

colesgroup



2020 Tax Contribution Report

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Message from the Chief Financial Officer

Welcome to our first
Tax Contribution Report



It is my pleasure, on behalf of the Board, to present our first Tax Contribution Report.

There has never been a more important time for our team members, suppliers, shareholders and the community to have confidence in Coles' vision and purpose given the integral role we play to sustainably feed all Australians. We recognise that our stakeholders want to be assured of our commitment to operate in a way that is transparent and continues to build trust.

A key pillar of our corporate strategy is to Win Together with our team members, suppliers and communities. As one of Australia's largest corporate employers and a top 100 taxpayer, we are pleased to report our \$2.6 billion of tax contributions to Australian federal and state governments in the 2020 financial year.

We approach the management of Coles' tax obligations with integrity and diligence. Committed to our vision to be Australia's most trusted retailer, we are dedicated to ensuring Coles maintains robust tax governance practices and collaborative relationships with all tax authorities.

This report provides an overview of Coles' tax profile and our approach to tax governance and risk management. The information contained in this report has been prepared on a voluntary basis in accordance with the Board of Taxation's Tax Transparency Code.

The report should be read in conjunction with our 2020 Annual Report, which is available on our website at www.colesgroup.com.au

Leah Weckert
Chief Financial Officer

Our vision, purpose and strategy

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



How we create value

We are driven by our purpose to sustainably feed all Australians to help them lead healthier, happier lives, which means we need to consider our social and environmental impacts in all that we do.



Australian farmers and producers

Coles Supermarkets has an Australian-first sourcing policy to provide our customers with quality Australian-grown fresh produce. By doing this, we are supporting Australian farmers and growers who provide us with healthy, quality products. Our support includes the \$50 million Coles Nurture Fund.

Suppliers, processors and packaging

Thousands of suppliers provide us with Own Brand and proprietary branded products. We are working with Own Brand suppliers to improve Own Brand packaging recyclability, including labelling on Own Brand products to help customers recycle. REDcycle soft plastics recycling is available in our supermarkets.

Transport and distribution

Working with our logistics partners, we are reducing our environmental footprint through more efficient fleet movements. We are also ensuring customers are provided with quality, safe products by conducting selected quality checks when produce arrives at our fresh produce distribution centres, with additional checks for chilled products.

Retail and store network

We support local economic growth through investment in new stores and infrastructure, while continuing to reduce greenhouse gas emissions. Innovation is key to providing online grocery and convenient shopping experiences to make life easier for our customers. Providing safe, responsibly sourced, nutritious products at competitive prices is fundamental.

Team members

With more than 118,000 team members, including the largest number of Aboriginal and Torres Strait Islander team members in Australia's private sector, our workforce reflects the diversity of our customers and the community. A safe and inclusive workforce for all is our priority.

Customers and community


Through community partnerships, we are supporting Australians and reducing our environmental impact. Our work with SecondBite and Foodbank provides Australians in need with healthy, nutritious food that might otherwise go to waste. Disaster relief and business continuity plans support customers and communities in times of extreme weather events and other crises.

Our economic value creation

Suppliers	Team members	Shareholders	Governments	Community
\$29.9bn	\$4.8bn	\$873m	\$2.6bn	\$139m
supplier and services spend	payments and benefits to team members	total dividends paid	cash taxes paid and collected	community support

All figures above are as at 28 June 2020, with the exception of community support (30 June 2020).

Our sustainability achievements¹

Sustainable communities	Sustainable products	Sustainable environmental practices
Meals to people in need since 2003 (equivalent of) 147m+	Best Sustainable Seafood Supermarket in Australia Awarded by MSC. Holder of the award since 2017 	Pieces of flexible plastic through REDcycle since 2011 1bn+
Funds to Redkite since 2013 \$38m	Broadest range of RSPCA Approved products of any major Australian supermarket	Waste diverted from landfill 79%
Grants announced for 15 producers through Coles Nurture Fund in FY20 \$3.6m	Own Brand products displaying Health Star Rating 2,400+	Greenhouse gas emissions (Scope 1 and 2) from 2009 ▼ 36.5%

¹ All references are as at 30 June 2020, with the exception of funds to Redkite which is as at 28 June 2020.

Tax policy, strategy and governance

Coles is committed to the highest standards of corporate governance. We understand that a robust and transparent corporate governance framework is central to the success of our business and management of our taxation risks.

Our approach

A commitment to good corporate citizenship and acting with integrity and transparency in tax matters

Diligence and care in relation to tax matters ensuring compliance with applicable laws and regulations

A low appetite for tax risk, adopting conservative positions

Our risk management

The Board oversees tax risk, evaluates our tax risk management framework and delegates relevant powers to the Audit and Risk Committee

Rigorous processes in place for risk assessment, reporting and escalation of tax risks to senior management, the Audit and Risk Committee and the Board

The Coles Tax Governance Framework, approved by the Audit and Risk Committee, sets out accountabilities, procedures and documentation

Our transparency and engagement

Engage with and maintain an open, pro-active and co-operative relationship with all revenue authorities

Part of the Australian Taxation Office (ATO) top 100 taxpayer justified trust programme for income tax and goods and services tax

ATO annual pre-lodgment compliance review of Coles' consolidated group income tax return, covering material transactions and treatments adopted



Natalie and Paul from Mountain Blue Farms in Lismore, New South Wales, (pictured with their children Harry and Piper) have used financial support from the Coles Nurture Fund to grow new varieties of Eureka blueberries hydroponically.

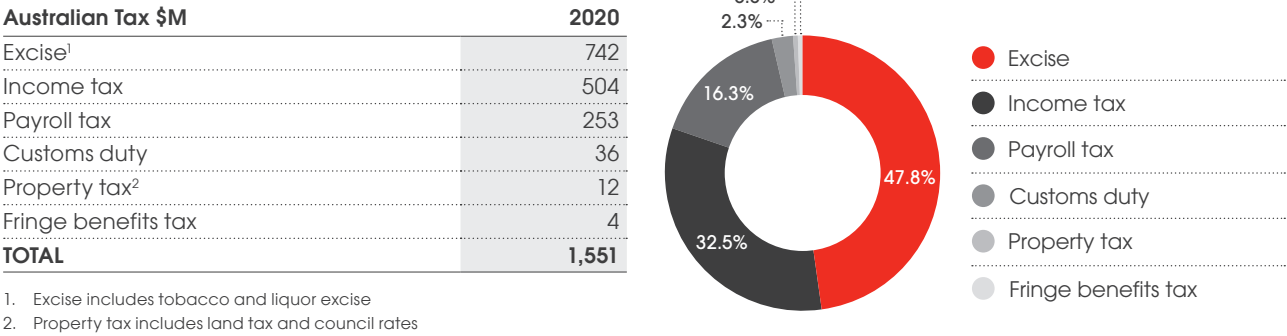
Our tax contributions to Australia

Coles’ economic contribution to the Australian economy in FY20 was \$2.6 billion of taxes paid to and collected on behalf of Australian government authorities

Taxes paid to and collected on behalf of Australian government authorities have been prepared in accordance with the Basis of preparation section of this report.

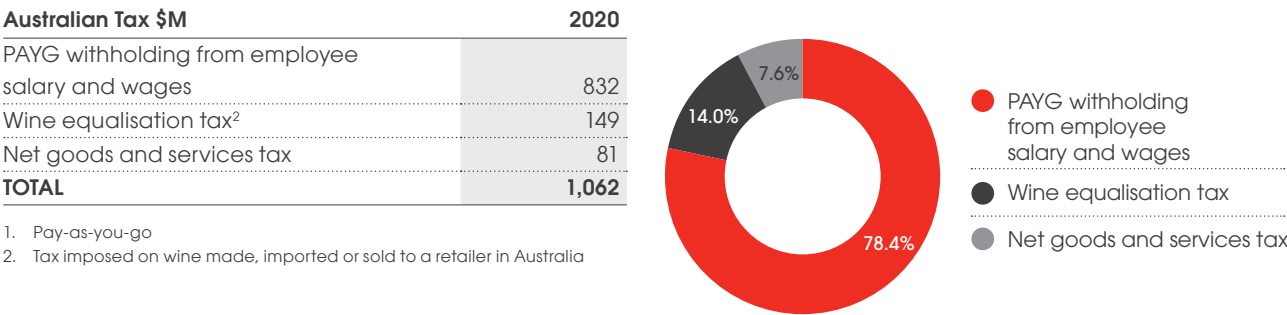
Australian taxes paid by Coles

Coles is subject to federal and state government taxes including income tax and other taxes such as excise, payroll tax, customs duty, property taxes and fringe benefits tax.



Australian taxes collected and paid by Coles

Coles also collects and pays taxes, including PAYG¹ withholding tax, wine equalisation tax and net goods and services tax on behalf of the Australian Government.



The total taxes paid to and collected on behalf of Australian government authorities in FY20 was \$2,613 million.

Reconciliation of accounting profit to income tax expense

A reconciliation of Coles’ accounting profit to income tax expense is published in the Financial Report (part of Coles’ 2020 Annual Report) for the period ended 28 June 2020 at Note 1.6. This disclosure has been prepared for the statutory accounts of Coles Group Limited and its controlled entities in accordance with relevant standards issued by the Australian Accounting Standards Board (AASB).

A reconciliation of Coles’ accounting profit to income tax expense is set out below.

	CONSOLIDATED	
	YEAR ENDED 28 JUNE 2020 \$M	YEAR ENDED 30 JUNE 2019 \$M
Profit before tax from continuing operations	1,319	1,425
Profit before tax from discontinued operations	-	509
Profit before income tax	1,319	1,934
At Australia’s corporate tax rate of 30.0% (30 June 2019: 30.0%)	396	580
Adjustments in respect of income tax of previous years	2	4
Share of results of joint venture	2	(1)
Non-deductible expenses for income tax purposes	5	15
Non-assessable income for income tax purposes	(21)	-
Significant item - tax consolidation	(31)	(50)
Significant item - incorporated joint venture with Australian Venue Co	(12)	(49)
At the effective income tax rate of 25.9% (30 June 2019: 25.8%)	341	499
Income tax expense reported in the consolidated Statement of Profit or Loss	341	347
Income tax attributable to discontinued operations	-	152
Income tax expense	341	499



The Pergoliti family at Harvey Citrus in Western Australia received a grant from the Coles Nurture Fund in FY20 to extend its supply of WA-grown citrus over the summer and increase local employment by extending its cool room facility and installing solar panels on its packing shed. Pictured is Andrew Pergoliti with his father Steve and daughter Alyssa.

Reconciliation of income tax expense to current year income tax payable

Income tax payable represents the estimated income tax paid or payable to the ATO.

A reconciliation of Coles' income tax expense to current year income tax payable is set out below.

	CONSOLIDATED	
	YEAR ENDED 28 JUNE 2020 \$M	YEAR ENDED 30 JUNE 2019 \$M
Income tax expense reported in the consolidated Statement of Profit or Loss	341	347
Adjustments in respect of current income tax of previous years	5	(8)
Deferred income tax relating to origination and reversal of temporary differences	79	86
Adjustment in respect of deferred income tax of previous years	36	4
Current year income tax payable	461	429

Calculation of the current year income tax payable includes both temporary and non-temporary differences.

Temporary differences exist where amounts are assessable or deductible for tax purposes at a different time to when they are recognised under Australian Accounting Standards. For example, different depreciation rates may be used for tax and accounting purposes. The differences will reverse over time until an asset is fully depreciated.

Temporary differences in FY20 relate to the adoption of AASB 16 *Leases* and other individually insignificant balances, leading to the difference between income tax expense and income tax payable.

Non-temporary differences are amounts which are recognised for either accounting purposes or tax purposes, but not both. Material non-temporary differences are disclosed in the Effective company tax rate section.

Effective company tax rate

The effective tax rate is calculated as income tax expense divided by accounting profit before tax.

The effective tax rate will differ from the company tax rate of 30% due to non-temporary differences.

The effective company tax rate is set out below.

	CONSOLIDATED	
	YEAR ENDED 28 JUNE 2020 \$M	YEAR ENDED 30 JUNE 2019 \$M
Income tax expense	341	499
Effective tax rate for Australian operations	25.9%	25.8%
Effective tax rate for global operations	25.9%	25.8%
Remove tax effect of tax consolidation (note 1)	31	50
Remove tax effect of disposal of interest in hotel business (note 2)	12	49
Remove tax effect of discontinued operations (note 3)	-	(152)
Remove tax effect of property impairments and reversals (note 4)	13	(5)
Adjusted income tax expense	397	441
Adjusted effective tax rate for Australian operations	30.1%	30.9%
Adjusted effective tax rate for global operations	30.1%	30.9%

Explanatory notes

The effective tax rates in FY20 and FY19 were impacted by the following items:

1. Tax consolidation – Coles Group Limited and its 100% owned Australian resident subsidiaries formed an income tax consolidated group with effect from 31 December 2018. The tax cost base of certain revenue and capital assets were reset in accordance with Australian taxation legislation and calculated by reference to independent market valuations. The reset in the tax cost base of assets resulted in a net credit to income tax expense in FY20 and FY19. This occurred over two years given the time required to progress market valuations and tax cost base resetting calculations.
2. Disposal of interest in hotel business - Coles entered into an incorporated joint venture with Australian Venue Co. (AVC) for the operation of Spirit Hotels (the 'Hotel business') and the retail liquor stores linked to Spirit Hotels venues (collectively the 'Retail Liquor business'). As part of the transaction a group subsidiary company, Liquorland (Qld.) Pty Ltd was converted into an incorporated joint venture company, Queensland Venue Co. Pty Ltd (QVC). To facilitate the transaction, QVC restructured its share capital by issuing two classes of shares: R-Shares which confer the right to the full economic benefit of the Retail Liquor business and H-Shares which confer the right to the full economic benefit of the Hotel business. Coles sold the H-Shares to AVC, while retaining the R-Shares.

The income tax impacts arising from the sale of the H-Shares were progressed in FY20 resulting in a capital loss and a net credit to income tax expense.
3. Discontinued operations – Coles disposed of its interest in Kmart, Target and Officeworks in FY19 as part of its demerger from Wesfarmers. Profit attributable to these discontinued operations, up until the date Coles lost control of these entities, was included in the calculation of the effective tax rate for FY19.
4. Coles reviews the valuation of its property portfolio annually. In FY19, impairments were recognised in accordance with relevant Australian Accounting Standards (expensed in the financial statements) which are treated as non-deductible for income tax purposes. In FY20, certain property impairments were reversed (recognised as income in the financial statements) which are treated as non-assessable income for tax purposes.

International related
party transactions

Coles’ Tax Governance Framework is designed to ensure all taxation laws and regulations applicable to our business are adhered to, including those in relation to international related party dealings.

Coles applies arm’s length principles with respect to its international related party dealings consistent with Australia’s transfer pricing laws and ATO guidance on accepted pricing methodologies. Arm’s length pricing analysis also takes into account the regulatory requirements of the counterparty jurisdiction and the Organisation for Economic Cooperation and Development guidelines.

While Coles’ operations are predominantly in Australia, Coles recently established a presence in China (with a holding company in Hong Kong) to support the export and sale of meat and other consumer goods.

Coles incorporated a wholly foreign owned entity (WFOE) in China during the 2020 financial year which provides support services to Coles Australia.

Details of Coles international related party dealings are set out below.

	Jurisdiction	YEAR ENDED	YEAR ENDED
		28 JUNE 2020	30 JUNE 2019
International Related Party Dealing		\$M	\$M
Services provided by the WFOE to Coles Australia	China	0.4	-

Basis of preparation

This report discloses details of the total taxes paid and collected on behalf of Australian government authorities by Coles in accordance with taxation laws, regulations and guidance.

References in this report to Coles, we and our, are references to Coles Group Limited and its wholly owned subsidiaries.

All payments to governments are stated in Australian dollars.

This report has been prepared in accordance with the requirements of the Board of Taxation’s Tax Transparency Code. Specifically, the report provides the necessary disclosures and information to address the minimum requirements of Part A and Part B for large businesses as set out in the code.

The disclosures in this report have been prepared having regard to the draft guidance developed by the AASB to assist companies in meeting the Tax Transparency Code recommendations for the suggested tax reconciliations and calculation of the effective tax rate.

This report has been prepared based on data recorded in our financial systems, being the same data and financial systems used to prepare our financial statements.

All data, unless otherwise stated, is prepared for the period 1 July 2019 to 28 June 2020 (FY20) and the comparative period 1 July 2018 to 30 June 2019 (FY19). Total tax contributions is calculated in accordance with the measurement and recognition principles of Australian Accounting Standards adjusted for when cash is released, or received by Coles.



Victorian dairy farmer Peter Hemphill (pictured with his grandchildren) was among 15 producers awarded a Coles Nurture Fund grant in FY20.

Independent Auditor's Review Report to the directors of Coles Group Limited

We have reviewed the Total Taxes Paid and Collected on behalf of Australian Government authorities of \$2,613 million ('Total Tax Contributions') as set out in the 'Our tax contributions to Australia' section of the attached Tax Contribution Report of Coles Group Limited for the year ended 28 June 2020 (the 'Tax Report').

Management's Responsibility for the Tax Report

Management is responsible for the preparation of the Tax Report and for establishing a framework in which the Total Tax Contributions and other related information in the Tax Report has been prepared. Management has determined that this framework as set out in the Basis of preparation section of the Tax Report is appropriate to the needs of the users of the Tax Report. Management is also responsible for such internal controls as management determines are necessary to enable the preparation of the Tax Report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the Total Tax Contributions in the Tax Report based on our review. We have conducted our review in accordance with Standard on Review Engagements ASRE 2405 *Review of Historical Financial Information Other than a Financial Report* in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the Total Tax Contributions is not prepared, in all material respects, in accordance with the measurement and recognition principles of Australian Accounting Standards adjusted for when cash is released, or received by Coles Group Limited. ASRE 2405 requires us to comply with the requirements of the applicable code of professional conduct of a professional accounting body.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

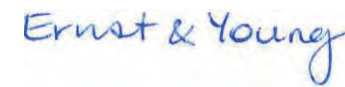
Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Total Tax Contributions of \$2,613 million in the Tax Report is not prepared, in all material respects, in accordance with the measurement and recognition principles of Australian Accounting Standards adjusted for when cash is released, or received by Coles Group Limited.

Basis of Accounting and Restriction on Reliance

Without modifying our conclusion, we draw attention to the Basis of preparation section of the Tax Report which describes the basis of accounting. This basis of accounting is of such importance that it is fundamental to your understanding of the Total Tax Contributions.

This review report has been prepared for the directors of Coles Group Limited in accordance with our engagement letter with Coles Group Limited. We disclaim all responsibility to any other party for any loss or liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of our report or the reliance upon our report by the other party.



Ernst & Young
Melbourne
24 September 2020



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