18 August 2021

The Manager
Company Announcements Office
Australian Securities Exchange

Dear Sir or Madam

Coles Group Limited (Coles) – Appendix 4E and Annual Results for the period ended 27 June 2021

In accordance with ASX Listing Rule 4.3A and the *Corporations Act 2001* (Cth), I enclose the following for immediate release to the market:

1. Appendix 4E;
2. Operating and Financial Review, which accompanies the Directors' Report;
3. Directors' Report (including the Remuneration Report);
4. Financial Report; and
5. Independent Auditor's Report,

for the full year ended 27 June 2021.

Coles will conduct an analyst briefing on the annual results from 10.00am AEST. This briefing will be audio webcast and is accessible via the Company's website at www.colesgroup.com.au.

This announcement is authorised by the Board.

Yours faithfully,

Daniella Pereira
Company Secretary

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Appendix 4E Preliminary Final Report

For the year ended 27 June 2021

Coles Group Limited
ABN 11 004 089 936

APPENDIX 4E

Under ASX Listing Rule 4.3A

PRELIMINARY FINAL REPORT

Current reporting period ('FY21')	29 June 2020 to 27 June 2021
Previous corresponding period ('FY20')	1 July 2019 to 28 June 2020

This Preliminary Final Report presents the results of Coles Group Limited ('the Company') and the entities it controlled at the reporting date or during the year ended 27 June 2021 (collectively, 'Coles', 'Coles Group, or 'the Group').

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	FY21 52 WEEKS $M				FY20 52 WEEKS $M
Revenue from ordinary activities	38,932	up	3.0%	from	37,784
Earnings before interest and income tax (EBIT)	1,873	up	6.3%	from	1,762
Profit from ordinary activities after tax attributable to members	1,005	up	2.8%	from	978
Profit after tax attributable to members	1,005	up	2.8%	from	978

DIVIDENDS

NAME	AMOUNT PER SECURITY	FRANKED AMOUNT PER SECURITY
Current period		
Interim dividend	33.0 cents	33.0 cents
Final dividend	28.0 cents	28.0 cents
Total dividend	61.0 cents	61.0 cents
Previous corresponding period		
Interim dividend	30.0 cents	30.0 cents
Final dividend	27.5 cents	27.5 cents
Total dividend	57.5 cents	57.5 cents

Conduit foreign income component:	nil
Record date for determining entitlement to the final dividend:	27 August 2021
Payment date of final dividend:	28 September 2021

The Company operates a Dividend Reinvestment Plan (DRP) under which eligible holders of ordinary shares are able to reinvest all or part of their dividend payments into additional fully paid Coles Group Limited shares. The DRP will operate at nil discount. The last date to elect to participate in the DRP is 30 August 2021. In accordance with the DRP Rules, the offer price will be calculated as the arithmetic average of the daily volume weighted average market price of the Company's shares during the 5 trading days commencing on 3 September 2021.

ANNUAL GENERAL MEETING

The Annual General Meeting of Coles Group Limited will be held on Wednesday, 10 November 2021. Details of the meeting will be set out in Coles' 2021 Notice of Annual General Meeting.

The closing date for receipt of nominations from persons wishing to be considered for election as a director of Coles Group Limited is 8 September 2021.

NET TANGIBLE ASSETS PER SHARE

	27 JUNE 2021	28 JUNE 2020
Net tangible assets per ordinary security ($)[1]	0.84	0.76

[1] Net tangible assets are calculated by deducting intangible assets from the net assets of the Group. Following the adoption of AASB 16 Leases on 1 July 2019, net assets include the right-of-use assets and corresponding lease liabilities recognised under the standard.

APPENDIX 4E (CONTINUED)

ENTITIES WHERE CONTROL WAS GAINED DURING THE PERIOD

NAME	DATE
Coles Captive Insurance Pte. Ltd.[1]	Incorporated on 9 December 2020
CNSCE Pty Ltd	Incorporated on 29 April 2021

[1] Incorporated in Singapore.

ENTITIES WHERE CONTROL WAS LOST DURING THE PERIOD

There were no entities over which control was lost during the period.

DETAILS OF EQUITY ACCOUNTED INVESTMENTS

		OWNERSHIP INTEREST	
NAME	TYPE	27 JUNE 2021	28 JUNE 2020
Loyalty Pacific Pty Ltd	Joint venture	50%	50%
Queensland Venue Co. Pty Ltd	Associate	50%	50%

This report is based on the Financial Report which has been audited.

Additional Appendix 4E disclosure requirements can be found in the accompanying Operating and Financial Review and Financial Report. The Coles Group Limited 2021 Full Year Results Release also provides further information on the results of the Group.

OPERATING AND FINANCIAL REVIEW

BUSINESS MODEL AND STRATEGY

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

Coles is an omnichannel retailer selling products including fresh food, groceries and liquor through its supermarkets, liquor stores and eCommerce platforms. Coles also sells convenience products and, under its alliance with Viva Energy (Viva), is a commission agent for retail fuel sales through the Coles Express network. We employ more than 120,000 team members, engage with more than 7,000 suppliers, have more than 450,000 direct shareholders and we welcome more than six million customers through our extensive store network and eCommerce platforms every week.

Coles is one of the most trusted consumer brands in Australia with businesses including Coles, Coles Local, Coles Express, Liquorland, First Choice Liquor Market, Vintage Cellars and Coles Financial Services. Coles is also a 50% shareholder of flybuys, one of Australia's most popular loyalty programs with more than six million active households.

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

The Group's reportable segments are:

- Supermarkets: fresh food, groceries and general merchandise retailer with a national network of 834 supermarkets, including Coles Online and Coles Financial Services;
- Liquor: liquor retailer with 929 stores nationally under the brands Liquorland, First Choice Liquor Market and Vintage Cellars, including online liquor delivery services; and
- Express: convenience store operator and commission agent for retail fuel sales across 717 sites nationally.

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

In June 2019, Coles refreshed its strategy with a vision to become the most trusted retailer in Australia and grow long-term shareholder value. Achieving this requires us to deliver on our purpose, which is to sustainably feed all Australians to help them lead healthier, happier lives. Our values of customer obsession, passion and pace, responsibility and health and happiness, guide the day-to-day decisions and actions of our team members.

We have set ourselves the ambition to differentiate in five key areas:

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

We have made progress against our three strategic pillars of **Inspire Customers, Smarter Selling** and **Win Together** while supporting our team members, customers, suppliers, and community partners.

1. Inspire Customers

The focus areas of the first pillar of our strategy, '***Inspire Customers*** *through best value food and drink solutions to make lives easier*', are outlined below:

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

Update on Inspire Customers pillar:

We have made progress against our strategic pillar of Inspire Customers by improving customer advocacy and delivering innovative and differentiated products to our customers

With a customer-obsessed lens, we continued to make progress in building trust and loyalty with Australians. Underpinning this progress was the launch of our new brand positioning 'Value the Australian Way' which reinforces Coles' heritage and role in the Australian community.

At Coles, we measure customer advocacy through the Net Promoter Score (NPS). We are pleased that our Supermarkets NPS increased by 2.3 points and Liquor NPS increased by 4.9 points in FY21. Coles also significantly increased its trust perception with the Roy Morgan survey recognising Coles as one of the most trusted consumer brands in Australia.

In FY21, Coles implemented new technology, improved forecasting and leveraged advanced analytics to enable a tailored offer to meet the differing needs of our customers. To date we have tailored 30% of our store layouts which was complemented by more than 650 range changes during the year in categories such as impulse, homecare and health and beauty. This has brought, and will continue to bring, more innovation and more tailoring to customers both in store and online.

We continue to make progress on our trusted and targeted value strategy, consistently investing in our offer, including placing a net 474 new products on everyday low prices during the year.

Coles Own Brand is a key strategic differentiator for Coles delivering innovative products at great prices. From FY21, Coles is reporting its Coles Own Brand and Exclusive Proprietary Brand sales under the new banner 'Exclusive to Coles'. Exclusive to Coles products generated $10.9 billion in sales and, in FY21, Coles Own Brand won 46 awards, demonstrating the breadth of our brand capability and quality of our products.

Our convenience offer in stores, assisted by the acquisition of the Jewel Fine Foods assets in May 2020, has an extended range with convenience destinations in more than 300 stores. Promoting healthy eating has continued through our many partnerships including the Heart Foundation and Stephanie Alexander's Kitchen Garden Foundation.

Coles continued to invest in our anytime, anywhere, anyhow (eCommerce) offer with enhancements made to the user experience such as a single-click check out and improved navigation. Investments have been made in capacity including the roll out of more than 500 contactless Click & Collect (to the boot of car) locations. Two eCommerce offers were added during the year - our membership subscription offer Coles Plus, and Click & Collect Rapid, our 90-minute order to pick up service. Both have resonated well with customers and we have seen improvements in the Perfect Order Rate and Online NPS almost doubled compared to the prior year. In addition, investments have been made to support strong Liquor eCommerce growth with the opening of three online fulfilment centres to increase capacity, streamline order fulfilment and improve speed of delivery for customers.

2. Smarter Selling

The focus areas of the second pillar of our strategy ***'Smarter Selling*** *through efficiency and pace of change'*, are outlined below:

- Technology-led stores & supply chain
- Strategic sourcing
- Optimised network and formats
- Efficient and agile Store Support Centre

Update on Smarter Selling pillar:

We have made progress against our strategic pillar of Smarter Selling through our commitment to establishing a structural cost advantage by increasing efficiency through rapid innovation and execution at pace. Technology and digital investment supporting efficiency and automation in our supply chain, stores and Store Support Centre is critical, as is the continued optimisation of our network and store formats, and our supplier network.

Since the launch of the Smarter Selling program in FY19, in excess of $550 million of Smarter Selling benefits have been delivered and we are on track to deliver $1 billion of benefits by the end of FY23. With the savings being generated, the business has been able to partially offset underlying inflation and invest in enhanced customer service, both online and in store, accelerate our eCommerce plans, invest further in technology, including digital catalogues and the launch of coles&co to deliver more engagement with the ease, convenience and integration of recipes and weekly specials as key benefits for our customers.

Driving sustainable efficiencies through technology is at the core of our Smarter Selling strategy. In store, we are digitising and automating processes to deliver improved team and customer experiences, such as our smarter forecasting tool which uses machine learning to enhance existing supply chain algorithms and increase availability for customers. Profit protection measures have been implemented including dynamic markdowns, which uses artificial intelligence to optimise markdowns in meat, and loss prevention measures such as electronic entry gates in store.

The use of technology also extends from the stores into our supply chain where we continue to drive an enhanced service.

We are generating benefits from the end-to-end optimisation of the supply chain between stores, distribution centres and suppliers and we have also digitised processes such as paperless operations, removing manual processes for inbound and outbound deliveries into our distribution centres.

Coles' strategic and exclusive partnership with Witron to deliver two automated distribution centres in Queensland and New South Wales by FY23 is expected to provide best-in-class automated fulfilment which importantly aims to improve safety for our team members by reducing manual handling, while tailoring pallets to our stores.

Our optimised network and formats delivered operational efficiencies during the year with approximately 10% of our supermarket store network being updated or opened in a new format, whether that be our Format A stores, a full line supermarket with all of our latest innovations and concepts, many of which are deployed into Format B stores that have a mainstream offer, Format C stores which are focused on driving operational efficiencies or a Coles Local, an innovative convenience-focused smaller footprint supermarket.

3. Win Together

The focus areas of the third and final pillar of our strategy ***'Win Together** with our team members, suppliers and communities'*, are outlined below:

- Safer choices together
- Great place to work
- Together to Zero to drive generational sustainability
- Better Together through diversity and stakeholder engagement
- Innovation through partnerships

Update on Win Together pillar:

We have made progress against our strategic pillar of Win Together focusing on helping all Australians to lead healthier and happier lives, including our team members, our suppliers and our communities.

Improvements in safety were demonstrated over the last year, with a 15.7% improvement in Total Recordable Injury Frequency Rate (TRIFR). We continued to implement safety programs across Coles including rolling out safety leadership and training, implementing processes and investments to keep customers and team members safe, especially during COVID-19, while continuing to focus on the mental health and wellbeing of our team members.

We strive to build a *Great place to work* at Coles, one which provides opportunities for team members to grow their career in a company that is purpose-led and values-driven.

Our sustainability strategy focuses on 'Together to Zero' and 'Better Together'. Together to Zero sets our ambitions across the key sustainability areas of emissions, waste and hunger. We have signed five renewable energy contracts to progress our 100% renewable electricity target including power purchase agreements, large scale generation certificate agreements, and the installation of on-site solar. 2021 marked the tenth year of Coles' partnership with REDcycle, providing customers with an option to recycle soft plastics. The millions of pieces of soft plastic returned to our supermarkets have been put to good use including in sanitiser stations used in some of our supermarkets, playground equipment, fence posts and even in Coles supermarket carparks. Furthermore, through our partnerships with SecondBite and Foodbank, we are helping Australians in need by donating edible, unsold food from our supermarkets and distribution centres to feed vulnerable people in our community.

Better Together recognises that when we work together, we can make a real difference to our team members, our suppliers, our customers and to the communities in which we live and work. Our team is Better Together through diversity and we are proud that Coles has increased its gender balance with a 2.3 percentage point increase in women in leadership positions, has continued to develop our indigenous engagement programs and was recognised as a leader in LGBTQI+ inclusion, winning a Gold Australian Workplace Equality Index award in May 2021. We believe we can build stronger communities when we work together to make a positive difference and support each other in times of need, demonstrated by our local community initiatives and our national partnerships. We are committed to working with our suppliers to make life easier for our customers by offering them quality, safe and trusted products which are sourced in an ethical, transparent and responsible way. We remain committed to our Australian first sourcing policy for fresh produce in our supermarkets so we can provide our customers with quality Australian grown fruit and vegetables.

GROUP PERFORMANCE

$M	FY21	FY20	CHANGE
Sales revenue			
Supermarkets	33,845	32,993	2.6%
Liquor	3,525	3,308	6.6%
Express	1,192	1,107	7.7%
Group sales revenue	**38,562**	**37,408**	**3.1%**
EBIT			
Supermarkets	1,702	1,618	5.2%
Liquor	165	138	19.6%
Express	67	33	103.0%
Other	(61)	(27)	(125.9%)
Group EBIT	**1,873**	**1,762**	**6.3%**
Financing costs	(427)	(443)	3.6%
Income tax expense	(441)	(341)	29.3%
Profit after tax	**1,005**	**978**	**2.8%**

HIGHLIGHTS

- Group sales revenue growth of 3.1% to $38.6 billion
- Group EBIT growth of 6.3%
- Robust balance sheet with investment-grade credit metrics
- Cash realisation of 106% and net debt of $355 million
- The Board has determined a fully franked final dividend of 28.0 cents per share

PERFORMANCE OVERVIEW

The financial and operating performance of the Group is presented on a statutory (IFRS) basis. Operating metrics prepared on a non-IFRS basis have also been included to support an understanding of comparable business performance. Further details relating to the presentation of non-IFRS information is provided in the Non-IFRS Information section.

Sales revenue for the Group increased 3.1% to $38,562 million driven by sales growth across all segments. Supermarkets sales growth was driven by successful value campaigns and growth in eCommerce. Liquor revenue grew across all banners, categories and states, supported by a strong performance in eCommerce. Express sales growth was driven by food-to-go, confectionery and drinks, supported by recent investments in new self-serve coffee machines and fast-lane fridges. Both Supermarkets and Liquor experienced a trading uplift from increased demand for in-home consumption associated with the COVID-19 pandemic.

EBIT for the Group increased 6.3% to $1,873 million primarily due to improved trading performance and cost management initiatives, partly offset by lower fuel commission income and higher administration expenses (inclusive of costs associated with COVID-19).

IMPACTS OF COVID-19

Over the course of FY21's COVID-19 pandemic, Coles has supported team members, partnered with suppliers and engaged with the community to emerge stronger.

Supermarkets

Coles continued to experience elevated sales as a result of COVID-19 which led to greater in-home consumption with more people working and studying from home. Throughout the year, customers increasingly adopted online platforms to do their weekly shop, via home delivery or contactless Click & Collect, which saw strong growth rates in eCommerce. Customers also showed a preference for local shopping leading to neighbourhood stores performing strongly while shopping centre and CBD stores remained subdued, a trend known as 'local shopping'. Towards the end of the financial year, notwithstanding lockdowns in Victoria, in Darwin and parts of Sydney, consumer behaviour in the fourth quarter started to normalise with customers returning to shopping centres and CBD stores, workers returning to offices and indicators that 'local shopping' effects were beginning to unwind. Increased shopping trips and improved transaction growth supported a recovery in impulse, convenience and food-to-go categories and Sunday returned to being the busiest trading day of the week supported by normalised routines of going to the office and children going back to school.

GROUP PERFORMANCE

Liquor

Liquor sales remained elevated during the year despite the relaxation of restrictions for on-premise consumption, with a continued trend towards eCommerce sales, larger pack sizes and customer preference for large format stores.

Express

Stay-at-home directives in FY21 impacted fuel volumes, most notably in Victoria where restrictions were more prolonged. Fuel volumes began to recover during the reporting period as restrictions eased. Convenience store (C-Store) sales remained strong with customers continuing to shop locally and use convenience stores for top-up shopping.

AWARD COVERED SALARIED TEAM MEMBER REVIEW

In February 2020, Coles announced it was conducting a review into the pay arrangements for team members who receive a salary and are covered by the General Retail Industry Award 2010 (GRIA). As announced in February 2020, Coles recognised a provision of $20 million in its 2020 Half Year Financial Report in relation to expected remediation costs.

Coles has been supported by a dedicated team of external experts in this review. Remediation to affected current and former team members commenced in June 2020.

Following the announcement in February 2020, the Fair Work Ombudsman (FWO) commenced an investigation which is ongoing. The potential outcomes of this investigation are uncertain as at the date of this report.

In May 2020, Coles was notified that a class action proceeding had been filed in the Federal Court of Australia in relation to payment of Coles managers employed in supermarkets. Coles is defending the proceeding. The potential outcome and total costs associated with this matter remain uncertain as at the date of this report.

NON-IFRS INFORMATION

This report contains 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 not defined or specified under any 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. Non-IFRS information is not subject to audit or review.

FORWARD-LOOKING STATEMENTS

This release contains forward-looking statements in relation to the Group, including statements regarding the Group's intent, belief, goals, objectives, 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 release 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 good-faith assumptions as to the 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 and other important factors, many of which are beyond the reasonable control of the Group, that could cause the actual results, performances 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, which speak only as at the date of issue. Except as required by applicable laws or regulations, the Group does not undertake any obligation to publicly update 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 to future performance.

GROUP PERFORMANCE

EARNINGS PER SHARE AND DIVIDENDS

Earnings per share (EPS) increased to 75.3 cents, a 2.7% increase from the prior year.

	FY21	FY20
Profit for the period ($M)	1,005	978
Weighted average number of ordinary shares for basic EPS (shares, million)	1,334	1,334
Weighted average number of ordinary shares for diluted EPS (shares, million)	1,335	1,334
Basic and diluted EPS (cents)	75.3	73.3
Basic and diluted EPS, excluding significant items (cents)	75.3	70.1

The Board has determined a fully franked final dividend of 28.0 cents per share (cps).

	CPS	FRANKED AMOUNT PER SECURITY
FY21		
Interim dividend	33.0 cents	33.0 cents
Final dividend	28.0 cents	28.0 cents
FY20		
Interim dividend	30.0 cents	30.0 cents
Final dividend	27.5 cents	27.5 cents

BALANCE SHEET

A summary of key balance sheet accounts for the Group:

$M	FY21	FY20	CHANGE
Assets			
Cash and cash equivalents	787	992	(20.7%)
Trade and other receivables	368	434	(15.2%)
Inventories	2,107	2,166	(2.7%)
Property, plant and equipment	4,463	4,127	8.1%
Right-of-use assets	7,288	7,660	(4.9%)
Intangible assets	1,698	1,597	6.3%
Deferred tax assets	873	849	2.8%
Other	539	524	2.9%
Total assets	**18,123**	**18,349**	**(1.2%)**
Liabilities			
Trade and other payables	3,660	3,737	(2.1%)
Provisions	1,408	1,333	5.6%
Interest-bearing liabilities	1,142	1,354	(15.7%)
Lease liabilities	8,756	9,083	(3.6%)
Other	344	227	51.5%
Total liabilities	**15,310**	**15,734**	**(2.7%)**
Net assets	**2,813**	**2,615**	**7.6%**

Cash and cash equivalents decreased to $787 million largely due to the repayment of bank debt, partly offset by an issuance of $450 million of Australian dollar medium term notes (Notes).

Trade and other receivables decreased to $368 million largely driven by the settlement of a one-off loan.

Right-of-use assets decreased to $7,288 million largely driven by depreciation for the period, partly offset by new leases and remeasurements.

Property, plant and equipment increased to $4,463 million reflecting investment in the Group's annual capital program, partly offset by depreciation and property transactions during the year.

Intangible assets increased to $1,698 million largely driven by the Group's investment in technology, partly offset by amortisation during the period.

Provisions increased to $1,408 million largely due to an increase in employee entitlements due to fewer team members taking leave due to COVID-19 and an increase in workers compensation claims provision based on claims experience.

Lease liabilities decreased to $8,756 million largely driven by lease payments for the period, partly offset by new leases and remeasurements.

CAPITAL MANAGEMENT

Interest-bearing liabilities reflect external borrowings and debt capital funding commitments. During the year, Coles issued $450 million of Notes, comprising $300 million of 10-year fixed rate Notes and $150 million of five-year floating rate Notes. The 10-year fixed rate Notes are priced at a coupon of 2.1% and the five-year floating rate Notes are priced at a margin of 0.97% over 3-month BBSW. Proceeds from the Notes were used to repay bank debt.

As at 27 June 2021, Coles' average debt maturity was 6.9 years, with undrawn facilities of $2,406 million. Coles is committed to diversifying funding sources and extending its debt maturity profile over time.

The lease-adjusted leverage ratio at the reporting date was 2.8x 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	FY21	FY20	CHANGE
Cash flows from operating activities			
Receipts from customers	42,124	39,971	5.4%
Payments to suppliers and employees	(38,496)	(36,486)	5.5%
Interest paid	(47)	(37)	27.0%
Interest component of lease payments	(390)	(399)	(2.3%)
Interest received	4	7	(42.9%)
Income tax paid	(358)	(504)	(29.0%)
Net cash flows from operating activities	**2,837**	**2,552**	**11.2%**
Net cash flows used in investing activities	**(1,106)**	**(658)**	**68.1%**
Net cash flows used in financing activities	**(1,936)**	**(1,842)**	**5.1%**
Net increase/(decrease) in cash and cash equivalents	**(205)**	**52**	**n/m[1]**

[1] *n/m denotes not meaningful.*

Net cash flows from operating activities increased to $2,837 million reflecting increased EBITDA across all segments, in addition to a decrease in income tax paid attributable to a revised PAYG instalment rate reflecting Coles' position as a standalone taxpayer.

Net cash flows used in investing activities increased to $1,106 million reflecting investment in the Group's annual capital program, partly offset by the proceeds from property sales during the year.

Net cash flows used in financing activities increased to $1,936 million reflecting proceeds from the issuance of $450 million Notes offset by repayment of bank debt.

SUPERMARKETS

Segment overview

$M	FY21	FY20	CHANGE
Sales revenue	33,845	32,993	2.6%
EBITDA	3,001	2,867	4.7%
EBIT	1,702	1,618	5.2%
Gross margin (%)	25.9	25.5	35bps
Cost of doing business (CODB) (%)	(20.8)	(20.6)	(22bps)
EBIT margin (%)[1]	5.0	4.9	13bps

Operating metrics (non-IFRS)

	FY21 (52 WEEKS)	2H21 (25 WEEKS)	1H21 (27 WEEKS)	FY20 (52 WEEKS)
Comparable sales growth (%)	2.5	(2.2)	7.2	5.9
Customer satisfaction[2] (%)	89.7	89.6	89.8	87.1
Inflation excl. tobacco and fresh (%)	(0.8)	(2.2)	0.7	1.5
Sales per square metre[3] (MAT $/sqm)	17,847	17,847	18,101	17,547

[1] Changes are calculated on an absolute percentage basis to more precisely reflect the movement.
[2] Based on Tell Coles data. See glossary for explanation of Tell Coles.
[3] Sales per square metre is on a moving annual total (MAT), calculated on a rolling 52-week basis.

HIGHLIGHTS

Sales revenue for Supermarkets increased 2.6% to $33,845 million driven by successful value campaigns throughout the year including 'Helping lower the cost of breakfast, lunch, dinner and entertaining', successful execution across the MasterChef cookware and knives campaigns and growth in eCommerce. Increased in-home consumption as a result of COVID-19 positively impacted sales revenue growth throughout the year. Normalising consumer behaviours in the fourth quarter supported a growth in transactions as customers increased their shopping trips.

Exclusive to Coles products delivered $10.9 billion in sales during the year, an increase of 5.3%. Coles continues to deliver new Coles Own Brand product innovations and brands, with over 2,100 new products launched during the year. With a focus on being a 'destination for convenience and health', key launches were in the Coles Kitchen salad kit range and Coles PerForm nutritional meal solutions. During the year, Coles Own Brand won 46 awards including a record 11 Product of the Year awards across products such as Coles Finest Chocolate and Hazelnut Mousse, Coles Urban Coffee Culture dark roasted beans, Daley St medium/dark coffee capsules, KOi Jasmine and Sandalwood Handwash and LPO gel cleanser.

Supermarkets recorded deflation excluding tobacco and fresh of 0.8% for the year and 3.7% for the fourth quarter. Total Supermarkets price inflation of 0.8% was recorded for the year and deflation of 1.1% was recorded in the fourth quarter. Deflation in the fourth quarter was driven by the grocery, dairy, frozen and convenience categories due to the cycling of lower promotional activity in the prior corresponding period to support improved availability during COVID-19 pantry stocking. This was partly offset by inflation in fresh, particularly in red meat from continued elevated livestock prices.

Coles completed 65 renewals during the year including 10 Format A, 36 Format C and four Coles Local stores. Coles now has 41 Format A, 69 Format C and nine Coles Local stores across the network with four Coles Local stores in Sydney, four in Melbourne and one in Brisbane. For the year, 20 new openings and 10 closures were completed. At the end of the period there were 834 Supermarkets.

Gross margin increased by 35bps to 25.9% driven by strategic sourcing as well as Smarter Selling benefits such as loss prevention initiatives. These were partly offset by COVID-19 costs as well as additional business continuity costs as a result of the industrial action at the Smeaton Grange distribution centre.

CODB as a percentage of sales increased by 22bps to 20.8% largely due to strategic investments in marketing, including coles&co, technology initiatives and operating expenditure to support the capital expenditure program. These costs were partly offset by Smarter Selling benefits, and lower COVID-19 costs compared to the prior year.

EBIT for the year increased by 5.2% to $1,702 million and EBIT margin improved by 13bps to 5.0%.

SUPERMARKETS

COLES ONLINE

eCommerce sales grew 52% to $2.0 billion in FY21 as more consumers shifted towards purchasing online, in part as a result of COVID-19 lockdowns. A number of improvements were made in the end-to-end online customer experience during the year including in the areas of digital experience, platform stability, expanded range and availability, delivery in full and on-time and improved customer support. As a result, Online NPS almost doubled compared to the prior year. Coles Online also invested in its network adding 249 delivery stores and upgraded more than 100 Click & Collect locations. A number of new services were added in the year including same day home delivery, Click & Collect Rapid (order to pickup in 90 minutes), and Coles Plus membership subscription offer. Monthly active shoppers increased 46% and customer retention improved compared to the prior year.

COLES FINANCIAL SERVICES

Through Coles Financial Services, the Group offers credit cards and personal loans in partnership with Citigroup to approximately 330,000 customer accounts and home, motor vehicle and landlord insurance in partnership with Insurance Australia Group (IAG) to approximately 350,000 policy holders. Coles also offers pet insurance in partnership with Guild Insurance.

LIQUOR

Segment overview

$M	FY21	FY20	CHANGE
Sales revenue	3,525	3,308	6.6%
EBITDA	276	242	14.0%
EBIT	165	138	19.6%
Gross margin (%)	21.8	21.6	23bps
Cost of doing business (CODB) (%)	(17.1)	(17.4)	26bps
EBIT margin (%)[1]	4.7	4.2	49bps

Operating metrics (non-IFRS)

	FY21 (52 WEEKS)	2H21 (25 WEEKS)	1H21 (27 WEEKS)	FY20 (52 WEEKS)
Comparable sales growth (%)	6.3	(2.9)	15.1	7.3
Sales per square metre[2] (MAT $/sqm)	16,287	16,287	16,603	15,438

[1] Changes are calculated on an absolute percentage basis to more precisely reflect the movement.
[2] Sales per square metre is a moving annual total (MAT), calculated on a rolling 52-week basis.

HIGHLIGHTS

Sales revenue for Liquor increased 6.6% to $3,525 million driven by sales growth across all banners, categories and states, underpinned by a strong performance in eCommerce while spirits and ready-to-drink (RTDs) were the key drivers of growth at the category level. Targeted investments in capacity, order fulfilment, range and customer experience during the year supported eCommerce sales growth of 79%.

Optimisation of the Liquor store network continued during the year with 31 new stores opened and 12 stores closed, taking the total network to 929 Liquor sites. Liquor continues to maintain a focus on underperforming stores whilst developing a pipeline for future growth.

Gross margin increased by 23bps to 21.8% largely due to strategic sourcing benefits from improved relationships with suppliers.

CODB as a percentage of sales improved by 26bps to 17.1% largely driven by cost control initiatives and volume growth from higher sales fractionalising Liquor's fixed cost base, partly offset by strategic investments in service.

Liquor EBIT increased by 19.6% for the year to $165 million and EBIT margin increased by 49bps to 4.7%.

EXPRESS

Segment overview

$M	FY21	FY20	CHANGE
Sales revenue	1,192	1,107	7.7%
EBITDA	207	167	24.0%
EBIT	67	33	103.0%
Gross margin (%)	52.4	53.7	(134bps)
Cost of doing business (CODB) (%)	(46.7)	(50.8)	404bps
EBIT margin (%)[1]	5.7	3.0	270bps

Operating metrics (non-IFRS)

	FY21 (52 WEEKS)	2H21 (25 WEEKS)	1H21 (27 WEEKS)
Comparable convenience store (c-store) sales growth (%)	6.8	3.6	9.9
Weekly fuel volumes (million litres)	57.1	58.9	55.5
Fuel volume growth (%)	(4.0)	8.7	(13.8)
Comparable fuel volume growth (%)	(5.4)	6.8	(14.9)

[1] *Changes are calculated on an absolute number / percentage basis to more precisely reflect the movement.*

HIGHLIGHTS

Sales revenue for Express increased by 7.7% to $1,192 million largely driven by food-to-go, confectionery and drinks, supported by recent investments in new self-serve coffee machines and fast-lane fridges, as well as benefits from the range review implemented in the drinks category. Forecourt and tobacco sales also contributed to growth for the year.

During the year, 13 new sites were opened and nine closed, taking the total Express network to 717 sites.

Fuel volumes declined by 4.0% during the year with comparable fuel volumes declining by 5.4% driven by COVID-19 restrictions impacting traffic flows. Average weekly fuel volumes of 57.1mL per week were recorded during the year. For the fourth quarter, average weekly fuel volumes were 59.0mL per week, broadly flat quarter-on-quarter with volume growth late in the quarter impacted by lockdowns.

Gross margin decreased by 134bps to 52.4% largely due to declining fuel volumes and lower fuel margin income, partly offset by strategic sourcing benefits. CODB as a percentage of sales improved by 404bps to 46.7% largely due to strong focus on cost control throughout the year and higher sales fractionalising Express' fixed cost base.

Strong c-store sales and cost control supported an increase in Express EBIT to $67 million with EBIT margin increasing by 270bps to 5.7%.

OTHER

Other includes corporate costs, Coles' 50% share of flybuys net result, the net gain generated by the Group's property portfolio and self-insurance provisions. Coles' 50% share of flybuys' net result was a loss of $5 million in FY21 (FY20: $6 million loss). In aggregate, this resulted in a $61 million net cost for the year (FY20: $27 million net cost). The increase from FY20 was driven by a market-wide increase in insurance costs, and lower property divestment income.

GLOSSARY OF TERMS

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

bps: Basis points. One basis point is equivalent to 0.01%

Cash realisation: Calculated as operating cash flow excluding interest and tax, divided by EBITDA (excluding significant items)

CODB: Costs of doing business. These are expenses which relate to the operation of the business below gross profit and above EBIT

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

EBIT: Earnings before interest and tax

EBITDA: Earnings before interest, tax, depreciation and amortisation

EPS: Earnings per share

Exclusive to Coles: Refers to the portfolio of product brands that are exclusively available at Coles, and includes Coles Own Brand and Exclusive Proprietary Brand products. Coles Own Brand refers to the portfolio of product brands owned by Coles (e.g. Coles Finest, KOi, Coles Nature's Kitchen). Exclusive Proprietary Brands refers to the portfolio of product brands owned by suppliers but exclusive to Coles (e.g. La Espanola)

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

IFRS: International Financial Reporting Standards

Leverage ratio: Gross debt less cash at bank and on deposit, divided by EBITDA

MAT: Moving Annual Total. Sales per square metre is calculated as sales divided by net selling area. Both sales and net selling area are based on a MAT, calculated on a rolling 52-week basis

Net Promoter Score: Metric used to measure customer advocacy, derived from an externally facilitated survey with a nationally representative sample

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

Retail calendar: A reporting calendar based on a defined number of weeks, with the annual reporting period ending on the last Sunday in June

Significant items: Large gains, losses, income, expenditure or events that are not in the ordinary course of business. They typically arise from events that are not considered part of the core operations of the business

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

TRIFR: Total Recordable Injury Frequency Rate. The number of lost time injuries, medically treated injuries and restricted duties injuries per million hours worked, calculated on a rolling 12-month basis. TRIFR includes all injury types including musculoskeletal injuries

Women in leadership: Comprises team members pay grade eight (being middle managers and specialist roles) and above, and Supermarket store managers

LOOKING TO THE FUTURE

Coles has made significant strategic and financial progress since our 'Winning in our Second Century' strategy was announced two years ago. We are operating in a market with significant opportunities being created by rapidly changing consumer needs and technology and we believe we are well positioned to take advantage of these opportunities.

To further drive long term sales, efficiencies, trust and shareholder value, we are increasing our investment in data, eCommerce, technology, and automation to deliver an omnichannel tailored and unique range. We will also invest in the acceleration of our Coles Local and Liquorland renewal and new store program focused on high quality locations and winning formats, and sustainability initiatives – building on Together to Zero and Better Together. As a result, we expect capital expenditure of up to $1.4 billion in FY22.

To Inspire Customers, we will strive to increase trust in Coles delivering great value food and drink solutions for breakfast, lunch and dinner. We will continue to invest in range across key growth categories, grow the role of everyday low prices and use machine learning and advanced analytics to optimise our promotional mix. Critical to lowering the cost of shopping for our customers is our Exclusive to Coles range of products and we will continue to deliver great value through these products across all price tiers. To meet the needs of our customers who shop online, further enhancements will be made to the digital experience to enable Coles' omnichannel strategy, including unifying our eCommerce and digital channels into one Coles App. In addition, we are continuing to build our two automated online customer fulfilment centres in Melbourne and Sydney, in partnership with Ocado, that will deliver a differentiated online experience with extended ranges and improved metrics such as delivered in full and on-time.

Since commencement in FY19, Coles continues to target $1 billion of Smarter Selling benefits by the end of FY23. This will be achieved by leveraging technology to drive efficiencies in our supply chain, such as paperless operations in our distribution centres while construction continues, in partnership with Witron, on our two automated distribution centres in Queensland and New South Wales. This will deliver a step change improvement in cost per carton through the network, support store range tailoring and improve safety for our team members. We will also use technology in stores such as self-serve options for customers and leveraging advanced analytics to improve waste and markdowns. Our store network strategy is expected to deliver approximately 1.5% space growth which will be focused on population growth corridors and in areas where there are market share gaps. In FY22, we expect to open approximately 20 stores and renew approximately 50 stores.

Together to Zero encompasses our ambitions of *Together to zero emissions*, *Together to zero waste*, and *Together to zero hunger*. Our ambition of *Together to zero emissions* is underpinned by three key commitments: to deliver net zero greenhouse gas emissions by 2050; to be powered by 100% renewable electricity by the end of FY25 for the entire Coles Group; and to reduce combined Scope 1 and 2 greenhouse gas emissions by more than 75% by the end of FY30 (from a FY20 baseline). *Together to zero waste* details our ambitions around waste reduction and recycling. We are committed to diverting 85% of waste from landfill by FY25 with a continued focus on food waste. As part of our *Together to zero hunger* ambition, we will continue to work with our charity food partners SecondBite and Foodbank to donate edible, unsold food from our supermarkets and distribution centres to feed those Australians most in need.

We have made progress on being a *Great place to work* and we want to be recognised as an Employer of Choice within Australia. As such, we will continue to build team member engagement by focusing on learning and career development, feedback and recognition. In providing a safe environment for our team members, our focus will be on the use of technology to drive improved safety outcomes, ongoing mental health investments and fostering an environment where all team members own safety decisions and work together to improve safety outcomes.

We will be *A team that is better together* by celebrating our commitments towards gender equity, accessibility, pride and Indigenous engagement. A new commitment around belonging has been introduced which recognises that our different backgrounds, experiences and perspectives are what makes us unique and helps us create ideas, connections and brings us together as a team. Looking ahead, we aim to achieve 40% of women in leadership roles and achieve pay parity, and provide more opportunities for Indigenous peoples, suppliers and communities.

We will continue to foster key community partnerships, feed Australians in need and support healthy lifestyles. We will continue to work with our stakeholders throughout our supply chain including farmers, food manufacturers, unions, transport providers and accreditation bodies to promote best practice in ethical standards, safety, labour standards, human rights and animal welfare. In addition, we are committed to building strong, multigenerational, collaborative relationships with Australian farmers and producers.

While the COVID-19 outlook remains uncertain, including the extent of lockdowns, we believe the roll-out of the vaccination program will continue the reversal of the local shopping trend as customers become more confident to shop in larger shopping centres, resulting in a stronger performance of shopping centre stores. Increased movement will also assist in the restoration of fuel volumes towards pre-COVID-19 levels.

RISK MANAGEMENT

Our operating environment continues to rapidly evolve, resulting in changes to the risks and uncertainties that we face. We regularly review our risks and their mitigations, so we can support the delivery of our purpose and strategy and respond to challenges faced by Australian businesses, the retail industry, and the communities we serve.

During the year, Coles has continued to identify and manage risks in accordance with the Coles Risk Management Framework. The design of this Framework is based on ISO 31000:2018 Risk management – Guidelines ('ISO 31000'), which provides an internationally recognised set of principles and guidelines for managing risks in organisations. Further information about our Risk Management Framework will be available in Coles' Corporate Governance Statement expected to be released in September 2021.

Through application of the Coles Risk Management Framework, we have identified material strategic, operational, and financial risks which could adversely affect the achievement of our future financial prospects. Each of these material risks is described below along with key mitigation plans to manage them. Although the risks have been described individually, there is a high level of interdependency between them, such that an increased exposure for one material risk can drive elevated levels of exposure in other areas of our risk profile. In addition to these material risks, our performance may also be impacted by risks that apply generally to Australian businesses and the retail industry, as well as by the emergence of new material risks not reported below.

COVID-19

There continues to remain a high level of uncertainty with regard to how the COVID-19 pandemic will evolve both domestically and internationally, along with corresponding responses from governments, businesses, customers and the broader community over the short and long term. Key drivers of uncertainty include, but are not limited to: evolution of the virus, rates of infection, the treatment and vaccination rollout timeline, and government regulatory and policy response (including government responses to outbreaks, shutdowns of sectors of the economy, border closures, and variations in restrictions between states and countries).

COVID-19 continues to adversely impact the local and global economy. However, the severity, duration and extent of impact in each affected jurisdiction remains uncertain and highly connected to other key trends, including technology adoption, government policies and geopolitical tensions, immigration patterns, population growth, and demographic shifts, and the resilience of both domestic and international supply chains. We mitigate exposures to macro-economic and geopolitical conditions through our business-planning process, which considers and routinely monitors future market conditions and consumer preferences; and diversification of products and markets.

The table below sets out our existing material strategic, operational and financial risks and a summary of the key mitigation plans in place to manage them. We anticipate that the evolving nature of the COVID-19 pandemic and the changing macro-economic and geopolitical 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.

STRATEGIC RISKS

RISK DESCRIPTION	MITIGATIONS
Pandemic	
If Coles does not monitor and respond to the evolution of COVID-19 or future pandemics, there is a risk of exposure to material financial loss including as a result of higher input costs, additional operational costs, and reduction of sales and margins; legal and regulatory action; people, health and safety issues; and/or reputational damage. Furthermore, the pandemic exposes us to the significant and/or prolonged disruptions in the supply chain, store and online operations which can impact on our ability to serve our customers and the community.	Coles continues to manage the evolution of the COVID-19 pandemic in accordance with our Coles Group Response Policy and Program which sets out the governance arrangements, accountabilities, and processes for crisis management and business continuity, and our Coles SafetyCARE System which is the safety management system that provides a framework for Coles to look after the health, safety and wellbeing of our team members, customers, contractors, suppliers and visitors. Our response is led by our Executive-level Response Leaders who are supported by the Head of Response. Business continuity functional leads are assigned to manage dedicated streams of work to identify, prepare and respond to emerging risks and issues across the Group. Critical response decisions are reviewed by Coles' Executive Leadership Team and elevated to the Board, where required. Business continuity plans are in place for critical functions and activities across our operations including merchandising, supply chain and store and online operations. Our plans include consideration of people, resources, physical sites, information technology and digital requirements, and critical third parties required to continue to operate and serve our customers and community. These plans have been invoked when required during our response and continue to be refined given the evolving nature of, and our continued exposure to, the pandemic. This includes ongoing assessment of risks, contingency plans and resourcing arrangements.

RISK MANAGEMENT

RISK DESCRIPTION	MITIGATIONS
Competition, changing consumer behaviour and digital acceleration	
If Coles fails to respond to competitive pressures and changing customer behaviours and expectations, it could result in loss of market share and, ultimately, adverse margin impacts, reduced customer retention and impact to share price or value.	The COVID-19 pandemic has shifted consumer behaviour and expectations toward an increased focus on safety measures, sourcing and shopping locally, and reliance and demand on online shopping and digital channels. Key programs to respond to these risks and build on opportunities are embedded in the implementation of our strategy including automation of the supply chain. Coles regularly monitors customer sentiment, best practice global retailers, local and international learnings, and customer insights and research, so we can quickly respond to changes in customer behaviours. We continue to focus on driving an enhanced digital customer experience through Coles Online, our digital catalogue, the coles.com.au platform including coles&co, the new Click&Collect Rapid and Coles Plus subscription service; and leverage flybuys to help personalise customer communications. We also continue to invest in new data analytics tools and platforms to give suppliers and category decision makers fast and detailed insights across products, stores, geographies and sales channels.
Strategy and transformation delivery	
Inability to properly execute and deliver our strategy and transformational programs, including strategic projects with Witron and Ocado, could result in loss of market share, and variability in Coles' earnings. Pauses or delays in the execution of areas within our strategy and transformation programs and projects, may occur due to disruptions brought about by the COVID-19 pandemic including disruptions in supply of capital inputs and services, and to critical third parties whom we rely on to deliver our strategic and transformational programs of work.	Delivery of our strategy and transformation program is determined by the effective implementation of each of the three pillars of our strategy. Furthermore, elements of our strategy are supported by third-party strategic partnerships including Witron (automated distribution centres), and Ocado (enhanced online capability). We also have joint ventures with Wesfarmers (flybuys) and Australian Venue Co. (Queensland Venue Co. Pty Ltd), and an alliance with Viva (Coles Express). In addition, Coles may undertake future acquisitions and divestments, and enter into other third-party relationships, so we can more effectively execute our strategy. We have governance structures and processes in place to oversee, manage and execute our strategy and transformational programs of work, including our strategic projects with Witron and Ocado. Projects and programs are regularly reviewed in detail to monitor progress of program delivery, costs and benefits, and allocation of resources.

Climate change and the environment	
Climate change presents an evolving set of risks and opportunities for Coles, and has the potential to contribute to and increase the exposure of other material risks. These include increased frequency/intensity of extreme weather events and chronic climate changes which can disrupt our operations and compromise the safety of our team members, customers, supply chain and the food we sell; and changes to government policy, law and regulation, which can result in increased costs to operate and the potential for litigation. An inability to reduce our environmental impact and meet our external sustainability commitments could also result in reputational damage, loss in market share, and fines and penalties.	Coles had previously developed a roadmap to enable us to align with the recommendations of the Task Force on Climate-related Financial Disclosures. During FY21, we continued to implement actions identified. During the financial year we also worked with external climate change specialists to further assess our climate change risks and opportunities. Additional information on these risks and opportunities is set out in the Climate Change section. In March 2021, we launched Together to Zero which communicates our ambitions to reduce our impact on the environment (emissions, waste and hunger), along with targets for greenhouse gas emissions and renewable electricity, and our public-facing Climate Change Position Statement. In June 2021 we released our Sustainability Strategy which highlights Coles' commitments across the Together to Zero and Better Together pillars of our strategy. The Board oversees the effectiveness of Coles' environment, sustainability and governance policies and retains ultimate oversight of material environmental and sustainability risks and opportunities, including those related to climate change. The Board has endorsed the Group Sustainability Steering Committee as the management group responsible for overseeing the Group-wide identification and response to sustainability issues, including climate change. It is chaired by the Chief Sustainability, Property & Export Officer, a member of the Executive Leadership Team, who reports to the Chief Executive Officer. The Chief Executive Officer has ultimate responsibility for sustainability at Coles. The Sustainability Steering Committee is supported by other steering committees, subcommittees and working groups including the Human Rights Steering Committee, the Diversity and Inclusion Council, the Climate Change Subcommittee and the Coles Express and Coles Liquor sustainability working groups. Our progress against the Sustainability Strategy will be reported annually in the Coles Group Sustainability Report.

OPERATIONAL RISKS

RISK DESCRIPTION	MITIGATIONS
Industrial relations	
As we execute our strategy, workforce changes may lead to industrial action and/or disruptions to operations, which can result in increased costs, litigation and financial impacts from reputational damage. The emergence of COVID-19 along with planned changes in our supply chain operations, has heightened our exposure to this risk.	Coles has in place dedicated Employee Relations resources which are responsible for monitoring and responding to industrial relations risks and issues. Key activities include implementation of appropriate enterprise agreements and employee relations strategies; maintaining and building strong working relationships with unions and industry organisations; and constructively liaising with our team members, third-party suppliers and transport and logistic service providers. The renegotiation of enterprise agreements is proactively managed and business continuity plans are in place to mitigate disruption to operations if industrial action occurs.

RISK MANAGEMENT

RISK DESCRIPTION	MITIGATIONS
Security of supply	
Potential disruption to the supply of goods for resale and services required to deliver our core operations can occur due to extreme weather events and changes in climate, changes in domestic and international government and policy, regulation, geopolitical factors, and disruptions caused by the evolving COVID-19 pandemic, including suspension of production, domestic and international border closures, and restricted access to the workforce our suppliers rely on to produce goods. Supply chain disruptions can result in an inability to supply to customers, loss of market share, price volatility and increased costs.	We have business continuity plans to manage the supply chain and delivery of goods to stores during extreme weather and business disruptive events. Our COVID-19 response includes sourcing alternative supply arrangements, scaling up production and distribution of substitute goods (potentially simplifying range to aid production efficiency), rapid onboarding of new suppliers, management of the promotions calendar to support availability and where necessary (for example during COVID-19) the introduction of purchasing limits. Medium and longer term international and domestic supply security risks and mitigations are assessed on an ongoing basis as part of our category planning program. We also continue to analyse Coles' supply chain resilience in key food categories, including meat, dairy and seafood.
Health and safety	
The safety of our team, customers, third parties and contractors is paramount to Coles. We employ an extensive and diverse work-force, including third parties, with high volumes of people interactions daily. This may result in risk of fatality, life-threatening injuries or transmission of disease to team members, customers, suppliers, contractors or visitors, due to unsafe work practices, accidents or incidents. Furthermore, the ongoing COVID-19 pandemic can have adverse impacts to team member health and wellbeing (including mental health) and introduces the potential for loss of key personnel due to infection.	Our detailed Health, Safety and Injury Management system (SafetyCARE) is supported by a team of experienced safety professionals throughout our network. SafetyCARE's performance is measured through a range of indicators and the effectiveness of the system is assessed through a verification program. A rolling five-year safety and wellbeing plan focuses on Safety Leadership and culture, Critical risk reduction and Mind your health. The health and safety of our customers and team members underpins our response to the COVID-19 pandemic. Coles has adopted enhanced hygiene practices based on recommendations from the Australian Government through Safe Work Australia and based on information from the Federal Department of Health, state and territory governments and departments of health and other applicable regulatory bodies. A large number of measures have been implemented. These include programs to keep our customers and team members safe incorporating: social distancing measures, the use of QR code check-in systems, sneeze guards, sanitisation stations, masks, additional cleaning and security, immediate escalation and reporting protocols, and the implementation of large-scale mental health and wellbeing programs for our team members.
Product and food safety	
Product and food safety and quality is critical for Coles. Serious illness, injury or death are the most severe potential risks from compromised product or food safety.	Coles has a food safety governance program in place which is overseen by an experienced technical team. The program comprises targeted policies and procedures, including well-established food recall and withdrawal processes, specific supplier requirements for different food categories (for example chilled versus ambient) and a supporting assurance program to ensure key controls are operating and effective.

RISK MANAGEMENT

RISK DESCRIPTION	MITIGATIONS
Loss in customer trust, reputational damage, loss in sales and market share, regulatory exposure, and potential litigation could also occur.	We also have a Product Safety Program which covers non-food products, and work closely with our suppliers to ensure compliance with relevant mandatory product safety and labelling standards and to meet consumer guarantees under the Australian Consumer Law. Our Product and Food Safety Committee oversees continuous improvement of food and product safety risks and issues across Coles.
Third-party management	
An inability to successfully manage and leverage our strategic third-party relationships, or a critical failure of a key supplier or service provider, may expose Coles to risks related to compromised safety and quality, misalignment with ethical and sustainability objectives, disruptions to supply or operations, unrealised benefits, and legal and regulatory exposure.	Coles has due diligence processes in place to assess the adequacy and suitability of key suppliers, service providers and strategic partners in accordance with our requirements. We monitor and manage quality and performance 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 via contractual protections. Third-party management (goods not for resale) is governed by the Third Party Management Policy which includes requirements for sourcing and contract management, and the application of our SAP Ariba technology platform for sourcing, contracting, buying and invoicing. Plans for FY22 include the continued uplift and embedding of risk management, contract management and supplier management requirements for goods not for resale engagements.
Legal and regulatory	
The diversity of our operations necessitates compliance with extensive legislative requirements at all levels of government, including corporations law, competition and consumer law, health and safety, industrial relations, employment, product and food safety, environment, council by-laws, privacy and bio-security. Non-compliance with key laws and regulations, could expose Coles to loss of license to operate, substantial financial penalties, reputational damage, a deterioration in relationships with regulators, class action or other litigation and additional regulatory changes which may adversely impact the execution of our strategy and result in increased cost to operate. Furthermore, where Coles is a party to litigation, it can involve reputational damage, financial costs, and high investment of Company resources and time.	Coles has in place a Compliance Framework, which is based on AS ISO 19600:2015 Compliance Management Systems – Guidelines, and which sets out the standards, requirements and accountability for managing regulatory compliance obligations across the Group. The Compliance Framework is subject to continual review and assurance, including through Coles' internal audit process. We also maintain relationships with regulators and industry bodies and actively monitor new and impending legislative and policy changes. Our legal teams work in partnership with our compliance teams to monitor and manage legal issues, matters, claims or disputes. We are supported by pre-agreed panel arrangements with external legal firms and assess any potential litigation claims to understand loss potential.

RISK DESCRIPTION	MITIGATIONS
For example, in February 2020, Coles announced that it had identified discrepancies between the salaries paid to some store team managers and their entitlements under the General Retail Industry Award. At the current time, Coles is defending a class action in the Federal Court in relation to this issue, and responding to an investigation by the Fair Work Ombudsman.	
Ethical sourcing	
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 result in impact to worker safety, wellbeing or living conditions, material reputational damage, loss in consumer confidence and market share, regulator fines and penalties, and adverse financial performance.	Our Ethical Sourcing Policy and supplier requirements are based on internationally recognised standards and establish the minimum standards for all suppliers. Coles' Ethical Sourcing Program takes a risk-based approach which defines the level of due diligence and monitoring that applies to suppliers based on risk exposure and includes a requirement for ethical audits of selected suppliers. The program includes Coles Own Brand and fresh produce suppliers, Coles Own Liquor Brands, and selected Goods Not for Resale suppliers. During the financial year we engaged external specialists to review the effectiveness of our key risk indicators for ethical sourcing, and to support the development of a risk-based approach for managing overdue non-conformances detected at suppliers' sites relating to working hours. We also introduced new resources dedicated to the execution of the Human Rights Strategy and Ethical Sourcing Program, increased supplier and working education including through our partnership with the Ethical Retail Supply Chain Accord, embedded a program to follow-up on the closure of supplier critical and major non-conformances, and conducted 'risk deep dives' in key areas such as security, uniforms and floor care. Coles' whistle-blower hotline and dedicated supply chain wages and conditions hotline enable reporting of unethical, illegal, fraudulent or undesirable conduct. Additional information on Coles' Ethical Sourcing Program can be found in our Modern Slavery Statement expected to be released in September 2021.
Information technology, resilience, data and cyber security	
A failure or disruption to our information technology applications and infrastructure, including a cyber-security event, could impede the processing of customer transactions, or limit our ability to procure or distribute stock for our stores or otherwise impact the operations of our business. Cyber-security threats include ransomware, product vulnerabilities, business email compromise, and phishing scams resulting in system compromise.	We have a rolling five-year technology strategy and continuously monitor our technology operations. We also have a cyber-security framework in place which we use to assess the maturity of our cyber-security capabilities and identify priority areas for improvement and further investment. Our cyber-security framework is aligned to the internationally recognised National Institute of Standards and Technology (NIST) Cybersecurity Framework. Additionally, our security policies and standards are aligned to ISO 27002:2013 Information technology — Security techniques ('ISO 27002'), which provides an international code of practice for information security controls. Our cyber-security roadmap is updated regularly and is independently assessed to help us make investment decisions which are commensurate with risks to the business, in line with similar businesses, and supports Coles' business direction. Our privacy and digital security policies, procedures, governance forums, education and awareness programs, and active membership with the federal government Joint Cyber Security Centre, help to strengthen our ongoing management of evolving data, privacy and cyber-security threats. We also regularly test and review our information technology infrastructure, systems, and processes to assess security threats and the adequacy of controls.

RISK MANAGEMENT

RISK DESCRIPTION	MITIGATIONS
Many factors including increased flexible working arrangements as a result of COVID-19, our growing external digital footprint, increased reliance on technology, volume of third-party providers and growing sophistication of cyber criminals, has resulted in Coles operating in an ever increasing cyber-security threat environment. Furthermore, our technology and data-rich environment also exposes us to the risk of unintentional or unauthorised access to confidential, financial, or personal information, which may result in loss in consumer confidence, loss in market share, regulatory fines and penalties, and reputational damage.	We actively manage technology changes to reduce the risk of system instability, especially during peak trading periods. Our service management function is responsible for responding to incidents, should a disruption occur. In the event of a disruption, we have information technology recovery plans in place for critical systems and dedicated plans to respond to data loss. We also have retained industry experts to be on call in the event of a cyber-security incident.

FINANCIAL RISKS

RISK DESCRIPTION	MITIGATIONS
Financial, treasury and insurance	
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 which could impact business profitability. We may also be exposed to financial loss from accidents, natural disasters and other events.	Our Group Treasury function is responsible for managing our cash funding position and supporting the management of interest rate and foreign currency risks. Our Treasury Policy and related policies are approved by the Board, and govern the management of our financial risks, including liquidity, interest rates, foreign currency and commodity risks and the use of other derivatives. Further information is included in Note 4.2 Financial Risk Management of the Financial Report. Insurance is a tool to protect our customers, team members and the Group against financial loss, where applicable. In some cases, we choose to self-insure a significant proportion of the risk. This means that, in the event of an incident, the cost is covered from internal premiums charged to the business or the losses are absorbed. Our insurance function is responsible for managing both self-insurance and the purchase of external insurance where we determine this is prudent. We monitor our self-insured risks and have active programs to help us pre-empt and mitigate losses. We engage an external actuary to determine the self-insurance liabilities recognised in the Statement of Financial Position. In the Operating and Financial Review we have documented the trading and financial reporting impacts of the pandemic.

CLIMATE CHANGE

We acknowledge the risks climate change presents to the community and the planet. Coles supports the goals of the Paris Agreement to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.

We support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and information in this section responds to the four thematic areas against which the TCFD recommendations are structured. We also use the TCFD framework to drive our climate change strategy and response.

As one of Australia's largest companies, we understand our responsibility to minimise our environmental footprint, as well as to mitigate the environmental, health and social impacts of climate change. We will do this by:

- building the resilience of our business, supply chain and community against climate change related impacts, both physical and transitional (managing climate-related risks and opportunities);
- building a roadmap aligned with the Paris Agreement and taking action to reduce our climate impacts (decarbonisation); and
- using our position and voice to play a constructive role in influencing others to meet similar goals (influencing climate action).

Coles supports the United Nations (UN) Sustainable Development Goals including Goal 13 (Climate action) and the UN Global Compact Principles (including Principles seven, eight and nine which relate to the environment).

GOVERNANCE

The Board oversees the effectiveness of Coles' environment, sustainability and governance policies and retains ultimate oversight of material environmental and sustainability risks and opportunities, including those related to climate change.

The Audit and Risk Committee assists the Board in fulfilling its responsibilities. The Committee evaluates the adequacy and effectiveness of Coles' identification and management of material environmental and social sustainability risks as well as reporting of those risks. The Committee receives reports from management on new and emerging sources of risk and the controls and mitigation measures management has put in place to address those risks.

The Board has endorsed the Group Sustainability Steering Committee as the management group responsible for overseeing the Group-wide identification and response to sustainability issues, including climate change. It is chaired by the Chief Sustainability, Property and Export Officer, a member of the Executive Leadership Team who reports to the Chief Executive Officer. The Chief Executive Officer has management responsibility for sustainability at Coles. The Committee's standing members comprise management from functions with key sustainability responsibilities including Risk and Compliance, Sustainability, Coles Brand, People and Culture, Marketing, Company Secretariat and Corporate Affairs.

As climate change is recognised as having wide-ranging implications for our business, responsibilities for managing and mitigating climate-related risks are Group-wide. The Group Sustainability Steering Committee coordinates this response through a specific Climate Change Subcommittee which oversees Coles' climate change approach and reports to the Sustainability Steering Committee and its Chair.

The Subcommittee is chaired by the General Manager Sustainability and Property Services and includes senior leaders from key functions within Coles, including Finance, Strategy, Risk and Compliance, and Sustainability.

STRATEGY AND APPROACH

Our approach to sustainability, and climate change, is captured under the Win Together pillar of our corporate strategy.

During FY21, the Board endorsed our refreshed sustainability strategy with its two focus areas – Together to Zero and Better Together.

Together to Zero sets out our ambitions to reduce our impact on the environment including in the areas of climate change, waste and hunger. Better Together recognises that when we work together, we can make a real difference to our team, our suppliers and producers, our customers and to the communities in which we live and work.

To enhance our climate change response and disclosures we are continuing to develop a roadmap and associated action plans which align with the recommendations of the TCFD. Our approach was endorsed by the Board and highlights the key milestones we need to meet to enable more comprehensive climate change responses and disclosures.

We are addressing the *Together to zero emissions* component of our sustainability strategy under the following three key areas:

<u>Managing climate-related risks and opportunities</u>

More details can be found in the Risk Management section below.

CLIMATE CHANGE

Influencing climate action

With thousands of locations across Australia, more than 120,000 team members and an average of 20 million customer transactions across our business each week, we have a deep connection with urban, regional and rural communities.

Our ability to influence climate action is not limited to those areas directly under our control, but more broadly across our value chain. We continue to seek out opportunities to work together with our team members, suppliers, customers and communities to create positive change. Our aim is to find constructive and proactive approaches to reduce emissions, develop resilience to climate impacts and build momentum towards the aims of the Paris Agreement.

We continue to constructively engage on issues and challenges associated with climate change and climate policy with a consistent and balanced approach that is responsive to the needs of stakeholders.

Decarbonisation

We continue to reduce greenhouse gas emissions and implement initiatives to reduce greenhouse gas emissions in areas over which we have control and influence.

Where practicable we seek to deploy mature and available technology to reduce our greenhouse gas emissions and work with industry and stakeholders to invest in knowledge and research to identify pathways to address difficult, or as yet unsolved, decarbonisation challenges.

We are committed to delivering on our targets:

- net zero greenhouse gas emissions by 2050;
- the entire Coles Group to be powered by 100% renewable electricity by the end of FY25; and
- reduce combined Scope 1 and 2 greenhouse gas emissions by more than 75% by the end of FY30 (from a FY20 baseline).

We are progressing work to assess and analyse our Scope 3 emissions with the intention of developing a Scope 3 target.

RISK MANAGEMENT

Through the application of the Coles Risk Management Framework, climate change has been identified as a material business risk to the Group.

During FY21, we commenced a high-level scenario analysis on the impacts of climate change on the resilience of our Coles Group strategy. The purpose of this analysis was to identify possible responses to increase Coles' resilience to future climate change under three possible climate change 2030 scenarios:

1. **Stated policies** – Assuming current government policies already in place result in 3°C warming above pre-industrial levels.
2. **Ambitious global climate action** – Where there is active movement towards the goals set in the Paris Agreement to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.
3. **Runaway climate change** – Where there is no limit placed on carbon emissions and warming is set to reach 4°C above pre-industrial levels.

As a result of our analysis and risk assessment, we acknowledge climate change will impact aspects of our business to varying levels under each of the assessed scenarios.

The scenario analysis work, which continues to be refined, identified actions to support Coles' resilience to potential climate change impacts that can be undertaken as part of Coles' future annual strategy planning process. This was the first scenario analysis conducted for Coles' strategy and will continue to be developed and analysed over time. As such, we will continue to review internal processes to adapt and respond in alignment with our strategy.

During FY21, we also updated our assessment of Coles' climate-related risks and opportunities. This qualitative assessment applied the risk management processes defined within Coles' Risk Management Framework and applied the same three climate change scenarios used to conduct the high-level analysis on the resilience of our Coles Group strategy. The risk assessment included interviews and workshops with stakeholders across the Group including Property, Export, Supply Chain, Product, Coles Brand, Coles Liquor, Coles Express, Legal and Corporate Affairs.

Our most significant climate-related risks and mitigants are presented in the following table, along with our approach to managing them. They have been grouped into the two major categories of climate-related risks identified by the TCFD: (1) risks related to the transition to a lower-carbon economy and (2) physical risks (acute and chronic). Many of the physical and transitional risks identified are also considered to be material business risks which can become further exacerbated by climate change.

The analysis of the risk exposures considers financial, reputational, health and safety, legal and regulatory, and operational consequences in the short term (0-3 years) and medium-long term (5-10 years).

CLIMATE CHANGE

TRANSITION RISKS

RISK AND IMPACT	MITIGATION PLANS
Corporate responsibility and stakeholder expectations	
Coles has a responsibility to minimise the impact of our operations on the environment. We also recognise that 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 sourcing and selling sustainable and ethically sourced products, improving energy efficiency, and reducing greenhouse gas emissions and waste. Potential financial impacts if we do not respond to these stakeholder expectations appropriately include reduced revenue due to reduced demand for goods and services, increased costs due to loss of team members or third parties with whom we do business, and loss in market share.	In March 2021 we launched Together to Zero, along with targets for greenhouse gas emissions reduction and renewable electricity, and our public-facing Climate Change Position Statement. We have teams and processes in place to understand, monitor and respond to the concerns and expectations of our key stakeholders and society more broadly. A roadmap has been developed and action has commenced to enhance our climate change response and transition to a lower-carbon economy. We have governance arrangements in place to manage and monitor development and progress of sustainability plans and initiatives, including for climate change. For further information please refer to our 2021 Sustainability Report scheduled for release in September 2021.
Changing policy and regulatory requirements	
New and evolving climate-related regulations can result in increased implementation or operational cost to deliver compliance, including enhanced reporting requirements. It could also result in breaches of requirements leading to fines and penalties. In extreme circumstances it can lead to litigation. Changing policies in existing and future markets may also negatively impact our business, including but not limited to, the introduction and/or expansion of trading taxes and barriers on high emissions including carbon pricing.	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. The Coles Compliance Framework, which is based on AS ISO 19600:2015 Compliance Management Systems – Guideline, sets out the standards, requirements and accountability for managing regulatory compliance obligations across the Coles Group. We also monitor new and impending legislative and policy changes. We recently commenced a high-level scenario analysis on the impacts of climate change on the resilience of our Group strategy which will continue to be developed and analysed over time. This analysis considered policy and regulation outcomes under three possible climate change scenarios. Refer to the Risk Management section for further information on this scenario analysis.

PHYSICAL RISKS

RISK AND IMPACT	MITIGATION PLANS
Health and safety	
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 in the event of acute weather events (e.g. floods, storms and fires); and adverse health and wellbeing impacts as a result of chronic changes to climate patterns (e.g. longer and more frequent instances of drought, heat or precipitation) which can threaten wellbeing and livelihood.	Health and safety 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. The Coles Health, Safety and Injury Management system (SafetyCARE) factors in the acute (for example bushfires) and chronic impacts (for example heat fatigue) of climate change. The system is supplemented by emergency management (our response to physical threats or events as coordinated by the Health and Safety team), and Coles Group Response Policy and Program, which sets out the governance arrangements, accountabilities and processes for crisis management and business continuity.

	Learnings from incidents and events, and opportunities for improvement, are identified and incorporated into our safety, emergency management and response plans and processes.
Supply chain disruption Our ability to procure, move and sell products domestically and internationally, can be adversely impacted by the occurrence of extreme weather events, and longer-term changes in weather patterns. Key impacts include disruptions to transportation and logistics routes; and to the continuity of site, store, and distribution centre operations, and third-party operations, due to acute weather events. Chronic changes to weather patterns can adversely impact supplier productivity and result in increasing cost to operate (e.g. due to changing production regions for fresh produce) and reduced revenues.	Security of supply 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. We have business continuity plans to manage the supply chain and delivery of goods to stores during extreme weather and business disruptive events. Medium and longer-term supply security risks and mitigations are assessed on an ongoing basis as part of category planning. We also continue to analyse Coles' supply chain resilience in key food categories including meat, dairy and seafood.
Food safety and quality 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, and lower than expected shelf-life for fresh produce. Potential financial impacts include reduced revenue and increased operating costs, along with potential harm to customers' health and wellbeing, customer dissatisfaction and reputational damage.	Product and food safety 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. Coles' Food Safety Program, including recall and monitoring processes, is updated to adapt to changing conditions. We work with suppliers, industry and regulators to understand and anticipate new and incremental risks. We have governance arrangements in place to manage and monitor emerging and current food and product safety risks, and our plans to manage them.
Asset integrity and continuity of operations Acute and chronic weather events can result in physical damage to assets and equipment; and/or inability to access assets and equipment. There may also be more frequent and prolonged instances of power outages; and decreases in the efficiency and disruption to operation of assets and equipment which are sensitive to climate (e.g. refrigeration units, heating and cooling). Potential financial impacts include increased operating and capital costs, increased insurance premiums, and write-offs or impairment of assets.	Crisis management, business continuity and emergency response plans are in place to mitigate potential disruptions. These plans are updated on a regular basis to take account of changing internal and external risks and conditions. Store design specifications consider future conditions to improve their resilience in extreme conditions. We have an ongoing maintenance and asset replacement program to make sure we progressively maintain and replace our assets when required. Insurance arrangements are in place for property and business interruption (subject to policy terms, conditions and exclusions).

In addition, consideration has been given to the potential financial impacts of climate change related risks on the amounts reported in the financial statements through a qualitative review of the Group's climate change risk assessment. This review did not identify any material financial reporting impacts.

CLIMATE CHANGE

Our most significant climate-related opportunities are presented in the following table:

CLIMATE CHANGE OPPORTUNITIES AND ACTIONS

OPPORTUNITIES	ACTIONS

Resource efficiency and energy management
 	
To continue to improve our resource efficiency and energy management and seek opportunities to use lower emission sources of energy.
	• Ongoing implementation of our Energy Strategy which guides our approach to energy procurement, energy management, energy efficiency, renewable energy, and energy-related greenhouse gas emissions.
	• To support our FY25 renewable electricity commitment, during FY21 we announced the following agreements:
	  • An agreement with ENGIE – the largest independent power producer in the world – to purchase large-scale generation certificates (LGCs) from ENGIE's Willogoleche and Canunda Wind Farms, in South Australia.
	  • An agreement with French energy producer Neoen to purchase LGCs from its portfolio of renewable power plants located across New South Wales, Queensland, Victoria and South Australia.
	  • An agreement with Lal Lal Wind Farms near Ballarat, Victoria, to purchase LGCs.
	  • An agreement with CleanCo to source more than 90% of Coles' Queensland electricity requirements.
	These agreements are in addition to those reported in our FY20 Sustainability Report when Coles became the first major Australian retailer to commit to buying renewable energy through a 10-year Power Purchase Agreement (PPA) with global renewable power generation company MYTILINEOS RSD (previously known as METKA EGN).
	• Enhancement of sustainability features in the store design blueprint, such as doors on fridges and optimising lighting.

Ongoing reduction in operational greenhouse gas footprint To continue to reduce greenhouse gas emissions and implement initiatives to reduce greenhouse gas emissions in areas over which we have control and influence.	• Ongoing implementation of our refrigeration management approach which includes investing in natural refrigerant gases – natural gas compounds that have little or no impact on the ozone layer and do not contribute to greenhouse gas emissions. • During FY21, we launched our refurbished Moonee Ponds supermarket. While we have used natural refrigerants in some new supermarkets, this is our first refurbished supermarket in which we have installed this system, a complex process to undertake in a store still trading during the upgrade. • In FY21, Coles Liquor trialed the first natural refrigerant inside a standalone system design. • Deliver targets for renewable energy and to reduce greenhouse gas emissions. More details can be found in the section – Metrics and Targets. • Engagement with suppliers and service providers to identify opportunities to innovate and develop low emissions products and services.
Increased operational resilience, supply chain resilience and business continuity planning We will build the resilience of our business, our community and our value chain against climate impacts, both physical and transitional.	• Ongoing update of our emergency management plans and business continuity plans, including plans to manage the supply chain and delivery of goods to stores during extreme weather and business disruptive events. • Working with strategic suppliers to scope initiatives for our most exposed commodities. • Provision of support to suppliers through grants for climate change adaptation and mitigation initiatives via Coles Nurture Fund.

Stakeholder engagement To seek out opportunities to work together with our team members, suppliers, customers and communities to create positive change. Our aim is to find constructive and proactive approaches to reduce emissions, develop resilience to climate impacts and build momentum towards the aims of the Paris Agreement. We will constructively engage on issues and challenges associated with climate change and climate policy with a consistent and balanced approach that is responsive to the needs of stakeholders.	• We will continue to engage with stakeholders to influence climate change action. In FY21, this included the launch of *Together to zero emissions* where we engaged with many stakeholders to progress and promote this ambition. It was a key focus of our bi-annual Investor Day, our annual team member Sustainability Week and has been promoted with suppliers in various forums. It was also promoted at the launch of our refreshed Moonee Ponds supermarket, in advertising and online.
Industry partnerships and membership To work with industry and stakeholders to invest in knowledge and research to identify pathways to address difficult or as yet unsolved decarbonisation challenges.	• Participation in the Australian Beef Sustainability Framework, an initiative of the Red Meat Advisory Council managed by Meat and Livestock Australia. We consider the framework the most appropriate way to address climate and environmental issues facing the beef industry (such as emissions reduction and deforestation) from a national and industry-wide perspective. • During FY21, we became a corporate member of the Carbon Market Institute and our Chief Executive Officer joined the Climate Leaders Coalition.

Work will continue in FY22 to further explore climate-related risks and opportunities referenced above and determine how these will be addressed through our sustainability initiatives.

METRICS AND TARGETS

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

- to deliver net zero greenhouse gas emissions by 2050;
- for the entire Coles Group to be powered by 100% renewable electricity by the end of FY25; and
- to reduce combined Scope 1 and 2 greenhouse gas emissions by more than 75% by the end of FY30 (from a FY20 baseline).

As a result of the five agreements in place with renewable electricity providers, Coles has already committed to purchasing more than 70% of the renewable electricity required to meet its FY25 target[1] once the agreements commence.

Our main sources of Scope 1 (direct) emissions include emissions from refrigerant gases, natural gas, transport fuel, stationary LPG and diesel for onsite back-up generators, while Scope 2 (indirect) emissions are those associated with electricity use. Scope 3 emissions are indirect emissions (not included in Scope 2) that occur in Coles' value chain.

We measure and report on Scope 1 and Scope 2 greenhouse gas emissions in line with the National Greenhouse and Energy Reporting Scheme (NGERS) requirements. NGERS requires companies to report annually each October. As such, metrics, including greenhouse gas metrics, will be included in our 2021 Sustainability Report, expected to be released in September 2021.

During FY21, we continued work to better understand our Scope 3 emissions. This work will continue in FY22 with development of a Scope 3 emissions inventory, planned to support our intention of developing a Scope 3 target. We will also progress work on determining boundaries and identifying key areas to address as a priority.

Our climate change response and disclosures are not static. They will continue to evolve as we further understand implications to our business and the community more broadly. We are committed to working together with our stakeholders to help realise our ambition of *Together to zero emissions*, as detailed in our sustainability strategy.

[1] FY25 electricity use has been calculated based on expected electricity growth compared with FY20

BOARD OF DIRECTORS

BOARD OF DIRECTORS: BIOGRAPHICAL DETAILS

JAMES GRAHAM AM

BE (Chem) (Hons), MBA, FIEAust EngExec, FTSE, FAICD, SF Fin

Chairman and Non-executive Director, Chairman of the Nomination Committee and Member of the People and Culture Committee

Age: 73

James Graham has extensive business, investment, corporate and governance experience, including as a Non-executive Director of Wesfarmers Limited for 20 years, prior to his retirement in July 2018. James is Chairman of Gresham Partners Limited, having founded the Gresham Partners Group in 1985. From 2001 to 2009, he was a Director of Rabobank Australia Limited, initially as Deputy Chairman and then Chairman, responsible for the Bank's operations in Australia and New Zealand. He was also Chairman of the Darling Harbour Authority between 1989 and 1995. James was previously Managing Director of Rothschild Australia Limited. James was made a member of the Order of Australia in 2008.

Directorships of listed entities, current and recent (last three years):

Non-executive Director of Wesfarmers Limited (May 1998 to July 2018)

STEVEN CAIN

MEng (1st)

Managing Director and CEO

Age: 56

Steven Cain has over 20 years of experience in Australian and international retail. Steven was previously Chief Executive Officer of Supermarkets and Convenience at Metcash Limited. He was Chief Executive of Carlton Communications plc, a FTSE 100 media group company, and Operating Director and Portfolio Company Chairman at Pacific Equity Partners, a private equity firm. Steven was also the Group Marketing Director, Store Development Director and Grocery Trading Director of Asda Stores Ltd (UK) during its turnaround and has held roles at UK retail group Kingfisher plc, and Bain & Company. Steven was previously the Managing Director of Food, Liquor and Fuel at Coles Myer and was an advisor to Wesfarmers Limited on its takeover of the Coles Group in 2007.

DAVID CHEESEWRIGHT

BSc Mathematics and Sports Science (1st)

Non-executive Director, Member of the Nomination Committee and the People and Culture Committee

Age: 59

David Cheesewright retired in early 2018 as President and Chief Executive Officer of Walmart International, which comprises Walmart's operations outside the United States, including more than 6,200 stores and over a million associates in 27 countries. David was also responsible for Walmart's global sourcing operations and offices around the world. He was previously President and CEO of Walmart EMEA (Europe, Middle East and Africa), CEO Walmart Canada, and COO Asda. David's other prior roles include a range of key positions with Mars Confectionery in the UK across manufacturing, marketing, sales and logistics. David is also a previous board member of Walmex (Walmart Mexico), Chinese online grocery business Yihaodian, South African retailer and distributor Massmart, The Retail Council of Canada and ECR Europe and is a prior Chair of Walmart Canada Bank and Gazeley Holdings (UK). David currently sits on the Deans Advisory Board of the Smith Business School and is a Non-executive Director of Rapha Racing (UK).

BOARD OF DIRECTORS: BIOGRAPHICAL DETAILS

JACQUELINE CHOW

MBA, BSc (Hons), GAICD

Non-executive Director, Member of the Nomination Committee and the Audit and Risk Committee

Age: 49

Jacqueline Chow is a Non-executive Director of nib Holdings Limited, Charter Hall Group and a Senior Advisor at McKinsey Consulting RTS, advising clients across industrial, retail, telecommunications, financial services and consumer sectors on performance transformation projects. She is also a Director of the Australia-Israel Chamber of Commerce of New South Wales. From 2016 to 2019, Jacqueline was a Director of Fisher & Paykel Appliances. Jacqueline previously held senior management positions with Fonterra Co-operative Group, one of the world's largest dairy product producers and exporters, including Chief Operating Officer, Global Consumer and Food Service. Prior to that, she was in senior management with Campbell Arnott's and Kellogg Company. She was also Programme Steering Group Director, Ministry for Primary Industries, NZ and Deputy Chair, Global Dairy Platform Inc.

Directorships of listed entities, current and recent (last three years):

Non-executive Director of nib Holdings Limited (since April 2018); Charter Hall Group (since February 2021)

ABI CLELAND

MBA, BCom/BA

Non-executive Director, Member of the Nomination Committee and the People and Culture Committee

Age: 47

Abi Cleland is currently a Non-executive Director of Computershare Limited, Sydney Airport Corporation Limited and Orora Limited. Abi was previously Chair of Planwise AU, a director of Swimming Australia and on the Lazard PE Fund advisory committee. From 2012 to 2017, Abi established and ran an advisory and management business, Absolute Partners, focusing on strategy, mergers and acquisitions and disruption. Before that, she held senior management roles at KordaMentha's 333, where she was Managing Director, and at ANZ Banking Group Limited, Incitec Pivot Limited and Amcor Limited.

Directorships of listed entities, current and recent (last three years):

Non-executive Director of Computershare Limited (since February 2018); Sydney Airport Corporation Limited (since April 2018); Orora Limited (since February 2014)

RICHARD FREUDENSTEIN

LLB (Hons), BEc

Non-executive Director, Chairman of the People and Culture Committee and Member of the Nomination Committee

Age: 56

Richard Freudenstein is a Non-executive Director and Chairman-elect of Appen Limited as well as a Non-executive Director of REA Group Limited (where he was Chairman from 2007 to 2012). He is also a board member of Cricket Australia, Deputy Chancellor of the University of Sydney and a member of the Advisory Board of artificial intelligence software company, Afiniti. Richard was previously Chief Executive Officer of Foxtel (2011 to 2016), Chief Executive Officer of The Australian and News Digital Media at News Ltd (2006 to 2010), and Chief Operating Officer at British Sky Broadcasting plc (2000 to 2006). His previous board positions include Ten Network Holdings (2015 to 2016), Foxtel (2009 to 2011) and Astro Malaysia Holdings Berhad (2016 to 2019).

Directorships of listed entities, current and recent (last three years):

Non-executive Director of Appen Limited (since August 2021); REA Group Limited (since November 2006); Astro Malaysia Holdings Berhad (September 2016 to August 2019)

BOARD OF DIRECTORS: BIOGRAPHICAL DETAILS

PAUL O'MALLEY

BCom, M.AppFinance, ACA

Non-executive Director, Chairman of the Audit and Risk Committee and Member of the Nomination Committee

Age: 57

Paul O'Malley is a Non-executive Director of Commonwealth Bank of Australia Limited. He was Managing Director and Chief Executive Officer of BlueScope Steel Limited from 2007 to 2017, after joining the company as Chief Financial Officer. Paul was previously the Chief Executive Officer of TXU Energy, a subsidiary of TXU Corp based in Dallas, Texas. He held other senior financial management roles within TXU and previously worked in the investment banking and consulting sectors. Paul is a former Director of the Worldsteel Association, Chair of their Nominating Committee and Trustee of the Melbourne Cricket Ground Trust. He currently serves as the Chairman for Australian Catholic Redress Ltd.

Directorships of listed entities, current and recent (last three years):

Non-executive Director of Commonwealth Bank of Australia Limited (since January 2019)

WENDY STOPS

BAppSc (Information Technology), GAICD

Non-executive Director, Member of the Nomination Committee and the Audit and Risk Committee

Age: 60

Wendy Stops is a Non-executive Director of Blackmores Limited, Director of Fitted for Work, a Council member at the University of Melbourne, Chair of the Advisory Board for the Melbourne Business School's Centre for Business Analytics, a member of the AICD's Governance of Innovation and Technology Panel and a member of the Advisory Committee to the Digital Technology Taskforce of the Department of Prime Minister and Cabinet. Wendy was previously a senior management executive in the information technology and consulting sectors, including her last 16 years with Accenture in various senior management positions in Australia, Asia Pacific and globally. Her previous board experience includes Commonwealth Bank of Australia Limited, Altium Limited, Accenture Software Solutions Australia and Diversiti. She is currently a member of Chief Executive Women and a Graduate of the AICD.

Directorships of listed entities, current and recent (last three years):

Non-executive Director of Blackmores Limited (since April 2021); Commonwealth Bank of Australia Limited (March 2015 to October 2020); Altium Limited (February 2018 to November 2019)

DIRECTORS' REPORT

DIRECTORS' REPORT

The Directors present their report on the consolidated entity consisting of Coles Group Limited ('the Company') and its controlled entities at the end of, or during, the financial year ended 27 June 2021 (collectively, 'Coles' or 'the Group')

The information referred to below forms part of and is to be read in conjunction with this Directors' Report:

- the Operating and Financial Review
- the Remuneration Report
- Board of Directors: Biographical Details
- Note 7.3 Auditor's remuneration to the financial statements accompanying this report
- Note 7.5 Events after the reporting period to the financial statements accompanying this report
- the Auditor's Independence Declaration required under section 307C of the *Corporations Act 2001* (Cth).

DIRECTORS

The Directors in office as at the date of this report are:

NAME	POSITION HELD	PERIOD AS A DIRECTOR
James Graham AM	Chairman and Independent, Non-executive Director	Appointed 19 November 2018
Steven Cain	Managing Director and Chief Executive Officer	Appointed Chief Executive Officer 17 September 2018 Appointed Managing Director 2 November 2018
David Cheesewright	Independent, Non-executive Director	Appointed 19 November 2018
Jacqueline Chow	Independent, Non-executive Director	Appointed 19 November 2018
Abi Cleland	Independent, Non-executive Director	Appointed 19 November 2018
Richard Freudenstein	Independent, Non-executive Director	Appointed 19 November 2018
Paul O'Malley	Independent, Non-executive Director	Appointed effective 1 October 2020
Wendy Stops	Independent, Non-executive Director	Appointed 19 November 2018

The biographical details of the current Directors set out information about the Directors' qualifications, experience, special responsibilities and other directorships.

The following person was also a Director during FY21:

NAME	POSITION HELD	**PERIOD AS A DIRECTOR**
Zlatko Todorcevski	Independent, Non-executive Director	Appointed 19 November 2018 and retired 30 September 2020

COMPANY SECRETARY

Daniella Pereira LLB (Hons), BA

Daniella Pereira was appointed the Company Secretary of Coles Group Limited on 19 November 2018. Daniella has an extensive career in legal, governance and company secretariat, including a 14-year career with ASX-listed industrial chemicals company Incitec Pivot Limited. Daniella began her career as a lawyer with Ashurst (formerly Blake Dawson).

DIRECTORS' REPORT

DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and the number of meetings attended by each of the Directors of the Company during the financial year are listed below:

	BOARD		AUDIT AND RISK COMMITTEE		PEOPLE AND CULTURE COMMITTEE		NOMINATION COMMITTEE	
DIRECTOR – CURRENT(1,2)	Held	Attended	Held	Attended	Held	Attended	Held	Attended
James Graham	14	14			5	5	2	2
Steven Cain	14	14						
David Cheesewright	14	14			5	5	2	2
Jacqueline Chow	14	14	5	5			2	2
Abi Cleland	14	14			5	5	2	2
Richard Freudenstein	14	14			5	5	2	2
Paul O'Malley(3)	11	11	3	3			1	1
Wendy Stops	14	14	5	5			2	2
DIRECTOR – FORMER								
Z Todorcevski(4)	3	3	2	2			1	1

(1) 'Held' indicates the number of meetings held during the period that the Director was a member of the Board or Committee.
(2) 'Attended' indicates the number of meetings attended during the period that the Director was a member of the Board or Committee.
(3) Mr O'Malley was appointed as a Non-executive Director of Coles Group Limited, Chairman of the Audit and Risk Committee and a member of the Nomination Committee with effect from 1 October 2020.
(4) Mr Todorcevski retired as a Non-executive Director of Coles Group Limited on 30 September 2020.

DIRECTORS' SHAREHOLDINGS IN THE COMPANY

Details of Directors' shareholdings in the Company as at the date of this Directors' Report are shown in the table below. All Directors have met the minimum shareholding requirement under the Board Charter.

DIRECTOR	NUMBER OF SHARES HELD[1]
James Graham	500,188
Steven Cain[2]	50,000
David Cheesewright	20,000
Jacqueline Chow	20,000
Abi Cleland	19,816
Richard Freudenstein	19,000
Paul O'Malley	3,809
Wendy Stops	25,000

[1] *The number of shares held refers to shares held either directly or indirectly by Directors as at 18 August 2021. Refer to the Remuneration Report tables for total shares held by Directors and their related parties directly, indirectly or beneficially as at 27 June 2021.*

[2] *As at 18 August 2021, Steven Cain also holds 85,057 Restricted Shares, 85,057 Performance Shares, 75,866 STI Shares and 499,034 Performance Rights.*

PRINCIPAL ACTIVITIES

The principal activities of Coles during the financial year were providing customers with everyday products, including fresh food, groceries, general merchandise, liquor, fuel and financial services through its store network and online platforms. No significant changes have occurred in the nature of these activities during the financial year.

STATE OF AFFAIRS

There have been no significant changes in Coles' state of affairs during the financial year.

REVIEW AND RESULTS OF OPERATIONS

A review of the operations of the Group during the financial year, the results of those operations and the Group's financial position are contained in the Operating and Financial Review (OFR).

BUSINESS STRATEGIES AND PROSPECTS FOR FUTURE FINANCIAL YEARS

The OFR sets out information on the business strategies and prospects for future financial years and refers to likely developments in Coles' operations and the expected results of those operations in future financial years. Information in the OFR is provided to enable shareholders to make an informed assessment about the business strategies and prospects for future financial years of the Group.

DIRECTORS' REPORT

Information that could give rise to any likely material detriment to the Group, for example, information that is commercially sensitive, confidential or could give a third party a commercial advantage, has not been included. Other than the information set out in the OFR, information about other likely developments in the Group's operations and the expected results of these operations in future financial years has not been included.

EVENTS AFTER THE REPORTING DATE

On 18 August 2021, the Directors determined a final dividend of 28.0 cents per fully paid ordinary share to be paid on 28 September 2021, fully franked at the corporate tax rate of 30%. The aggregate amount of the final dividend to be paid out of profits, but not recognised as a liability at 27 June 2021, is expected to be $374 million.

DIVIDENDS

Dividends since Coles' last Annual Report:

TYPE	CENTS PER SHARE	TOTAL AMOUNT $M	FRANKED PERCENTAGE	DATE OF PAYMENT
PAID DURING THE YEAR				
2020 final dividend	27.5	367	100%	29 September 2020
2021 interim dividend	33.0	440	100%	26 March 2021
TO BE PAID AFTER END OF YEAR				
2021 final dividend	28.0	374*	100%	28 September 2021
DEALT WITH IN THE FINANCIAL REPORT AS			NOTE	$M
Dividends paid			3.3	807

**Estimated final dividend payable, subject to variations in the number of shares up to the record date.*

ENVIRONMENTAL REGULATIONS

The activities of the Company are subject to a range of environmental regulations under the law of the Commonwealth of Australia and its states and territories. The Group is also subject to various state and local government food licensing requirements, and may be subject to environmental and town-planning regulations.

The Group has not incurred any significant liabilities under any environmental legislation during the financial year.

INDEMNIFICATION AND INSURANCE OF OFFICERS

The Company's Constitution requires the Company to indemnify any person who is, or has been, an officer of the Company, including the Directors, the Company Secretary and other executive officers, against the liabilities incurred while acting as such officers to the extent permitted by law.

In accordance with the Company's Constitution, the Company has entered into a Deed of Indemnity, Insurance and Access with each of the Company's Directors, Company Secretary, Chief Financial Officer and certain executives. No Director or officer of the Company has received benefits under an indemnity from the Company during or since the end of the financial year.

The Company has paid a premium in respect of a contract insuring current and former directors, company secretaries and executives of the Company and its subsidiaries against liability that they may incur as an officer of the Company or any of its subsidiaries, including liability for costs and expenses incurred by them in defending civil or criminal proceedings involving them as such officers, with certain exceptions. It is a condition of the insurance contract that no details of the premiums payable or the nature of the liabilities insured are disclosed.

INDEMNIFICATION OF AUDITORS

Pursuant to the terms of engagement the Company has with its auditors, Ernst & Young (EY), the Company has agreed to indemnify EY to the extent permitted by law and professional regulations, against any losses, liabilities, costs or expenses incurred by EY where they arise out of or occur in relation to any negligent, wrongful or wilful act or omission by the Company. No payment has been made to EY by the Company pursuant to this indemnity, either during or since the end of the financial year.

DIRECTORS' REPORT

NON-AUDIT SERVICES AND AUDITOR'S INDEPENDENCE

Details of the non-audit services undertaken by, and amounts paid to, EY are detailed in Note 7.3 Auditor's remuneration to the financial statements.

The Board is satisfied that the provision of non-audit services during the year by the Auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* (Cth) for the following reasons:

- all non-audit services provided by EY were reviewed and approved to ensure they do not impact the integrity and objectivity of the Auditor; and
- the non-audit services provided did not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants* as they did not involve reviewing or auditing the Auditor's own work, acting in a management or decision-making capacity of the Company, acting as an advocate of the Company or jointly sharing risks or rewards.

A copy of the Auditor's Independence Declaration forms part of this report.

PROCEEDINGS ON BEHALF OF THE COMPANY

No application has been made under section 237 of the *Corporations Act 2001* (Cth) in respect of the Company, and there are no proceedings that a person has brought or intervened in on behalf of the Company under that section.

ROUNDING

The amounts shown in this report and in the financial statements have been rounded off, except where otherwise stated, to the nearest one million dollars, with the Company being in a class specified in the *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*.

Signed on behalf of the Board in accordance with a resolution of the Directors of the Company.

James Graham AM
Chairman
18 August 2021

Steven Cain
Managing Director and Chief Executive Officer
18 August 2021

REMUNERATION REPORT

REMUNERATION REPORT

Letter to shareholders from the Chair of the People and Culture Committee

Dear Shareholder,

On behalf of the Board, I am pleased to present the FY21 Remuneration Report for Coles Group Limited ('the Company') and its controlled entities (together, 'Coles', 'Coles Group or 'the Group'). The Remuneration Report provides information on the remuneration arrangements for our Key Management Personnel ('KMP') which include the Managing Director and Chief Executive Officer ('Managing Director and CEO'), Other Executive KMP and Non-executive Directors of the Company.

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

Coles has continued to pursue its vision to 'become the most trusted retailer in Australia and grow long-term shareholder value'.

The Coles management team led by Managing Director and CEO, Steven Cain, has continued to deliver against the commitments made to our customers and our shareholders amid the backdrop of ongoing lockdowns, border closures, restrictions, and economic uncertainty.

Notwithstanding the challenges and opportunities presented by the COVID-19 pandemic, Coles remains on track with our 'Winning in our second century' strategy, with several key achievements across FY21 including:

Inspire Customers

- Our focus on building advocacy and trust with our customers has resulted in continued improvements in our key customer metrics across all segments;
- We specifically progressed our trusted and targeted value strategy, placing a net 474 new products on everyday low prices during the year, supporting improvements in the 'competitively priced' customer metric;

Smarter Selling

- Our Smarter Selling transformation program has delivered benefits of approximately $300 million in FY21. Since the launch of the Smarter Selling program in FY19, in excess of $550 million of Smarter Selling benefits have been delivered and we are on track to deliver $1 billion of benefits by the end of FY23;
- Smarter Selling benefits have enabled the business to partially offset underlying inflation and strategically reinvest back into the business in areas such as customer service, eCommerce, and technology;
- Our tailored store format strategy continued during the year completing 65 renewals including 10 Format A, 36 Format C and four Coles Local supermarkets;

Win Together

- We launched our 'Together to Zero' and 'Better Together' sustainability strategy. 'Together to Zero' sets our ambitions across key sustainability areas of climate change, waste and hunger. 'Better Together' recognises that when we work together, we can make a real difference to our team, our suppliers, our customers and to the communities in which we live and work;
- Our safety metrics continued to improve during the year. This was supported by the ongoing implementation of safety programs across the business, a focus on the mental health and wellbeing of our team members, and investments to keep our customers and our team members safe during COVID-19 outbreaks;
- We maintained strong team member engagement, despite a small step back compared to our highest ever engagement scores achieved in FY20; and
- Beyond providing our customers with confidence that we could supply essential goods during the peaks of the pandemic, we continued to support our charity partners and the communities in which we serve through organisations such as SecondBite, Foodbank, Redkite and FightMND.

Outcomes for FY21

Company performance was strong against all financial metrics included in the Executive KMP short-term incentive (STI) balanced scorecards for FY21. Performance against each of the financial metrics exceed the targets set by the Board, noting however that Group sales revenue was positively impacted by COVID-19. Group sales revenue (adjusted retail basis) increased by 3.5% to $39,427 million, with earnings before interest and tax (EBIT) (pre AASB 16 and significant items) increasing by 8.4% to $1,504 million.

Performance was also strong against strategic and non-financial metrics, in the areas of safety, customer, Smarter Selling and transformation projects that underpin the long-term sustainability of our business. As noted above, while our team member engagement results stepped back from the record increase in 2020, we remain on track and focused on our longer-term targets to improve engagement.

REMUNERATION REPORT

For FY21, the Board considered the STI outcomes in the context of the achievements and challenges of the year that unfolded. Section 4.4 covers the achievements in more detail and includes a summary of the Board's approach to determining the final STI payable for Executive KMP. The Board has chosen to exercise discretion to normalise the outcome against the Group sales metric in consideration of the positive impacts of COVID-19. Accordingly, performance against the Group sales metric was calculated on an underlying basis, which resulted in this metric being assessed as just above target, rather than meeting full stretch performance. This resulted in STI outcomes for the Executive KMP being between 85.3% and 91.9% of the maximum STI opportunity. Due to the strong financial discipline of management, COVID-19 cost impacts were minimised, and Group EBIT achieved stretch performance on both an actual and underlying basis. Therefore, the Board did not make any adjustments on the calculated STI outcomes with respect to the Group EBIT metric. The Board believes the final STI outcomes reflect the significant achievements delivered by management against the commitments made to shareholders and the unprecedented impact of COVID-19.

Under the remuneration framework, 50% of the Managing Director and CEO's STI award will be deferred into equity for two years, and 25% of the Other Executive KMP STI awards will be deferred into equity for one year.

In addition to STI outcomes, the transitional LTI award granted to the Executive KMP in FY19, was tested at the end of FY21. This award had two performance metrics. The first metric was cumulative EBIT with a ROC gateway. The targets set were fully achieved, with 100% of the performance shares linked to this metric approved to vest. The second metric was relative TSR. Performance was assessed at the 72.6 percentile against the comparator group, with 95.3% of performance shares linked to this metric approved to vest. This resulted in an overall outcome of 97.6% of the FY19-21 LTI award approved to vest.

The FY19-21 LTI was a one-off award granted at the time of the demerger. Since that time, Coles has implemented a performance rights long term incentive award as detailed in the FY19 and FY20 Remuneration Reports, and as outlined in section 4.5 of this report.

Looking ahead

The Board regularly reviews the appropriateness of our remuneration and incentive frameworks and the applicable performance metrics. With respect to the FY22 STI, the Board has decided to change a strategic performance metric for the Managing Director and CEO. Whilst 'Smarter Selling' will remain a key metric for all Other Executive KMP, it will be replaced in the Managing Director and CEO's balanced scorecard with a metric focused on the FY22 key deliverables critical to the successful delivery of the Ocado program.

The Board is very conscious of the extraordinary efforts made by all Coles team members during this pandemic centric year, and believes that the remuneration outcomes appropriately reflect achievements in FY21.

Richard Freudenstein

Chair of the People and Culture Committee

REMUNERATION REPORT (AUDITED)

Introduction

The Directors of Coles Group Limited ('the Company') present the Remuneration Report for the Company and its controlled entities (together, 'Coles', 'Coles Group' or 'the Group') for the financial year ended 27 June 2021 ('FY21'). This Remuneration Report forms part of the Directors' Report and has been prepared in accordance with section 300A of the *Corporations Act 2001 (Cth)* and is audited.

This Remuneration Report covers the period from 29 June 2020 to 27 June 2021.

Structure of this report

The Remuneration Report is divided into the following sections:

SECTION
(1) Key Management Personnel
(2) Remuneration governance
(3) Remuneration policy and structure overview
(4) FY21 Executive KMP remuneration outcomes
(5) FY21 Non-executive Director remuneration
(6) Ordinary Shareholdings

SECTION 1: KEY MANAGEMENT PERSONNEL

The Group is required to prepare a Remuneration Report in respect of the Group's Key Management Personnel ('KMP'), being the people who have the authority and responsibility for planning, directing, and controlling the Group's activities, either directly or indirectly. This includes the Board of Directors and Executive KMP.

In this Remuneration Report, 'Executive KMP' includes the Managing Director and CEO, and all other executives considered to be KMP. References to 'Other Executive KMP' means the Executive KMP excluding the Managing Director and CEO.

Table 1 sets out the details of those persons who were considered KMP of the Group during FY21.

Table 1 KMP of the Group during FY21

Non-executive Directors

NAME	POSITION HELD[1]
James Graham AM	Chairman and Non-executive Director
David Cheesewright	Non-executive Director
Jacqueline Chow	Non-executive Director
Abi Cleland	Non-executive Director
Richard Freudenstein	Non-executive Director
Paul O'Malley[2]	Non-executive Director
Wendy Stops	Non-executive Director
Zlatko Todorcevski[3]	Non-executive Director

[1]Unless noted otherwise, all Non-executive Directors were in office during the full financial year and up to the date of this report.
[2] Mr O'Malley was appointed to the Board effective 1 October 2020.
[3] Mr Todorcevski retired from the Board effective 30 September 2020.

Executive KMP

NAME	POSITION HELD[1]
Steven Cain	Managing Director and Chief Executive Officer
Leah Weckert	Chief Financial Officer
Greg Davis	Chief Executive, Commercial & Express
Matthew Swindells	Chief Operations Officer

[1]All Executive KMP were in office during the full financial year and up to the date of this report.

SECTION 2: REMUNERATION GOVERNANCE

2.1 Governance framework

The diagram below provides an overview of the remuneration governance framework that has been established by the Group. Further information regarding the membership and meetings of the People and Culture Committee is provided in the Directors' Report.

Remuneration consultants and external advisors

External advisors may be engaged either directly by the People and Culture Committee or through management, to provide information on remuneration related issues, including benchmarking information and market data.

During FY21 Mercer provided independent benchmarking in relation to executive remuneration to the People and Culture Committee. No remuneration recommendations were made by external consultants.

The Board

The Board maintains overall accountability for oversight of the Group's remuneration policies to make sure that they are aligned with the Group's vision, values, strategic objectives, and risk appetite. The Board approves all remuneration and benefit arrangements as they relate to the Managing Director and CEO and executive-level direct reports to the Managing Director and CEO ('Executive Direct Reports'), having regard to the recommendations made by the People and Culture Committee, and the remuneration arrangements for Non-executive Directors.

The Board maintains absolute discretion to either positively or negatively adjust the remuneration outcomes for the Managing Director and CEO and Executive Direct Reports. The Board will use its discretion based on the provision of supporting data and their assessment of performance aligned to the Group's values and LEaD behaviours, risk, compliance, reputational, safety and sustainability considerations as well as the quality of earnings delivered.

Shareholders and other stakeholders

The People and Culture Committee may consult with shareholders, proxy advisors and other relevant stakeholders, in determining appropriate remuneration policies for the Group, including remuneration arrangements for the Managing Director and CEO, and Executive Direct Reports.

People and Culture Committee

The role of the Committee is to assist the Board in fulfilling its responsibilities to shareholders and regulators in relation to the Group's remuneration policies. The Committee does this by reviewing and making recommendations to the Board on matters including (but not limited to):

- remuneration arrangements of Non-executive Directors, the Managing Director and CEO, and Executive Direct Reports;
- the annual performance review of the Managing Director and CEO and Executive Direct Reports;
- remuneration outcomes for the Managing Director and CEO and Executive Direct Reports; and
- delegating authority for the operation and administration of all Group incentive and equity plans to management (as appropriate).

External advisers

The People and Culture Committee may seek advice from independent remuneration consultants in determining appropriate remuneration policies for the Group, and specifically remuneration arrangements for the Managing Director and CEO, and Executive Direct Reports.

Management

Management makes recommendations, to the People and Culture Committee on matters including (but not limited to):

- remuneration arrangements of Executive Direct Reports, including the establishment of any new, or amendment to the terms of any existing, incentive and equity plans;
- annual performance review of Executive Direct Reports; and
- changes to the Group's remuneration policies.

2.2 Corporate governance policies related to remuneration

To support a robust remuneration framework, the Group has a number of corporate governance policies related to remuneration, including those outlined below.

2.2.1 Securities Dealing Policy

Coles has adopted a Securities Dealing Policy that applies to all Group team members including Non-executive Directors and Executive KMP and their connected persons, as defined within the policy. This policy sets out the insider trading laws with which all Group team members must comply along with specific restrictions with which KMP must comply, including obtaining approval prior to trading in the Group's securities and not trading within blackout periods. The policy aims to protect the reputation of the Group and maintain confidence in trading in the Group's securities. It also prohibits specific types of transactions being made which are not in accordance with market expectations or may otherwise give rise to reputational risk.

2.2.2 Minimum Shareholding Policy

To build strong alignment between KMP and shareholders, the Group has established a Minimum Shareholding Policy. The policy requires both Executive KMP and Non-executive Directors to build and maintain a significant shareholding in the Group.

Executive KMP

Each Executive KMP is required to achieve a minimum shareholding equivalent to 100% of total fixed compensation ('TFC') by the later of five years from the date they commence, or five years from the introduction of the policy on 1 July 2019. The details of each Executive KMP shareholding are summarised in Table 13.

In addition to Executive KMP, this policy also applies to all other Executive Direct Reports.

Non-executive Directors

Each Non-executive Director is required to hold at least 1,000 ordinary shares in the Company within six months of their appointment. The shares may be held by a Non-executive Director either in their own name, or indirectly in the name of either an entity controlled by the Non-executive Director or a closely related party. As at the date of this Remuneration Report, each Non-executive Director satisfies this requirement.

Within five years of appointment, each Non-executive Director is expected to increase their shareholding to an amount equivalent to 100% of their annual base fee at that time. The details of each Non-executive Director's shareholding are summarised in Table 12.

SECTION 3: REMUNERATION POLICY AND STRUCTURE OVERVIEW

3.1 Remuneration policy for FY21

Our remuneration framework, introduced in FY20, is aligned to our 'Winning in Our Second Century' strategy and is guided by our remuneration principles. It is designed to ensure remuneration at the Group is market competitive, performance-based, creates long-term value for shareholders, and is fit-for-purpose.

The People and Culture Committee believes the framework is appropriately aligned to our strategy and the interests of our shareholders.

Market competitive	Performance-based	Creates long-term value for shareholders	Fit-for-purpose
Retail is a globally competitive industry. We need to be able to attract, motivate and retain high calibre executives in both the local and global talent market.	A strong link to performance-based pay to support the achievement of strategy aligned to short, medium and long-term financial targets.	Ensuring there is a common interest between executives and shareholders by aligning reward to the achievement of sustainable shareholder returns.	Designed to be relevant to how the Group operates. It needs to be simple to articulate, drive the right behaviours and ensure we deliver on our strategy.

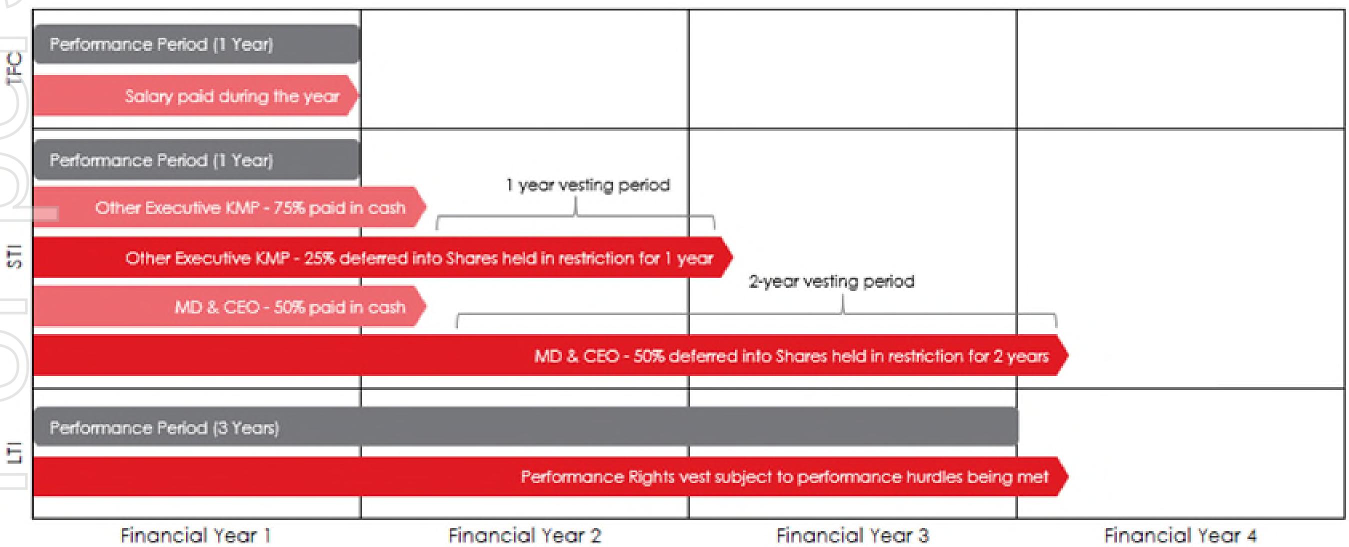
3.2 Delivered through a simple, three-element structure:

Executive KMP remuneration is delivered using both fixed and variable (at-risk) components as outlined below.

Specific performance measures and outcomes for FY21 are included in section 4. Details of prior years' remuneration, including performance measures and outcomes, are set out in the Remuneration Report contained in the relevant prior years' Annual Reports, which are available on our website.

	Fixed elements	Variable elements		
	Total Fixed Compensation (TFC)	Short-term incentive (STI)		Long-term incentive (LTI)
How it is delivered	Cash	Cash	Equity (Shares)	Equity (Performance Rights)
How it works	• consists of base salary and superannuation • target position is the 50th percentile of the ASX 10-40 comparator group (plus reference to local and international retailers, as required)	• paid as part cash, part deferred equity = Managing Director and CEO 50% deferred into shares and restricted for 2 years = Other Executive KMP 25% deferred into shares and restricted for 1 year • opportunity levels (all Executive KMP): = 80% of TFC at Target = 120% of TFC at Maximum • measured against an individual balanced scorecard consisting of: = 60% financial measures = 40% strategic and non-financial measures • includes a mixture of group and functional strategic measures		• delivered in Performance Rights, subject to a 3-year Performance Period • opportunity levels: = Managing Director and CEO 175% of TFC = Other Executive KMP 150% of TFC • measured against: = 50% Relative TSR (RTSR) (ASX 100 comparator group) = 50% cumulative Return on Capital (ROC) • dividend equivalent payment made in shares upon vesting
What it does	Allows us to attract and retain key talent through competitive and fair fixed remuneration	Incentivises strong individual and Company performance, based on strategically aligned deliverables, through variable, at-risk payments		Aligns reward with creation of sustainable, long-term shareholder value

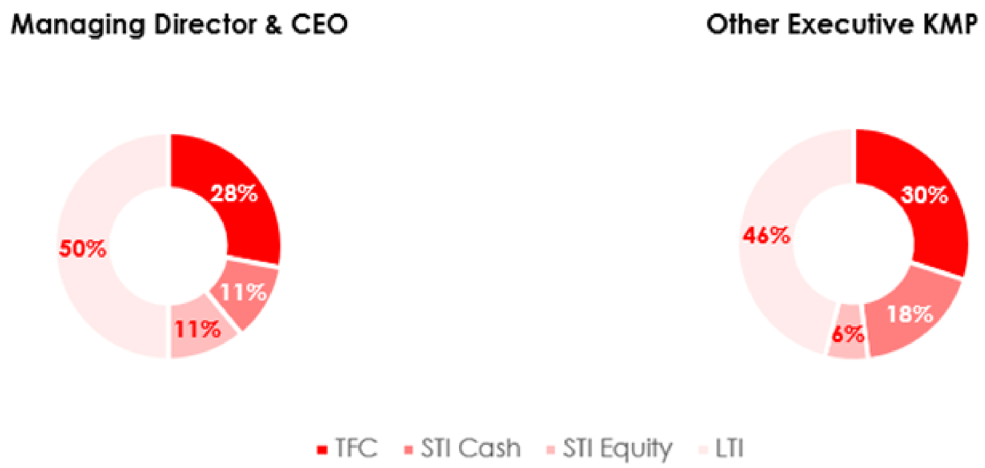
The graphic below demonstrates the award delivery time horizons which continue to apply in FY21.



3.3 FY21 target remuneration mix for Executive KMP

The FY21 remuneration mix at target for the Executive KMP is outlined below:

Chart 1



3.4 Executive KMP service agreements

The terms of employment for the Executive KMP are formalised in employment contracts that have no fixed term. Specific information relating to the terms of the Executive KMP's employment contracts is set out in Table 2.

Table 2 Executive KMP employment contracts

NAME	NOTICE PERIOD[1]	RESTRAINT OF TRADE
Steven Cain	12 months	12 months
Leah Weckert	12 months	12 months
Greg Davis	6 months	6 months
Matthew Swindells	6 months	6 months

[1]Executive KMP can be terminated without notice if they are found to have engaged in serious or wilful misconduct, are seriously negligent in the performance of their duties, commit a serious or persistent breach of their employment contract, or commit an act, whether at work or otherwise, that would bring the Group into disrepute. The Group may also make a payment in lieu of notice.

SECTION 4: FY21 EXECUTIVE KMP REMUNERATION OUTCOMES

4.1 Company performance

This section of the report provides an overview of how the Company's performance for FY21 has driven remuneration outcomes for our Executive KMP.

The remuneration framework at the Group has been designed to reward Executive KMP for their contribution to the collective performance of the Company and to support the alignment between the remuneration of Executive KMP and shareholder returns.

Table 3 summarises key indicators of Company performance and relevant shareholder returns over FY21.

As the Group listed on the ASX on 21 November 2018, it is not possible to address the statutory requirement that the Group provides a five-year discussion of the link between performance and remuneration. This table will continue to be expanded each year in order to provide the required comparative metrics for the financial years in which the Group was listed.

REMUNERATION REPORT (AUDITED)

Table 3 Key Company performance indicators

FINANCIAL SUMMARY	YEAR ENDED 27 JUNE 2021	YEAR ENDED 28 JUNE 2020	YEAR ENDED 30 JUNE 2019
Group Earnings Before Interest and Tax (EBIT)	$1,873m	$1,762m	$1,467m
Group EBIT (pre-AASB16 and significant items)	$1,504m	$1,387m	$1,343m
Group Sales Revenue[1]	$38,562m	$37,408m	$35,001m
Group Sales Revenue (adjusted retail basis)[2]	$39,427m	$38,109m	$35,741m
Coles Online Sales (retail basis)	$1,975m	$1,301m	$1,101m
Return on capital (ROC) [3]	16.0%	15.2%	n/a
ROC (pre-AASB16 and significant items) [3]	39.1%	35.2%	32.9%
Dividends paid per ordinary share during the financial year (cents)[4]	60.5	65.5	-
Dividends determined in respect of the financial year (cents) [5]	61.0	57.5	35.5
Closing share price (as at end of financial year)[6]	$16.83	$16.79	$13.35
Total shareholder return (TSR) (%)[7]	3.9%	31.7%	6.9%

[1] Retail sales reflect the retail calendar period and from FY19 exclude Fuel sales and Hotels sales. Fuel sales have been removed as the Group now recognises commission income following commencement of the New Alliance Agreement in March 2019; Hotels sales have been removed to reflect no economic interest in this business since April 2019.

[2] Retail sales adjusted to include concession sales and remove flybuys costs.

[3] ROC is Group EBIT divided by capital employed. Capital employed is calculated on a rolling average basis (seven months in FY19).

[4] The dividends paid per ordinary share reflect the dividends shareholders received within each financial period. Dividends paid within each financial year does not reflect the dividends determined for the same financial year due to the dividend payment date. The Dividends paid in FY20 includes the special dividend of 11.5 cents per share determined by Directors in FY19. The final dividend determined by Directors for FY21 was 28.0 cents per share to be paid on 28 September 2021 (FY22).

[5] The dividends determined in respect of the financial year reflect the dividends determined for the financial year irrespective of the dividend payment date.

[6] The opening share price on listing on the ASX on 21 November 2018 was $12.49.

[7] TSR is calculated as the change in share price during the financial year, plus dividends reinvested on the respective ex-dividend dates.

4.2 Board oversight of remuneration outcomes

The Board maintains absolute discretion to ensure that remuneration outcomes are appropriate in the context of the Company's performance, our customer experience and shareholder expectations. The Board has discretion in evaluating the achievement against performance measures, including to adjust for unusual factors. The steps undertaken by the Board to inform their decisions with respect to remuneration outcomes for FY21 are further outlined in sections 4.3 to 4.5.

4.3 Total fixed compensation (TFC)

TFC is designed to be competitive to attract, motivate and retain the right talent. The TFC for Executive KMP is compared to the ASX 10-40 (based on market capitalisation) benchmark group, as well as both local and international retailers, and targeted at the 50th percentile of this peer group for comparable roles. This approach to benchmarking has remained unchanged since FY19.

At the start of FY21, the Board conducted a review of Executive KMP TFC and total remuneration packages against the comparator group. This was informed by a detailed benchmarking exercise conducted by Mercer. Considering the review outcomes, the Board determined that it was appropriate to award an increase in TFC to Mr Swindells, effective from 1 October 2020. This increase was reflective of Mr Swindells' relative market positioning in the benchmarking peer group and his performance since becoming Chief Operating Officer at the start of FY20. There were no other TFC increases for Executive KMP in FY21.

A review of fixed remuneration will be conducted in FY22 in line with our remuneration principles. Any approved changes will be disclosed in our FY22 Remuneration Report.

4.4 Short-term incentive (STI)

The Group's STI rewards Executive KMP for the achievement of key short-term performance measures.

The FY21 STI payable for the Executive KMP was assessed against individual balanced scorecards consisting of Financial, Strategic and Non-financial metrics. Financial metrics were set on a pre AASB16 basis for FY21. The scorecards also include a mix of group and functional Strategic metrics. The balanced scorecard approach for Executive KMP provides a simple and transparent approach to highlighting performance priorities, measuring performance outcomes against each weighted metric, and provides clarity regarding the connection between the performance assessment and reward outcomes.

The scorecards also include a 'Quality and Behaviour' overlay which considers:

- how the Executive KMP achieved performance aligned to the Group's values and LEaD behaviours;
- risk, compliance, and reputational matters; and
- the quality of earnings delivered.

The Executive KMP have a maximum STI opportunity equivalent to 150% of target (80% of TFC at target and 120% of TFC at maximum). The FY21 Group Financial performance measures contribute up to 110% of the target STI opportunity for all Executive KMP (60% at target). The Strategic and Non-financial measures contribute up to 40% of the target STI opportunity for all Executive KMP.

Details of the Managing Director and CEO's calculated balanced scorecard for FY21 are set out in Tables 4 and 5 below.

Table 4 FY21 Financial Performance Measures for the Managing Director and CEO

MEASURE[1]	FY21 TARGET	FY21 ACTUAL	ACHIEVEMENT	TARGET WEIGHTING	MAXIMUM WEIGHTING	ACTUAL STI OUTCOME
Group EBIT	$1,415m	$1,504m	Above Stretch	35%	70%	70%
Group Sales	$38,446m	$39,427m	Above Stretch	15%	30%	30%
Coles Online Sales	$1,724m	$1,975m	Above Target	10%	10%	10%
OVERALL PERFORMANCE				60%	110%	110%

[1] Other Executive KMP share the same financial measures as the Managing Director and CEO, except for Ms Weckert who has a Group Cash Realisation metric instead of an Online Sales metric. The Group Cash Realisation metric was achieved in full for FY21.

Further details regarding each financial performance measure in Table 4 is provided as follows:

Group EBIT (pre AASB 16 and significant items): Smarter Selling benefits and operating leverage have driven growth across all segments, despite incurring approximately $130 million of COVID-19 costs during the year.

Group Sales (adjusted retail basis): Supermarkets, Liquor and Express experienced sales growth despite cycling elevated sales in the prior corresponding period due to the onset of COVID-19 and the subsequent national lockdown. Growth was driven by strategic initiatives that resonated with customers, including customers who were spending more time living and working at home due to COVID-19.

Coles Online Sales: Performance was driven by investment in strategic initiatives including increasing capacity, improving customer fulfilment options through Next Day, Same Day, and Immediacy, rolling out Coles Click & Collect Rapid and extending our Direct to Boot service.

Table 5 FY21 Strategic and Non-Financial Measures for the Managing Director and CEO

MEASURE[1]	TARGET/ MAX WEIGHTING	ACTUAL STI OUTCOME	PERFORMANCE
Strategy – Smarter Selling	10%	10%	Cost savings of approximately $300 million were achieved in FY21 through Smarter Selling initiatives. These initiatives led to improvements in store level planning, information flow and decision-making, reduced manual handling, improved availability for customers, reduced loss, and optimised markdowns. Transport and logistics solutions also improved the end-to-end flow of fresh goods and unlocked significant benefits through the network.
Safety - TFIFR	10%	10%	Team member safety significantly improved across FY21 with the Total Recordable Injury Frequency Rate improving by 15.7%.
People – mysay engagement score	10%	0%	Team member engagement remained strong despite a small step back (-3pp) compared to our highest ever engagement scores achieved in FY20 (+7pp).
Customer – Net Promoter Score (NPS) Coles Supermarkets	10%	10%	NPS improved by 2.3 points on FY20, and was ahead of target, lifting customer perception scores across the key pillars of value, quality, in-store experience, service, and reputation.
OVERALL PERFORMANCE	40%	30%	

[1] Strategic and Non-financial measures for Other Executive KMP are aligned to the Managing Director and CEO with variations relevant to their portfolio. For FY21, achievement against this component for Other Executive KMP ranged from partially achievement to full achievement.

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At the conclusion of FY21, the Board assessed the performance against the calculated balanced scorecards of the Managing Director and CEO and the Other Executive KMP to determine any STI award payable. The Board also considered the appropriate application of the ‘Quality and Behaviour’ overlay to determine the final Executive KMP STI outcomes for FY21 as detailed in Table 6.

In its assessment, the Board considered the STI outcomes in the context of the achievements and challenges of the year that unfolded. Following that assessment, the Board chose to exercise discretion to normalise the outcome against the Group Sales metric in consideration of the positive impacts of COVID-19. Subsequently, performance against this metric was re-calculated on an underlying basis, which resulted in an outcome just above target, rather than meeting full stretch performance as shown in Table 4. During this review the Board also considered underlying Group EBIT performance. Due to the strong financial discipline of management, COVID cost impacts were minimised, and Group EBIT achieved stretch performance on both an actual and underlying basis. Therefore, the Board did not make any adjustments on the calculated STI outcomes with respect to the Group EBIT metric. The Board believes the final STI outcomes as detailed in Table 6 reflect the significant achievements delivered by management against the commitments made to shareholders and the unprecedented impact of COVID-19.

***Table* 6 FY21 Executive KMP STI Outcomes**

Details of the Executive KMP STI opportunity and actual payments received for FY21 are provided in Table 6.

NAME	STI OPPORTUNITY (% OF TFC)[1]		STI AWARDED				STI FORFEITED[4]
	TARGET	MAXIMUM	$	% OF TFC	CASH[2]	EQUITY[3]	(%)
Steven Cain	80%	120%	$2,148,300	102.3%	$1,074,150	$1,074,150	14.8%
Leah Weckert	80%	120%	$1,047,850	110.3%	$785,887	$261,963	8.1%
Greg Davis	80%	120%	$937,125	107.1%	$702,844	$234,281	10.8%
Matthew Swindells	80%	120%	$883,150	103.9%	$662,362	$220,788	13.4%

[1]The minimum STI opportunity was nil.

[2]The FY21 cash component of the STI will be paid on or about 15 September 2021.

[3]The FY21 equity component of the STI will be granted in STI Shares following the Coles 2021 AGM, using a 10-day Volume Weighted Average Price (VWAP) for the period up to and including 27 June 2021, of $16.65. Equity for the Managing Director and CEO will not be granted unless shareholder approval is obtained at the Coles 2021 AGM.

[4]As a percentage of STI Maximum Opportunity.

Other Terms of the FY21 Short-term incentive (STI)

What was the Performance Period?
29 June 2020 – 27 June 2021

Why were the performance conditions chosen?

The Financial measures align with the Company’s strategy and the commitments made to shareholders. In particular, Group EBIT focuses on delivering strong earnings through the business cycle and ensuring strong returns for shareholders. Including sales metrics as well as Group EBIT ensures a strong focus upon our capability to deliver sustainable returns for shareholders in the long-term.

For FY21, the Board introduced a Coles Online Sales (Financial) metric, replacing the Group Cash Realisation (Financial) metric from FY20. The exception is Ms Weckert who retained the Group Cash Realisation (Financial) metric. This change demonstrated the importance of Online channel growth in our strategy.

Strategic and non-financial metrics align to all three pillars of the Coles strategy to ‘Inspire Customers’, ‘Win Together’, and streamline our business through ‘Smarter Selling.’

In FY21, the Customer metric was adapted from a blended approach to a single Net Promoter Score (NPS) metric. This simplified the measurement and highlighted the importance of going beyond satisfying our customers to recruiting them as advocates for our business

How were the conditions assessed?

Performance against the balanced scorecard metrics was assessed by the Board based on the Company’s annual audited results, financial statements and other data provided to the Board.

This method was adopted as the Board believes it is the most appropriate way to assess the true performance of the Company and the Executive KMP’s contribution to determine remuneration outcomes.

What portion of the STI component was deferred into equity?

As detailed in Table 6, once the individual scorecard calculation has been completed, the total STI award is determined. The equity deferred amount is then determined by reference to 50% of the total STI award for the Managing Director and CEO, and 25% of the total STI award for the Other Executive KMP.

This amount is then used to determine the number of STI Shares that will be granted and subject to deferral. This is calculated using the 10-day VWAP up to and including the final day in the performance period (i.e. 27 June 2021).

The shares are granted following the payment of the cash component of the STI award and are unable to be traded during the restricted period, being one year for the Other Executive KMP and two years for the Managing Director and CEO. Once the restricted period ends, the restriction is lifted and the Executive KMP may trade these shares in accordance with Coles' Securities Dealing Policy.

When will the FY21 STI award be paid?

The cash component of the STI award will be paid in September 2021.

The STI equity component will be allocated following the Coles 2021 AGM, where shareholder approval will be sought for the grant to the Managing Director and CEO.

What happens if an Executive KMP leaves the organisation prior to payment?

In the event of resignation or dismissal for cause or significant underperformance prior to payment of the STI, an Executive KMP would not be eligible for any STI award.

What happens if an Executive KMP leaves the organisation before STI equity vests?

During the restricted period, if an Executive KMP leaves the organisation in the event of resignation or dismissal for cause or significant underperformance, all shares will be forfeited, unless the Board determines otherwise.

In any other circumstances (including by reason of redundancy, permanent disability, death, or ill health) the shares will continue on foot until the usual vesting date, unless the Board determines otherwise.

Can the Board amend the STI program?

The Board retains discretion to suspend or terminate the program at any time or amend all or any elements of the program up until the date of payment.

4.5 Long-term incentive (LTI)

The LTI rewards Executive KMP for the achievement of long-term sustainable returns for shareholders.

As outlined in section 3.2, for FY21 the LTI component of Executive KMP remuneration was delivered in Performance Rights. The Performance Period for the FY21 LTI runs from 29 June 2020 to 25 June 2023 (retail year end for FY23).

Performance Rights will vest subject to the satisfaction of the following performance conditions measured over the Performance Period:

- 50% of Performance Rights are subject to a cumulative return on capital ('ROC') hurdle ('ROC component'); and
- 50% of Performance Rights are subject to a relative total shareholder return ('RTSR') performance hurdle. Coles' RTSR will be compared to companies in the S&PASX100 ('Comparator Group') as at 28 June 2020.

These performance conditions were chosen because they provide a direct link between Executive KMP reward and sustained shareholder returns, to promote further alignment with shareholders.

4.5.1 ROC component

Vesting of the Performance Rights in the ROC component is subject to achievement of at least 95% of the cumulative ROC target over the Performance Period.

Cumulative ROC measures the Company's average annual return on capital over the Performance Period against targets set by the Board. Cumulative ROC is calculated based on the Company's audited financial information. The Board will assess Cumulative ROC after the end of the Performance Period.

In assessing achievement against the Cumulative ROC performance condition, the Board may have regard to any matters that it considers relevant and retains discretion to review outcomes to ensure that the results are appropriate.

The number of Performance Rights in the ROC component that vest, if any, will then be based on the Group's cumulative ROC performance determined over the Performance Period by reference to the following vesting schedule:

GROUP CUMULATIVE ROC OVER THE PERFORMANCE PERIOD	% OF PERFORMANCE RIGHTS THAT VEST
Equal to or below 95% of the cumulative ROC target is achieved	0%
Between 95% and 105% of the cumulative ROC target is achieved	Straight-line pro rata vesting between 0% - 100%
Equal to 105% or above of the cumulative ROC target is achieved	100%

The ROC targets are considered by Coles to be commercially sensitive. However, the Board will disclose the relevant vesting outcomes following the end of the Performance Period.

4.5.2 RTSR component

The number of Performance Rights in the RTSR component that vest, if any, will be based on Coles' RTSR ranking within the Comparator Group over the Performance Period, as set out in the following vesting schedule:

COLES RTSR RANK IN THE COMPARATOR GROUP	% OF PERFORMANCE RIGHTS THAT VEST
Below the 50th percentile	0%
Equal to the 50th percentile	50%
Between 50th percentile and 75th percentile	Straight-line pro rata vesting between 50% - 100%
Equal to the 75th percentile or above	100%

Following testing, any Performance Rights that do not vest will lapse. There is no re-testing of awards.

4.5.3 FY21 LTI outcomes

Performance Rights granted under the FY21 LTI will be tested following the end of FY23 (the end of the Performance Period). Details of the number of Performance Rights granted under the FY21 LTI are included in section 4.7. Details of equity awards granted to Executive KMP in prior years (including applicable performance conditions and vesting dates) have been previously disclosed in the FY19 and FY20 Remuneration Report.

Other Terms of the FY21 Long-term incentive (LTI)

How was the LTI award delivered?

The LTI award was delivered in Performance Rights. Each Performance Right entitles the Executive KMP to one ordinary share in the Company on vesting. The Board retains a discretion to make a cash equivalent payment in lieu of an allocation of shares.

Performance Rights vest subject to achievement of relevant performance conditions and were allocated to Executive KMP at no cost to the Executive KMP, and no amount is payable on vesting.

When were Performance Rights allocated?

The Performance Rights for all Executive KMP under the FY21 Long Term Incentive plan were granted on 23 November 2020, following the Coles 2020 AGM (at which the grant made to the Managing Director and CEO was approved for the purposes of ASX Listing Rule 10.14 and details of which are published in this FY21 Remuneration Report).

How were Performance Rights allocated?

The number of Performance Rights allocated to the Executive KMP was determined by dividing each Executive KMP's LTI opportunity by the VWAP of Coles shares trading on the ASX over the 10 trading days up to and including 28 June 2020, rounded up to the nearest whole number.

How are the performance conditions assessed?

RTSR performance is independently assessed each year of the Performance Period against the constituents of the Comparator Group. ROC is calculated using Coles' audited financial results.

These assessment methods are designed to safeguard the integrity of the performance assessment process and ensure the accuracy of underlying information.

When does vesting occur?

Following testing, the Board will determine the number of Performance Rights to vest, which is expected to occur in late August 2023. Details regarding the vesting of the Performance Rights will be included in the FY23 Remuneration Report.

If the anticipated vesting date falls within a Blackout Period (as defined within the Company's Securities Dealing Policy), vesting will be delayed until the end of that period.

Following testing, any Performance Rights that do not vest will lapse. No retesting of the performance conditions is permitted.

What happens if an Executive KMP ceases employment?

In the event of resignation or dismissal for cause or significant underperformance, all unvested Performance Rights will lapse, unless the Board determines otherwise.

In any other circumstances (including by reason of redundancy, permanent disability, death, or ill health), a pro rata number of Performance Rights (based on the proportion of the Performance Period that has been served) will remain on foot and subject to the original terms of offer, as though the Executive KMP had not ceased employment, unless the Board determines otherwise.

Do Performance Rights have voting rights?

No. Prior to vesting, Performance Rights do not entitle Executive KMP to voting rights.

Are dividends paid on Performance Rights?

Executive KMP do not have an entitlement to dividends prior to vesting.

After testing against the performance conditions, Executive KMP will receive a dividend equivalent amount related to the vested Performance Rights only. The dividend equivalent amount will be delivered in additional shares, equal in value to the value of dividends that would have been paid on the vested rights had the Executive KMP been the owner of Coles shares during the period from the Performance Rights grant date to the vesting date. There is no dividend payable on any Performance Rights that do not vest.

The Board retains a discretion to settle the dividend equivalent amount in cash.

How can the Board apply discretion to clawback outcomes?

The Board has broad clawback powers to determine that any Performance Rights may lapse, any shares allocated on vesting are forfeited, or that the Executive KMP is required to pay as a debt the net proceeds of the sale of shares or dividends in certain circumstances (for example the Executive KMP has acted fraudulently or dishonestly, has engaged in gross misconduct, brought the Group into disrepute, or breached their obligations to the Group).

This protects Coles against the payment of benefits where participants have acted inappropriately.

What happens if there is a change of control?

Under the Offer terms, the Board may determine in its absolute discretion that some or all the Executive KMP's Performance Rights will vest or cease to be subject to restrictions on a likely change of control.

Where there is an actual change in control of the Company then, unless the Board determines otherwise, unvested Performance Rights will vest on a pro rata basis (based on the proportion of the Performance Period that has elapsed).

What restrictions are there on dealing in the Performance Rights?

Executive KMP must not sell, transfer, encumber, hedge, or otherwise deal with Performance Rights. Executive KMP will be free to deal with the shares allocated on vesting of the Performance Rights, subject to the requirements of Coles' Securities Dealing Policy.

4.5.4 LTI Test at the end of FY21 - FY19 LTI vesting outcome

In FY19, Executive KMP were invited to participate in the first LTI award for the Group. Full details relating to this LTI award are detailed in the FY19 Remuneration Report. This award included the provision of Performance Shares, granted on 19 November 2019, as part of a transitional remuneration structure put in place for Executive KMP following the demerger from Wesfarmers. The performance period for this award was 21 November 2018 to 27 June 2021.

Performance Shares were subject to two performance conditions (as well as a service condition):

- 50% - cumulative EBIT hurdle with a ROC gateway over the period 21 November 2018 and 27 June 2021; and
- 50% - RTSR hurdle, measured from 20 February 2019 (the day after the FY19 half-year results announcement) to 27 June 2021, compared against companies in the Comparator Group.

Table 7 Testing of performance hurdles

Following the testing of each performance hurdle, the following vesting will occur on 25 August 2021 in relation to the FY19 LTI award and will be reported in the FY22 Remuneration Report:

	WEIGHTING	GATEWAY MET	TARGET 50% vest	MAX 100% vest	RESULT	% VEST
CUMULATIVE EBIT WITH ROC GATEWAY	50%	YES	90% of target	100% of target	Gateway Met & 102.5%	100%
RTSR	50%	N/A	50th percentile	75th percentile	72.6 percentile	95.3%
OVERALL VESTING	100%					97.6%

Further details regarding each performance hurdle in Table 7 is provided as follows:

Cumulative EBIT with ROC gateway: The ROC gateway and EBIT target were met in full and resulted in 100% of this component of the LTI vesting.

RTSR: The Company performed at the 72.6 percentile against the Comparator Group and so vested to 95.3%.

Based on the calculated performance, overall vesting outcome of 97.6% was achieved. The Board reviewed the vesting outcomes for each metric, considered the Company's strong performance over the period, including returns to shareholders, and believes that the vesting outcomes are appropriate in this context.

4.6 Summary of remuneration received by Executive KMP (statutory remuneration)

Table 8 details the nature and amount of each element of remuneration of the Executive KMP. There were no transactions or loans between Executive KMP and the Company or any of its subsidiaries during FY21.

Table 8 Executive KMP remuneration

		SHORT-TERM			LONG-TERM	POST-EMPLOYMENT	VALUE OF SHARE- BASED PAYMENTS[2]		
NAME	YEAR	BASE SALARY	OTHER BENEFITS[1]	CASH STI	ACCRUED LEAVE BENEFITS	SUPERANNUATION BENEFITS	PERFORMANCE RIGHTS	SHARES	TOTAL COMPENSATION
Current Executive KMP									
Steven Cain	2021	$2,078,306	$2,597	$1,074,150	$157,917	$21,694	$2,047,926	$1,313,004	$6,695,594
	2020	$2,078,997	$1,501,776	$1,249,500	($6,228)	$21,003	$1,156,486	$963,545	$6,965,079
Leah Weckert[3]	2021	$928,306	$1,499	$785,888	$65,904	$21,694	$770,050	$576,758	$3,150,099
	2020	$928,997	$1,323	$855,000	($19,366)	$21,003	$448,433	$636,941	$2,872,331
Greg Davis[3]	2021	$853,306	$1,779	$702,844	$28,030	$21,694	$710,018	$516,304	$2,833,975
	2020	$853,997	$1,765	$721,875	$26,144	$21,003	$413,035	$612,703	$2,650,522
Matthew Swindells[3]	2021	$815,806	$1,549	$662,363	$73,642	$21,694	$667,645	$469,052	$2,711,751
	2020	$765,074	$1,074	$709,200	($6,228)	$21,003	$377,632	$487,522	$2,355,277
TOTAL 2021		$4,675,724	$7,424	$3,225,245	$325,493	$86,776	$4,195,639	$2,875,118	$15,391,419
TOTAL 2020[4]		$4,627,065	$1,505,938	$3,535,575	($5,678)	$84,012	$2,395,586	$2,700,711	$14,843,209

[1] Other benefits include costs associated with employment (including any applicable fringe benefits tax). Mr Cain's 2020 value includes $1,500,000 paid on 27 December 2019 in line with the transition award put in place by Wesfarmers to compensate Mr Cain for short-term and long-term incentives that were forfeited or forgone with his prior employer, due to his acceptance of the role with Coles. Full details relating to this payment are provided in section 4.7 of the FY20 Remuneration Report.

[2] The figures in this column for share-based payments represent share-based awards that are not yet vested in favour of the Executive KMP in the financial period presented. The amounts represent the accounting fair value of the grants of Performance Rights, Restricted Shares, Performance Shares, and STI Shares recognised in the income statement during the year. It also includes legacy Wesfarmers share awards allocated to Ms Weckert, Mr Davis, and Mr Swindells prior to the demerger pursuant to Wesfarmers share plans, which Ms Weckert, Mr Davis and Mr Swindells received as Wesfarmers team members and are being expensed over the relevant performance period. In accordance with the accounting standards the accounting fair value of the grants is recognised proportionally over the grant's performance period. Refer to section 4.5 for further details for the grants, their performance conditions and performance periods. If the performance conditions are not met, the Executive KMP will not be entitled to the shares.

[3] Ms Weckert and Mr Davis participated in the 2015, 2016 and 2017 Wesfarmers Employee Share Acquisition Plan (WESAP). Mr Swindells participated in the 2017 WESAP. The 2015 WESAP vested in November 2018 and details on this award were provided in the FY19 and FY20 Remuneration Reports.

During FY20, Ms Weckert and Mr Davis held the following under the 2016 WESAP, which were subject to vesting (and testing for Performance Shares) in November 2019:

- Ms Weckert – 10,895 Restricted Shares, which vested in full
- Mr Davis – 7,627 Restricted Shares, which vested in full, and 7,627 Performance Shares, which were subject to testing. 2,589 Performance Shares vested (5,038 Performance Shares were forfeited).

Ms Weckert, Mr Davis, and Mr Swindells held 6,962 Restricted Shares and 6,962 Performance Shares under the 2017 WESAP during both FY20 and FY21. These awards were subject to vesting (and testing for Performance Shares) in December 2020 (during FY21). The Restricted Shares vested in full, and 5,923 Performance Shares vested (1,039 Performance Shares were forfeited).

There are no further WESAP awards that remain on foot.

[4] Comparative information has been reclassified where required for consistency with the current period's presentation.

4.7 Summary of Executive KMP shareholding and Performance Rights

Table 9.1 and 9.2 show the movements of Coles Performance Rights, Restricted Shares, Performance Shares and STI Shares, held beneficially, by each Executive KMP during FY21. No other shares were acquired as remuneration during the year. Details of Executive KMP's holdings of ordinary shares are provided in Table 13.

Table 9.1 Restricted, Performance and STI Shares

			MOVEMENTS DURING THE FINANCIAL PERIOD				ADDITIONAL INFORMATION
NAME	SHARE TYPE	BALANCE OF SHARES HELD AT 29 JUNE 2020	GRANTED DURING THE YEAR	VESTED/ RELEASED DURING THE YEAR	FORFEITED DURING THE YEAR	CLOSING BALANCE AT 27JUNE 2021[6]	ACCOUNTING FAIR VALUE OF GRANT YET TO VEST ($)[1]
Steven Cain	Restricted Shares[3]	85,057	-	-	-	85,057	$881,191
	Performance Shares[2]	85,057	-	-	-	85,057	$696,617
	STI Shares[5]	-	75,866	-	-	75,866	$1,385,313
Leah Weckert	Restricted Shares[3]	50,377[4]	-	(13,924)	-	36,453	$377,653
	Performance Shares[2]	36,453	-	-	-	36,453	$298,550
	STI Shares[5]	-	17,305	-	-	17,305	$310,625
Greg Davis	Restricted Shares[3]	46,326[4]	-	(13,924)	-	32,402	$335,685
	Performance Shares[2]	32,402	-	-	-	32,402	$265,372
	STI Shares[5]	-	14,610	-	-	14,610	$262,250
Matthew Swindells	Restricted Shares[3]	40,251[4]	-	(13,924)	-	26,327	$272,748
	Performance Shares[2]	26,327	-	-	-	26,327	$215,621
	STI Shares[5]	-	14,354	-	-	14,354	$257,654

[1] The fair value of STI Shares for Mr Cain was $18.26 at the grant date of 5 November 2020.The fair value of STI Shares at the grant date of 23 November 2020 was $17.95 for Other Executive KMP. The fair value of Restricted Shares, Performance Shares and STI Shares is an estimate of the total maximum value of grants in future financial years. Restricted Shares, Performance Shares and STI Shares are subject to the satisfaction of conditions and therefore the minimum total value of the awards for future financial years is nil. The accounting fair value does not include those detailed in footnote 4 (shares acquired through demerger as a result of WESAP holdings).

[2] Performance Shares totals relate to shares allocated under the FY19 LTI award. Performance Shares vest based on the achievement of performance conditions aligned to RTSR and cumulative EBIT with a ROC gateway. This award was tested following the end of the performance period, with Performance Shares to vest in accordance with Table 7 on 25 August 2021. Full details regarding this award are detailed in the FY19 Remuneration Report and vesting outcomes will be reported in the FY22 Remuneration Report.

[3] The Restricted Shares total include shares allocated under the FY19 Executive Restricted Share (ERS) offer. Restricted shares are time based only and full details of this award are detailed in the FY19 Remuneration Report.

[4] The opening balance of Restricted Shares for the Other Executive KMP includes Coles shares acquired through demerger as a result of their holding of WESAP shares, as detailed in Table 8. These shares are only subject to a holding lock while the Other Executive KMP remain employed by Coles, or until the date the WESAP award that these Coles shares were allocated as a result of, vest (whichever is the earlier). During the year Ms Weckert, Mr Davis, and Mr Swindells each had 13,924 shares released. On release, the holding lock is removed. As at 27 June 2021, none of the Executive KMP continue to hold shares linked to the 2017 WESAP.

[5] STI Shares are time based only.

[6] No Restricted, Performance or STI Shares were held nominally by the Executive KMP or their related parties as at 27 June 2021.

Table 9.2 Performance Rights

	MOVEMENTS DURING THE FINANCIAL PERIOD				ADDITIONAL INFORMATION
NAME	BALANCE OF RIGHTS HELD AT 29 JUNE 2020	RIGHTS ALLOCATED AS REMUNERATION	RIGHTS VESTED/ LAPSED DURING THE YEAR	CLOSING BALANCE AT 27 JUNE 2021	ACCOUNTING FAIR VALUE OF GRANT YET TO VEST ($)[1]
Steven Cain	275,901	223,133	-	499,034	$6,485,100
Leah Weckert	106,982	86,521	-	193,503	$2,441,087
Greg Davis	98,537	79,691	-	178,228	$2,248,391
Matthew Swindells	90,091	77,414	-	167,505	$2,113,345

[1] The fair value of Performance Rights is an estimate of the total maximum value of grants in future financial years. The fair value of Mr Cain's FY21 Performance Rights at the grant date of 5 November 2020 was $10.57 for the RTSR component and $16.46 for the ROC component. The fair value of the Other Executive KMP's FY21 Performance Rights at the grant date of 23 November 2020 was $9.12 for the RTSR component and $16.21 for the ROC component.

[2] Approval from shareholders for the issue of these Performance Rights to Mr Cain was obtained for the purpose of ASX Listing Rule 10.14 at the Coles 2020 AGM.

SECTION 5: FY21 NON-EXECUTIVE DIRECTOR REMUNERATION

5.1 Non-executive Director remuneration framework

Non-executive Director remuneration is designed to ensure that the Company can attract and retain suitably qualified and experienced Non-executive Directors.

Non-executive Directors receive a base fee for their service as a director of the Company, and other than the Chairman, an additional fee for membership of, or for chairing a Board committee. To maintain the independence of directors, Non-executive Directors do not receive shares or any performance-related incentives as part of their remuneration from the Company. A minimum shareholding policy applies to Non-executive Directors (see section 2.2.2).

Non-executive Directors are reimbursed for travel and other expenses reasonably incurred when attending meetings of the Board or conducting the business of the Company.

The People and Culture Committee reviews and makes recommendations to the Board with respect to Non-executive Directors' fees and Board committee fees.

5.2 Current Non-executive Director remuneration policy

The Non-executive Director remuneration policy enables the Company to attract and retain high-quality directors with relevant experience. The remuneration policy is reviewed annually by the People and Culture Committee. Non-executive Director fees are set after consideration of fees paid by companies of comparable size, complexity, industry, and geography, and reflect the qualifications and experience necessary to discharge the Board's responsibilities.

The current Non-executive Director aggregate fee limit is $3,600,000 and was approved by the then shareholders of the Company at a general meeting held on 19 September 2018 prior to listing. There were no increases to Board and Committee fees in FY21.

Table 10 sets out the Board and committee fees in Australian dollars (inclusive of superannuation) for FY21.

Table 10 Board and committee fees in Australian dollars (inclusive of superannuation) for FY21

BOARD AND COMMITTEE FEES	CHAIR	MEMBER
Board	$695,000[1]	$220,000
Audit and Risk Committee	$55,000	$27,000
People and Culture Committee	$55,000	$27,000
Nomination Committee	No fee	No fee

[1]The Chairman of the Board does not receive Committee fees in addition to his Board fee.

5.3 FY21 Non-executive Director remuneration

Table 11 outlines the remuneration for the Non-executive Directors of Coles during FY21. There were no loans between Non-executive Directors and the Company or any of its subsidiaries during FY21.

Table 11 FY21 Non-executive Director remuneration

NAME	FINANCIAL YEAR	BASE AND COMMITTEE FEES (EXCLUDING SUPERANNUATION)	OTHER BENEFITS[5]	SUPERANNUATION BENEFITS	TOTAL COMPENSATION
James Graham	2021	$673,306	$628	$21,694	$695,628
	2020	$673,997	$1,273	$21,003	$696,273
David Cheesewright[1]	2021	$247,000	-	-	$247,000
	2020	$244,007	-	$2,993	$ 247,000
Jacqueline Chow	2021	$225,306	$807	$21,694	$247,807
	2020	$225,997	$1,088	$21,003	$248,088
Abigail Cleland[2]	2021	$241,576	$396	$5,424	$247,396
	2020	$234,543	$91	$12,457	$247,091
Richard Freudenstein[2]	2021	$264,153	-	$10,847	$275,000
	2020	$264,499	-	$10,501	$275,000
Paul O'Malley[3]	2021	$189,979	-	$16,271	$206,250
Wendy Stops	2021	$226,818	$1,595	$20,182	$248,595
	2020[2]	$231,248	$1,191	$15,752	$248,191
Zlatko Todorcevski[4]	2021	$63,326	$60	$5,424	$68,810
	2020	$253,997	$372	$21,003	$275,372
TOTAL 2021		$2,131,464	$3,486	$101,536	$2,236,486
TOTAL 2020		$2,128,288	$4,015	$104,712	$2,237,015

[1] Due to Mr Cheesewright residing outside of Australia, superannuation obligations are only payable for any time worked in Australia. With travel restrictions in place during FY21 as a result of COVID-19, Mr Cheesewright did not work in Australia during FY21, therefore no superannuation contributions were paid as part of Mr Cheesewright's Non-executive Director Fees.

[2] Approval was obtained from the ATO by individual Non-executive Directors to be exempt from making superannuation contributions due to superannuation obligations being met by other employers.

[3] Mr O'Malley was appointed to the Board on 1 October 2020. His remuneration for FY21 is disclosed from this date to 27 June 2021.

[4] Mr Todorcevski retired from the Board effective 30 September 2020. His remuneration for FY21 is disclosed from 29 June 2020 to this date.

[5] Other benefits include costs associated with directorships (including any applicable fringe benefits tax).

SECTION 6: ORDINARY SHAREHOLDINGS

6.1 Non-executive Director Ordinary Shareholdings

Table 12 shows the shareholdings and movements in shares held directly, or indirectly, by each Non-executive Director, including their related parties during FY21.

Table 12 Non-executive Director Ordinary Shareholdings

NAME	BALANCE OF SHARES HELD AT 29 JUNE 2020	SHARES ACQUIRED	SHARES DISPOSED	CLOSING BALANCE AS AT 27 JUNE 2021
James Graham	500,188	-	-	500,188
David Cheesewright	20,000	-	-	20,000
Jacqueline Chow	20,000	-	-	20,000
Abigail Cleland	19,816	-	-	19,816
Richard Freudenstein	19,000	-	-	19,000
Paul O'Malley	3,809[1]	-	-	3,809
Wendy Stops	20,000	5,000	-	25,000
Zlatko Todorcevski[2]	19,201	-	-	19,201
TOTAL	622,014	5,000	-	627,014

[1] Mr O'Malley's shareholding of 3,809 shares held indirectly is as at 1 October 2020, upon appointment to the Board.

[2] Mr Todorcevski held 19,201 shares indirectly as at his retirement date of 30 September 2020.

6.2 Executive KMP Ordinary Shareholdings

Table 13 shows the shareholdings and movements in shares held directly, or indirectly, by each KMP, including their related parties during FY21.

Table 13 Executive KMP Ordinary Shareholdings

NAME	BALANCE OF SHARES HELD AT 29 JUNE 2020	SHARES ACQUIRED	SHARES DISPOSED	CLOSING BALANCE AS AT 27 JUNE 2021
Steven Cain	50,000	-	-	50,000
Leah Weckert	22,406	13,924[1]	-	36,330
Greg Davis	55,320	13,924[1]	-	69,244
Matthew Swindells	605	13,924[1]	-	14,529
TOTAL	128,331	41,772	-	170,103

[1] Shares acquired by Ms Weckert, Mr Davis and Mr Swindells are shares released from holding lock as referred to in Table 9.1

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Auditor's Independence Declaration to the Directors of Coles Group Limited

As lead auditor for the audit of the financial report of Coles Group Limited for the financial year ended 27 June 2021, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit*;* and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Coles Group Limited and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

Fiona Campbell

Fiona Campbell
Partner
18 August 2021

FINANCIAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS

INCOME STATEMENT

FOR THE 52 WEEKS ENDED 27 JUNE 2021

	NOTES	2021 $M	2020 $M
Sales revenue	1.3	**38,562**	**37,408**
Other operating revenue		370	376
Total operating revenue		**38,932**	**37,784**
Cost of sales		(28,773)	(28,043)
Gross profit		**10,159**	**9,741**
Other income		111	108
Administration expenses	1.4	(8,392)	(8,081)
Share of net loss from equity accounted investments	5.1	(5)	(6)
Earnings before interest and tax (EBIT)		**1,873**	**1,762**
Financing costs	1.5	(427)	(443)
Profit before income tax		**1,446**	**1,319**
Income tax expense	1.6	(441)	(341)
Profit for the period		**1,005**	**978**
Profit attributable to:			
Equity holders of the parent entity		**1,005**	**978**
Earnings per share (EPS) attributable to equity holders of the parent:			
Basic and diluted EPS (cents)	1.2	75.3	73.3
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Net movement in the fair value of cash flow hedges		(9)	(17)
Income tax effect	1.6	3	5
Other comprehensive loss which may be reclassified to profit or loss in subsequent periods		**(6)**	**(12)**
Total comprehensive income attributable to:			
Equity holders of the parent entity		999	966

The accompanying notes form part of the consolidated financial statements.

BALANCE SHEET

AS AT 27 JUNE 2021

	NOTES	2021 $M	2020 $M
Assets			
Current assets			
Cash and cash equivalents	2.1	787	992
Trade and other receivables	2.2	368	434
Inventories		2,107	2,166
Income tax receivable		-	42
Assets held for sale	5.2	85	75
Other assets	2.3	87	70
Total current assets		**3,434**	**3,779**
Non-current assets			
Property, plant and equipment	2.5	4,463	4,127
Right-of-use assets	2.7	7,288	7,660
Intangible assets	2.6	1,698	1,597
Deferred tax assets	1.6	873	849
Equity accounted investments	5.1	220	217
Other assets	2.3	147	120
Total non-current assets		**14,689**	**14,570**
Total assets		**18,123**	**18,349**
Liabilities			
Current liabilities			
Trade and other payables	2.8	3,660	3,737
Provisions	2.9	950	861
Income tax payable		60	-
Lease liabilities	2.7	897	885
Other		252	198
Total current liabilities		**5,819**	**5,681**
Non-current liabilities			
Interest-bearing liabilities	3.1	1,142	1,354
Provisions	2.9	458	472
Lease liabilities	2.7	7,859	8,198
Other		32	29
Total non-current liabilities		**9,491**	**10,053**
Total liabilities		**15,310**	**15,734**
Net assets		**2,813**	**2,615**
Equity			
Contributed equity		1,585	1,611
Reserves		69	43
Retained earnings		1,159	961
Total equity		**2,813**	**2,615**

The accompanying notes form part of the consolidated financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE 52 WEEKS ENDED 27 JUNE 2021

	NUMBER OF ORDINARY SHARES MILLIONS	CONTRIBUTED EQUITY $M	SHARE-BASED PAYMENTS $M	CASH FLOW HEDGE RESERVE $M	RETAINED EARNINGS $M	TOTAL $M
2021						
Balance at beginning of period	1,334	1,611	56	(13)	961	2,615
Net profit for the period	-	-	-	-	1,005	1,005
Other comprehensive income	-	-	-	(6)	-	(6)
Total comprehensive income for the period	**-**	**-**	**-**	**(6)**	**1,005**	**999**
Share-based payments expense	-	-	32	-	-	32
Purchase of shares under Equity Incentive Plan	-	(26)	-	-	-	(26)
Dividends paid	-	-	-	-	(807)	(807)
Balance at end of period	**1,334**	**1,585**	**88**	**(19)**	**1,159**	**2,813**
2020						
Balance at beginning of period	1,334	1,628	43	(1)	1,687	3,357
Effect of adoption of AASB 16 *Leases*	-	-	-	-	(831)	(831)
Balance at beginning of period (adjusted)	1,334	1,628	43	(1)	856	2,526
Net profit for the period	-	-	-	-	978	978
Other comprehensive income	-	-	-	(12)	-	(12)
Total comprehensive income for the period	-	-	-	**(12)**	**978**	**966**
Share-based payments expense	-	-	13	-	-	13
Purchase of shares under Equity Incentive Plan	-	(17)	-	-	-	(17)
Dividends paid	-	-	-	-	(873)	(873)
Balance at end of period	**1,334**	**1,611**	**56**	**(13)**	**961**	**2,615**

The accompanying notes form part of the consolidated financial statements.

CASH FLOW STATEMENT

FOR THE 52 WEEKS ENDED 27 JUNE 2021

	NOTES	2021 $M	2020 $M
Cash flows from operating activities			
Receipts from customers		42,124	39,971
Payments to suppliers and employees		(38,496)	(36,486)
Interest paid		(47)	(37)
Interest component of lease payments		(390)	(399)
Interest received		4	7
Income tax paid		(358)	(504)
Net cash flows from operating activities	2.1	**2,837**	**2,552**
Cash flows used in investing activities			
Purchase of property, plant and equipment and intangibles		(1,279)	(833)
Proceeds from sale of property, plant and equipment		181	211
Net investments in joint venture and associate	5.1	(8)	(11)
Acquisition of subsidiaries or businesses, net of cash acquired		-	(25)
Net cash flows used in investing activities		**(1,106)**	**(658)**
Cash flows used in financing activities			
Proceeds from borrowings		7,232	5,120
Repayment of borrowings		(7,444)	(5,226)
Payment of principal component of lease payments		(891)	(846)
Dividends paid		(807)	(873)
Purchase of shares under Equity Incentive Plan		(26)	(17)
Net cash flows used in financing activities		**(1,936)**	**(1,842)**
Net increase in cash and cash equivalents		**(205)**	**52**
Cash at beginning of period		992	940
Cash at end of the period		**787**	**992**

The accompanying notes form part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Financial Report of Coles Group Limited ('the Company') in respect of the Company and the entities it controlled at the reporting date or during the 52-week period ended 27 June 2021 (collectively, 'the Group') was authorised for issue in accordance with a resolution of the Directors on 18 August 2021. The comparative period is for the 52-week period ended 28 June 2020.

REPORTING ENTITY

The Company is a for-profit company limited by shares which is incorporated and domiciled in Australia and listed on the Australian Securities Exchange (ASX).

The nature of the operations and principal activities of the Group are described in Note 1.1 Segment Reporting.

BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Financial Report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* (Cth). The Financial Report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments measured at fair value as explained in the notes to the consolidated financial statements ('the Notes').

The accounting policies adopted are consistent with those of the previous period. Refer to Note 7.4 New accounting standards and interpretations.

This Financial Report presents reclassified comparative information where required for consistency with the current period's presentation.

KEY JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires judgement and the use of estimates and assumptions in applying the Group's accounting policies, which affect amounts reported for assets, liabilities, income and expenses.

Judgements, estimates and assumptions are continuously evaluated and are based on the following:

- historical experience
- current market conditions
- reasonable expectations of future events

Actual results may differ from these judgements, estimates and assumptions. Uncertainty about these judgements, estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in future periods.

The Group has incorporated specific judgements, estimates and assumptions relating to the ongoing impacts of COVID-19 in determining the amounts recognised in the financial statements based on conditions existing at the reporting date, recognising uncertainty still exists in relation to its timeframe, the measures to control it and its economic impact.

The key areas involving judgement or significant estimates and assumptions are set out below:

NOTE		JUDGEMENTS
Note 2.7	Leases	Determining the lease term
Note 5.1	Equity accounted investments	Control and significant influence
NOTE		**ESTIMATES AND ASSUMPTIONS**
Note 2.4	Inventories	Net realisable value, Commercial income
Note 2.7	Leases	Incremental borrowing rate
Note 2.9	Provisions	Employee benefits, Self-insurance, Restructuring
Note 4.1	Impairment of non-financial assets	Assessment of recoverable amount
Note 6.2	Contingent liabilities	Contingent liabilities
Note 7.2	Employee share plans	Valuation of share-based payments

Detailed information about each of these judgements, estimates and assumptions is included in the Notes together with information about the basis of calculation for each affected line item in the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

THE NOTES

The Notes include information which is required to understand the consolidated financial statements and is material and relevant to the operations, financial performance and position of the Group.

Information is considered material and relevant if, for example:

- the amount in question is significant because of its size or nature
- it is important for understanding the results of the Group
- it helps to explain the impact of significant changes in the Group's business
- it relates to an aspect of the Group's operations that is important to its future performance

The Notes are organised into the following sections:

1. PERFORMANCE: this section provides information on the performance of the Group, including segment results, earnings per share and income tax.

2. ASSETS AND LIABILITIES: this section details the assets used in the Group's operations and the liabilities incurred as a result.

3. CAPITAL: this section provides information relating to the Group's capital structure and financing.

4. FINANCIAL RISK: this section details the Group's exposure to various financial risks, explains how these risks may impact the Group's financial performance or position, and details the Group's approach to managing these risks.

5. GROUP STRUCTURE: this section provides information relating to subsidiaries and other material investments of the Group.

6. UNRECOGNISED ITEMS: this section provides information about items that are not recognised in the consolidated financial statements but could potentially have a significant impact on the Group's financial performance or position in the future.

7. OTHER DISCLOSURES: this section provides other disclosures required by Australian Accounting Standards that are considered relevant to understanding the Group's financial performance or position.

BASIS OF CONSOLIDATION

In preparing these consolidated financial statements, subsidiaries are consolidated from the date the Group gains control until the date on which control ceases. The Group's share of results of its equity accounted investments is included in the consolidated financial statements from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. All intercompany transactions are eliminated.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

FOREIGN CURRENCY

These consolidated financial statements are presented in Australian dollars, which is the functional currency of the Group. Foreign currency transactions are translated into the functional currency using the exchange rates at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at reporting date exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges.

ACCOUNTING POLICIES

Accounting policies that summarise the classification, recognition and measurement basis of financial statement line items and that are relevant to the understanding of the consolidated financial statements are provided throughout the Notes.

ROUNDING OF AMOUNTS

The amounts contained in the Financial Report have been rounded to the nearest million dollars (unless specifically stated to be otherwise) under the option available to the Company under *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. The Company is an entity to which this legislative instrument applies.

1. PERFORMANCE

This section provides information on the performance of the Group, including segment results, earnings per share and income tax.

1.1 SEGMENT REPORTING

The Group has identified its operating segments based on internal reporting to the Managing Director and Chief Executive Officer (the chief operating decision-maker). The Managing Director and Chief Executive Officer regularly reviews the Group's internal reporting to assess performance and allocate resources across the operating segments. The segments identified offer different products and services and are managed separately.

The Group's reportable segments are set out below:

REPORTABLE SEGMENT	DESCRIPTION
Supermarkets	Fresh food, groceries and general merchandise retailing (includes Coles Online and Coles Financial Services)
Liquor	Liquor retailing, including online delivery services
Express	Convenience store operations and commission agent for retail fuel sales

Other business operations that are not separately reportable (such as Property), as well as costs associated with enterprise functions (such as Insurance and Treasury) are included in 'Other'.

There are varying levels of integration between operating segments. This includes the common usage of property, services and administration functions. Financing costs and income tax are managed on a Group basis and are not allocated to operating segments.

EBIT is the key measure by which management monitors the performance of the segments.

The Group does not have operations in other geographic areas or economic exposure to any individual customer that is in excess of 10% of sales revenue.

	SUPERMARKETS	LIQUOR	EXPRESS	OTHER	CONSOLIDATED
	$M	$M	$M	$M	$M
2021					
Sales revenue	33,845	3,525	1,192	-	38,562
Segment EBIT	**1,702**	**165**	**67**	**(61)**	**1,873**
Financing costs					(427)
Profit before income tax					**1,446**
Income tax expense					(441)
Profit for the period					**1,005**
Share of net loss of equity accounted investments included in EBIT					(5)
2020					
Sales revenue	32,993	3,308	1,107	-	37,408
Segment EBIT	**1,618**	**138**	**33**	**(27)**	**1,762**
Financing costs					(443)
Profit before income tax					**1,319**
Income tax expense					(341)
Profit for the period					**978**
Share of net loss of equity accounted investments included in EBIT					(6)

1.2 EARNINGS PER SHARE (EPS)

	2021	2020
EPS attributable to equity holders of the Company		
Basic and diluted EPS (cents)	75.3	73.3
Profit for the period ($M)	1,005	978
Weighted average number of ordinary shares for basic EPS (shares, million)	1,334	1,334
Weighted average number of ordinary shares for diluted EPS (shares, million)	1,335	1,334

CALCULATION METHODOLOGY

EPS is profit for the period attributable to ordinary equity holders of the Company, divided by the weighted average number of ordinary shares on issue during the period.

Diluted EPS is calculated on the same basis except that it includes the impact of any potential commitments the Group has to issue shares in the future.

Between the reporting date and the issue date of the Financial Report, there have been no transactions involving ordinary shares or potential ordinary shares that would impact the calculation of EPS disclosed in the table above.

1.3 SALES REVENUE

SALE OF GOODS

The Group operates a network of supermarkets, retail liquor stores and convenience stores, as well as online platforms. Revenue is recognised by the Group when it is the principal in the sales transaction. Revenue from the sale of goods is recognised when control of the goods has transferred to the customer. For goods purchased in-store, control of the goods transfers to the customer at the point of sale. For goods purchased online, control of the goods transfers to the customer upon delivery, or when collected by the customer.

Revenue comprises the fair value of consideration received or receivable for the sale of goods and is recorded net of discounts and goods and services tax (GST).

1.4 ADMINISTRATION EXPENSES

	2021 $M	2020 $M
Employee benefits expense	4,898	4,768
Occupancy and overheads	707	652
Depreciation and amortisation[1]	1,513	1,440
Marketing expenses	242	216
Impairment reversal	(3)	(41)
Other store expenses	623	659
Other administration expenses	412	387
Total administration expenses	**8,392**	**8,081**

[1] Total depreciation and amortisation for FY21 is $1,559 million (FY20: $1,495 million), the remaining depreciation and amortisation is included within cost of sales.

Employee benefits expense is comprised of:

	2021 $M	2020 $M
Remuneration, bonuses and on-costs	4,493	4,387
Superannuation expense	369	355
Share-based payments expense	36	26
Total employee benefits expense	**4,898**	**4,768**

EMPLOYEE BENEFITS EXPENSE

The Group's accounting policy for liabilities associated with employee benefits is set out in Note 2.9 Provisions. The policy relating to share-based payments is set out in Note 7.2 Employee share plans.

1.4 ADMINISTRATION EXPENSES (CONTINUED)

Share-based payments expense includes both awards granted by the Company that will be settled in equity of the Company and awards granted by Wesfarmers (pre demerger) to employees of the Group that will be settled in equity of Wesfarmers.

RETIREMENT BENEFIT OBLIGATIONS

The Group contributes to a number of superannuation funds on behalf of its employees, and the Group's legal or constructive obligation is limited to these contributions. Contributions payable by the Group are recognised as an expense in the Income Statement when incurred.

1.5 FINANCING COSTS

	2021 $M	2020 $M
Interest expense	23	32
Imputed interest on lease liabilities	390	399
Discount rate adjustment	-	3
Other finance related costs	14	9
Total financing costs	**427**	**443**

FINANCING COSTS

Financing costs consist of interest and other costs incurred in connection with the borrowing of funds, imputed interest on lease liabilities as well as the discount rate adjustments associated with non-current provisions (excluding employee benefits). Financing costs directly attributable to the acquisition, construction or production of an asset, that necessarily takes more than 12 months to get ready for its intended use or sale, are capitalised as part of the cost of the asset. All other financing costs are expensed in the period in which they are incurred.

1.6 INCOME TAX

The major components of income tax expense in the Income Statement are set out below:

	2021 $M	2020 $M
Current income tax expense	449	461
Adjustment in respect of current income tax of previous periods	13	(5)
Deferred income tax relating to origination and reversal of temporary differences	(18)	(79)
Adjustment in respect of deferred income tax of previous periods	(3)	(36)
Income tax expense reported in the Income Statement	**441**	**341**

The components of income tax expense recognised in Other Comprehensive Income (OCI) are set out below:

	2021 $M	2020 $M
Deferred tax related to items recognised in OCI during the period:		
Net loss on revaluation of cash flow hedges	3	5
Deferred income tax charged to OCI	**3**	**5**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.6 INCOME TAX (CONTINUED)

The tax expense included in the Income Statement consists of current and deferred income tax.

CURRENT INCOME TAX IS:

- the expected tax payable on taxable income for the period
- calculated using tax rates enacted or substantively enacted at the reporting date
- inclusive of any adjustment to income tax payable or recoverable in respect of previous periods

DEFERRED INCOME TAX IS:

- recognised using the liability method
- based on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for taxation purposes
- calculated using the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on the tax rates that have been enacted or substantively enacted by the reporting date

Both current and deferred income tax are charged or credited to the Income Statement. However, when it relates to items charged or credited directly to the Statement of Changes in Equity or Other Comprehensive Income, the tax is recognised in equity, or OCI, respectively.

Reconciliation of the Group's applicable tax rate to the effective tax rate

	2021 $M	2020 $M
Profit before income tax	**1,446**	**1,319**
At Australia's corporate tax rate of 30.0% (2020: 30.0%)	434	396
Adjustments in respect of income tax of previous periods	10	2
Share of results of joint venture	2	2
Non-deductible expenses for income tax purposes	2	5
Non-assessable income for income tax purposes	(7)	(21)
Significant item - tax consolidation	-	(31)
Significant item - incorporated joint venture with Australian Venue Co.	-	(12)
Income tax expense reported in the Income Statement[1]	**441**	**341**

[1] At the effective income tax rate of 30.5% (2020: 25.9%)

TAX CONSOLIDATION

The Company and its 100% owned Australian resident subsidiaries formed an income tax consolidated group with effect from 31 December 2018.

The Company is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing agreement which operates to manage joint and several liability for group tax liabilities amongst group members as well as enable group members to leave the group clear of future group tax liabilities. Members of the group have also entered into a taxation funding agreement which provides that each member of the tax consolidated group pay a tax equivalent amount to or from the parent in accordance with their notional current tax liability or current tax asset. Such amounts are reflected in amounts receivable from or payable to the parent company in their accounts and are settled as soon as practicable after lodgement of the consolidated tax return and payment of the tax liability.

1.6 INCOME TAX (CONTINUED)

Deferred income tax balances recognised in the Balance Sheet

2021	OPENING BALANCE $M	CHARGED TO PROFIT OR LOSS $M	CREDITED TO OCI $M	OTHER $M	CLOSING BALANCE $M
Provisions	56	5	-	-	61
Employee benefits	249	8	-	-	257
Trade and other payables	34	16	-	-	50
Inventories	45	-	-	-	45
Property, plant and equipment	139	14	-	-	153
Intangible assets	17	1	-	-	18
Lease Liabilities	2,725	(268)	-	170	2,627
Cash flow hedges	6	-	3	-	9
Other individually insignificant balances	19	(7)	-	-	12
Deferred tax assets	**3,290**	**(231)**	**3**	**170**	**3,232**
Accelerated depreciation for tax purposes	96	20	-	-	116
Right-of-use assets	2,297	(272)	-	161	2,186
Other assets	-	-	-	9	9
Other individually insignificant balances	48	-	-	-	48
Deferred tax liabilities	**2,441**	**(252)**	**-**	**170**	**2,359**
Net deferred tax assets	**849**	**21**	**3**	**-**	**873**

2020	OPENING BALANCE $M	EFFECT OF ADOPTION OF AASB 16 *LEASES* $M	CHARGED TO PROFIT OR LOSS $M	CREDITED TO OCI $M	ACQUISITIONS $M	CLOSING BALANCE $M
Provisions	92	(34)	(3)	-	1	56
Employee benefits	215	-	34	-	-	249
Trade and other payables	15	-	19	-	-	34
Inventories	41	-	4	-	-	45
Property, plant and equipment	127	-	12	-	-	139
Intangible assets	(7)	-	24	-	-	17
Lease Liabilities	-	2,681	35	-	9	2,725
Cash flow hedges	1	-	-	5	-	6
Other individually insignificant balances	22	(18)	15	-	-	19
Deferred tax assets	**506**	**2,629**	**140**	**5**	**10**	**3,290**
Accelerated depreciation for tax purposes	88	-	8	-	-	96
Right-of-use assets	-	2,280	8	-	9	2,297
Other individually insignificant balances	53	(7)	2	-	-	48
Deferred tax liabilities	**141**	**2,273**	**18**	**-**	**9**	**2,441**
Net deferred tax assets	**365**	**356**	**122**	**5**	**1**	**849**

1.6 INCOME TAX (CONTINUED)

TAX ASSETS AND LIABILITIES

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to set off current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

The Group has unrecognised deferred tax assets relating to temporary differences arising from its investments in Loyalty Pacific Pty Ltd (operator of the flybuys loyalty program) and Queensland Venue Co. Pty Ltd (QVC), and capital losses from disposal of capital gains tax assets. Deferred tax assets have not been recognised in relation to these amounts as the Group has determined that at the reporting date, it is not probable that taxable profits will be available against which the Group can utilise these benefits. The unrecognised deferred tax asset is $109 million (2020: $112 million).

An uncertain tax treatment is any tax treatment applied by the Group where there is uncertainty over whether it will be accepted by the relevant tax authority. If it is not probable that the treatment will be accepted, the effect of the uncertainty is reflected in the period in which that determination is made (for example, by recognising an additional tax liability). The Group measures the impact of the uncertainty using the method that best predicts the resolution of the uncertainty: either the most likely amount method or the expected value method. The judgements and estimates made to recognise and measure the effect of uncertain tax treatments are reassessed whenever circumstances change or when there is new information that affects those judgements.

The Group determined, based on its tax compliance, that it is probable that its tax treatments applied at 27 June 2021 will be accepted by the taxation authorities.

GOODS AND SERVICES TAX (GST)

Revenue, expenses and assets are recognised net of GST, except:

- when the GST incurred on the sale or purchase of assets or services is not payable to or recoverable from the taxation authority, in which case GST is recognised as part of the revenue or the expense item or as part of the cost of acquisition of the asset; or
- when receivables are stated with the amount of GST included.

The net amount of GST recoverable from or payable to the taxation authority is included as part of receivables or payables in the Balance Sheet. Commitments and contingencies are disclosed net of the amount of GST recoverable from or payable to the taxation authority.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities where recoverable or payable to the taxation authority is classified as part of operating cash flows.

2. ASSETS AND LIABILITIES

This section details the assets used in the Group's operations and the liabilities incurred as a result.

2.1 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

	2021 $M	2020 $M
Cash on hand and in transit	576	540
Cash at bank and on deposit	211	452
Total cash and cash equivalents	**787**	**992**

All receivables from EFT, credit card and debit card point of sale transactions during the period are classified as cash and cash equivalents.

For the purpose of the Cash Flow Statement, cash and cash equivalents includes cash on hand and in transit, at bank and on deposit, net of outstanding bank overdrafts which are repayable on demand.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits earn interest at the respective short-term deposit rates.

Reconciliation of profit for the period to net cash flows from operating activities

	2021 $M	2020 $M
Profit for the period	**1,005**	**978**
Adjustments for:		
Depreciation and amortisation	1,559	1,495
Impairment reversal	(3)	(41)
Net loss on disposal of non-current assets	12	39
Share of net loss of equity accounted investments	5	6
Share-based payments expense	32	13
Other	13	-
Changes in assets and liabilities net of the effects of acquisitions and disposals of businesses:		
(Increase) / decrease in inventories	59	(201)
(Increase) / decrease in trade and other receivables	66	(78)
Increase in prepayments	(12)	(20)
Increase in other assets	(32)	(4)
Increase in deferred tax assets	(24)	(121)
(Increase) / decrease in income tax receivable	102	(42)
Increase / (decrease) in trade and other payables	(77)	339
Increase in provisions	75	138
Increase in other liabilities	57	51
Net cash flows from operating activities	**2,837**	**2,552**

2.2 TRADE AND OTHER RECEIVABLES

Trade and other receivables are comprised of the following:

	2021 $M	2020 $M
Trade receivables[1]	315	314
Other receivables	63	130
	378	**444**
Allowance for expected credit losses	(10)	(10)
Total trade and other receivables	**368**	**434**

[1] Includes commercial income due from suppliers of $119 million (2020: $140 million).

Trade receivables and other receivables are classified as financial assets held at amortised cost.

TRADE RECEIVABLES

Trade receivables are initially recognised at the amount due and subsequently at amortised cost using the effective interest method, less an allowance for expected credit losses (impairment provision). The carrying value of trade and other receivables, less impairment provisions, is considered to approximate fair value, due to the short-term nature of the receivables.

IMPAIRMENT OF TRADE RECEIVABLES

The collectability of trade and other receivables is reviewed on an ongoing basis. Individual debts which are known to be uncollectable are written off when identified.

The Group recognises an impairment provision based upon anticipated lifetime losses of trade receivables. The anticipated lifetime losses are determined with reference to historical experience and are regularly reviewed and updated.

The amount of the impairment loss is recognised in the Income Statement within 'administration expenses'.

2.3 OTHER ASSETS

Other assets are comprised of the following:

	2021 $M	2020 $M
Prepayments	85	69
Other assets	2	1
Total other current assets	**87**	**70**
Prepayments	17	21
Other assets	130	99
Total other non-current assets	**147**	**120**

2.4 INVENTORIES

Inventories comprise goods held for resale and are valued at the lower of cost and net realisable value, which is the estimated selling price less estimated costs to sell.

The cost of inventory is based on purchase cost, after deducting certain types of commercial income and including logistics and store remuneration incurred in bringing inventories to their present location and condition.

Volume-related supplier rebates, and supplier promotional rebates where they exceed spend on promotional activities, are accounted for as a reduction in the cost of inventory and recognised in the Income Statement when the inventory is sold.

Key estimate: Net realisable value

An inventory provision is recognised where the realisable value from sale of inventory is estimated to be lower than the inventory's carrying value. Inventory provisions for different product categories are estimated based on various factors, including expected sales profile, prevailing sales prices, seasonality and expected losses associated with slow-moving inventory items.

COMMERCIAL INCOME

Commercial income represents various discounts or rebates provided by suppliers. These include:

- settlement discounts for the purchase of inventory
- discounts based on purchase or sales volumes
- contributions towards promotional activity for a supplier's product

Depending on the type of arrangement with the supplier, commercial income will either be deducted from the cost of inventory (where it relates to the purchase of inventory) or recognised as a reduction in related expenses (where it relates to the sale of goods).

Amounts due from suppliers are recognised within trade receivables, except in cases where the Group currently has the legal right and the intention to offset, in which case only the net amount receivable or payable is presented. Refer to Note 4.3 Financial instruments for details of amounts offset in the Balance Sheet.

Key estimate: Commercial income

The recognition of certain types of commercial income requires the following estimates:

- the volume of inventory purchases that will be made during a specific period
- the amount of the related product that will be sold
- the balance remaining in inventory at the reporting date.

Estimates are based on historical and forecast sales and inventory turnover levels.

2.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost less accumulated depreciation and any recognised impairment. Cost comprises expenditure that is directly attributable to the acquisition of the item and subsequent costs incurred that are eligible for capitalisation. Repairs and maintenance costs are charged to the Income Statement during the period in which they are incurred. Property, plant and equipment is depreciated on a straight-line basis to its residual value over its expected useful life.

2.5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	LAND	BUILDINGS	PLANT & EQUIPMENT	LEASEHOLD IMPROVEMENTS	TOTAL
	$M	$M	$M	$M	$M
Useful life (range)	*Not applicable*	*20 – 40 years*	*3 – 20 years*	*Term of lease*	
2021					
Cost	349	310	7,300	1,139	9,098
Accumulated depreciation and impairment	-	(9)	(3,987)	(639)	(4,635)
Carrying amount at end of period	**349**	**301**	**3,313**	**500**	**4,463**
Carrying amount at beginning of period	413	231	3,009	474	4,127
Additions	19	126	816	108	1,069
Transfer to assets held for sale	(43)	(32)	(9)	(1)	(85)
Depreciation	-	(6)	(480)	(76)	(562)
Impairment	9	-	(1)	-	8
Disposals and write-offs[1]	(49)	(18)	(22)	(5)	(94)
Carrying amount at end of period	**349**	**301**	**3,313**	**500**	**4,463**
Construction work in progress included above	-	148	661	108	917
2020					
Cost	413	240	6,653	1,054	8,360
Accumulated depreciation and impairment	-	(9)	(3,644)	(580)	(4,233)
Carrying amount at end of period	**413**	**231**	**3,009**	**474**	**4,127**
Carrying amount at beginning of period	472	251	2,947	449	4,119
Additions	10	57	615	96	778
Transfer to assets held for sale	(27)	(13)	(6)	-	(46)
Depreciation	-	(3)	(469)	(71)	(543)
Impairment	44	-	(1)	-	43
Disposals and write-offs[1]	(86)	(61)	(77)	-	(224)
Carrying amount at end of period	**413**	**231**	**3,009**	**474**	**4,127**
Construction work in progress included above	-	82	483	80	645

[1] Net loss on disposal of property, plant and equipment during the period was $12 million (2020: $39 million net loss)

2.6 INTANGIBLE ASSETS

The Group's intangible assets comprise licences, software and goodwill.

LICENCES AND SOFTWARE

Licences and software are measured initially at acquisition cost or costs incurred to develop the asset. Intangible assets acquired in a business combination are recognised at fair value at the acquisition date. Following initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. They are amortised on a straight-line basis over their estimated useful lives. Intangible assets with indefinite useful lives are not amortised. Instead they are tested for impairment annually or more frequently if events or changes in circumstances indicate they may be impaired.

Licences have been assessed as having indefinite lives on the basis that the licences are expected to be renewed in line with business continuity requirements.

For internally generated software, research costs are expensed as incurred. Development expenditure is capitalised when management has the intention to develop the asset, it is probable that future economic benefits will flow to the Group and the cost can be reliably measured.

In respect to cloud computing arrangements, the Group assesses whether the arrangement contains a lease and if not, whether the arrangement provides the Group with a resource that it can control. Costs associated with implementation are then assessed as to whether they can be capitalised in accordance with relevant accounting standards.

GOODWILL

Goodwill recognised by the Group has arisen as a result of business combinations and represents the future economic benefits that arise from assets that are not capable of being individually identified and separately recognised.

Goodwill is initially measured as the amount the Group has paid in acquiring a business over and above the fair value of the individual assets and liabilities acquired. Goodwill is considered to have an indefinite useful economic life. It is therefore not amortised but is instead tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less any accumulated impairment losses and, for the purpose of impairment testing, is allocated to cash generating units.

Refer to Note 4.1 Impairment of non-financial assets for further details on impairment testing.

2.6 INTANGIBLE ASSETS (CONTINUED)

	GOODWILL	SOFTWARE	LICENCES	TOTAL
	$M	$M	$M	$M
Useful life (range)	*Indefinite*	*5 years*	*Indefinite*	
2021				
Cost	1,156	1,524	28	2,708
Accumulated amortisation and impairment	-	(1,009)	(1)	(1,010)
Carrying amount at end of period	**1,156**	**515**	**27**	**1,698**
Carrying amount at beginning of period	1,156	414	27	1,597
Additions	-	203	-	203
Impairment	-	(5)	-	(5)
Amortisation	-	(97)	-	(97)
Carrying amount at end of period	**1,156**	**515**	**27**	**1,698**
Development work in progress included above	-	220	-	220
2020				
Cost	1,156	1,332	28	2,516
Accumulated amortisation and impairment	-	(918)	(1)	(919)
Carrying amount at end of period	**1,156**	**414**	**27**	**1,597**
Carrying amount at beginning of period	1,153	362	26	1,541
Additions	3	145	1	149
Impairment	-	(2)	-	(2)
Amortisation	-	(91)	-	(91)
Carrying amount at end of period	**1,156**	**414**	**27**	**1,597**
Development work in progress included above	-	186	-	186

2.7 LEASES

The Group has lease agreements for properties and various items of machinery, vehicles and other equipment used in its operations.

Set out below are the carrying amounts of recognised right-of-use assets and movements during the period:

	2021			2020		
	PROPERTY LEASES $M	NON-PROPERTY LEASES $M	TOTAL $M	PROPERTY LEASES $M	NON-PROPERTY LEASES $M	TOTAL $M
At beginning of period	**7,541**	**119**	**7,660**	**7,339**	**142**	**7,481**
Additions	298	31	329	275	16	291
Other remeasurements[1]	199	-	199	749	-	749
Depreciation expense	(862)	(38)	(900)	(822)	(39)	(861)
At end of period	**7,176**	**112**	**7,288**	**7,541**	**119**	**7,660**

[1] Includes reasonably certain options and remeasurements, net of leases terminated.

Set out below are the carrying amounts of recognised lease liabilities and movements during the period:

	2021 $M	2020 $M
At beginning of period	**9,083**	**8,856**
Additions	329	291
Other remeasurements[1]	235	782
Accretion of interest	390	399
Payments	(1,281)	(1,245)
At end of period	**8,756**	**9,083**
Current	897	885
Non-current	7,859	8,198

[1] Includes reasonably certain options and remeasurements, net of leases terminated.

The maturity analysis of lease liabilities is disclosed in Note 4.2 Financial risk management.

VARIABLE LEASE PAYMENTS BASED ON SALES

A number of the Group's retail property lease agreements contain variable payment terms that are linked to sales. These lease payments are based on a percentage of sales recorded by a particular store. The specific percentage rent adjustment mechanism varies by individual lease agreement. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base for newly established stores. Variable lease payments are recognised in profit or loss in the period in which the condition that triggers those payments occurs and are generally payable for future periods in the lease term.

The following provides information on the Group's variable lease payments, including the magnitude in relation to fixed payments:

	2021			2020		
	FIXED PAYMENTS $M	VARIABLE PAYMENTS $M	TOTAL $M	FIXED PAYMENTS $M	VARIABLE PAYMENTS $M	TOTAL $M
Leases with lease payments based on sales	567	42	**609**	511	39	**550**

EXTENSION OPTIONS

Extension options are included in the majority of property leases across the Group. Where practicable, the Group seeks to include extension options when negotiating leases to provide flexibility and align with business needs. Leases may contain multiple extension options and are exercisable only by the Group and not by the lessors.

Extension options are only reflected in the lease liability when it is reasonably certain they will be exercised. When assessing if an option is reasonably certain to be exercised, a number of factors are considered including the option expiry date, whether formal approval to extend the lease has been obtained, store trading performance and the strategic importance of the site. Where a lease contains multiple extension options, only the next option is considered in the assessment. Option periods range from 1 to 15 years.

2.7 LEASES (CONTINUED)

Of the Group's lease portfolio, 72% of leases have extension options (2020: 73%). Of those leases, 30%[1] have an extension option included in the calculation of the lease liability at 27 June 2021 (2020: 32%).

The following amounts have been recognised in the Income Statement:

	2021 $M	2020 $M
Depreciation of right-of-use assets	900	861
Interest expense on lease liabilities	390	399
Expenses relating to short-term leases (included in administration expenses)	6	7
Variable lease payments based on sales (included in administration expenses)	42	39
Other variable lease payments (included in administration expenses)	7	9
Total amount recognised in the Income Statement	**1,345**	**1,315**

The Group recognised a total gain of $25 million relating to three sale and leaseback transactions during the period (2020: $14 million).

GROUP AS LESSEE

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases (leases with a term of 12 months or less) and leases of low-value assets. The Group recognises lease liabilities to make future lease payments and right-of-use assets representing the right to use the underlying assets from the date the leased asset is available for use by the Group.

Each lease payment is apportioned between the liability and financing costs. Financing costs are recognised in the Income Statement over the lease term so as to produce a constant periodic rate of interest on the remaining liability.

The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term (which includes options that are considered 'reasonably certain'). Payments associated with short-term leases and leases of low-value assets are expensed when incurred in the Income Statement.

Cash payments for the principal portion of the lease liability are presented within financing activities in the Cash Flow Statement, while payments relating to short-term leases, low-value assets and variable lease components not included in the measurement of the lease liability are presented within cash flows from operating activities.

Lease liabilities are initially measured at net present value and comprise the following:

- fixed payments (including in-substance fixed payments), less any lease incentives
- variable lease payments based on an index or rate, using the index or rate at the commencement date
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payment of termination penalties if the lessee is reasonably certain to terminate the lease and incur penalties.

If the interest rate implicit in the lease cannot be readily determined, the lease payments are discounted using the lessee's incremental borrowing rate at the lease commencement date.

Right-of-use assets are measured at cost and comprise the following:

- the initial measurement of the lease liability
- any lease payments made at or before the commencement date, less any lease incentives received
- any initial direct costs
- any restoration costs.

Right-of-use assets are also subject to impairment testing. Refer to the accounting policies in Note 4.1 Impairment of non-financial assets.

[1] 51% of these leases contain one or more future extension options not included in the lease liability (2020: 50%)

2.7 LEASES (CONTINUED)

Key estimate: Incremental borrowing rate

If the Group cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The IBR requires estimation when no observable rates are available or when adjustments need to be made to reflect the terms and conditions of the lease. The Group estimates the IBR using observable market inputs when available and is required to make certain estimates specific to the Group (such as credit risk).

Key judgement: Determining the lease term

Extension options are included in the majority of property leases across the Group. In determining the lease term, all facts and circumstances that create an economic incentive to exercise an extension option are considered. Extension options are only included in the lease term if the lease is reasonably certain to be exercised. The assessment is reviewed if a significant event or change in circumstance occurs which affects this assessment and is within the control of the Group.

Changes in the assessment of the lease term are accounted for as a reassessment of the lease liability at the date of the change.

GROUP AS LESSOR

The Group leases out some of its freehold properties and sub-leases some of its right-of-use assets. The Group has classified these leases as operating leases because they do not transfer all of the risks and rewards incidental to ownership of the assets.

The undiscounted lease payments to be received are set out below:

	2021 $M	2020 $M
Within one year	23	20
Between one and five years	49	46
More than five years	22	8
Total	**94**	**74**

Rental income is accounted for on a straight-line basis over the lease term and is included in 'other operating revenue' in the Income Statement. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Variable lease income not dependent on an index or rate is recognised as revenue in the period in which it is earned. The Group recognised income of $21 million for the period with respect to subleasing of its right-of-use assets (2020: $17 million).

2.8 TRADE AND OTHER PAYABLES

Trade and other payables are comprised of the following:

	2021 $M	2020 $M
Trade payables	2,794	2,898
Other payables	866	839
Total trade and other payables	**3,660**	**3,737**

Trade payables are non-interest-bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.9 PROVISIONS

	2021 $M	2020 $M
Current		
Employee benefits	778	746
Restructuring provision	51	6
Self-insurance liabilities	110	100
Other	11	9
Total current provisions	**950**	**861**
Non-current		
Employee benefits	91	89
Restructuring provision	104	127
Self-insurance liabilities	263	256
Total non-current provisions	**458**	**472**

Movements in restructuring, self-insurance and other provisions

	RESTRUCTURING $M	SELF-INSURANCE $M	OTHER $M	TOTAL $M
At beginning of period	**133**	**356**	**9**	**498**
Arising during the period	32	130	9	171
Utilised	(12)	(105)	(7)	(124)
Unused amounts reversed	-	(8)	-	(8)
Unwind / changes in discount rate	2	-	-	2
At end of period	**155**	**373**	**11**	**539**
Current	51	110	11	172
Non-current	104	263	-	367

2.9 PROVISIONS (CONTINUED)

Provisions are:

- recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that cash will be required to settle the obligation and the amount can be reliably estimated
- measured at the present value of the estimated cash outflow required to settle the obligation.

Where a provision is non-current, and the effect is material, the nominal amount is discounted. The discount is recognised as a financing cost in the Income Statement.

PROVISION	KEY ESTIMATES
Employee benefits Provisions for employee entitlements to annual leave, long service leave and employee incentives (where the Group does not have an unconditional right to defer payment for at least twelve months after the reporting date) are recognised within the current provision for employee benefits and represent the amount which the Group has a present obligation to pay, resulting from employees' services up to the reporting date. All other short-term employee benefit obligations are presented as payables. Liabilities for long service leave where the Group has an unconditional right to defer payment for at least twelve months after the reporting date are recognised within the non-current provision for employee benefits.	Employee benefits provisions are based on a number of estimates including, but not limited to: • expected future wages and salaries • attrition (applicable to long service leave provisions only) • discount rates • expected salary related payments, interest and on-costs following a review of the pay arrangements for award-covered salaried team members
Self-insurance The Group is self-insured for workers compensation and certain general liability risks. The Group seeks external actuarial advice in determining self-insurance provisions. Provisions are discounted and are based on claims reported and an estimate of claims incurred but not reported. These estimates are reviewed bi-annually, and any reassessment of these estimates will impact self- insurance expense.	Self-insurance provisions are based on a number of estimates including, but not limited to: • discount rates • future inflation • average claim size • claims development • risk margin
Restructuring Restructuring provisions are recognised when restructuring has either commenced or has raised a valid expectation in those affected, and the Group has a detailed formal plan identifying: • the business or part of the business impacted • the location and approximate number of employees impacted • an estimate of the associated costs • the timeframe for restructuring activities	Restructuring provisions are based on a number of estimates including, but not limited to: • number of employees impacted • employee tenure and costs • restructure timeframes • discount rates

3. CAPITAL

This section provides information relating to the Group's capital structure and financing.

The Group's capital management strategy aims to ensure the Group has continued access to funding for current and future business activities by maintaining a mix of equity and debt financing, while maximising returns to shareholders.

The Group's objective is to maintain investment grade credit metrics to optimise the weighted average cost of capital over the long term, enable access to long term debt capital markets and build investor confidence.

The Directors consider the capital structure at least twice a year and provide oversight of the Group's capital management. Capital is managed through the following:

- repaying or raising debt in line with ongoing business requirements and growth opportunities aligned with the Group's strategic objectives
- amount of ordinary dividends paid to shareholders
- raising and returning capital.

3.1 INTEREST-BEARING LIABILITIES

	2021 $M	2020 $M
Non-current		
Bank debt	98	758
Capital market debt	1,044	596
Total non-current interest-bearing liabilities	**1,142**	**1,354**

On 27 August 2020, Coles issued $450 million of Australian dollar medium term notes (Notes), comprising $300 million of 10-year fixed rate Notes and $150 million of five-year floating rate Notes. The 10-year fixed rate Notes are priced at a coupon of 2.1% and the five-year floating rate Notes are priced at a margin of 0.97% over 3-month BBSW. Proceeds from the Notes were used to repay bank debt.

In addition to the capital market debt, the Group is funded through a number of revolving multi-option and term loan facilities. These bilateral bank debt facilities in aggregate total $2,815 million ('Coles facilities'). The Coles facilities have the following maturities: $1,290 million in November 2022, $1,425 million in November 2023 and $100 million in November 2025. At 27 June 2021, the facilities maturing in November 2022 and November 2023 were undrawn and the November 2025 facility was fully drawn.

Interest-bearing loans and borrowings are initially recorded at fair value, net of attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method. Gains and losses are recognised in the Income Statement when the liabilities are derecognised.

3.2 CONTRIBUTED EQUITY AND RESERVES

ORDINARY SHARES

Ordinary shares on issue are classified as equity, are fully paid and carry one vote per share and the right to dividends. Incremental costs directly attributable to the issue of new shares are recognised as a deduction from equity, net of any related income tax benefit.

CASH FLOW HEDGE RESERVE

The hedging reserve records the portion of the gain or loss on a cash flow hedging instrument that is determined to be in an effective hedge relationship. The effective portion of the gain or loss on the hedging instrument is recognised in Other Comprehensive Income within the cash flow hedge reserve, while any ineffective portion is recognised immediately in the Income Statement.

SHARE-BASED PAYMENTS RESERVE

The share-based payments reserve reflects the fair value of awards recognised as an expense in the Income Statement.

3.3 DIVIDENDS PAID AND PROPOSED

The Company considers current earnings, future cash flow requirements, targeted credit metrics and availability of franking credits in determining the amount of dividends to be paid.

Dividends are recognised as a liability in the Balance Sheet in the period in which they are determined by the Board.

	CENTS PER SHARE		TOTAL $M	
	2021	2020	2021	2020
Determined and paid during the period				
Paid final dividend (30% franked)	27.5	24.0	367	320
Paid special dividend (30% franked)	-	11.5	-	154
Paid interim dividend (30% franked)	33.0	30.0	440	399
	60.5	**65.5**	**807**	**873**
Proposed and unrecognised at reporting date[1]				
Final dividend proposed (30% franked)	28.0	27.5	374	367
	28.0	**27.5**	**374**	**367**

[1]Estimated final dividend payable, subject to variations in the number of shares up to the record date.

The Company operates a Dividend Reinvestment Plan (DRP) under which eligible holders of ordinary shares are able to reinvest all or part of their dividend payments into additional fully paid Coles Group Limited shares.

FRANKING ACCOUNT

	2021 $M	2020 $M
Total franking credits available for subsequent periods based on a tax rate of 30% (2020: 30%)	420	408

4. FINANCIAL RISK

This section details the Group's exposure to various financial risks, explains how these risks may impact the Group's financial performance or position, and details the Group's approach to managing these risks.

4.1 IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group tests property, plant and equipment and intangible assets for impairment to ensure they are not carried above their recoverable amounts:

- at least annually for goodwill
- where there is an indication that assets may be impaired (which is assessed at least at each reporting date).

These tests are performed by assessing the recoverable amount of each individual asset or, if this is not possible, the recoverable amount of the cash generating unit (CGU) to which the asset belongs. CGUs are the lowest levels at which assets are grouped and generate separately identifiable cash inflows. The recoverable amount, measured at the asset or CGU level, is the higher of fair value less costs of disposal (FVLCOD), or value in use (VIU). A discounted cash flow model is used to determine the recoverable amount under both FVLCOD and VIU. FVLCOD is based on a market participant approach and is estimated using assumptions that a market participant would use when pricing the asset or CGU. VIU is determined by discounting the future cash flows expected to be generated from the continuing use of an asset or CGU.

Key estimate: Assessment of recoverable amount

FVLCOD valuations are considered Level 3 in the fair value hierarchy due to the use of unobservable inputs in the calculation. The assumptions represent management's assessment of future trends in the relevant industry and have been based on historical data from both external and internal sources. VIU calculation represent management's best estimate of the economic conditions that will exist over the remaining useful life of the asset or CGU in its current condition.

Both FVLCOD and VIU calculations use judgements and estimates. In particular, significant judgements and estimates are made in relation to the following:

Forecast future cash flows

Forecast future cash flows are based on the Group's latest Board approved internal five-year forecasts and reflect management's best estimate of income, expenses, capital expenditure and cash flows for each asset or CGU. Internal forecasts have considered the ongoing impacts of the COVID-19 pandemic on income and expenses. Changes in selling prices and direct costs are based on past experience and management's expectation of future changes in the markets in which the Group operates.

In addition, consideration has been given to the potential financial impacts of climate change 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.

When calculating the FVLCOD of an asset or CGU, future forecast cash flows also incorporate reasonably available market participant assumptions such as enhancement capital expenditure.

Discount rates

Estimated future cash flows are discounted to their present value using discount rates that reflect the Group's weighted average cost of capital, adjusted for risks specific to the asset or CGU. The rates have been calculated in conjunction with independent valuation experts.

Expected long-term growth rates

Cash flows beyond the five-year period are extrapolated using estimated long-term growth rates. The growth rates are based on historical performance as well as expected long-term market operating conditions specific to each asset or CGU and with reference to long-term average industry growth rates. Growth rates have been calculated with the assistance of independent valuation experts.

The judgements and estimates used in assessing impairment are best estimates based on current and forecast market conditions and are subject to change in the event of shifting economic and operational conditions. Actual cash flows may therefore differ from forecasts and could result in changes to impairment recognised in future periods.

For the period ended 27 June 2021, a net impairment reversal for non-financial assets of $3 million was recognised. This amount includes a $9 million net impairment reversal ($24 million reversal partly offset by $15 million impairment expense) relating to the Group's property portfolio. The impairment reversal arose from the disposal of a number of the Group's properties during the period to the extent that an impairment loss had previously been recognised with respect to the properties disposed.

The net impairment is included in 'administration expenses' in the Income Statement as it relates to the day-to-day management of the Group's freehold property portfolio (included within 'Other' for segment reporting purposes).

4.1 IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

For the period ended 28 June 2020, a net impairment reversal for non-financial assets of $41 million was recognised, of which $44 million ($52 million reversal offset by $8 million impairment expense) related to the Group's property portfolio. This has been included in 'administration expenses' in the Income Statement and within 'Other' for segment reporting purposes.

RECOGNISED IMPAIRMENT

An impairment loss is recognised in the Income Statement if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of other assets in the CGU.

REVERSAL OF IMPAIRMENT

Where there is an indication that previously recognised impairment losses may no longer exist or may have decreased, the asset is re-tested for impairment. The impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment been recognised. Impairments recognised for goodwill are not reversed.

GOODWILL IMPAIRMENT TESTING

For the purpose of impairment testing, goodwill is allocated to CGUs or groups of CGUs according to the level at which management monitors goodwill. The FVLCOD valuation methodology was applied to determine the recoverable amount of CGUs.

The following table presents a summary of the goodwill allocation and the key assumptions used in determining the recoverable amount of each CGU:

	2021		
	SUPERMARKETS	LIQUOR	EXPRESS
Goodwill allocation ($m)	986	125	45
Indefinite life intangible assets ($m)	-	27	-
Post-tax discount rate (%)	7.5%	7.5%	7.8%
Terminal growth rate (%)	2.7%	2.7%	nil

For the period ended 28 June 2020, goodwill and indefinite life intangibles were allocated to CGUs on a consistent basis. A post-tax discount rate of 8.1% and a terminal growth rate of 3.0% for Supermarkets and Liquor were applied, along with a post-tax discount rate of 8.4% and a terminal growth rate of 2.0% for Express.

Sensitivity analysis is performed to determine the point at which the recoverable amount is equal to the carrying amount for each CGU. For the Group's CGUs, based on current economic conditions and CGU performance, no reasonably possible change in a key assumption used in the determination of the recoverable value is expected to result in a material impairment.

4.2 FINANCIAL RISK MANAGEMENT

The following note outlines the Group's exposure to and management of financial risks. These arise from the Group's requirement to access financing (bank debt, capital market debt and overdrafts), from the Group's operational activities (cash, trade receivables and payables) and from instruments held as part of the Group's risk management activities (derivative financial instruments).

The Group's financial risk management is carried out by the Group Treasury function and governed by the Board-approved Treasury Policy (the 'Policy'). The Policy strictly prohibits speculative positions to be taken.

Management of financial risks is undertaken by the Group in line with its risk management principles and includes the following key steps: risk identification, risk measurement, setting risk tolerances and hedging objectives, strategy design and strategy implementation.

The Policy requires periodic reporting of financial risks to the Board, and its application is subject to oversight from the Chief Financial Officer and the Chair of the Audit and Risk Committee.

The Policy allows the use of various derivatives to hedge financial risks and provides guidance in relation to volume and tenor of these instruments.

In the normal course of business, the Group is exposed to various risks as set out below:

RISK	EXPOSURE	MANAGEMENT
Market risks		
Interest rate risk	The Group's exposure to interest rate risk relates primarily to interest-bearing liabilities where interest is charged at variable rates.	The Group manages interest rate risk by having access to both fixed and variable debt facilities. In line with the Policy, this risk is further managed by hedging a portion of the variable rate debt exposures with derivative financial instruments to convert floating rate debt obligations to fixed rate obligations.
Foreign exchange risk	The Group has exposure to foreign exchange risk principally arising from purchases of inventory and capital equipment denominated in foreign currencies.	To manage foreign currency transaction risk, the Group hedges material foreign currency denominated expenditure at the time of the commitment and hedges a proportion of foreign currency denominated forecast exposures (mainly relating to the purchase of inventory) through the use of forward foreign exchange contracts.
Commodity price risk	The Group is exposed to changes in commodity prices in respect to the price of electricity.	To mitigate the variability of wholesale electricity prices, the Group utilises Power Purchase Arrangements (PPAs).
Liquidity risk	The Group is exposed to liquidity and funding risk from operations and external borrowings. Liquidity risk is the risk that unforeseen events cause pressure on, or curtail, the Group's cash flows. Funding risk is the risk that sufficient funds will not be available to meet the Group's financial commitments in a timely manner.	Liquidity risk is measured under both normal market operating conditions and under a crisis situation which curtails cash flows for an extended period. This approach is designed to ensure that the Group's funding framework is sufficiently flexible to ensure liquidity under a wide range of market conditions. The Group regularly reviews its short, medium and long-term funding requirements. The Policy requires that sufficient committed funds are available to meet medium term requirements, with flexibility and headroom in the event a strategic opportunity should arise. The Group maintains a liquidity reserve in the form of undrawn facilities of at least $1 billion.

4.2 FINANCIAL RISK MANAGEMENT (CONTINUED)

RISK	EXPOSURE	MANAGEMENT
Credit risk	The Group is exposed to credit risk from its financing activities, including deposits with financial institutions and other financial instruments. With respect to credit risk arising from cash and cash equivalents, trade and other receivables and certain derivative instruments, the Group's exposure arises from default of the counterparty. Credit risk for the Group also arises from various financial guarantees in which members of the Group act as guarantor.	The majority of the Group's sales are on a cash basis, and the Group's exposure to credit risk from customer sales is therefore minimal. The Group's trade and other receivables relate largely to commercial income due from suppliers and other receivables from creditworthy third parties. Counterparty limits, credit ratings and exposures are actively managed in accordance with the Policy. The Group's exposure to bad debts is not significant, and default rates have historically been very low. The credit quality of trade and other receivables neither past due nor impaired has been assessed as high on the basis of credit ratings (where available) or historical information about counterparty default. Since the Group trades only with recognised creditworthy third parties, there is no requirement for collateral by either party. The carrying amount of trade and other receivables and other financial assets in the Balance Sheet represents the Group's maximum exposure to credit risk. There is also exposure to credit risk where members of the Group have entered into guarantees, however the probability of being required to make payments under these guarantees is considered remote. Refer to Note 6.2 Contingent liabilities for further details.

FOREIGN EXCHANGE RISK

The Group is primarily exposed to foreign exchange risk in relation to the United States dollar (USD), the Euro (EUR) and the British Pound (GBP). The Group considers its exposure to USD, EUR and GBP arising from purchases to be a long-term and ongoing exposure that is highly probable.

The table below sets out the total forward exchange contracts at the reporting date and the carrying value of the derivative asset / (liability) positions:

	NOTIONAL VALUE		CARRYING VALUE		WEIGHTED AVERAGE HEDGE RATE	
	2021	2020	2021	2020	2021	2020
BUY / SELL	$M	$M	$M	$M		
USD / AUD	56	72	1	-	0.77	0.69
EUR / AUD	291	411	(26)	(20)	0.58	0.58
GBP / AUD	36	46	1	(1)	0.55	0.54
AUD / USD	(3)	-	-	-	0.76	-

4.2 FINANCIAL RISK MANAGEMENT (CONTINUED)

At the reporting date, the Group has the following exposures to USD, EUR and GBP:

	USD $M		EUR €M		GBP £M	
	2021	2020	2021	2020	2021	2020
Financial assets						
Cash and cash equivalents	4	4		-		-
Trade receivables	6	-	-	-	-	-
Forward exchange contracts	44	49	168[1]	237	20	25
Financial liabilities						
Trade and other payables	(31)	(63)	(13)	(21)	(4)	(5)
Forward exchange contracts	(3)	-	-	-		-
Net exposure	**20**	**(10)**	**155**	**216**	**16**	**20**

[1] EUR forward exchange contracts of $137 million (2020: $191 million) relate to capital commitments. The remaining contracts hedge current and future trade payables denominated in EUR.

Foreign exchange rate sensitivity

At the reporting date, had the Australian dollar moved against the USD, EUR and GBP (with all other variables held constant), the Group's post-tax profit and OCI would have been affected by the change in value of its financial assets and financial liabilities.

The following sensitivities are based on the foreign exchange risk exposures in existence at the reporting date and the determination of reasonably possible movements based on management's assessment of reasonable fluctuations:

		POST-TAX PROFIT INCREASE (DECREASE):		POST-TAX OCI INCREASE (DECREASE):	
RATE	CHANGE	2021 $M	2020 $M	2021 $M	2020 $M
AUD / USD	+10%	-	2	(2)	(1)
	-10%	-	(2)	2	1
AUD / EUR	+10%	-	-	(15)	(22)
	-10%	-	-	18	27
AUD / GBP	+10%	-	-	(2)	(2)
	-10%	-	-	2	3

INTEREST RATE RISK

At the reporting date, the Group has the following financial assets and liabilities exposed to variable interest rate risk that, with the exception of interest rate swaps, are not designated as cash flow hedges:

	2021		2020	
	EXPOSURE $M	WEIGHTED AVERAGE INTEREST RATE %	EXPOSURE $M	WEIGHTED AVERAGE INTEREST RATE %
Financial assets				
Cash at bank and on deposit	211	0.3	452	0.6
Financial liabilities				
Bank debt	(100)	(1.4)	(760)	(1.3)
Capital market debt	(150)	(1.0)	-	-
Less: interest rate swaps (notional principal amount)	150	1.8	250	(1.6)
Net exposure to cash flow interest rate risk	**111**		**(58)**	

4.2 FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate sensitivity

A 100 basis point increase represents management's assessment of the reasonably possible change in interest rates. Based on the variable interest rate exposures in existence at the reporting date, if interest rates increased by 100 basis points, with all other variables held constant, the impact would be:

	POST-TAX PROFIT INCREASE (DECREASE):		POST-TAX OCI INCREASE (DECREASE):	
	2021 $M	2020 $M	2021 $M	2020 $M
Impacts of reasonably possible movements:				
+1.0% (100 basis points)	1	-	4	6

LIQUIDITY RISK

The Group aims to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank debt with a variety of counterparties.

The committed facilities of the Group are set out below:

	2021 $M	2020 $M
Financing facilities available:		
Bank overdrafts	13	13
Revolving multi-option facilities	2,715	2,640
Term loan facilities	100	660
	2,828	**3,313**
Financing facilities utilised:		
Revolving multi-option facilities	-	100
Guarantees issued[1]	322	358
Term loan facilities	100	660
	422	**1,118**
Financing not utilised:		
Bank overdrafts	13	13
Revolving multi-option facilities[1]	2,393	2,182
	2,406	**2,195**

[1]As at 27 June 2021, bank guarantees totalling $322 million (2020: $358 million) have been issued on behalf of the Company through the revolving multi-option facilities. While the Company has entered into these guarantees, the probability of having to make payments under these guarantees is considered remote.

The Group holds $787 million cash and cash equivalents at the reporting date (2020: $992 million).

Assets pledged as security

A controlled entity has issued a floating charge over assets, capped at $80 million (2020: $80 million), as security for payment obligations for fuel sales collected on behalf of Viva in accordance with the New Alliance Agreement. The assets are, therefore, excluded from financial covenants in all debt documentation.

Maturity analysis

The table below sets out the Group's financial liabilities across the relevant maturity periods based on their contractual maturity date. At the reporting date, the remaining undiscounted contractual maturities of the Group's financial liabilities and their carrying amounts are as follows:

4.2 FINANCIAL RISK MANAGEMENT (CONTINUED)

	< 12 MONTHS	1-2 YEARS	2-5 YEARS	> 5 YEARS	TOTAL CONTRACTUAL CASH FLOWS	CARRYING AMOUNT
	$M	$M	$M	$M	$M	$M
2021						
Trade and other payables (less accrued interest)	3,652	-	-	-	3,652	3,652
Bank debt (principal and interest)	14	10	106	-	130	100
Capital market debt (principal and interest)	22	22	216	960	1,220	1,048
Lease liabilities	1,244	1,210	3,334	4,987	10,775	8,756
Interest rate swaps	3	3	4	-	10	7
Forward exchange contracts	11	13	-	-	24	24
Power Purchase Arrangement	(1)	(1)	1	3	2	9
Total	**4,945**	**1,257**	**3,661**	**5,950**	**15,813**	**13,596**
2020						
Trade and other payables (less accrued interest)	3,737	-	-	-	3,737	3,737
Bank debt (principal and interest)	21	19	633	151	824	760
Capital market debt (principal and interest)	15	15	44	646	720	598
Lease liabilities	1,250	1,219	3,325	5,592	11,386	9,083
Interest rate swaps	4	2	7	-	13	11
Forward exchange contracts	6	8	7	-	21	21
Total	**5,033**	**1,263**	**4,016**	**6,389**	**16,701**	**14,210**

For variable rate instruments, the amount disclosed is determined by reference to the interest rate at the last re-pricing date. Contractual cash flows are undiscounted and as such will not necessarily agree with their carrying amounts.

Changes in liabilities arising from financing activities

	NOTE	AT BEGINNING OF PERIOD	CASH FLOWS	CHANGES IN FAIR VALUE	LEASES RECOGNISED	OTHER	AT END OF PERIOD
		$M	$M	$M	$M	$M	$M
2021							
Bank debt	3.1	758	(660)	-	-	-	98
Capital market debt	3.1	596	448	-	-	-	1,044
Lease liabilities	2.7	9,083	(1,281)	-	564	390	8,756
Derivatives	4.3	32	-	10	-	-	42
Total liabilities from financing activities		**10,469**	**(1,493)**	**10**	**564**	**390**	**9,940**
2020							
Bank debt	3.1	1,460	(702)	-	-	-	758
Capital market debt	3.1	-	596	-	-	-	596
Lease liabilities	2.7	8,856	(1,245)	-	1,073	399	9,083
Derivatives	4.3	19	-	13	-	-	32
Total liabilities from financial activities		**10,335**	**(1,351)**	**13**	**1,073**	**399**	**10,469**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.3 FINANCIAL INSTRUMENTS

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

The following table sets out the fair value measurement hierarchy of the Group's derivative financial instruments:

	LEVEL 2 FAIR VALUE HIERARCHY			
	2021		2020	
	ASSET	LIABILITY	ASSET	LIABILITY
Cash flow hedges				
Forward exchange contracts	2	(26)	1	(22)
Interest rates swaps	-	(7)	-	(11)
Power Purchase Agreement	-	(9)	-	(3)

The Group measures certain financial instruments, such as derivatives, at fair value at each reporting date. Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic interest. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole.

LEVEL 1	Fair value is calculated using quoted prices in active markets for identical assets or liabilities
LEVEL 2	Fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
LEVEL 3	Fair value is estimated using inputs for the asset or liability that are not based on observable market data (unobservable inputs)

All of the Group's financial instruments carried at fair value were valued using market observable inputs (Level 2).

For financial instruments that are carried at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There were no transfers between Level 1 and Level 2 during the period. The Group does not hold any material Level 3 financial instruments.

DERIVATIVES

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign exchange forward contracts, interest rate swap contracts and power purchase agreements are valued using forward pricing techniques. This includes the use of market observable inputs, such as foreign exchange spot and forward rates, yield curves of the respective currencies, interest rate curves and electricity futures. Accordingly, these derivatives are classified as Level 2.

CARRYING AMOUNTS VERSUS FAIR VALUES

The carrying amounts and fair values of the Group's financial assets and financial liabilities recognised in the financial statements are materially the same.

4.3 FINANCIAL INSTRUMENTS (CONTINUED)

OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The Group presents its derivative assets and liabilities on a gross basis, with the exception of derivative financial instruments which it intends to settle on a net basis and which are subject to enforceable master netting arrangements, such as an International Swaps and Derivatives Association (ISDA) master netting agreement. In certain circumstances, for example when a credit event such as default occurs, all outstanding transactions under an ISDA agreement are terminated. The termination value is assessed, and only a single net amount is payable in settlement of all transactions.

Commercial income due from suppliers is recognised within trade receivables, except in cases where the Group currently has a legally enforceable right of set-off and the intention to settle on a net basis, in which case only the net amount receivable or payable is recognised.

The following table sets out the Group's financial assets and financial liabilities which have been offset in the Balance Sheet at the reporting date:

	GROSS FINANCIAL ASSETS / (LIABILITIES)	GROSS FINANCIAL (LIABILITIES) / ASSETS SET OFF	NET FINANCIAL ASSETS / (LIABILITIES) PRESENTED IN THE BALANCE SHEET
	$M	$M	$M
2021			
Trade and other receivables	490	(122)	368
Trade and other payables	(3,782)	122	(3,660)
2020			
Trade and other receivables	560	(126)	434
Trade and other payables	(3,863)	126	(3,737)

HEDGE ACCOUNTING

Where the Group undertakes a hedge transaction it documents at the inception of the transaction the type of hedge, the relationship between hedging instruments and hedged items and its risk management objective and strategy for undertaking the hedge. The documentation also demonstrates, both at hedge inception and on an ongoing basis, that the hedge has been, and is expected to continue to be, highly effective.

The Group uses derivative financial instruments for cash flow hedging purposes and designates them as such.

Cash flow hedge	Derivatives or other financial instruments that hedge the exposure to variability in cash flows attributable to a particular risk associated with an asset, liability or forecast transaction. The Group uses cash flows hedges to mitigate the risk of variability of: • future cash flows attributable to foreign currency fluctuations over the hedging period where the Group has highly probable purchase or settlement commitments denominated in foreign currencies; and • interest rate fluctuations over the hedging period where the Group has variable rate debt obligations.
Recognition date	The date the hedging instrument is entered into
Measurement	Fair value
Changes in fair value	Changes in the fair value of derivatives designated as cash flow hedges are recognised directly in OCI and accumulated in equity in the hedging reserve to the extent that the hedge is highly effective. To the extent that the hedge is ineffective, changes in fair value are recognised immediately in the Income Statement.

5. GROUP STRUCTURE

This section provides information relating to subsidiaries and other material investments of the Group.

5.1 EQUITY ACCOUNTED INVESTMENTS

NAME OF COMPANY	PRINCIPAL ACTIVITY	PLACE OF INCORPORATION	TYPE	OWNERSHIP INTEREST 2021	OWNERSHIP INTEREST 2020
Loyalty Pacific Pty Ltd	Operator of the flybuys loyalty program	Australia	Joint Venture	50%	50%
Queensland Venue Co. Pty Ltd (QVC)	Operator of Spirit Hotels and Queensland retail liquor business	Australia	Associate	50%	50%

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. An associate is an entity that is not controlled or jointly controlled by the Group, but over which the Group has significant influence.

The Group accounts for its investments in joint ventures and associates using the equity method of accounting. Under the equity method, the investment in a joint venture or associate is initially recognised at cost. Thereafter, the carrying amount of the investment is adjusted to recognise the Group's share of profit after tax of the joint venture or associate, which is recognised in profit or loss. The Group's share of OCI is recognised within Other Comprehensive Income. Dividends received from a joint venture or associate reduce the carrying amount of the investment.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss for its investment in a joint venture or associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture or associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture or associate and its carrying value. Any impairment loss will be recognised within 'share of net profit of equity accounted investments' in the Income Statement.

Key judgement: Control and significant influence

The Group has a number of management agreements relating to its joint venture and associate investments which it considers when determining whether it has control, joint control or significant influence. The Group assesses whether it has the power to direct the relevant activities of the investee by considering the rights it holds to appoint or remove key management and the decision-making rights and scope of powers specified in the agreements.

The Group's interests in Loyalty Pacific Pty Ltd and QVC are accounted for using the equity method of accounting in the Balance Sheet.

LOYALTY PACIFIC PTY LTD

A reconciliation of the carrying amount of the Group's investment in Loyalty Pacific Pty Ltd is set out below:

	2021 $M	2020 $M
At beginning of period	**16**	**11**
Additions	8	11
Loss for the period	(5)	(6)
At end of period	**19**	**16**

5.1 EQUITY ACCOUNTED INVESTMENTS (CONTINUED)

QUEENSLAND VENUE CO. PTY LTD

In FY19, the Company 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'). An incorporated joint venture company, QVC was established. Under the joint venture documents, the Company holds all R-shares in QVC and operates the Retail Liquor business through its wholly-owned subsidiary, Liquorland (Australia) Pty. Ltd. (LLA).

For accounting purposes, LLA is considered the principal in relation to retail liquor sales due to its exposure to the economic risks and benefits associated with the Retail Liquor business. Accordingly, LLA recognises revenue from retail liquor sales by QVC directly in its Income Statement. Revenue recognised by QVC relates solely to Spirit Hotels.

Furthermore, due to the application of service fees and cost recoveries between the Company and QVC, net profit relating to the Retail Liquor business as recognised by QVC is nominal.

A reconciliation of the carrying amount of the Group's investment in QVC is set out below:

	2021 $M	2020 $M
At beginning of period	**201**	**201**
Additions	-	-
Profit for the period	-	-
At end of period	**201**	**201**

5.2 ASSETS HELD FOR SALE

At 27 June 2021, six of the Group's properties with a total carrying value of $85 million have been classified as held for sale (2020: $75 million).

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. A sale is considered highly probable when actions required to complete the sale indicate that it is unlikely significant changes to the sale will be made or that the decision to sell will be withdrawn, and where management is committed to a plan to sell the asset and the sale is expected to be completed within one year from the date of the classification.

5.3 SUBSIDIARIES

The ultimate parent of the Group is Coles Group Limited, a company incorporated in Australia. Subsidiaries are consolidated from the date of acquisition, being the date Coles Group Limited obtains control, and continue to be consolidated until the date control ceases. Control exists where the Group has the power to govern the financial and operating policies of the entity in order to obtain benefits from its activities.

Set out below are the subsidiaries of the Group. All entities were incorporated in Australia and wholly-owned unless stated otherwise.

Andearp Pty Ltd	Coles Retail Services Pty Ltd
Australian Liquor Group Ltd *	Coles Supermarkets Australia Pty Ltd *
Bi-Lo Pty. Limited *	Coles Trading (Shanghai) Co. Limited (incorporated in China)
Charlie Carter (Norwest) Pty Ltd	Coles WFS Pty Ltd (formerly Wesfarmers Finance Pty Ltd)
Chef Fresh Pty Ltd	CSA Retail (Finance) Pty Ltd
CMPQ (CML) Pty Ltd	e.colesgroup Pty Ltd
Coles Ansett Travel Pty Ltd (97.5%)	Eureka Operations Pty Ltd *
Coles Export Asia Limited (incorporated in Hong Kong)	GBPL Pty Ltd
Coles Export Australia Pty Ltd (formerly Tooronga Holdings Pty Ltd) *	Grocery Holdings Pty Ltd *
Coles Financial Services Pty Ltd	Katies Fashions (Aust) Pty Limited
Coles FS Holding Company Pty Ltd (formerly Wesfarmers Finance Holding Company Pty Ltd)	Liquorland (Australia) Pty. Ltd *
Coles Group Deposit Services Pty Ltd	Newmart Pty Ltd
Coles Group Finance Limited *	Procurement Online Pty Ltd
Coles Group Properties Holdings Ltd *	Retail Ready Operations Australia Pty. Ltd *
Coles Group Property Developments Ltd *	Richmond Plaza Shopping Centre Pty Ltd
Coles Group Superannuation Fund Pty Ltd	Tickoth Pty Ltd
Coles Group Supply Chain Pty Ltd *	WFPL Funding Co Pty Ltd
Coles Group Treasury Pty Ltd (formerly Coles Group Payments Pty Ltd) *	WFPL No 2 Pty Ltd
Coles Online Pty Ltd *	WFPL Security SPV Pty Ltd
Coles Property Management Pty Ltd	WFPL SPV Pty Ltd
ENTITIES FORMED/INCORPORATED OR ACQUIRED DURING THE FINANCIAL YEAR	
Coles Captive Insurance Pte. Ltd. (incorporated in Singapore)	CNSCE Pty Ltd

* These entities are parties to the Deed of Cross Guarantee and are members of the Closed Group as at 27 June 2021.

5.3 SUBSIDIARIES (CONTINUED)

DEED OF CROSS GUARANTEE

Pursuant to *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785* ('ASIC Instrument') the wholly-owned subsidiaries listed on the previous page (*) are relieved from the *Corporations Act 2001* (Cth) requirements for preparation, audit and lodgement of financial reports, and Directors' Reports.

As a condition of the ASIC Instrument, the Company and the subsidiaries listed on the previous page have entered into a Deed of Cross Guarantee (the Deed). The effect of the Deed is that the Company guarantees to pay any deficiency in the event of winding up any controlled entity, or if they do not meet their obligations under the terms of any overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that the Company is wound up or if it does not meet its obligations under the terms of any overdrafts, loans, leases or other liabilities subject to the guarantee.

An Income Statement and retained earnings and a Balance Sheet, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between the parties to the Deed, for the period are set out below:

Income Statement and retained earnings

	CLOSED GROUP	
	2021	2020
	$M	$M
Sales revenue	38,562	37,408
Other operating revenue	370	376
Total operating revenue	**38,932**	**37,784**
Cost of sales	(28,764)	(28,048)
Gross profit	**10,168**	**9,736**
Other income	110	114
Administration expenses	(8,391)	(8,076)
Share of net loss from equity accounted investments	(5)	(6)
Earnings before interest and tax	**1,882**	**1,768**
Financing costs	(427)	(443)
Profit before income tax	**1,455**	**1,325**
Income tax expense	(443)	(337)
Profit for the period	**1,012**	**988**
Items that may be reclassified to profit or loss:		
Net movement in the fair value of cash flow hedges	(9)	(17)
Income tax effect	3	5
Other comprehensive income which may be reclassified to profit or loss in subsequent periods	**(6)**	**(12)**
Total comprehensive income for the period	**1,006**	**976**
Retained earnings		
Retained earnings at beginning of period	1,040	1,756
Effect of adoption of AASB 16 *Leases*	-	(831)
Profit for the period	1,012	988
Dividends paid	(807)	(873)
Retained earnings at end of period	**1,245**	**1,040**

5.3 SUBSIDIARIES (CONTINUED)

DEED OF CROSS GUARANTEE

Balance Sheet

	CLOSED GROUP	
	2021 $M	2020 $M
Assets		
Current assets		
Cash and cash equivalents	778	992
Trade and other receivables	357	434
Inventories	2,102	2,161
Income tax receivable	-	43
Assets held for sale	85	75
Other assets	87	69
Total current assets	**3,409**	**3,774**
Non-current assets		
Property, plant and equipment	4,423	4,091
Right-of-use assets	7,283	7,655
Intangible assets	1,695	1,594
Deferred tax assets	869	847
Investment in subsidiaries	249	238
Equity accounted investments	220	217
Other assets	147	120
Total non-current assets	**14,886**	**14,762**
Total assets	**18,295**	**18,536**
Liabilities		
Current liabilities		
Trade and other payables	3,756	3,858
Income tax payable	62	-
Provisions	947	858
Lease liabilities	897	884
Other	252	198
Total current liabilities	**5,914**	**5,798**
Non-current liabilities		
Interest-bearing liabilities	1,142	1,354
Provisions	457	472
Lease liabilities	7,854	8,193
Other	29	25
Total non-current liabilities	**9,482**	**10,044**
Total liabilities	**15,396**	**15,842**
Net assets	**2,899**	**2,694**
Equity		
Contributed equity	1,585	1,611
Reserves	69	43
Retained earnings	1,245	1,040
Total equity	**2,899**	**2,694**

5.4 PARENT ENTITY INFORMATION

Summary financial information for the Company is set out below:

	2021 $M	2020 $M
Profit for the period	284	**293**
Dividends received	-	2,974
Profit for the period (after dividends)	**284**	**3,267**
Other comprehensive income	-	-
Total comprehensive income for the period	**284**	**3,267**

	2021 $M	2020 $M
Assets		
Current assets	3,390	3,840
Non-current assets	5,102	5,090
Total assets	**8,492**	**8,930**
Liabilities		
Current liabilities	1,020	1,059
Non-current liabilities	2,775	2,669
Total liabilities	**3,795**	**3,728**
Equity		
Contributed equity	1,585	1,611
Reserves	80	36
Retained earnings	3,032	3,555
Total equity	**4,697**	**5,202**

As at 27 June 2021, the Company has no guarantees in relation to the debts of its subsidiaries (2020: $nil).

As at 27 June 2021, the Company has no contingent liabilities (2020: $nil). As at 27 June 2021, the Company has bank guarantees totalling $290 million (2020: $324 million).

As at 27 June 2021, the Company has contractual commitments for the acquisition of property, plant and equipment totalling $349 million (2020: $512 million).

6. UNRECOGNISED ITEMS

This section provides information about items that are not recognised in the consolidated financial statements but could potentially have a significant impact on the Group's financial performance or position in the future.

6.1 COMMITMENTS

A commitment represents a contractual obligation to make a payment in the future. The Group's commitments relate to capital expenditure and certain operating leases not recognised. Commitments are not recognised in the Balance Sheet, but are disclosed.

Capital expenditure commitments of the Group at the reporting date are set out below:

	2021 $M	2020 $M
Within one year	244	264
Between one and five years	177	378
Total capital commitments for expenditure	**421**	**642**

The commitment amounts disclosed above represent the maximum amounts that the Group is obliged to pay.

At 27 June 2021, the Group also has commitments relating to lease agreements that have not yet commenced. The future lease payments (undiscounted) for non-cancellable periods are $21 million within one year, $457 million between one and five years and $1,748 million thereafter (2020: $21 million within one year, $474 million between one and five years and $1,914 million thereafter). The commitments relate to lease agreements associated with new stores, the Supply Chain Modernisation program and online fulfilment centres.

6.2 CONTINGENT LIABILITIES

Contingent liabilities are potential future cash outflows where the likelihood of payment is more than remote but is not considered probable or cannot be reliably measured. Contingent liabilities are not recognised in the Balance Sheet but are disclosed.

In February 2020 Coles announced it was conducting a review into the pay arrangements for team members who receive a salary and are covered by the General Retail Industry Award 2010 (GRIA). A provision of $20 million was recognised in FY20 in relation to this matter. Following the announcement in February 2020, the Fair Work Ombudsman (FWO) commenced an investigation which is ongoing. The potential outcomes of this investigation are uncertain as at the date of this report.

In May 2020, Coles was notified that a class action proceeding had been filed in the Federal Court of Australia in relation to payment of Coles managers employed in supermarkets. Coles is defending the proceeding. The potential outcome and total costs associated with this matter remain uncertain as at the date of this report.

From time to time, entities within the Group are party to various legal actions as well as inquiries from regulators and government bodies that have arisen in the ordinary course of business. Consideration has been given to such matters and it is expected that the resolution of these contingencies will not have a material impact on the financial position of the Group, or are not at a stage to support a reasonable evaluation of the likely outcome.

Key estimate: Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or present obligations that are not recognised because it is not probable that a settlement will be required or the value of such a payment cannot be reliably estimated.

7. OTHER DISCLOSURES

This section provides other disclosures required by Australian Accounting Standards that are considered relevant to understanding the Group's financial performance or position.

7.1 RELATED PARTY DISCLOSURES

	2021 $M	2020 $M
JOINT VENTURES AND ASSOCIATES		
Loyalty Pacific Pty Ltd		
Sale of goods to members of flybuys	140	134
Purchase of points from Loyalty Pacific Pty Ltd	299	228
Amounts owing to Loyalty Pacific Pty Ltd	212	201
Queensland Venue Co. Pty Ltd		
Sales of inventory to QVC	-	3
Service fees paid to QVC	55	56
Amounts receivable from QVC	25	32

Transactions with Key Management Personnel (KMP)

Compensation of KMP of the Group:

	2021 $	2020 $
Short-term employee benefits	10,043,343	11,800,881
Post-employment benefits	188,312	188,724
Other long-term benefits	325,493	(5,678)
Share-based payments	7,070,757	5,096,297
Total compensation paid to key management personnel	**17,627,905**	**17,080,224**

TERMS AND CONDITIONS OF TRANSACTIONS WITH RELATED PARTIES

Sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the reporting date are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

The Group has not recognised a provision for expected credit losses relating to amounts owed by related parties (2020: $nil).

7.2 EMPLOYEE SHARE PLANS

The Group operates an Equity Incentive Plan (the 'Plan') which provide equity instruments to employees as a component of their remuneration.

LONG TERM INCENTIVE (LTI) PROGRAM

Refer to the Remuneration Report for the terms and conditions of the LTI program.

The fair value of Performance Rights under each performance measure is determined at grant date by an independent valuation expert and takes into account the terms and conditions upon which they were granted. The fair value is recognised as an employee expense (with a corresponding increase in equity) over the vesting period.

For the relative total shareholder return (TSR) measure, the fair value is recognised as an expense irrespective of whether the Performance Rights vest to the holder, and a reversal of the expense is only recognised in the event the instruments lapse due to cessation of employment within the vesting period. For the return on capital (ROC) measure, the amount expensed is based on the expected number of Performance Rights vesting, with the ultimate expense reflecting the actual Performance Rights that vest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7.2 EMPLOYEE SHARE PLANS (CONTINUED)

SHORT TERM INCENTIVE (STI)

For Executives, 25% of their STI is deferred into Restricted Shares (50% for the Managing Director and Chief Executive Officer) and are subject to a one-year service condition (two years for the Managing Director and Chief Executive Officer). The cost of the deferred STI is based on the market price at grant date and is recognised as an employee expense (with a corresponding increase in equity) over the vesting period.

Further explanation of the deferred STI is disclosed in the Remuneration Report.

RESTRICTED SHARE OFFER

Restricted Shares are subject to a continued service condition, a three-year trading restriction period and cessation of employment provisions. During the trading restriction period, Restricted Shares are held in trust by the Trustee on behalf of the employee. The number of Restricted Shares to be granted is determined based on the currency value of the achieved Restricted Share offer divided by the volume weighted average price (VWAP) at which the Company's shares are traded on the Australian Stock Exchange over the period outlined in the offer letter. The value of Restricted Shares granted is recognised as an employee expense (with a corresponding increase in equity) over the vesting period.

Restricted Shares carry the same dividend and voting rights as other fully paid ordinary Shares in the Company.

Performance Rights (number)

Movements in Performance Rights granted under the LTI program that existed during the current or prior period are:

GRANT DATE	BALANCE AT 29 JUNE 2020	GRANTED	FORFEITED	VESTED	BALANCE AT 27 JUNE 2021	EXERCISABLE AT 27 JUNE 2021
2021						
Nov 2019	962,246	-	-	-	962,246	-
May 2020	89,528	-	-	-	89,528	-
Nov 2020	-	223,133	-	-	223,133	-
Nov 2020	-	772,930	-	-	772,930	-
	1,051,774	**996,063**	**-**	**-**	**2,047,837**	**-**

GRANT DATE	BALANCE AT 1 JULY 2019	GRANTED	FORFEITED	VESTED	BALANCE AT 28 JUNE 2020	EXERCISABLE AT 28 JUNE 2020
2020						
Nov 2019	-	962,246	-	-	962,246	-
May 2020	-	89,528	-	-	89,528	-
	-	**1,051,774**	**-**	**-**	**1,051,774**	**-**

Fair value of equity instruments

The assumptions underlying the fair value measurement of the performance rights are:

GRANT DATE	EXPIRY DATE	SHARE PRICE AT GRANT DATE $	EXPECTED VOLATILITY IN SHARE PRICE[1] %	EXPECTED DIVIDEND YEILD %	RISK FREE INTEREST RATE[2] %	FAIR VALUE PER INSTRUMENT $
Nov 2019	Aug 2022	16.26	25.0	3.90	0.65	12.58
May 2020	Aug 2022	15.02	25.0	4.20	0.25	12.92
Nov 2020	Aug 2023	18.26	25.0	3.68	0.10	13.52
Nov 2020	Aug 2023	17.95	25.0	3.68	0.11	12.67

[1] Reflects the assumption that the historical volatility is indicative of future trends.

[2] Represents the zero coupon interest rate derived from government bond market interest rates on the valuation date and vary according to each maturity date.

7.2 EMPLOYEE SHARE PLANS (CONTINUED)

ADDITIONAL INFORMATION ON AWARD SCHEMES

Details of grants made under the Plan during the period are set out in the Remuneration Report.

Key estimate: Share-based payments

The fair value of share-based payment transactions has been determined by an independent valuation expert.

Estimating the fair value of share-based payment transactions requires the determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. Assumptions regarding the most appropriate inputs to the valuation model must be made. This includes, but is not limited to, share price volatility, discount rate and dividend yield.

In measuring the fair value of awards issued under the Long-Term Incentive (LTI) plan subject to the relative total shareholder return (TSR) vesting condition, an adjusted form of the Black-Scholes Model that includes a Monte Carlo Simulation Model has been utilised. The Monte Carlo Simulation Model has been modified to incorporate an estimate of the probability of achieving the TSR hurdle. In measuring the fair value of awards subject to non-market based vesting conditions, the Black-Scholes Model has been utilised.

7.3 AUDITOR'S REMUNERATION

	2021 $000	2020 $000
Fees to Ernst & Young (Australia):		
Audit services:		
Audit or review of the Financial Report of the Group	2,738	2,631
Assurance related	709	701[1]
Non-audit services:		
Tax compliance services	69	135
Total fees to Ernst & Young (Australia)	**3,516**	**3,467**
Fees to overseas member firms of Ernst & Young:		
Audit services:		
Audit or review of the Financial Report of any controlled entities	57	-
Total fees to overseas member firms of Ernst & Young	**57**	**-**
Total auditor's remuneration	**3,573**	**3,467**

[1] Certain FY20 services were in progress at the time of disclosure. These amounts have now been updated following completion of these services in FY21.

The auditor of the Group is Ernst & Young (EY). Fees charged by EY for 'Assurance related services' are for services that are reasonably related to the performance of the audit or review of financial reports, for other assurance engagements (such as assurance over the Group's Sustainability Report) and for other assurance related engagements which are appropriate for our external auditor to perform.

The total fees for non-audit services of $69,000 represent 1.9% (2020: 3.9%) of the total fees paid or payable to EY and related practices for the period.

7.4 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

There are amendments and interpretations that apply for the first time in this period. These did not have a material impact on the consolidated financial statements of the Group.

NEW AND REVISED AUSTRALIAN ACCOUNTING STANDARDS AND INTERPRETATIONS ON ISSUE BUT NOT YET EFFECTIVE

There are no standards that are not yet effective that would be expected to have a material impact on the Group in the current or future reporting periods.

7.5 EVENTS AFTER THE REPORTING PERIOD

Other than events disclosed elsewhere in this report, the Group is not aware of any matter or circumstance that has occurred since the reporting date that has significantly affected or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in subsequent reporting periods.

Directors' Declaration

1. The directors of Coles Group Limited (the Company) declare that, in the directors' opinion:
   (a) the financial statements and the Notes are in accordance with the *Corporations Act 2001* (Cth), including:
      (i) complying with the accounting standards and *Corporations Regulations 2001*; and
      (ii) giving a true and fair view of the financial position and performance of the Company and its consolidated entities;
   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. A statement of compliance with the International Financial Reporting Standards is included in the Basis of Preparation and Accounting Policies in the Notes to the consolidated financial statements.
3. The directors have been given the declaration required by section 295A of the *Corporations Act 2001* (Cth) from the Managing Director and Chief Executive Officer and Chief Financial Officer for the financial year ended 27 June 2021.
4. As at the date of this declaration, there are reasonable grounds to believe that the members of the closed group identified in Note 5.3 Subsidiaries to the financial statements will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in Note 5.3 Subsidiaries.

Signed in accordance with a resolution of the directors.

James Graham AM
Chairman
18 August 2021

Steven Cain
Managing Director and Chief Executive Officer
18 August 2021

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Independent Auditor's Report to the Members of Coles Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the Financial Report of Coles Group Limited (the Company) and its subsidiaries (collectively, the Group), which comprises the Consolidated Balance Sheet as at 27 June 2021, the Consolidated Income Statement, Consolidated Statement of Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement for the year then ended, notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' Declaration.

In our opinion, the accompanying Financial Report of the Group is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated financial position of the Group as at 27 June 2021 and of its consolidated financial performance for the year ended on that date; and

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current year. These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the Financial Report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying Financial Report.

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1. Commercial income

Why significant	How our audit addressed the key audit matter
Commercial income (also referred to in the retail industry as "supplier rebates") comprises discounts and rebates received by the Group from its suppliers. Determining the value and timing of when commercial income is recognised through the Consolidated Income Statement requires judgement and the consideration of a number of factors including: ▶ The terms of each individual rebate agreement; ▶ The nature and substance of the arrangement to determine whether the amount reflects a reduction in the purchase price of inventory, requiring the rebate to be applied against the carrying value of inventory or can be otherwise recognised in the Consolidated Income Statement; and ▶ The application of Australian Accounting Standards and the Group's related processes and controls to these arrangements. Disclosures relating to the measurement and recognition of commercial income can be found in *Note 2.4 Inventories*.	Our audit procedures in respect of commercial income included the following: ▶ We gained an understanding of the nature of each significant type of commercial income and assessed a sample of agreements in place to determine whether the terms of each agreement were reflected in the accounting treatment; ▶ We assessed the design and operating effectiveness of relevant controls in place relating to the recognition and measurement of amounts related to these arrangements; ▶ We performed comparisons of the various arrangements against the prior year, including analysis of ageing profiles and where material variances were identified, obtained supporting evidence; ▶ We selected a sample of supplier agreements and assessed whether the agreements or other documentation appropriately supported the recognition and measurement of the rebates recorded in the 27 June 2021 Financial Report, including an assessment of amounts recorded before and after the balance date; ▶ We inquired of the Group including business category managers, supply chain managers and procurement management as to the existence of any non-standard agreements or side arrangements; and ▶ We considered the associated financial report disclosures.

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2. Impairment of non-current assets including intangible assets

Why significant	How our audit addressed the key audit matter
The determination of the recoverable amounts of non-current assets including property, plant and equipment, right of use assets, goodwill and other intangible assets requires significant judgement by the Group. Impairment assessments are complex and involve significant management judgement. The assessment completed by the Group includes numerous assumptions and estimates that will be impacted by future performance and market conditions. This includes the potential future impacts of the COVID-19 pandemic on income and expenses. Key assumptions, judgements and estimates applied in the Group's impairment assessment are set out in *Note 4.1*. Based upon the disclosed sensitivity analysis, changes to the key assumptions applied in the impairment test are not expected to give rise to an impairment of the carrying value of the Group's cash generating units.	Our audit procedures included an evaluation of the following assumptions utilised in the Group's impairment assessment: ► Determination of cash generating units; ► Forecast cash flows, which were based on the Group's Board approved internal five-year forecasts; ► Long term inflation and growth rates; ► Discount rates; and ► Other market evidence. In performing our procedures, we considered whether the Group's forecasts considered the potential future impacts of the COVID-19 pandemic on income and expenses. We assessed whether the Group's impairment models were in accordance with Australian Accounting Standards, as well as the mathematical accuracy of the calculations. We also considered the adequacy of the Financial Report disclosures regarding the impairment testing approach, key assumptions, results and sensitivity analysis.

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3. IT environment

Why significant	How our audit addressed the key audit matter
A significant part of the Group's financial processes are heavily reliant on IT systems with automated processes and controls over the capturing, valuing and recording of transactions. This was a key audit matter because of the: ► Complex IT environment supporting diverse business processes, with varying levels of integration between them; ► Mix of manual and automated controls; ► Multiple internal and outsourced support arrangements; and ► Continuing enhancements to the Group's IT systems, including new IT systems implemented, which are significant to our audit.	We performed procedures to understand the IT environment, including procedures to identify the Group's manual and automated controls relevant to Financial Reporting. We tested the Group's controls which included assessing the key IT controls over changes made to the material financial reporting systems and controls over appropriate access to these systems and related data.

4. AASB 16 *Leases*

Why significant	How our audit addressed the key audit matter
The recognition and measurement of new leases or lease amendments entered into during the year in accordance with AASB 16 *Leases* ("AASB 16") are dependent on a number of key judgements and estimates. These include: ► The determination of the lease term; ► The identification and determination of non-lease components; ► The determination of lease extension options recognised; and ► The calculation of incremental borrowing rates. Key assumptions, judgements and estimates applied to the Group's leases are set out in *Note 2.7*.	We assessed the Group's calculations of the financial impact of the standard and the accounting policies, estimates and judgements made in respect of the Group's right of use assets and lease liabilities, as well as related depreciation and interest expense recognised through the Consolidated Income Statement. We selected a sample of new and modified lease agreements to determine the appropriateness of the judgements applied including: ► The treatment of lease extension options; ► The treatment of sub-lease arrangements; ► The identification of non-lease components; ► The treatment of adjustments to lease payments (both fixed and variable rate adjustments); ► The impact of contract variations;

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Why significant	How our audit addressed the key audit matter
	► The incremental borrowing rate determined by the Group; and ► Whether there were any material contracts containing a lease. We selected a sample of existing leases and evaluated movements during the year in the right of use asset and the right of use liability. For each existing lease selected, we also assessed the related depreciation expense and interest expense for the year ended 27 June 2021. We evaluated the effectiveness of the Group's processes and controls to capture and measure the right of use asset and associated liability including the completeness of the balances. We involved our capital and debt advisory specialists to assess the Group's incremental borrowing rates. We assessed the adequacy of disclosures included in the Financial Report.

5. Inventory existence

Why significant	How our audit addressed the key audit matter
At 27 June 2021, the Group held inventories of $2,107 million. Being one of the most significant balances on the Consolidated Balance Sheet, the Group's inventory verification process is extensive and occurs routinely throughout the financial year. This inventory is held at geographically diverse locations around Australia at various retail stores and distribution centres. The Group's key estimates in respect of inventories are disclosed in *Note 2.4* of the Financial Report.	Our audit procedures included the following: ► Selected a sample of stores and observed and assessed the Group's stocktake processes and controls throughout the year. This included observing a number of stocktakes virtually through video conferencing technology due to the Government's requirements to work from home as a result of the COVID-19 pandemic; ► For the stocktakes we observed, we assessed whether the required adjustment to inventory determined by the stocktake was accurate and processed correctly; ► Observed and assessed the daily stocktake process at a sample of distribution centres near period end;

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- Observed a sample of cycle counts at distribution centres and assessed whether daily counts occurred at distribution centres during the year; and
- For a select number of distribution centres managed by third parties, we obtained confirmation of inventory held by the third party.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2021 Annual Report, but does not include the Financial Report and our auditor's report thereon. We obtained the Operating and Financial Review, Board of Directors section and Directors' Report that are to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual report after the date of this auditor's report.

Our opinion on the Financial Report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the Financial Report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the Financial Report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Financial Report, including the disclosures, and whether the Financial Report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Financial Report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the Financial Report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the Directors' report for the year ended 27 June 2021.

In our opinion, the Remuneration Report of Coles Group Limited for the year ended 27 June 2021, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

FCampbell

Fiona Campbell
Partner
Melbourne
18 August 2021