles Salted Caramel Vienna Sticks.

eCommerce sales for the full year increased by 1.1% to $2.8 billion. Strong sales growth of 10.1% was delivered in the second half, while sales in the first half declined by 6.6% as COVID-19 behaviours normalised and some customers returned to shopping in store. Sales growth was underpinned by 5% growth in traffic to Coles' digital assets, as well as network expansion, particularly in immediacy. Rapid Click & Collect is now available in 606 stores (151 stores were added during the year) and Home Delivery Rapid is now available in 480 stores (463 stores were added during the year).

During the year, Coles' media income increased by 27.0% with accelerated investment in product innovation, technology and talent and the rebranding of the platform to 'Coles 360'.

Total Supermarkets price inflation for the year was 6.7% having moderated in the second half with continued moderation in the fourth quarter to 5.8%.

During the year, Coles completed 46 store renewals, including 14 Format A, four Format C and four Coles Local stores. Coles also opened 17 new stores and closed six stores, taking the total network to 846 supermarkets.

Gross margin of 26.4% increased by 5 bps year-on-year despite investment in value and changes in consumer spending patterns. Gross margin was supported by reduced COVID-19 costs, the delivery of Smarter Selling benefits, growth in Coles 360 and lower tobacco sales. However, total loss[1] increased by approximately 20% year-on-year and remains an industry-wide headwind, with elevated levels of organised retail crime and customer theft from cost of living pressures.

1 Total loss includes stock loss and waste and markdown.

CODB as a percentage of sales increased by 20 bps to 21.6%. CODB increased as a result of underlying cost inflation and wage increases following the June 2022 Fair Work Commission ('FWC') annual wage increase. CODB was also impacted, particularly in the second half, by increased depreciation, major project implementation operating expenditure, a $25 million provision relating to the 2020 Award covered salaried team member review and a range of adverse events, such as additional public holiday costs and costs associated with the collapse of REDcycle. These costs were partially offset by Smarter Selling benefits and lower direct COVID-19 costs in FY23. Further strategic investments were also made in digital, eCommerce and technology this year, in areas such as Coles 360 and eCommerce platforms.

Supermarkets EBIT of $1,765 million increased by 2.9% with an EBIT margin of 4.8%.

Update on ADCs

Coles delivered a significant milestone during the year with the Redbank, Queensland ADC commencing outbound deliveries in March 2023. At year end, the ADC serviced more than 100 supermarkets in Queensland with ramp up in line with schedule. The recruitment, induction and training of the new Redbank team members also continued.

Construction progressed at the Kemps Creek, New South Wales ADC. Initial commissioning work also commenced at the facility in line with schedule.

Update on automated CFCs

As announced on 18 August 2023, Coles has received notification from Ocado regarding delayed timing for the handover of the Victorian CFC. Additional works are required to rectify construction issues with the grid identified during quality control processes for the Victorian CFC. Following further engagement with Ocado and in light of the revised hand over date, the commissioning of the Victorian CFC will be delayed with the incremental ramp up period now expected to commence in mid-FY25 (previously mid-FY24). The New South Wales CFC is expected to be commissioned with an incremental ramp up period commencing at the end of the second half of FY24 (previously second half of FY24).

The impacts of the delays are likely to increase the project capital and operating expenditure by approximately $70 million and $50 million respectively. Total capital expenditure is now expected to be approximately $400 million of which 55% has been incurred to the end of FY23, with the balance expected to be incurred in FY24 and FY25.

Pictured: Coles Redbank ADC commenced outbound deliveries in March 2023 and was servicing more than 100 supermarkets in Queensland at year end.

Liquor

Segment overview

$m	FY23	FY22	CHANGE
Sales revenue	3,610	3,613	(0.1%)
EBITDA	279	278	0.4%
EBIT	157	163	(3.7%)
Gross margin (%)	23.4	22.5	91bps
Cost of doing business ('CODB') (%)	(19.0)	(17.9)	109bps
EBIT margin (%)	4.3	4.5	(18bps)

Operating metrics (non-IFRS)

	FY23 (52 WEEKS)	2H23 (25 WEEKS)	1H23 (27 WEEKS)	FY22 (52 WEEKS)
Gross retail sales[1] ($ billions)	3.6	1.6	2.0	3.6
Gross retail sales growth (%)	(0.2)	2.7	(2.5)	2.4
Comparable sales growth (%)	(0.7)	1.3	(2.3)	2.1
eCommerce sales[2] ($m)	203	95	108	165
eCommerce penetration[2] (%)	5.7	5.8	5.6	4.6
eCommerce penetration (inc. COL)[3](%)	6.9	7.0	6.8	5.4
Net Promoter Score[4] (point increase/(decrease))	(0.9)	0.5	(2.5)	(0.8)
Sales density per square metre[5] (MAT $/sqm)	16,138	16,138	16,029	16,354

1 Gross retail sales are comprised of retail sales on a gross basis before adjusting for concession sales and the cost of Flybuys scheme points.
2 eCommerce gross retail sales and penetration exclude Liquor sold through coles.com.au which is reported in Supermarkets' eCommerce and Business to Business sales.
3 eCommerce penetration including Liquor sold through coles.com.au.
4 Net Promoter Score is based on Liquorland NPS results.
5 Sales density per square metre is a moving annual total (MAT), calculated on a rolling 52-week basis.

Highlights

Liquor sales revenue of $3,610 million for the year was flat compared to the prior year, having declined in the first half by 2.4% as the business cycled COVID-19-related on-premise closures and restrictions before returning to growth of 2.7% in the second half.

The sales performance during the year was driven by a strong performance in the Liquorland banner, supported by the completion of 215 Liquorland Black & White renewals as well as the opening of 35 new Liquor stores. The Ready-to-Drink category was the strongest performing category during the year. Growth in the ELB portfolio continued with sales revenue increasing by 8.5% for the year and penetration reaching 21% of total sales as customers became more value conscious throughout the year. Sales revenue also benefited from strong growth in eCommerce and inflation, driven by supplier-led cost price increases following the semi-annual excise increases.

During the period, 259 new ELB and 627 new local lines were added to the portfolio. In addition, the ELB portfolio received more than 500 awards, including the Tasmanian Gin of the Year trophy at the Melbourne International Spirits Competition for Pure Origin Tasmanian Dry Gin and Tinnies Pale Ale being awarded the Best English Beer Pale Ale Trophy in the Pale Ale category, at the World Beer Awards Competition.

eCommerce sales revenue of $203 million increased by 23% compared to the prior year driven by on-demand delivery which is now available in more than 660 stores, and the introduction of express delivery through DoorDash and UberEats.

Customer satisfaction (as measured by NPS) was also impacted by cost of living pressures which impacted value metrics.

During the year, 236 store renewals were completed, 35 new stores were opened and 11 stores closed across the Liquorland, Vintage Cellars and First Choice banners. At the end of the period the portfolio comprised 957 stores.

Gross margin of 23.4% increased by 91 bps driven by strong performance in ELB and local, value optimisation, mix benefits and strategic sourcing.

CODB as a percentage of sales increased by 109 bps to 19.0%. This was largely driven by increases in store team member remuneration relative to the prior year following the FWC annual wage increase in June 2022, coupled with the increase being paid earlier in the year than prior years, and costs (including depreciation) incurred in relation to the new store and the accelerated Black & White Liquorland renewal program, including investments in eCommerce and core IT systems.

EBIT of $157 million decreased by 3.7% reflecting increased depreciation and amortisation following investment in the portfolio as part of the transformation program, most notably the Black & White Liquorland renewal program and eCommerce investments.

Other

$m	FY23	FY22	CHANGE
Sales revenue	127	-	n/m
EBITDA	(54)	(41)	31.7%
EBIT	(63)	(51)	23.5%

Coles reported negative EBIT of $63 million in Other for the year.

Other includes corporate costs, the product supply arrangement with Viva Energy that was established as part of the divestment of the Coles Express fuel and convenience retailing business, Coles' 50% share of Flybuys' net result and the net gain or loss generated by Coles' property portfolio.

Corporate costs of $91 million were incurred for the year, an increase of $9 million on the prior year, largely as a result of higher insurance costs and store support centre costs. Coles' 50% share of Flybuys' net result was a $13 million loss, while earnings from property operations were $39 million. EBIT of $2 million was also reported in relation to the product supply arrangement that was in place from completion of the Coles Express divestment which occurred on 1 May 2023.

Pictured: Team member Dave at one of the Liquorland Black & White renewal stores.

Looking To the Future

Coles is one of Australia's leading retailers with an extensive national footprint of circa 1,800 supermarket and liquor stores. Approximately 17 million transactions take place across our store and digital platforms each week and our Flybuys loyalty program reaches approximately 80% of all Australian households.

In 2019 following demerger, Coles launched our "Winning in our second century" strategy with targets through to FY23. Since then, the Australian retail environment has changed – including COVID-19 lockdowns, bushfires and floods, supply chain disruptions, and persisting pressures on household cost of living. These events have impacted all Australians and are shaping how we evolve our strategy.

To reflect the changing environment, we have refreshed our purpose to **Helping Australians eat and live better every day**. Our priority is to provide leading food, drink and home solutions that are delicious, sustainable, and healthy for our customers. We seek to deliver a consistent experience for our customers every day, both in-store and online.

We aim to deliver on our purpose by focusing on three strategic pillars:

- **Destination for food and drink** is why our customers come to Coles and what we aspire to be known for. We will tailor our product range, quality, value, merchandising and communication to meet and surpass our customers' needs.
- **Accelerated by digital** is how we intend to meet our customers' increasing digital usage by creating an easier, faster and more enjoyable omnichannel shopping experience.
- **Delivered consistently for the future** is our focus on delighting our customers with our food and drink offering each and every day, today and into the future.

Underpinning our strategic pillars are building blocks which will enable us to deliver on our refreshed purpose:

- **Win Together** is recognition that we only succeed together with our team, community and suppliers.
- **Foundations** of financial discipline, technology, and data help us deliver on our strategic pillars and enable us to drive value for our stakeholders.

In our first horizon of activity, we will be focusing on delivering value, restoring availability, reducing loss, improving store presentation and providing a high-quality fresh food offering.

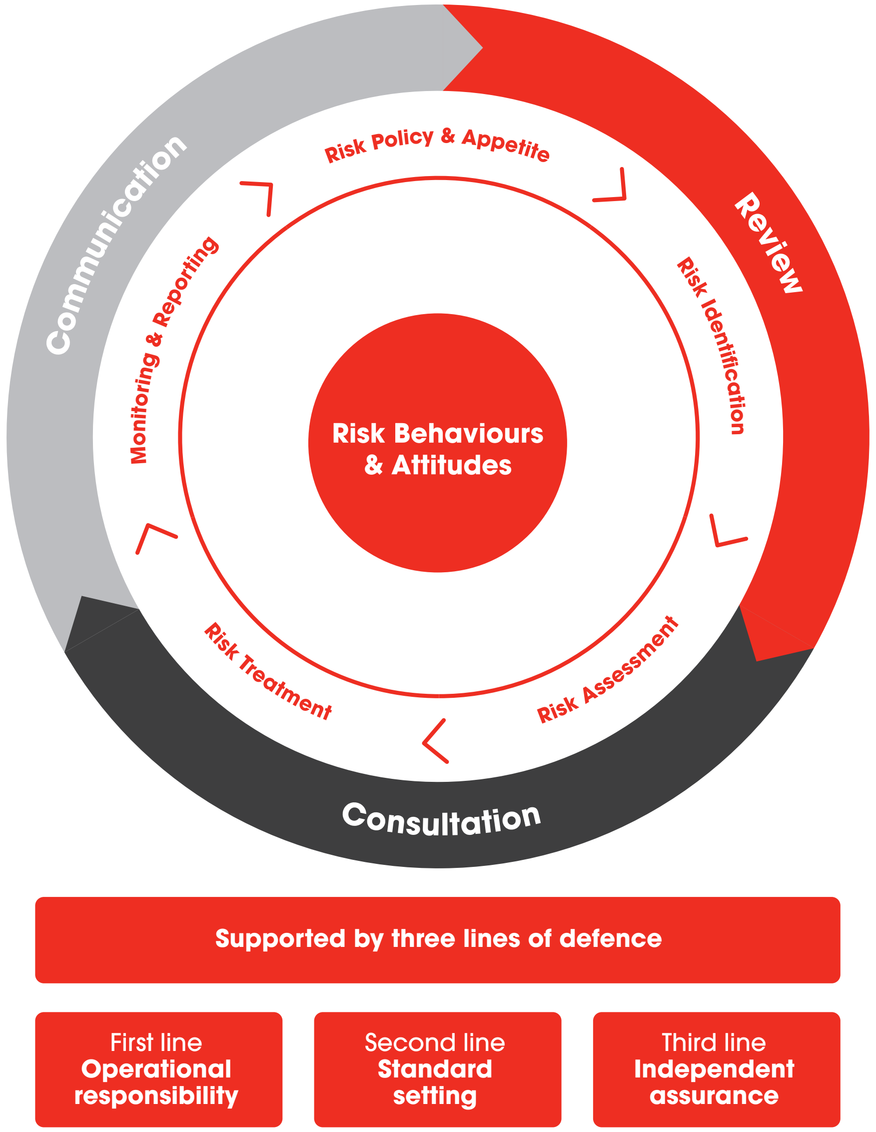
As part of this strategy, we are also launching our Simplify and Save to Invest program which forms part of the third strategic pillar and is designed to deliver in excess of $1 billion in cumulative savings over the next four years. This is an evolution of our Smarter Selling program which successfully concluded this year.

By focusing on what matters most to our customers and prioritising our investment accordingly, we feel well positioned to deliver on our vision **to become the most trusted retailer in Australia and grow long-term shareholder value**.

Risk Management

Our operating environment continues to evolve, resulting in changes to the risks and uncertainties that we face. We regularly review risks and measures to mitigate risks and support the delivery of our purpose and strategy.

In FY23, Coles' Risk Management Policy and Coles' Risk Management Standard (previously called 'Framework') were reviewed, with the Board approving amendments to the Risk Management Standard. The design of both the Risk Management Policy and Risk Management Standard are based on ISO 31000:2018 Risk Management – Guidelines ('ISO 31000'), an internationally recognised set of principles for managing risks in organisations. Further information about our Risk Management Policy and Risk Management Standard is available in Coles' Corporate Governance Statement.



A key component of the Risk Management Standard is the risk management process, which defines the process applied within Coles' business. Through application of our risk management process we have identified the material external, strategic, operational, and financial risks that could adversely affect the achievement of our objectives and future financial prospects. These risks are described in the following tables, together with key mitigations to manage them. There is a high level of interdependency between risks, which reflects both the potential effect of external risk factors and the integrated processes across our operations. This means an increased exposure to one material risk may affect risk levels in other areas of our risk profile.

In addition to the material risks listed, our performance may be affected by risks that apply generally to Australian businesses and the retail industry, as well as by the emergence of new material risks.

Although no longer considered to be a material risk, we anticipate that COVID-19 will continue to affect our business and communities. We also anticipate that the evolving geopolitical and macro-economic environment will drive continual changes to Coles' material and emerging risks during the next financial year and beyond. We will therefore continue to monitor and respond to further developments as required, including ongoing review and enhancement of our risk mitigation plans.

External and strategic risks

1. Geopolitical and macro-economic

Description

Uncertainty in the global and domestic geopolitical and macro-economic environment, including as a result of relationships between governments (state, federal and international) and global conflicts, can expose Coles to inflationary pressures, supply chain disruptions, changes in consumer spending and consumption choices, and increased costs of doing business.

Context

We expect the geopolitical and macro-economic environment in which we operate to remain highly uncertain for the year ahead.

Consequential impacts to Coles may include:

- increases in interest rates, energy and input prices
- wage inflation
- restricted access to, and/or higher costs of funding
- third party (supplier) insolvency
- disrupted access to export markets
- disruptions to imports impacting domestic supply of goods for resale and not for resale
- cost of living pressures resulting in reduced consumer spending and/or changing consumption choices
- risk of recession.

Additional information about how we respond to changes in consumer behaviour and expectations can be found in the Changing consumer behaviour, competition, and digital transformation risk section.

Mitigations

- Strategic and corporate planning and financial review processes that incorporate scenario planning and consideration of future market conditions.
- Maintenance of a strong balance sheet to fund operations and maximise financial performance.
- Execution of cost efficiency programs with the aim of offsetting inflation and reducing costs while investing in the business.
- Proactive engagement with government stakeholders to understand and plan for changes in policies and regulations.
- Supplier engagement processes to manage issues such as supply disruptions and changing input costs.
- Established crisis management and business continuity processes to manage disruptive events.

2. Climate change and environment

Description

Coles has a responsibility to reduce the effect of our operations on the environment and meet our sustainability commitments. Inability to do so may result in negative impacts to nature and biodiversity, reputational damage, diminished access to capital, loss in market share and enforcement action. Our operations may also be adversely affected by changes in the natural environment including biodiversity loss and water scarcity.

Context

Climate change presents an evolving set of risks and opportunities for Coles, and has the potential to contribute to, and increase, our exposure to other material risks. This includes risks associated with:

- our transition to a lower carbon economy
- risks arising from an increase in the frequency and intensity of extreme weather events and chronic changes in weather patterns.

The insolvency of REDcycle in November 2022, the provider of in-store soft plastics recycling capability, represented a challenge to our plastic packaging sustainability goals and highlighted the limited domestic recycling capabilities available.

Mitigations

- Reporting on our climate change strategy, governance, risk management and emissions reduction targets. Further information on climate change including risks and opportunities is provided in the Climate Change section.

Mitigations (continued)

- Our Sustainability Strategy highlights Coles' sustainability commitments and initiatives, and includes targets to reduce our impact on the environment, waste and packaging. Progress against targets is reported in our Sustainability Report. Initiatives include:
  - reducing food waste
  - sustainable packaging for our Coles Own Brand products
  - working with farmers, suppliers and industry partners to reduce environmental impact
  - continued assessment of Coles Own Brand products identified as having the highest environmental impact, to help reduce future environmental impacts for these products.
- Completion of product certification risk assessment prior to any Coles Own Brand product adopting a responsible sourcing and sustainability-related external certification or internal standard.
- Coles sought and obtained authorisation from the ACCC to work with other major food retailers and environmental regulators to develop alternative soft plastics recycling capabilities. This work is ongoing with alternative recycling options being explored.

3. Changing consumer behaviour, competition and digital transformation

Description

Consumer behaviour and expectations continue to change, driven in particular by macro-economic conditions and environmental and climate-related factors. The competitive environment also continues to evolve, with an increased focus on digital, automation and e-commerce to deliver efficiency and a personalised and seamless experience for our customers across our in-store and online channels. If Coles fails to keep pace with and respond to these changes and expectations, it could result in loss of market share, and ultimately, adverse margin impacts, reduced customer retention and impact to share price or market value.

Context

Macro-economic challenges and cost of living pressures have driven a customer focus on price and value. This poses a risk to customer spend, but also an opportunity through increased in-home consumption of food and drink.

While customers have returned to stores as COVID-19 risks declined, customer expectations for an integrated, seamless in-store and online experience continue to grow.

Other changes in consumer behaviour include increased focus on health, personalisation and convenience, and enhanced consciousness about consumption choices including on matters relating to sustainability and the environment.

Mitigations

- Monitoring of customer sentiment, best practice global retailers, local and international retail trends and customer insights and research, to anticipate and respond to changes in customer behaviours.
- Delivery of trusted value to customers through everyday low pricing, weekly specials, loyalty offers and exclusive product ranges. Our 'DROPPED & LOCKED' value campaign launched in FY23 aims to support customers to manage cost of living pressures.
- Programs and offers to personalise the customer shopping experience, including for Flybuys loyalty customers.
- Continued enhancement of the customer experience through Coles Online, Click & Collect Rapid, Rapid Delivery, and the Coles Plus subscription. During FY23, we transitioned Coles' customers to our unified enhanced digital platforms, across the Coles website and app.
- Partnerships with third party providers to provide convenient, on-demand delivery services to customers for grocery and drinks.

4. Strategic program prioritisation and execution

Description

Compromised prioritisation and execution of key strategic and transformational programs could result in increased costs, variability in Coles' earnings, loss of market share, delayed timeframes, and inability to meet shareholder expectations. Changes in scope or delays within our strategic programs and projects (e.g. Ocado), may occur due to multiple factors including program and resource prioritisation, interproject dependencies, disruptions to third party partners or providers, or macro-economic and geopolitical factors that may impact resource availability or cost.

Context

The execution of elements of our strategy is supported by third party strategic partnerships including Witron (automated distribution centres), and Ocado (online customer fulfilment centres). We have joint ventures with Wesfarmers (Flybuys) and Australian Venue Co. (Queensland Venue Co. Pty Ltd).

Ocado is a transformational program, and delays will result in additional costs, deferment of direct benefits and those dependent on the delivered capabilities.

We also undertake targeted acquisitions and divestments to execute our strategy more effectively. This includes completion of the May 2023 sale of Coles Express to Viva Energy.

During FY23 we announced the acquisition of two milk processing facilities from Saputo Dairy Australia which (subject to transaction completion including obtaining approval from the ACCC) will support the security of milk supply and has capacity to facilitate growth through further product innovation.

Coles may undertake future acquisitions and divestments, and enter into other third party relationships, so we can more effectively execute our strategy.

Mitigations

- Planning and budgeting processes to establish priorities and funding for programs and projects, supported by review and approval of business cases through capital and operational expenditure committees.
- Governance structures and processes to oversee, manage and execute strategic programs of work, including for the automated distribution centres and online customer fulfilment centres.
- Regular review of projects and programs to monitor progress of delivery, costs and benefits, and the allocation of resources.
- Post-implementation reviews to assess project outcomes relevant to the business case, and to identify lessons-learned to be applied for future projects.
- Assurance on the execution and governance of key projects by Internal Audit.
- Review of major projects by the Board and Executive Leadership Team ('ELT') which provides additional oversight at a portfolio level.

5. Third party dependencies

Description

A critical failure or inaction of a key supplier or third party service provider may expose Coles to risks including compromised safety or quality standards, cyber security threats and breaches, misalignment with Coles' ethical and sustainability objectives, disruptions to supply or operations, unrealised benefits, legal and regulatory exposure, additional costs, reduced customer satisfaction and reputational damage.

Context

The increasing complexity of supply chains requires us to actively manage third party dependencies. This includes making sure we meet our stakeholders' expectations to source products and services that are responsibly and sustainably sourced, are able to deliver goods and products to our sites, stores and customers, support our team members and sustain operations.

Given the challenging macro-economic environment Coles is at risk of further disruptions to our third parties including as a result of financial insolvency (e.g. Scott's Refrigerated Logistics), inability to scale production, cyber events, lack of available inputs and people resources.

Our suppliers and third parties are also subject to disruptions arising from natural disasters and extreme weather events.

Mitigations

- Due diligence processes to assess the adequacy and suitability of key suppliers, service providers and strategic partners to meet our requirements.
- Monitoring and management of key suppliers and strategic third parties throughout their engagement with Coles. Defined service level and key performance indicators are in place for key supply contracts. Risks are managed through contractual protections.
- Third party management for Goods Not For Resale ('GNFR') suppliers is governed by the GNFR Third Party Management Policy, which includes requirements for sourcing, contract management, risk management, buying and invoicing. Automated processes assess and monitor the financial health of GNFR suppliers on an ongoing basis.
- Business continuity plans consider critical third parties required to continue operating in the event of a business disruption. We initiated contingency plans to ensure adequate supplies of chilled and frozen product in response to the financial insolvency of Scott's Refrigerated Logistics in March 2023.

6. Supply chain resilience

Description

An inability of our supply chain to adapt rapidly to disruptions while operating efficiently and sustainably to meet customer expectations and support critical business activities, can result in loss of market share, price volatility, increased costs and reputational damage.

Context

While COVID-19-related supply chain disruption declined during the year, we continued to manage impacts due to extreme weather events, supplier failures and insolvency, disruptive incidents, inflation, increasing cost of inputs and geopolitical factors impacting the availability of raw materials.

La Niña weather patterns in the Eastern states, characterised by unseasonably cold weather, resulted in significant flooding, cold weather and rain/ hail events impacting fresh produce growing conditions, yield, quality and price. Localised flood events also posed challenges to our and our suppliers' transport and logistics operations, which impacted product availability. The anticipated return of El Niño conditions may result in heatwaves and increased fire risks.

Longer-term risks including changes in climate, government (domestic and international) and policy and regulation are considered during strategic planning and horizon scanning.

Mitigations

- Established business continuity processes to plan for and manage interruptions to our supply chain and delivery of goods to stores during business disruptive events. Plans are updated regularly to take account of changing internal and external risks and conditions such as forecast weather events.
- Strategic category planning assesses medium and longer term supply security risks and mitigations for domestic and international supply of goods for resale. Mitigations include geographical and supplier diversification and sourcing of alternative supply arrangements.
- During FY23 reviews were undertaken of supplier concentration in key categories, and geographical risk across a number of Coles' fresh produce categories, to highlight mitigations in place and identify opportunities to further reduce risk of supply disruption. Further information about the review of geographical risk across Coles' fresh produce categories is provided in the Climate Change section.
- Strategy developed around the security of our meat supply and the 2023 acquisition of two milk processing facilities (subject to transaction completion including obtaining approval from the ACCC) contribute to supply chain resilience in the key meat and dairy categories.

7. Information technology, resilience, data and cyber security

Description

A failure, attack or disruption to our information technology applications and infrastructure, could impede the processing of customer transactions, or limit our ability to receive or distribute stock or funds or otherwise impact the operations of our business. Data and cyber security events can also result in unauthorised disclosure of confidential, financial, or personal information which may lead to loss in customer trust, market share impact, regulatory and legal action and penalties and reputational damage.

Context

Coles continues to operate in an increasingly complex technological environment which increases the potential for impacts to system availability and performance, confidentiality breaches, and cyber security risks. Contributing factors include:

- our growing external digital footprint and number of third party providers
- high reliance on technology
- external threat landscape including geopolitical unrest and high profile / high impact cyber security events in the market such as ransomware, data theft and third party compromise.

Additional information on the Critical Infrastructure legislation and Coles' approach to managing related risks can be found in the Legal and Regulatory risk section.

Mitigations

- Five-year rolling technology strategy which prioritises and phases ongoing investment to enhance system stability and resilience.
- Cyber security framework and controls library which is updated regularly and independently assessed to understand the maturity of our cyber security capabilities and to identify priority areas for improvement and investment. Capabilities are aligned to principles set out in the Australian Cyber Security Centre Essential Eight Maturity Model and National Institute of Standards and Technology ('NIST') Cybersecurity Framework.

Mitigations (continued)

- Privacy and information security policies, standards and procedures, supported by security awareness campaigns and mandatory training for team members.
- Regular testing and reviews of information technology infrastructure, systems, processes, and resilience conducted to assess security threats, adequacy of controls and recovery readiness.
- Supplier due diligence processes which consider suppliers' cyber, information security, privacy, and IT resilience capability.
- Dual data centres and cloud services support high levels of critical system redundancy and resiliency.
- Monitoring in place 24/7 for technology operational and cyber incidents. IT incident response capability, disaster recovery plans and business continuity plans guide our response should an incident or disruption occur. Industry experts are retained to be on-call in the event of a cyber security incident.

8. People safety

Description

We employ and engage an extensive and diverse workforce, including third parties, with high volumes of people interactions daily. This could result in risk of fatality, injuries or illness to team members, customers, suppliers, contractors or visitors, due to accidents, incidents or unsafe work environments. Furthermore, the challenging macro-economic environment can have adverse impacts on team member mental health and wellbeing, and increase the risk of threatening situations faced by team members.

Context

The safety of our team, customers, third parties and contractors is paramount to Coles.

Although the COVID-19 pandemic is no longer assessed as a material risk to Coles its impacts will continue to be monitored and managed, along with the risks and impacts of future pandemics and communicable diseases.

The move to hybrid work arrangements requires us to manage physical and psychological risks faced by remote workers or those working from home.

Preventing and equipping team members to manage threatening situations is a priority focus.

Mitigations

- Health, Safety and Injury Management system ('SafetyCARE') in place that is supported by a team of experienced safety professionals throughout our network. SafetyCARE performance is measured, tracked and reported, and its effectiveness independently assessed and verified.
- Five-year safety and wellbeing plan which focusses on key safety obligations and risks.
- Regular review of safety risk management and consultation processes, including for contractors and third parties.
- Injury management and return to work programs to support team members who suffer an injury.
- Focus on managing team members' mental health and wellbeing, including through identification of psychosocial risk factors, our employee assistance program, flexible working arrangements, training on managing threatening situations and diversity, equity and inclusion programs.

9. People retention and talent

Description

Inability to retain skilled team members who are imperative to the execution and delivery of our strategic programs, digital transformation, and broader business operations and performance.

Context

Coles is one of Australia's largest private-sector employers. We seek to be an Employer of Choice and make Coles a workplace in which everyone feels like they belong.

With low unemployment rates and inflation placing pressure on wages, Coles faces competition to retain skilled team members.

Mitigations

- Our Great place to work strategy focuses on strengthening team member engagement, which is measured through our *mysay* team member engagement survey.
- Leadership and development programs to support development of leaders and career growth of key talent. Investment in graduate and industry learning programs.
- Team member performance process which aligns objective setting to strategy, provides opportunity to seek and give feedback for learning and development, and celebrates progress and achievements.
- Recognition programs including our Of the Year awards and our *mythanks* digital reward and recognition program which was released in FY23.
- Commitment to flexible working to enable our team members to manage work and personal circumstances.
- Regular discussions on talent and succession planning held with the ELT and People and Culture Committee.
- The People and Culture Committee oversees and recommends Board approval of people and culture, talent management, remuneration and incentive frameworks, policies and plans. The Board is accountable for approving Group remuneration policies.

10. Industrial relations

Description

As we execute our strategy, workforce changes (company, industry or legislature driven) may lead to industrial action and/or disruptions to our operations, which can result in increased costs, litigation and financial impacts from reputational damage.

Context

Changes in industrial relations and collective bargaining legislation, along with planned changes in our supply chain operations, can affect our exposure to this risk.

The federal government passed the Fair Work Amendment Act in 2022 which made important changes to multi-employer bargaining, gender pay gaps, fixed term contracts and flexible rostering. Further changes are planned in late 2023 regarding casual employment, labour hire, gig economy and wage theft.

We are committed to working collaboratively with our team and external stakeholders to renew workplace agreements.

Mitigations

- Dedicated Employee Relations resources who are responsible for monitoring and responding to industrial relations risks and issues.
- Implementation of appropriate enterprise agreements and employee relations strategies. Proactive management of renegotiation of enterprise agreements.
- Maintenance and development of strong working relationships with unions and industry organisations. Constructive liaison with team members, third party suppliers, transport and logistics providers.
- Business continuity plans in place to mitigate disruption to operations if industrial action occurs.

11. Legal and regulatory

Description

Non-compliance with key laws and regulations, could expose Coles to loss of licence to operate, substantial financial penalties, reputational damage, a deterioration in relationships with regulators, class action or other litigation and additional regulatory changes that may adversely impact the execution of our strategy and result in increased cost to operate. Where Coles is a party to litigation, it can involve reputational damage, financial costs, and high investment of Company resources and time.

Context

The diversity of our operations necessitates compliance with extensive legislative requirements at all levels of government. This includes:

- corporations law
- competition and consumer law
- discrimination law
- health and safety
- industrial relations
- employment
- privacy
- product and food safety
- modern slavery
- environment and biosecurity
- council by-laws
- measurements
- *Critical Infrastructure Act 2018* (Cth) ('SOCI Act') including cyber security obligations.

This risk may become heightened due to the introduction of new and changing regulation and reporting requirements to which Coles must comply, or uncertainty regarding the interpretation or application of relevant regulatory instruments such as modern awards.

Mitigations

- Compliance standards, requirements and accountability to manage compliance obligations are set out in our Compliance Policy and Framework, which is based on AS ISO 37301:2023, Compliance Management Systems – Requirements with guidance. The Compliance Framework is regularly reviewed and assessed, including through internal audit processes.
- Obligation registers in key areas help to assess compliance with legislative obligations and identify actions to strengthen compliance controls.
- Program in place to comply with newly introduced SOCI Act obligations, which seeks to uplift the security and resilience of Australia's critical assets.
- Legal and compliance teams monitor and manage legal issues, matters, claims and disputes. These teams are supported by pre-agreed panel arrangements with external legal firms. Potential litigation claims are assessed to understand loss potential.
- Relationships maintained with regulators and industry bodies to monitor new and impending legislative and policy changes in order to respond accordingly.

12. Ethical sourcing

Description

Risk of modern slavery, breach of workers' human rights or breach of laws designed to protect human rights in our own operations or extended supply chain is a risk for Coles.

Context

Failure to source product or conduct our business in a manner that complies with our Coles Ethical Sourcing Policy and relevant legal requirements across Australia and the countries we source from, can impact worker safety, wellbeing and/or living conditions.

It can also result in material reputational damage, loss in consumer confidence and market share, regulator fines and penalties, and adverse financial performance.

Additional information on Coles' Ethical Sourcing Program can be found in our Modern Slavery Statement.

Mitigations

- Ethical Sourcing policy which is based on international standards and sets out the minimum standards for our suppliers.
- Ethical Sourcing Program which takes a risk-based approach to define the level of due diligence, audit frequency and monitoring that applies to suppliers. The program covers trade and GNFR suppliers, exclusive brands and Liquor.
- During FY23 we continued to focus on embedding the program across the business and building trust and strengthening relationships with suppliers and workers, including ongoing activities to review accommodation standards for workers in Australia.
- Ethical Sourcing risk indicators measure timely management action in response to supply chain ethical audit non-conformances.
- Standard supply contract terms and conditions define expectations of supplier conduct.
- Coles' whistle-blower hotline and dedicated supply chain wages and conditions hotline enable reporting of unethical, illegal, fraudulent or undesirable conduct.

13. Product and food safety

Description
The risk of selling or serving a product that is unsafe may cause serious illness, injury or death and/or result in loss of reputation or litigation.

Context

Product and food safety, and quality are critical for Coles.

Serious illness, injury or death are the most severe potential risks from compromised product or food safety.

These risks may result in loss of sales and market share, regulatory exposure, and potential litigation.

Mitigations

- Product and food safety programs (including safety plans and assurance programs for exclusive brands/products) are in place and regularly reviewed.
- Governance forums manage and monitor emerging food and product safety risks, food security risks and regulatory changes.
- Food risk and hazard assessment processes are based on the Food Standards Australia New Zealand ('FSANZ') Standard.
- Supplier quality management processes reduce product and food safety risks. Training is provided to suppliers and team members in food safety and quality management.
- Withdrawal and recall processes remove defective and potentially unsafe product from our stores and supply chain.
- Quality, complaints and incident processes help identify and drive response to safety risks.

Financial risks

14. Financial, treasury and insurance

Description
The availability of funding and management of capital and liquidity are important requirements to fund our business operations and growth. In addition, we are exposed to material adverse fluctuations in interest rates, foreign exchange rates and commodity movements that could impact business profitability.

Context
Changes in the macro-economic environment can expose us to adverse movements in interest rates, foreign exchange rates and commodity prices, and present barriers to funding our business operations.

We may also be exposed to financial loss from accidents, natural disasters and other events. Insurance is a tool used to protect our customers, team members and the Group against (insurable) financial loss.

Mitigations
- Group Treasury manages cash funding position and supports interest rate and foreign currency risk management.
- Treasury and related policies govern management of our financial risks, including liquidity, interest rates, foreign currency, commodity risks and use of derivatives. Further information is included in Note 4.2 Financial Risk Management of the Financial Report.
- We may choose to self-insure a significant proportion of some insurable risks. In the event of an incident, the cost is covered from internal premiums charged to the business, or the losses are absorbed.
- The Group Insurance function manages self-insurance and purchase of external insurance to optimise cover and value. Self-insured risks are monitored and programs are in place to help us pre-empt and mitigate losses.
- An external actuary helps determine self-insurance liabilities recognised in the Statement of Financial Position.

Climate Change

Coles understands our responsibility to minimise our environmental footprint, as well as to mitigate the environmental and social impacts of climate change. We are doing this by:

- building the resilience of our business, our community and our value chain against climate change impacts, both physical and transitional **(manage climate risks and opportunities)**;
- taking action to reduce our climate impacts **(decarbonisation[1])**; and
- constructively engaging on issues and challenges associated with climate change and climate policy **(influence climate action)**.

We are committed to engaging with our stakeholders and disclosing how we identify, assess and manage climate-related financial risks and opportunities, and seek to align with the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD').

Key actions taken to align with the TCFD

FY20	FY21	FY22	FY23	FY24 & beyond
Published Board approved Climate Change Position Statement. Three-year TCFD Roadmap endorsed by the Board (based on 2017 TCFD recommendations). Formalised governance arrangements relating to climate change.	Released refreshed Sustainability Strategy – including Scope 1 and 2 emissions reduction targets. Updated assessment of Coles' climate-related risks and opportunities. Undertook high-level scenario analysis on the impacts of climate change on the resilience of our strategy. Three possible climate change 2030 scenarios were used (stated policies; ambitious global climate action; and runaway climate change) to test strategic resilience.	Further developed scenario analysis work. This provided information on future climate scenarios, as well as climate-related commodity risks and opportunities. Assessed fifty-five core commodities (covering ~60% of Coles' revenue) against both physical and transitional climate vulnerabilities. Subsequently undertook a 'deep dive' into 10 commodities assessed as being highly vulnerable to climate risks to inform mitigating actions.	Completed a risk analysis of the physical impacts of climate change on Coles' asset portfolio. The scope of the assessment encompassed the store network, distribution centres and supply routes. Set a Scope 3 supplier engagement target validated by the Science Based Targets initiative. Commenced the development of a Climate Action Roadmap to meet current and emerging climate disclosure requirements.	Progress our Climate Action Roadmap. Develop a Climate Transition Plan for Coles.

1 Coles currently does not purchase carbon offsets to decarbonise its operations. Carbon offsets are only purchased for the purpose of the Coles Finest carbon neutral beef and pork products.

Governance

The Board oversees and approves the strategic direction of the Group and oversees the effectiveness of Coles' sustainability and governance policies and practices, including exposure to climate change and other environmental and social risks, and opportunities. The Audit and Risk Committee supports the Board in fulfilling its responsibilities including evaluating the adequacy and effectiveness of the Group's identification and management of environmental and social sustainability risks and its disclosure of any material exposures to those risks, including financial and non-financial risks.

The Chief Operations and Sustainability Officer, a member of the ELT reporting to the Chief Executive Officer, provides regular updates to the Board and the Audit and Risk Committee on sustainability risks, issues and progress against commitments. Standardised quarterly reporting, with performance monitoring against our sustainability commitments (which includes our emission reduction targets) is also provided to the Board.

During FY23 the Board was also presented with updates on market developments (including emerging disclosure frameworks) in relation to climate change and nature, as well as information on how we are mitigating risks associated with geographical concentration in fresh produce categories. The Board reviews Coles' corporate strategy annually which includes considering whether it is responsive to the future risks and opportunities arising from the transition to a net zero economy.

With the Environmental, Social and Governance ('ESG') landscape continuing to rapidly evolve, in FY23 we have been working through a review of our overall sustainability governance arrangements. During this period, the primary management governance forums for sustainability have been the quarterly business reviews, attended by members of the ELT, and ELT meetings.

Strategy

The focus this year has been on two key pieces of work – the completion of a physical risk assessment of our assets and operations, and the development of a Climate Action Roadmap, which will be ongoing in FY24.

Physical risk assessment

Over recent years Coles has experienced the physical and financial impacts of extreme weather events such as floods, cyclones, and bushfires. These impacts include physical damage to assets, inability to access assets and equipment, loss of revenue from store closures, and decreases in the efficiency of equipment sensitive to climate (e.g. refrigeration, heating and cooling). For this reason, prior to finalising the location of our new ADC in Redbank, Queensland, we undertook extensive analysis of potential flooding impacts as part of the location planning process.

Climate change projections show that the intensity and frequency of extreme weather events in Australia are only going to increase[1], exacerbating impacts on our business. In FY23, we completed an assessment of Coles' assets and operations (including stores, distribution centres, and key transport routes) that built on the high-level physical risk assessment completed in FY22. This work involved engagement with different parts of the business to understand historical events and impacts, determine an asset criticality framework and to inform where to focus the risk assessment and recommendations.

Key findings from the assessment include:

- The financial impact of physical climate risk in the store network is not materially significant in the context of Coles' total portfolio, which is well diversified across assets and regions. In addition, with respect to store design, the specifications used already take into consideration future conditions to improve resilience in extreme weather (for example, new stores are designed for a one in 100-year storm event). The design brief is frequently updated.
- Flooding events drive approximately 60% of financial losses across the portfolio. The financial impact of flooding events is estimated to increase by around 23% over the next 10 years when assessing against RCP 8.5 2030 (Intergovernmental Panel on Climate Change high-emissions scenario).
- The distribution network (distribution centres and transport routes) was found to be the area of highest risk due to the scale of potential downstream impacts. Resilience of the distribution network is therefore a critical consideration in all operations and future asset planning.
- Coles has a high reliance on asset integrity and function of third party assets, such as transport infrastructure, distribution centres and shopping centres.

In FY24, we will use these findings to inform our climate risk management approach.

Managing supply chain disruption – fresh produce

In recent years Coles has experienced supply chain disruptions to several fresh produce categories because of extreme weather events and changing weather patterns.

During FY23, we reviewed several categories within fresh produce considered to be at risk from a geographical concentration perspective. In determining the level of risk, we considered both the financial loss (as a percentage of fresh produce sales) resulting from an impact to a 'high geographically concentrated' region, and the likelihood, after accounting for risk mitigation factors and impacts associated with historical weather events.

While no categories were deemed high risk due to the ability to source alternative supply, high substitutability and the likelihood that material impacts of extreme weather events would be industry wide, four fresh produce categories were considered to be medium risk – namely, lettuce, strawberries, berries and bananas.

1 Source: IPCC WGII AR6 Fact Sheets – Australasia: Fact Sheets | Climate Change 2022: Impacts, Adaptation and Vulnerability (ipcc.ch)

In response, we are seeking to partner with suppliers developing new growing regions (e.g. bananas grown in regions other than Far North Queensland, which is prone to cyclones) or 'spreading out' existing regions to reduce geographical concentration and investing in purpose built and technologically advanced facilities (such as covered cropping).

Climate Action Roadmap

Building on work undertaken over the past three years to align our approach with the 2017 recommendations of the TCFD, this year we commenced the development of a Climate Action Roadmap ('the Roadmap'). It is anticipated the Roadmap will include key actions for Coles over the short, medium and long term to manage climate-related risks and opportunities effectively and respond to stakeholder expectations.

The Roadmap will seek to further align Coles to the TCFD and other current and emerging disclosure frameworks – including the Transition Plan Taskforce Disclosure Framework (UK) and IFRS S2 Climate-related Disclosures issued by the International Sustainability Standards Board ('ISSB').

The scenario analysis we undertook in FY21 and FY22 will inform the development of the Roadmap. Detail of the scenario analysis undertaken in prior years is available in our FY21 and FY22 Annual Reports.

Risk management

We apply an integrated Group-wide approach to the management of risk through the application of the Coles Risk Management Standard.

Climate change has been identified and disclosed as a material risk to the Group since FY19. Refer to the Risk Management section for further information on Coles' material risks.

Climate change risk exposure, together with associated management plans, risk appetites and metrics, is reported to the Executive Leadership Team, the Audit and Risk Committee, and the Board regularly during the year, along with the broader suite of material risks to the Group.

Climate change risk is supported by an underlying climate change risk and opportunity profile. This profile identifies transition and physical climate change risks and opportunities impacting the Group, together with associated actions and management plans. These risks and opportunities are presented in the following section.

During FY23, we also incorporated the management of climate change risks and opportunities within the Coles Risk Management Standard. This update was approved by the Board in June 2023.

Further information about our Risk Management Policy and Risk Management Standard is available in Coles' Corporate Governance Statement.

Climate-related risks

As noted in the previous section, we recognise that Coles is exposed to increasing climate-related risks. Changing weather patterns and climate extremes are happening at an increased pace[1], emphasising the need to develop, refine and implement adaptation and mitigation actions to address the changing nature of climate risk now and in the future.

Our assessment includes the following risks:

- **Transition** – risks associated with the transition to a lower carbon economy including management of heightened stakeholder expectations, policy, regulatory and legal changes, and technological developments.
- **Physical** – risks associated with acute event driven weather impacts, for example increasing severity of extreme weather events, and chronic long-term shifts in climate patterns.

A description of Coles' transition and physical risks and management response, as well as future opportunities, is presented in the following table. Many of the downside risks are also considered to be material business risks to the Coles Group. Analysis of the risk exposures considered financial, reputational, health and safety, legal and regulatory, and operational consequences in the short-term (0 to 2 years), medium-term (2 to 10 years) and long-term (10+ years).

Potential financial impacts include: revenue streams, operational and capital costs, asset values, cost of finance and insurance premiums, and market share.

Consideration has also been given to the potential financial impacts of climate-related risks on the carrying value of goodwill through a qualitative review of the Group's climate change risk assessment. This review did not identify any material financial reporting impacts.

1 Intergovernmental Panel on Climate Change (IPCC) AR6 Synthesis Report, March 2023 (AR6 Synthesis Report: Climate Change 2023 — IPCC.)

Transition risks

Risk 1 – Changing stakeholder expectations of acceptable climate performance	
Description	Coles seeks to minimise the impact of its operations on the environment. We also recognise the expectations and preferences of our team members, customers, community, investors and NGOs are shifting in relation to climate change and the environment. This includes enhanced expectations around minimising the impact of climate-related disruptions to our customers, improving energy efficiency, offering sustainable products and reducing greenhouse gas emissions.
Relevant TCFD risk category	Reputation; Market
Relevant TCFD financial impact category	Revenue, expenditure, assets and liabilities, capital financing
Potential financial impacts	• Decreased revenue due to reduced demand for goods and services. • Increased costs due to turnover in team members or third parties with whom we do business.
Our management response	• Sustainability strategy incorporating our emissions reduction targets. Refer to the Metrics and Targets section for further information. • Teams and processes in place to understand, monitor and respond to the concerns and expectations of team members, customers, investors, NGOs and the community more broadly. • Governance arrangements to manage and monitor the development and progress against sustainability goals and initiatives, including those related to climate change.
Medium- and long-term considerations	• Monitoring for shifts in consumer preferences in favour of lower emissions and fewer water-intensive products.

Risk 2 – Changing policy, regulatory and legal requirements to decarbonise and manage climate risk	
Description	New and evolving climate-related policies and regulations may impose requirements that affect the way our business operates. These may include policies and regulations designed to limit the impacts of climate change, or transition to a lower carbon economy. Ongoing monitoring and assessment of changing regulations is required to determine whether action is needed to manage compliance.
Relevant TCFD risk category	Policy & Legal
Relevant TCFD financial impact category	Expenditure
Potential financial impacts	• Increased costs to comply with changing requirements. • Increased costs associated with offsetting carbon-intensive operations or products.
Our management response	• Regulatory non-compliance is one of our material business risks and is managed with regards to the risk appetite statements and key risk indicators agreed by the Board. Refer to the Risk Management section for further information about risk mitigations. • Monitoring of new and impending legislative and policy changes, as well as participation in policy consultations to influence change. • Annual emissions reporting to the Clean Energy Regulator under the National Greenhouse and Energy Reporting scheme. • Compliance and legal teams train and support relevant teams on sustainability related advertising and claims to make sure they are not misleading or contrary to Australian Consumer Law.
Medium- and long-term considerations	• Managing the divergence in environmental requirements imposed by state-based legislation in the absence of a national approach. • Monitoring of external trends relating to climate litigation and direct claims being made against companies internationally and domestically.

Risk 3 – Low emissions technology development and adoption	
Description	Decarbonising, or becoming more resilient to climate impacts, can be aided by technology. Delayed adoption of new technologies can reduce our competitiveness and increase our exposure to energy market volatility. Delays may occur when there are limited suppliers in the market to source new technologies; when there is inadequate infrastructure to support technology adoption; or when there is a lack of people trained in the installation, operation and maintenance of the technology.
Relevant TCFD risk category	Technology
Relevant TCFD financial impact category	Expenditure, assets and liabilities, capital financing
Potential financial impacts	• Write-offs or early retirement of existing assets. • Increased costs associated with investment in the research, development and implementation of new technology. • Increased costs to adopt new practices and processes, including upskilling workforce capabilities.
Our management response	• Regularly assessing new technologies with the potential to advance how we mitigate or adapt to climate change through literature reviews, attending conferences, and assessing inbound requests from potential suppliers to review their products. • Energy purchasing, market services and energy asset strategy to manage and orchestrate energy consumption and cost to supermarkets, including renewable energy contracts and orchestration agreements. • Strategies developed to replace existing refrigeration and heating, ventilation and air conditioning assets with systems that run on lower global warming potential gases and natural refrigerants.
Medium- and long-term considerations	• Adequacy of infrastructure to support increasing uptake of electric vehicles in Australia.

Risk 4 – Decreased access to insurance and finance	
Description	Banks and insurers may become increasingly reluctant to support businesses and operations with significant exposure to climate risks and inadequate processes to manage these risks.
Relevant TCFD risk category	Policy & Legal
Relevant TCFD financial impact category	Expenditure, asset and liabilities, capital financing
Potential financial impacts	• Increased cost of finance. • Higher insurance premiums. • Unavailability of insurance for activities or sites located in specific high-risk areas.
Our management response	• Coles' Sustainability Strategy (and associated metrics and targets) has facilitated access to the sustainable finance markets. Coles has established a total of $1.425 billion bilateral bank facilities in sustainability linked loan formats ('SLLs'). The SLLs draw a direct line between our sustainability performance and our cost of capital. Coles is incentivised through margin adjustments to achieve sustainability targets linked to Scope 1 and 2 emission reductions, waste diversion from landfill, and women in leadership. • Transferring risk through the insurance market where it is competitive to do so and based on exposure to the balance sheet. Coles Captive Insurance is used as a mechanism to fund additional exposures that cannot be risk transferred to a certain extent. • Natural catastrophe modelling to give confidence to external insurers. This modelling will be revisited at least every two years or earlier if there is evidence that the modelling has become outdated.
Medium- and long-term considerations	• Increased insurance exclusion clauses for specific regions susceptible to extreme weather events.

Physical risks

Risk 5 – People safety and wellbeing (Coles team members and broader supply chain)	
Description	Increases in the frequency and intensity of extreme weather events, and changes in weather patterns, can lead to increasing health and safety risks to Coles' team members, customers, and third party suppliers and providers. This includes exposure to the risk of physical harm, as well as adverse health and wellbeing impacts including to mental health.
Relevant TCFD risk category	Acute Chronic
Relevant TCFD financial impact category	Expenditure
Potential financial impacts	• Increased operating costs associated with implementing plans to reduce and mitigate the health and wellbeing impacts to our team members, customers, and third party suppliers and providers. • Increased costs associated with employee leave, including disaster leave, absenteeism and/or turnover.
Our management response	• People safety is a material business risk and is managed with regards to the risk appetite statements and key risk indicators agreed by the Board. Refer to the Risk Management section for further information about risk mitigations. • The Coles Health, Safety and Injury Management system (SafetyCARE) and the safety plans for each of our segments factor in the acute impacts (e.g. bushfires) and chronic impacts (e.g. heat fatigue) of climate change. • Every store has an emergency response plan, informed by a safety risk assessment that factors in bushfire, flood and cyclone zones. • Learnings from incidents and events, and opportunities for improvement, are identified and incorporated into our safety, emergency management and response plans and processes.
Medium- and long-term considerations	• The types of people safety and wellbeing risks are expected to be the same in the medium and long-term, however their impact may be amplified by an increase in the frequency and/or intensity of extreme weather events and changing weather patterns.

Risk 6 – Food safety and quality	
Description	An increase in the frequency and severity of extreme weather events and long-term shifts in climate patterns can lead to food safety and quality risks throughout the supply chain, including changing persistence and occurrence of pests and diseases, food and soil contamination, and lower than expected shelf-life for fresh produce.
Relevant TCFD risk category	Acute Chronic
Relevant TCFD financial impact category	Expenditure
Potential financial impacts	• Decreased revenue due to reduced availability of supply. • Increased operating costs associated with implementing plans to reduce and mitigate impacts to food and product safety and quality.
Our management response	• Product and food safety is a material business risk and is managed with regards to the risk appetite statements and key risk indicators agreed by the Board. Refer to the Risk Management section for further information about risk mitigations. • Disaster recovery checklists established to help suppliers recover from the impact of extreme weather events on food safety. • Developing a food safety strategy to improve the management of food safety across the supply chain considering likely changes in climatic conditions.
Medium- and long-term considerations	• The types of food safety and quality risks are expected to be the same in the medium and long-term, however their impact may be amplified by an increase in the frequency and/or intensity of extreme weather events and changing weather patterns.

Risk 7 – Operational resilience	
Description	Acute and chronic weather events can result in disruption to our stores and distribution centres through physical damage to assets and equipment, and/or the inability to access facilities and major transport routes. There may also be more frequent and prolonged instances of power outages, as well as decreases in the efficiency and resilience of assets and equipment that are sensitive to climate (e.g. refrigeration units, heating and cooling).
Relevant TCFD risk category	Acute Chronic
Relevant TCFD financial impact category	Revenue, expenditure, assets and liabilities, capital financing
Potential financial impacts	• Increased operating and capital costs. • Increased costs to repair, maintain or replace assets. • Reduced revenue and/or stock loss. • Increased insurance premiums. • Write-offs or impairment of assets.
Our management response	• Supply chain resilience is a material business risk and is managed with regard to risk appetite statements and key risk indicators agreed by the Board. Refer to the Risk Management section for further information about risk mitigations. • Store design specifications consider their resilience in extreme conditions. • Ongoing maintenance and asset replacement program aimed at progressively maintaining and replacing assets when required. • Stock planning in areas affected by cyclone activity (e.g. WA, QLD), and other forecast weather events to ensure stores are sufficiently stocked before entering cyclone season. • Insurance arrangements are in place for property and business interruption (subject to policy terms, conditions and exclusions). • Completion of a physical climate risk assessment to understand the potential physical impacts of climate change on Coles' assets and operations and identify mitigation actions to improve climate resilience.
Medium- and long-term considerations	• Continuous increases in the frequency and/or severity of natural hazards and the potential impact on our assets, particularly ageing assets, and third party logistics infrastructure.

Risk 8 – Supply security	
Description	Our ability to source products domestically and internationally can be adversely impacted by climate change. The occurrence of extreme weather events and longer-term changes in weather patterns can reduce supplier productivity and availability of supply.
Relevant TCFD risk category	Acute Chronic
Relevant TCFD financial impact category	Revenue, expenditure
Potential financial impacts	• Decreased revenue due to reduced availability of supply. • Increased costs to import products from overseas or diversify supplier base. • Increased exposure to price volatility.
Our management response	• Supply chain resilience is a material business risk and is managed with regard to the risk appetite statements and key risk indicators agreed by the Board. Refer to the Risk Management section for further information about risk mitigations. • During FY23 reviews were undertaken of supplier concentration in key categories, and geographical risk across a number of Coles' fresh produce categories, to highlight mitigations in place and identify opportunities to further reduce risk of supply disruption. • Medium and longer-term supply security risks and mitigations are assessed on an ongoing basis as part of category planning. • Strategy developed around the security of our meat supply. • Provision of support to suppliers through grants for climate change adaptation and mitigation initiatives via the Coles Nurture Fund. • Disaster relief packages are available to suppliers on an ad hoc basis.
Medium- and long-term considerations	• Increasing frequency and/or severity of extreme weather events and changing climate patterns may result in the risk of supplier consolidation.

Climate-related opportunities

Opportunity 1 – Resource efficiency and greenhouse gas reduction	
Description	We are continuing to increase our resource efficiency and reduce greenhouse gas emissions in areas over which we have control and influence.
Relevant TCFD opportunity category	Resource Efficiency; Energy Source
Potential financial benefits	• Reduced operating costs (e.g. through efficiency gains and cost reductions) • Increased production capacity
Our management response	• Detailed information on how we are working to increase resource efficiency and reduce greenhouse gas emissions is provided in the following Metrics and Targets section.

Opportunity 2 – Increased operational resilience, supply chain resilience and business continuity planning	
Description	We are seeking to build the resilience of our business, our community and our value chain against climate-related impacts, both physical and transitional.
Relevant TCFD opportunity category	Resilience
Potential financial benefits	• Enhanced resilience of our supply chain and ability to operate in various conditions, increasing sales and revenue • Enhanced resilience of our assets and infrastructure, increasing asset value
Our management response	• In FY24, we will use the results of the physical risk assessment discussed previously to inform the work necessary to reduce exposure to climate risk across the portfolio. • We will also continue to support suppliers through grants for climate change adaptation and mitigation initiatives through the Coles Nurture Fund (further information about this grants program will be available in our 2023 Sustainability Report).

Pictured: Team member Dwayne with Electric Yard Tug which was trialled at Truganina DC.

Metrics and targets

In FY21, we announced targets to reduce greenhouse gas emissions including the following commitments:

- to deliver net zero greenhouse gas emissions by 2050[1]
- for the entire Coles Group to be powered by 100% renewable electricity by the end of FY25 (refer to the Renewable electricity section for further information)
- to reduce combined Scope 1 and 2 greenhouse gas emissions by more than 75% by the end of FY30 (from a FY20 baseline). In July 2023 this target was validated by the Science Based Targets initiative ('SBTi')[2] and classified as 1.5°C aligned, currently the most ambitious designation available through the SBTi process.

Our main sources of Scope 1 (direct) emissions include emissions from refrigerant gases, natural gas and transport fuel, with a minimal contribution from stationary LPG and diesel for onsite back-up generators.

Scope 2 (indirect) emissions are those associated with our electricity use and make up the bulk of our combined Scope 1 and 2 emissions.

Scope 3 emissions are indirect emissions (not included in Scope 2) that occur in our value chain and make up the bulk of Coles' overall emissions profile.

Emissions data, including our Scope 3 inventory, will be available in our 2023 Sustainability Report.

Scope 1 and 2 emissions

Renewable electricity

We have made significant progress this year towards our 100% renewable electricity target through onsite solar and large-scale generation certificate ('LGCs') arrangements which match our consumption. In July 2022, we commenced our agreement with CleanCo in Queensland to purchase electricity and LGCs and began our long-term LGC agreement with Lal Lal Wind Farms in Victoria. These agreements are in addition to our LGC-bundled power purchase agreement which commenced in 2021 with MYTILINEOS in New South Wales.

We are aiming to purchase more than 90% of our electricity in Queensland for 10 years from CleanCo, the state-owned low-emissions energy generator, retailer and developer. In addition to Clean Co's existing low emissions portfolio, the retailer will support Coles through agreements with Western Downs Green Power Hub (set to be Australia's largest solar farm when completed) and the MacIntyre Wind Farm (one of the largest wind farms to be built in the Southern Hemisphere, with 180 turbines).

Our agreement with Lal Lal Wind Farms will enable us to purchase LGCs from the wind farms near Ballarat, Victoria until the end of 2030. Lal Lal Wind Farms has been exporting renewable electricity at full capacity to the Victorian grid since December 2020.

We are on track to meet our FY25 renewable electricity commitment through the addition of upcoming long-term LGC agreements. We have signed these agreements with Neoen, Origin Energy, ACCIONA Energía, and ENGIE to source LGCs from wind and solar farms across Victoria, New South Wales, South Australia and Queensland. The portfolio of generation assets includes several wind and solar farms, which are under construction, as well as existing sites such as Willogoleche Wind Farm in South Australia and Mt Gellibrand Wind Farm in Victoria.

In May 2023 we completed a 3.5 megawatt ('MW') solar installation and energisation at our automated dry good distribution centre in Oakdale, New South Wales. The solar installation, which is among the largest rooftop solar solutions in the Coles network, is comprised of 7,000 solar panels covering 16,700 square metres of roof and is expected to supply 32% of the electricity for the facility. Furthermore, a 300 kilowatt ('kW') solar system was constructed at our Chef Fresh facility in New South Wales and is expected to generate 420 megawatt hours ('MWh') of renewable energy per year. Construction of two further rooftop solar systems is underway at our chilled distribution centres in Kewdale, Western Australia and Eastern Creek, New South Wales. All three systems are expected to be energised in either FY24 or FY25.

Coles and Origin recently signed an agreement which will see the companies co-invest in solar, batteries and flexible load controls across Coles stores nationally. The agreement is expected to lower Coles' emissions, reduce electricity consumption from the grid and bring down operational costs, with solar to be delivered at 20 stores in FY24. Over the next three years, the companies aim to install 20 MW of solar panels on top of 100 stores, with batteries to be installed at one third of the stores to capture and store excess renewable electricity generated on-site. In addition, Coles' rooftop solar, batteries, and energy assets such as in-store heating, cooling and refrigeration systems will be connected to Origin's virtual power plant to help ease pressure on the energy grid during peak periods of demand.

Refrigeration, HVAC management and energy efficiency

Refrigeration is vital for maintaining and extending food quality and reducing waste. Coles' refrigeration management program includes the use of natural refrigerants, which have close to no global warming potential ('GWP') compared with older synthetic refrigerant gases with high GWP.

When building new Coles supermarkets, the majority (>90%) now use natural refrigerants. Aligning to our store refurbishment program where practical and commercially viable we convert supermarkets to lower GWP or natural refrigerants. At the end of FY23, natural refrigerants were in use in 54 supermarkets (28 in FY22) and 33 Coles Liquor stores (15 in FY22).

To reduce gas loss, we have continued to invest in leak detection technology and our refrigeration pipe replacement program. We also have several energy efficiency initiatives and trials in place across our stores and distribution centres.

Scope 3 emissions

Coles has set a supplier engagement target requiring more than 75% of suppliers by spend to set science-based targets by the end of FY27. This Scope 3 target was validated by the SBTi during the year.

1 Currently, Coles' commitment refers only to Coles' Scope 1 and Scope 2 emissions.
2 The SBTi is a partnership between CDP, the United Nations Global Compact, World Resources Institute and the World Wide Fund for Nature. It provides an independent assessment and validation of net-zero science-based targets in line with a 1.5°C future.

Given most of Coles' Scope 3 emissions are upstream of our operations, this target allows us to engage high emitting categories and work collaboratively with our suppliers to reduce emissions. As an organisation with an extensive supply chain, there are a range of challenges related to measuring and reducing Scope 3 emissions. These include our reliance on supplier partners for relevant information, gaps in data, issues with data quality and our ability to influence suppliers' operational and commercial practices. With these challenges in mind, Coles has appointed a new position of General Manager, Sustainability Supplier Relations, whose focus will be on engaging with, and supporting, our suppliers to reduce their emissions.

During FY23, we calculated our FY22 and FY23 inventory for Scope 3 emissions covering the following Greenhouse Gas Protocol ('GHG Protocol') categories[1]. We also recalculated our FY20 baseline to account for the sale of Coles Express fuel and convenience retailing operations during FY23.

Scope 3 categories

	Category
Upstream	1. Purchased goods and services
	2. Capital goods
	3. Fuel and energy-related activities
	4. Upstream transportation and distribution
	5. Waste generated in operations
	6. Business travel
	7. Employee commuting
Downstream	11. Use of Sold Products
	12. End-of-life treatment of sold products
	15. Investments and joint ventures

Further detail on how we have been working with suppliers to reduce their emissions is available in our 2023 Sustainability Report.

Pictured: Head of Energy Jane Mansfield and Origin Zero Executive General Manager James Magill inspect the rooftop solar panels at Coles Craigieburn Village, following a landmark agreement to co-invest energy and battery assets.

1 Consistent with guidance in the GHG Protocol, Category 8 – Upstream leased assets and Category 9 – Downstream transportation and distribution are excluded from our Scope 3 emissions inventory. Category 10 – Processing of sold products, 13 – Downstream leased assets and 14 – Franchises are not relevant to Coles Group. It should also be noted that Coles has calculated a portion of emissions associated with Viva Energy's sale of fuel through Coles Express sites in Category 15 – Investments, based on commission received through the agreement with Viva Energy.