21 February 2023

The Manager
Company Announcements Office
Australian Securities Exchange

Dear Sir or Madam

Coles Group Limited – 2023 Half Year Results Release

Please find attached for immediate release to the market the 2023 Half Year Results Release for Coles Group Limited.

This announcement is authorised for release by the Board.

Yours faithfully,

Daniella Pereira
Company Secretary

Coles Group Limited ABN 11 004 089 936
800 Toorak Road Hawthorn East Victoria 3123 Australia
PO Box 2000 Glen Iris Victoria 3146 Australia
Telephone +61 3 9829 5111
www.colesgroup.com.au

Results Release

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21 February 2023

2023 Half Year Results Release

'DROPPED & LOCKED' launched and Supermarket sales momentum improving despite ongoing supply chain disruption. Supplier cost inflation starting to ease in third quarter

First half Group performance highlights

- Total sales revenue growth from continuing operations of 3.9% to $20.8 billion
- Three-year headline sales growth of 13.6% in Supermarkets and 15.4% in Liquor
- Q2 comparable sales growth of 7.4% in Supermarkets and (0.9)% in Liquor which is cycling COVID-19 on-premise restrictions
- Sale of Coles Express to Viva Energy expected to complete in the fourth quarter
- EBIT growth from continuing operations of 9.9% to $1.1 billion benefiting from reduced COVID-19 costs year-on-year and Smarter Selling benefits
- On track to deliver cumulative Smarter Selling benefits of $1 billion by the end of FY23 across the four-year program
- Cash realisation of 108%, capital expenditure of $623 million and strong, flexible balance sheet maintained with net debt (excluding lease liabilities) of $362 million
- Fully-franked interim dividend of 36.0 cents per share declared, an increase of 9.1% compared to 1H22
- Improved safety with 8.0% reduction in TRIFR compared to 2H22

Key financial results - 27 weeks to 1 January 2023

	1H23	1H22	CHANGE
Continuing operations			
Sales revenue ($ millions)	**20,805**	**20,015**	**3.9%**
EBITDA[1] ($ millions)	1,809	1,681	7.6%
EBIT[1] ($ millions)	**1,058**	**963**	**9.9%**
Net profit after tax ($ millions)	**616**	**553**	**11.4%**
Basic earnings per share (cents)	46.3	41.5	11.6%
Total operations – continuing and discontinued operations			
Net profit after tax ($ millions)	643	549	17.1%
Basic earnings per share (cents)	48.3	41.2	17.2%
Interim dividend per share (cents)	36.0	33.0	9.1%

[1] 1H23 includes $17 million of implementation operating expenditure in relation to major automation projects (1H22: $22 million).

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Statement from Coles Group CEO, Steven Cain

"We continue to make progress on growing long term shareholder value by executing our strategy, whilst recognising the significant ongoing challenges facing many of our customers and suppliers.

Coles continues to be one of Australia's most trusted brands and for our customers, we delivered hundreds of 'DROPPED & LOCKED' prices to help keep inflation below the national average, an improved Flybuys program, and free glassware in Supermarkets, alongside our popular Price Drops campaign in Liquor. The good news is that supplier cost inflation is starting to ease in the third quarter, particularly in produce.

Many of our suppliers are however still facing increasing cost pressures and shortages of pallets, raw materials and labour. This has been coupled with increased severe flooding impacting our road and rail networks, particularly for Western Australia and Far North Queensland. We are working together with our suppliers, and both State and Federal governments, to improve food supply chain resilience for all Australians.

Once again, our team has shown amazing support for the needs of our local communities, in particular during the floods in New South Wales and Victoria.

In January, our first Witron automated distribution centre in Queensland, the largest in the Southern Hemisphere, began receiving in-bound inventory deliveries. This along with our other three major automation projects, that are in various stages of internal fit out, demonstrate our commitment to innovation and continued long term investment in supply chain efficiency and customer experience."

Strategic highlights

Q2 comparable sales growth	Three-year sales growth	Three-year eCommerce sales growth	Award winners
▲7.4% in Supermarkets	▲13.6% in Supermarkets	▲102% in Supermarkets	83 Coles Own Brand in Supermarkets
▼(0.9)% in Liquor	▲15.4% in Liquor	▲287% in Liquor	289 Exclusive Liquor Brand in Liquor

Inspire Customers

- ✓ Ranked as one of Australia's most trusted brands in the December 2022 Roy Morgan 'Net Trust' rankings
- ✓ Delivered trusted value to customers through the 'LOCKED' and 'DROPPED & LOCKED' value campaigns
- ✓ Launched exclusive Flybuys member pricing, digitised Coles Express fuel dockets and offered greater personalised value through individually tailored offers with Flybuys membership up by 9% and redemptions up by 14%
- ✓ Received 83 Exclusive to Coles product awards including 11 Product of the Year 2023 awards, with Exclusive to Coles sales revenue growth of 7.1% in the first half (12.7% in the second quarter), as customers respond to our trusted value offerings
- ✓ Expanded Supermarkets eCommerce immediacy offer through Rapid Click&Collect (order to pick up in under 60 minutes) available in almost 400 stores and launched unified website, making it easier for customers to shop Anytime, Anyhow, Anywhere
- ✓ Progressed the two Ocado eCommerce automated customer fulfilment centres, with external building works completed, grid build and automation fit out in progress. These are expected to provide industry leading Delivered In Full On Time (DIFOT) deliveries to customers
- ✓ Expanded local and Exclusive Liquor Brand (ELB) portfolio with 289 ELB awards received during the half; Liquor delivered eCommerce sales growth of 14% with immediacy offer launched and available in more than 560 stores
- ✓ Expanded Coles Finest certified carbon neutral beef range to customers in New South Wales, Tasmania and South Australia, providing customers with more sustainable options[1]
- ✓ Accelerated investment in "Coles 360", dedicated to helping FMCG companies create sustainable growth through more meaningful connections between customers and their favourite brands
- ✓ Announced sale of fuel and convenience business Coles Express to Viva Energy for $300 million, allowing Coles to focus on growing the omnichannel supermarket and liquor businesses

Exclusive Flybuys member pricing was introduced during the half helping customers save on their weekly groceries.

Coles Own Brand products received more than 80 awards during the half including 11 at the consumer voted 2023 Product of the Year Awards.

[1] Product is certified carbon neutral from paddock to shelf under Climate Active's Carbon Neutral Standard.

Smarter Selling

- Delivered Smarter Selling benefits of approximately $100 million, on track to deliver cumulative benefits of $1 billion across the four-year program by the end of FY23 with the following key initiatives delivered in 1H23:
  - Continued roll out of trolley assisted check outs (TACOs) in more than 100 stores during the half, including the first hybrid checkout at Southland, Victoria
  - Energy reductions through the implementation of demand based heating, ventilation and cooling (HVAC) in 120 stores
  - Profit protection measures to tackle theft in store including the installation of front entry gates, glass balustrading to store entry and trolley wheel locks
  - Use of advanced analytics and store specific data to optimise markdown rates (dynamic markdowns) in the bakery category following successful deployment in fresh produce, meat and dairy
- Rolled out Fresh Produce Easy Ordering to almost 300 stores, enabling improved availability and freshness for customers through AI technology
- Ten new supermarket openings including the first Coles Local in Western Australia and 15 Supermarket format renewals, including latest innovation store at Southland, Victoria; 16 new Liquor store openings including the first Liquorland in Tasmania, and 128 Liquor format renewals, including 112 Black and White Liquorland renewals
- Completed the installation of automation equipment at the automated distribution centre in Queensland in partnership with Witron, completed the recruitment of the site leadership team and initial team members and successfully achieved handover of the facility in line with schedule

Win Together

- Introduced Safety index to capture both lead and lag safety indicators, with an improved Safety index performance leading to an 8.0% improvement in TRIFR compared to 2H22. This was supported by a continued focus on risks including manual handling, fleet safety, and mental wellbeing with more than 240 department leaders attending mental health training
- Supported residents in flood affected communities in New South Wales and Victoria through donation of essential products including baby formula, long life milk, fruit and vegetables delivered to the Njernda Aboriginal Corporation in Echuca, Victoria, and breakfast cereal, milk, canned food, noodles and pet food to residents in flood-affected towns in central western New South Wales
- Contributed more than $1.1 million for Movember, our largest amount ever, making Coles one of Movember's largest donors for 2022, and more than $1.8 million through the Coles SecondBite Christmas Appeal supporting disadvantaged families and community organisations at Christmas
- Ranked #1 for the third year in a row in the GivingLarge Report for contributing the largest percentage of profit to the community among Australia's leading organisations in the 2022 Financial Year
- Ranked #5 in the World Benchmarking Alliance's 2022 Corporate Human Rights Benchmark[2] (#1 supermarket globally) in recognition of our commitment to the protection and promotion of human rights across our operations and supply chains
- Launched the First Nations Team Member Network Committee to help shape Indigenous Engagement at Coles and delivered five Indigenous cultural immersion programs across NT and Broome for Coles managers
- Recognised at the AFR BOSS top innovative companies awards as the winner in the retail, hospitality, tourism and entertainment category for Coles Urban Coffee Culture Organic Home Compostable Capsules, allowing consumers to compost the pod at home and reducing the amount of food waste going into landfill

[2] Benchmark ranked 127 companies in the food and agriculture, ICT and automotive manufacturing sectors with Coles ranking #5 behind Unilever, Wilmar International, PepsiCo and Hewlett Packard Enterprise.

Group performance overview

GROUP SALES REVENUE ($M)	1H23	1H22	CHANGE	3-YEAR CHANGE[1]
Supermarkets	18,853	18,016	4.6%	13.6%
Liquor	1,952	1,999	(2.4)%	15.4%
Sales revenue – continuing operations	**20,805**	**20,015**	**3.9%**	**13.8%**
Express – discontinued operations	607	578	5.0%	6.0%
Total Group sales revenue	**21,412**	**20,593**	**4.0%**	**13.6%**

[1] Three-year growth is calculated as growth between 1H23 and 1H20.

GROUP GROSS RETAIL SALES[2] ($M)	1H23	1H22	CHANGE	3-YEAR CHANGE[1]
Supermarkets	19,569	18,582	5.3%	15.4%
Liquor	1,957	2,007	(2.5)%	15.4%
Gross retail sales – continuing operations	**21,526**	**20,589**	**4.6%**	**15.4%**
Express – discontinued operations	643	615	4.6%	5.8%
Total Group gross retail sales (non-IFRS)	**22,169**	**21,204**	**4.6%**	**15.1%**

[1] Three-year growth is calculated as growth between 1H23 and 1H20.
[2] Gross retail sales comprises retail sales on a gross basis before adjusting for concession sales and the cost of Flybuys scheme points. Fuel concession sales are excluded from Express Gross retail sales on the basis Coles does not control retail pricing.

GROUP EBITDA ($M)	1H23	1H22	CHANGE	3-YEAR CHANGE[1]
Supermarkets[2]	1,676	1,552	8.0%	17.9%
Liquor	141	156	(9.6)%	11.0%
Other	(8)	(27)	70.4%	n/m
EBITDA – continuing operations	**1,809**	**1,681**	**7.6%**	**15.2%**
Express – discontinued operations[3]	91	81	n/m	n/m
Total Group EBITDA	**1,900**	**1,762**	**n/m**	**n/m**

[1] Three-year growth is calculated as growth between 1H23 and 1H20.
[2] 1H23 includes $17 million of implementation operating expenditure in relation to major automation projects (1H22: $22 million).
[3] 1H23 includes transaction costs of approximately $5 million related to the Express divestment.
n/m denotes not meaningful.

GROUP EBIT ($M)	1H23	1H22	CHANGE	3-YEAR CHANGE[1]
Supermarkets[2]	991	896	10.6%	25.6%
Liquor	80	99	(19.2)%	5.3%
Other	(13)	(32)	59.4%	n/m
EBIT – continuing operations	**1,058**	**963**	**9.9%**	**20.0%**
Express – discontinued operations[3]	56	12	n/m	n/m
Total Group EBIT	**1,114**	**975**	**n/m**	**n/m**

[1] Three-year growth is calculated as growth between 1H23 and 1H20.
[2] 1H23 includes $17 million of implementation operating expenditure in relation to major automation projects (1H22: $22 million).
[3] 1H23 includes impacts from the Express divestment including depreciation and amortisation ceasing from the date the assets were held for sale, and transaction costs. Refer Express segment commentary.
n/m denotes not meaningful.

Discontinued operations and divestment impacts

On 21 September 2022, Coles announced it had entered into an agreement to sell the Coles Express fuel and convenience business to Viva Energy Group Limited. Upon completion, Coles will receive gross proceeds of $300 million and will assign the leases relating to the Express business to Viva Energy. These leases accounted for $816 million of lease liabilities on Coles' 2022 full year balance sheet. The sale is subject to customary closing conditions which included ACCC and FIRB clearances, which have now been received. The transaction is expected to complete in the fourth quarter of FY23.

As a result of this agreement the Express business has been recorded as an asset held for sale on Coles' balance sheet from 21 September and depreciation and amortisation of its assets ceased from that date. Refer to the Express segment commentary and Appendix 4D for further information in relation to the performance of the Express business during the period, including adjustments to show the Underlying EBIT of the business, excluding divestment impacts.

1H23 performance summary and dividend

Group sales revenue on a continuing operations basis of $20.8 billion increased by 3.9% despite cycling elevated COVID-19 demand in the prior corresponding period and availability challenges as a result of floods and major rail outages. Group gross retail sales from continuing operations of $21.5 billion increased by 4.6%. Group sales revenue from continuing and discontinued operations of $21.4 billion increased by 4.0%.

Group EBITDA on a continuing operations basis increased by 7.6% and Group EBIT from continuing operations increased by 9.9%. Group EBITDA and EBIT were positively impacted by Smarter Selling benefits of approximately $100 million and a net reduction in direct COVID-19 costs with approximately $20 million incurred in the first half compared to approximately $150 million in the prior corresponding period. This helped to partially offset underlying cost inflation and impacts from availability and supply chain challenges, whilst also reinvesting in the business.

The Coles Board has declared a fully-franked interim dividend of 36.0 cents per share compared to 33.0 cents per share in the prior corresponding period, with a record date of 3 March 2023 and a payment date of 30 March 2023.

Segment performance overview

Supermarkets

$ MILLION (27 WEEKS TO 1 JANUARY 2023)	1H23	1H22	CHANGE
Sales revenue	**18,853**	**18,016**	**4.6%**
EBITDA[1]	1,676	1,552	8.0%
EBIT[1]	**991**	**896**	**10.6%**
Gross margin (%)	26.5	26.1	43bps
CODB (%)	(21.2)	(21.1)	(15bps)
EBIT margin (%)	5.3	5.0	28bps

[1] 1H23 includes $17 million of implementation operating expenditure in relation to major automation projects (1H22: $22 million).

Operating metrics (non-IFRS)

	1H23	2Q23	1Q23	1H22
Gross retail sales ($ billions)	19.6	10.6	9.0	18.6
Gross retail sales growth (%)	5.3	8.0	2.3	2.0
Comparable sales growth (%)	4.9	7.4	2.1	1.5
eCommerce sales[1] ($ billions)	1.4	0.7	0.7	1.5
eCommerce penetration (%)	7.2	6.9	7.6	8.2
Sales density per square metre[2] (MAT $/sqm)	18,651	18,651	18,295	17,919
Net promoter score (point increase/(decrease))	(5.7)	(4.3)	(7.0)	0.2
Inflation / (deflation) (%)	7.4	7.7	7.1	(0.2)
Inflation / (deflation) excl. tobacco and fresh (%)	7.6	8.4	6.7	(0.2)

[1] eCommerce sales include Liquor sold through coles.com.au.
[2] Sales density per square metre is on a moving annual total (MAT), calculated on a rolling 52-week basis.

Key highlights

Supermarkets sales revenue of $18.9 billion for the first half increased by 4.6% on the prior corresponding period and 13.6% on a three-year basis. Gross retail sales of $19.6 billion increased by 5.3% and comparable sales grew by 4.9% on the prior corresponding period. For the second quarter, sales revenue increased by 7.4% year-on-year and 13.5% on a three-year basis.

Sales were supported by the 'LOCKED' and 'DROPPED & LOCKED' value campaigns and Flybuys member pricing for customers seeking trusted value. The Harry Potter 'Magical Builders' collectibles and the Schott Zwiesel glassware customer continuity program also supported sales in the half.

Volumes improved in the half driven by new campaigns and a reduction in the impact of cycling elevated COVID-19 volumes in the prior corresponding period as the half progressed. Despite this, availability challenges remained across many categories, particularly in fresh and frozen produce with severe flooding and cool weather impacting growing conditions. In pet food, production challenges impacted industry supply, whilst reduced flock sizes affected eggs and poultry. In addition, national rail outages across key supply routes impacted a number of states, particularly the Trans-Australian Railway which had a significant impact on availability in Western Australia. Customer satisfaction (as measured by NPS) was impacted during the half as a result of these availability challenges and rising supplier cost prices.

To deliver trusted value for customers, Coles launched the 'LOCKED' and 'DROPPED & LOCKED' value campaigns during the half with more than 1,500 prices locked and prices reduced on a further 500 products until January 31, 2023. The Exclusive to Coles range was also expanded to more than 6,000 SKUs with 770 new product launches during the half, many focused on providing customers with budget friendly solutions such as the Coles Frozen Family Beef Pies and1kg Frozen Strawberries. Exclusive to Coles sales of $6.3 billion were recorded in the first half, an increase of 7.1% on the prior corresponding period. The Coles Own Brand portfolio also won 83 product awards including a Product of the Year award across products such as Coles Finest Certified Carbon Neutral Beef Scotch Fillet Steak, Coles Perform Chicken Kale and Quinoa Soup, and KOi for Men Hydrating Aloe and Patchouli Face Moisturiser.

Coles Own Brand's efforts to lead industry change in responsible sourcing practices also resulted in Coles' Urban Coffee Culture Organic Home Compostable Capsules winning the AFR BOSS Most Innovative Companies Award in the retail, hospitality, tourism and entertainment category and the WorldStar Packaging Award for innovation and ease of use. Following the disappointing collapse of the REDcycle soft plastics recycling scheme, we are working with industry and governments to help find a solution to both the current stockpiles, and the future of soft plastics recycling in Australia.

eCommerce sales of $1.4 billion in the half declined by 6.6% (three-year growth of 102%) with penetration of 7.2%, compared to 8.2% in the prior corresponding period, as COVID-19 behaviours normalised and some customers returned to shopping in store. Progress was made during the half to support a unified omnichannel experience with the launch of a unified website to support Anytime, Anywhere, Anyhow shopping. New features focused on improving the customer experience include the ability to sort products by unit price, ability to select single item substitutions and enhanced filtering options to include 'Specials' and 'Bought Before', enabling greater convenience and value. The unified shoppable app was also enhanced with customers now able to complete their shop natively within the app with no web redirects. The Coles Online network was also expanded through the addition of 30 same day home delivery stores and 42 Click & Collect (to the boot of car) stores added during the half.

Total Supermarkets price inflation of 7.7% was recorded for the second quarter. This compared to 7.1% in the first quarter driven by packaged inflation including dairy, as a result of increases in the farmgate milk price, and an elevated level of supplier input cost price increase requests, particularly in homecare and pantry. Freight and utilities were the main drivers of the supplier input cost price increase requests. Fresh inflation moderated to 7.1% in the second quarter (8.8% in the first quarter) with reductions in fresh produce inflation reflecting improvements in growing conditions, with several lines in deflation including tomatoes, capsicums and broccoli. This was partially offset by inflation in meat which was driven by white meat due to higher feed prices, and bakery, reflecting higher wheat prices.

During the half, Coles completed 15 renewals, opened ten new stores and closed three stores, taking the total network to 842 Supermarkets.

Gross margin of 26.5% increased by 43 bps year-on-year largely a result of reduced COVID-19 costs, strategic sourcing, product mix and Smarter Selling benefits. These factors were partially offset by investment in pricing and increasing headwinds in markdowns and stock loss as a result of increasing theft.

Cost of doing business (CODB) as a percentage of sales increased by 15 bps to 21.2% due to underlying cost inflation and continued investment in digital and eCommerce, offset by Smarter Selling benefits and lower direct COVID-19 costs. During the half, Coles incurred $17 million of implementation operating expenditure in relation to the major automation projects.

Supermarkets EBIT of $991 million increased by 10.6% with an EBIT margin of 5.3%, and pleasingly on a three-year basis, EBIT increased by 25.6% with EBIT margin expanding by 50 bps over the three-year period.

Update on major automation projects

During the half, significant progress was also made in the commissioning of Coles' automated DC in Queensland where installation of the Witron automation equipment was completed, recruitment of the site leadership team and initial team members were finalised and successful handover of the facility was achieved on schedule.

In partnership with Ocado, we are making progress in the development of both our New South Wales and Victorian Customer Fulfilment Centres (CFCs). The fit out of these facilities, especially the hive and grid, are unique in Australia, requiring complex construction management work systems to be developed and implemented. As advised at the 2022 AGM, there had been a construction delay at the New South Wales site. An assessment is ongoing to determine what further impact there may be on scheduled commissioning. However, based on information from Ocado we are working towards the Victorian CFC being commissioned ahead of the New South Wales CFC with an incremental ramp up period commencing mid-FY24 in Victoria and 2H FY24 in New South Wales. The revised timeline is not currently expected to have a material impact on Coles' estimated total capital expenditure for the project.

We are excited that the CFCs will deliver a market leading online customer experience with a leading DIFOT and tailored product range including liquor.

Liquor

$ MILLION (27 WEEKS TO 1 JANUARY 2023)	1H23	1H22	CHANGE
Sales revenue	**1,952**	**1,999**	**(2.4)%**
EBITDA	141	156	(9.6)%
EBIT	**80**	**99**	**(19.2)%**
Gross margin (%)	22.6	21.8	83bps
CODB (%)	(18.5)	(16.8)	(169bps)
EBIT margin (%)	4.1	4.9	(86bps)

Operating metrics (non-IFRS)

	1H23	2Q23	1Q23	1H22
Gross retail sales ($ billions)	2.0	1.2	0.8	2.0
Gross retail sales growth (%)	(2.5)	(1.1)	(4.3)	2.6
Comparable sales growth (%)	(2.3)	(0.9)	(4.1)	1.8
eCommerce sales[1] ($m)	108	67	41	95
eCommerce penetration[1] (%)	5.6	6.1	5.0	4.8
eCommerce penetration (inc. COL)[2] (%)	6.8	7.3	6.0	5.6
Net Promoter Score[3] (point increase/(decrease))	(2.5)	(1.1)	(4.6)	1.2
Sales density per square metre[4] (MAT $/sqm)	16,029	16,029	16,123	16,315

[1] eCommerce sales and penetration excludes Liquor sold through coles.com.au which is reported in Supermarkets' eCommerce sales, and B2B sales.
[2] eCommerce penetration including Liquor sold through coles.com.au.
[3] Net Promoter Score is based on Liquorland NPS results.
[4] Sales density per square metre is on a moving annual total (MAT), calculated on a rolling 52-week basis.

Key highlights

Liquor sales revenue of $2.0 billion for the first half declined by 2.4% as the business cycled approximately 15 weeks of COVID-19 related on-premise closures and restrictions in the prior corresponding period across Victoria, New South Wales and the Australian Capital Territory. For the second quarter, comparable sales growth decreased by 0.9% relative to a decrease of 4.1% in the first quarter, reflecting a reduction in on-premise restrictions from the prior year throughout the quarter, and the impact on sales revenue of supplier led cost price increases for a full quarter across the beer, sprits and Ready-to-Drink (RTD) categories. In the first half, sales revenue growth was positive, excluding the lockdown states of Victoria, New South Wales and the Australian Capital Territory.

On a three-year basis, Liquor sales revenue increased by 15.4% for the first half and 15.5% in the second quarter which was broadly consistent with the first quarter of 15.2% growth. This result was underpinned by the successful execution of Liquor's strategy to "be a simpler, more accessible and locally relevant drinks specialist", with the Liquorland Black and White transformation continuing to resonate with customers. Delivery of trusted value, particularly through the Exclusive Liquor Brands (ELB) portfolio, and growth in eCommerce sales also contributed.

eCommerce sales continued to grow with revenue growth of 13.7% on the prior period and penetration of 5.6% in the first half (6.8% including Coles Online) compared to 4.8% in the prior corresponding period (5.6% including Coles Online). Express delivery was expanded and is now available in more than 560 stores. Capacity also increased through the roll out of Click & Collect (to the boot of car) in more than 70 First Choice Liquor Market stores.

As part of the "Differentiate and Grow" horizon of Coles Liquor's strategy, ELB and local sales continued to gather momentum with more than 200 new ELB and over 520 new local lines added in the half. More than 280 awards across the ELB portfolio were also received including James Busby 'Vineyard Series' Pinot Noir awarded the 'Best in Show' trophy at the Royal Adelaide Wine Show.

Customer satisfaction (as measured by NPS) was impacted in the first quarter as a result of flooding in Queensland and Western Australia impacting supply routes and subsequently product availability. Pleasingly, NPS improved in the latter part of the second quarter during the important Christmas and New Year's trading period.

In addition to cycling the COVID-19 on-premise restrictions in the first half of the prior year, sales were impacted by weather events, including store closures from flooding in New South Wales, Victoria and Queensland (impacting seven stores at its peak during the half), and a relatively wet and cool spring and start to the summer season on the Eastern seaboard. Despite this, Liquor delivered its strongest ever Christmas and New Year period successfully executing trade plans, including Liquorland's '50 Days of Deals' campaign.

Liquorland continued to be the strongest performing banner with more than 370 Black and White Liquorland stores now completed. RTD was the strongest performing category.

Across the portfolio, Liquor completed 128 store renewals during the half, including 112 Black and White renewals, opened 16 new stores and closed nine stores. At the end of the period the portfolio comprised 940 stores.

Gross margin of 22.6% increased by 83 bps largely due to the strong performance in ELB and local.

CODB as a percentage of sales increased by 169 bps to 18.5%. This was largely driven by lower sales revenue across the fixed cost base of the business, increases in store team member remuneration relative to the prior year following the Fair Work Commission annual wage increase, coupled with this increase being paid earlier to team members compared to prior years. Transformation costs also increased period on period as we entered the "Differentiate and Grow" horizon of Liquor's strategy, which includes the renewal and format development program, as well as investments in eCommerce and core IT systems. These transformational investments in the half, and from recent years, also impacted depreciation and amortisation which grew as a percentage of sales by 24 bps. Liquor also continued to incur some residual COVID-19 costs in the early part of the half.

Liquor EBITDA of $141 million and EBIT of $80 million decreased by 9.6% and 19.2% respectively, with an EBIT margin of 4.1%.

Other

Coles reported net costs of $13 million in Other for the half. Other includes corporate costs, Coles' 50% share of Flybuys' net result and the net gain or loss generated by Coles' property portfolio.

Corporate costs of $42 million were incurred, largely in line with the prior corresponding period of $43 million. Coles' 50% share of Flybuys' net result was a $5 million loss, while earnings from property operations were $34 million for the period compared to $15 million in the prior corresponding period, with divestment activity this year weighted towards the first half.

Express – Discontinued operations

$ MILLION (27 WEEKS TO 1 JANUARY 2023)	1H23	1H22	CHANGE
Convenience (c-store) sales revenue	**607**	**578**	**5.0%**
EBITDA – underlying	**96**	**81**	**18.5%**
EBIT – underlying	**25**	**12**	**108.3%**
Divestment impacts			
- Notional depreciation and amortisation[1]	36	-	n/m
- Transaction costs	(5)	-	n/m
EBITDA – discontinued (statutory)	91	81	n/m
EBIT – discontinued (statutory)	56	12	n/m
Gross margin (%)	53.9	51.5	234bps
CODB – underlying (%)	(49.7)	(49.5)	(26bps)
EBIT margin – underlying (%)	4.2	2.1	208bps

[1] Refers to depreciation and amortisation that would have been incurred if Express business had not been held for sale.
n/m denotes not meaningful.

Operating metrics (non-IFRS)

	1H23	2Q23	1Q23	1H22
C-store gross retail sales ($ millions)	643	342	301	615
C-store gross retail sales growth (%)	4.6	1.8	7.9	(8.1)
Comparable c-store sales growth (%)	5.6	2.7	9.0	(7.4)
Weekly fuel volumes (mL)	58.4	58.8	58.0	52.6
Fuel volume growth (%)	11.0	4.1	19.8	(5.2)
Comparable fuel volume growth (%)	12.4	5.1	21.5	(4.4)

Key highlights

C-store sales revenue of $607 million for the first half increased by 5.0% on the prior corresponding period and 6.0% on a three-year basis as the business cycled lower fuel volumes and c-store sales in the prior corresponding period as a result of COVID-19 lockdowns. Gross retail sales of $643 million increased by 4.6% and comparable sales grew by 5.6% on the prior corresponding period. For the second quarter, sales revenue increased by 2.1% year-on-year, and 4.8% on a three-year basis, while comparable sales growth was 2.7%.

Sales growth was driven by the food-to-go category, particularly hot fast food and coffee, while participation in the Magical Builders collectible program in the first quarter, and the Shell Motorsport Collection program in the second quarter also supported sales. This was partly offset by the continued decline in tobacco sales. Underlying c-store sales (ex-tobacco) increased by 13.0%.

Fuel volumes recovered during the half with the prior period being impacted by COVID-19 lockdowns and as fuel prices moderated during the period. Average weekly volumes for the half were 58.4mL per week, up 11.0% on the prior corresponding period, with comparable fuel volumes increasing by 12.4%.

During the half, five sites were closed, taking the total network to 706 sites.

Gross margin increased by 234 bps to 53.9% largely as a result of increased fuel volumes as well as mix impacts, largely due to the decline in tobacco sales. CODB as a percentage of sales on an underlying basis of 49.7% increased by 26 bps.

Underlying EBIT increased to $25 million, inclusive of notional depreciation and amortisation of $36 million that would have been incurred had the business been a continuing operation during the period.

Divestment impacts

As outlined in the Group Performance Overview, the Express fuel and convenience business has been recognised as held for sale from 21 September 2022 resulting in depreciation and amortisation of its assets ceasing from that date.

Statutory EBIT of $56 million was recorded, an increase of $31 million on Underlying EBIT, as a result of ceasing of depreciation and amortisation of $36 million offset by approximately $5 million in transaction costs.

Net assets of the Express fuel and convenience business have also increased during the period due to payment of lease liabilities not offset by depreciation of right of use lease assets. As a result, under this treatment it is expected that a small loss is likely to be recorded upon completion of the divestment.

Balance sheet

$ MILLION	1 JAN 2023	26 JUN 2022	2 JAN 2022
Inventories	2,825	2,448	2,387
Trade and other receivables	473	470	336
Trade and other payables	(4,978)	(4,335)	(4,282)
Working capital	**(1,680)**	**(1,417)**	**(1,559)**
Property, plant and equipment and equity investments	4,981	5,026	4,653
Assets held for sale	1,209	82	57
Right-of-use assets	6,434	7,199	7,162
Intangibles	1,887	1,864	1,806
Provisions	(1,190)	(1,278)	(1,293)
Other assets / (liabilities)	(129)	(29)	(77)
Capital employed	**11,512**	**11,447**	**10,749**
Net (debt) /cash	(362)	(506)	54
Lease liabilities	(7,759)	(8,681)	(8,635)
Liabilities associated with assets held for sale	(792)	-	-
Net tax balances	780	864	841
Total net assets	**3,379**	**3,124**	**3,009**
Working capital days – continuing operations[1]			
Inventory days	30	28	28
Trade payable days	(34)	(33)	(33)

[1] Inventory and trade payable days for the current period have been calculated on a continuing operations basis, excluding Express which has been classified as a discontinued operation. For the prior periods, inventory and trade payable days include Express.

Key highlights

Net assets were $3,379 million as at 1 January 2023, an increase of $370 million compared to the prior corresponding period.

Working capital of ($1,680) million moved by $121 million compared to the prior corresponding period, with higher trade payables consistent with seasonal Christmas and New Year trading activity and timing of year end payments partially offset by increased inventory. The increased inventory was largely a result of cost price increases and increased stock holdings to provide additional support for Christmas and New Year in light of supply chain disruptions.

Despite continued availability challenges, inventory days returned to pre COVID-19 levels, reflective of a partial rebuild of inventory following periods of abnormally low inventory holdings last year and through COVID-19. Trade payable days broadly increased in line with inventories.

Property, plant and equipment and equity investments of $4,981 million increased by $328 million compared to the prior corresponding period driven by the increased capital expenditure since the prior period.

Assets held for sale and associated liabilities includes properties held for sale and the Express segment assets and liabilities to be transferred to Viva Energy upon completion of the transaction which is expected to complete in the fourth quarter of FY23.

Net debt (excluding lease liabilities) at the half year was $362 million, a $144 million decrease from the full year net debt position. At half year end, Coles' average maturity of drawn debt was 5.6 years, with undrawn facilities of $2.4 billion.

Coles maintains access to diversified funding sources and no debt maturing in FY23. The next material maturity of Coles' debt is $200 million in bilateral bank facilities in FY25. The lease-adjusted leverage ratio at the half was 2.7x, with current published credit ratings of BBB+ with Standard & Poor's and Baa1 with Moody's. Coles retains headroom within its rating agency credit metrics and a strong balance sheet to support growth initiatives.

Cash flows before financing activities[1]

$ MILLION	1H23	1H22
EBIT	1,114	975
Depreciation and amortisation	786	787
EBITDA	**1,900**	**1,762**
Movement in working capital	195	372
Movement in provisions and other	(51)	(70)
Net cash from operating activities – excluding interest and tax	**2,044**	**2,064**
Income tax paid	(241)	(259)
Interest component of lease payments	(184)	(181)
Net interest paid	(26)	(21)
Net cash from operating activities	**1,593**	**1,603**
Net capital expenditure	(566)	(374)
Other	(12)	(3)
Net cash from investing activities	**(578)**	**(377)**
Net cash flow before financing activities	**1,015**	**1,226**
Cash realisation ratio[2]	**108%**	**117%**

[1] Cash flows includes both continuing and discontinued operations.
[2] Calculated as operating cash flow excluding interest and tax, divided by EBITDA.

Key highlights

Net cash from operating activities excluding interest and tax was $2,044 million with cash realisation of 108%, largely a result of a reduction in net working capital.

Net cash flow before financing activities decreased by $211 million relative to the prior corresponding period, largely driven by higher net capital expenditure (refer below).

Capital expenditure

Gross operating capital expenditure on an accrued basis was $623 million, an increase of $205 million compared to the prior corresponding period.

Within Supermarkets, capital expenditure increased due to investments in the Witron and Ocado major automation projects, as well as continued investments in new store and renewals and service transformation, including trolley assisted checkouts. In Liquor, capital expenditure increased during the half driven by new store openings and renewals, as well as investments in core IT systems.

Coles continued to optimise its property portfolio during the half with net property capital expenditure reducing by $35 million compared to the prior corresponding period, largely driven by higher property divestments in the half, resulting in net property inflow of $69 million.

Outlook

In the current quarter, Supermarkets volume growth returned to modestly positive from mid-January.

Supplier input cost pressures remain, particularly related to packaged goods, wages and energy. However, inflation is expected to moderate from the peak levels seen in the second quarter as we begin to cycle second half FY22 inflation and farm related availability improves.

We are expecting that more customers will be value conscious as cost of living pressures increase, such as rising mortgage payments and energy prices. With the largest Own Brand portfolio in Australia, 'DROPPED & LOCKED' prices, and Australia's favourite loyalty program, Flybuys, we are well positioned to meet the increasingly diverse requirements of our customer base.

In Liquor, we expect earnings to return to growth in the second half as we exit COVID-19 cycling and focus on building sales momentum, partially assisted by the February excise increase, and continuing to drive ELB growth.

Our Smarter Selling program will continue to help partially offset inflationary cost pressures, headwinds in mark downs and stock loss, as a result of increasing theft, and allow us to reinvest in the business.

The Express fuel and convenience divestment is expected to complete in the fourth quarter.

In Other, we still expect to see a net increase in costs of approximately $10 million for the full year compared to FY22, including corporate costs and property sales.

In January, we commenced operations at the Redbank, Queensland automated DC (Witron) with the receipt of our first inbound supplier deliveries. Store deliveries are expected to commence in the fourth quarter FY23 and continue to ramp up from that date.

In partnership with Ocado, we are making progress in the development of both our New South Wales and Victorian CFCs. The fit out of these facilities, especially the hive and grid, are unique in Australia, requiring complex construction management work systems to be developed and implemented. As advised at the 2022 AGM, there had been a construction delay at the New South Wales site. An assessment is ongoing to determine what further impact there may be on scheduled commissioning. However, based on information from Ocado, we are working towards the Victorian CFC being commissioned ahead of the New South Wales CFC with an incremental ramp up period commencing mid-FY24 in Victoria and 2H FY24 in New South Wales.

With our Redbank automated DC beginning to ramp up in the fourth quarter FY23, and the phasing of the CFCs, we now expect implementation operating expenditure to be approximately $120 million for FY23 (previously approximately $140 million).

Capital expenditure is still expected to be in the range of $1.2 billion to $1.4 billion for the full year, inclusive of our major automation projects. Depreciation and amortisation is expected to be approximately $1.55 billion for the full year for continuing operations and $35 million for the Express discontinued operations (previously approximately $1.7 billion which assumed no Express divestment)[3]

We are well positioned to navigate the current macro environment and as we look to the future, we expect improving availability, population growth and moderation in out of home dining, which has been elevated post-COVID-19, to positively impact the business and provide further opportunities for growth.

3 Depreciation and amortisation for the Express business ceased at date of announced sale on 21 September 2022

Coles is looking forward to sharing its latest flavoured hot cross buns, including vegemite and cheese, with customers this Easter.

Coles has doubled the size of 'DROPPED & LOCKED' with prices reduced on more than 300 essential products until after Easter.

For further information, please contact:

Investors
Anita Healy
Mobile: +61 411 109 108

Lisa Zimmet
Mobile: +61 428 857 242
E-mail: investor.relations@colesgroup.com.au

Media
Jace Armstrong
Mobile: +61 431 987 599

Therese Allaoui
Mobile: +61 435 323 339
E-mail: media.relations@colesgroup.com.au

Appendix

Appendix 1

Number of retail stores

	OPEN AS AT 27 JUN 2022	OPENED	CLOSED	OPEN AS AT 1 JAN 2023
NSW & ACT	260	3	(1)	262
QLD	182	1	0	183
VIC & TAS	236	4	(2)	238
SA & NT	60	0	0	60
WA	97	2	0	99
Supermarkets	**835**	**10**	**(3)**	**842**
Liquor	933	16	(9)	940
Express – discontinued operation	711	0	(5)	706
Group store	**2,479**	**26**	**(17)**	**2,488**

Appendix 2

Non-IFRS financial information and forward-looking statements

- This release contains IFRS and non-IFRS financial information which in the ordinary course, is not subject to audit or review.
- IFRS financial information is financial information that is presented in accordance with all relevant accounting standards.
- Non-IFRS financial information is financial information that is presented other than in accordance with relevant accounting standards and may not be directly comparable with other companies' information.
- Any non-IFRS financial information is clearly labelled to differentiate it from the statutory or IFRS financial information. Non-IFRS measures are used by management to assess and monitor business performance at the Group and segment level and should be considered in addition to, and not as a substitute for, IFRS information. Operating metrics that are prepared on a non-IFRS basis have been included in the segment commentary to support an understanding of comparable business performance. Non-IFRS information is not subject to audit or review.
- Balance Sheet and Cash Flow information presented in this release is consistent with underlying information disclosed in the Appendix 4D Half Year Financial Report.

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

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

Appendix 3

Glossary of terms

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

Capital employed – Total net assets excluding net tax balances, net debt and lease liabilities

Cash realisation – Calculated as operating cash flow excluding interest and tax, divided by EBITDA

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

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

EBIT – Earnings before interest and tax, calculated in accordance with accounting standards

EBITDA – Earnings before interest, tax, depreciation and amortisation, calculated in accordance with accounting standards

EPS - Earnings per share, calculated in accordance with accounting standards

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 Brand refers to the portfolio of product brands owned by suppliers but exclusive to Coles (e.g. La Espanola). There has been no change to products included in the financial calculations reported since 1H FY21, including sales and penetration rates

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

Gross retail sales- comprises retail sales on a gross basis before adjusting for concession sales and the cost of Flybuys scheme points. Fuel concession sales are excluded from Express gross retail sales on the basis Coles does not control retail pricing

Group sales revenue or Group EBIT – Total sales revenue or EBIT generated by Group for the period

IFRS – International Financial Reporting Standards

Leverage ratio – Calculated as gross debt, less cash at bank and on deposit, add lease liabilities, 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. The point movement reported represents the NPS measured over the relevant period relative to the prior corresponding period. Liquor NPS is based on Liquorland NPS results

pp - Percentage point

SKU – Stock Keeping Unit

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

Working capital – Includes all current assets and liabilities that form part of the day-to-day operations of the business (inventories, receivables and payables)

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