



19 February 2019

The Manager
Company Announcements Office
Australian Securities Exchange

Dear Sir or Madam

Coles Group Limited (Coles) – Appendix 4D and Half Year Report for period ended 30 December 2018

In accordance with ASX Listing Rule 4.2A and the Corporations Act 2001 (Cth) (Corporations Act), I enclose the following for immediate release to the market:

1. Appendix 4D;
2. Half Year Directors' Report;
3. Half Year Financial Report; and
4. Independent Auditor's review report,

for the half year ended 30 December 2018.

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

Yours faithfully,

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

Daniella Pereira
Company Secretary



Appendix 4D and Half year report

For the half year ended 30 December 2018



APPENDIX 4D

Under Listing Rule 4.2A

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Statutory results

		% CHANGE FROM PCP		\$M
Total revenue from ordinary activities	up	2.0%	to	20,345
Earnings before interest and tax (EBIT)	down	27.2%	to	567
Profit from ordinary activities after tax	down	29.4%	to	381
Profit from discontinued operations after tax	up	12.3%	to	357
Net profit for the half year	down	14.0%	to	738

Comparison of statutory to Retail results

	RETAIL 1H19 25 Jun 18 – 30 Dec 18 \$M	STATUTORY 1H19 1 Jul 18 – 30 Dec 18 \$M
Sales revenue	20,867	20,235
EBIT (excluding significant items)	733	713
Significant items	(146)	(146)
EBIT	587	567

Statutory EBIT and profit from ordinary activities after tax have decreased by 27.2% and 29.4% respectively, largely the result of a \$146 million restructuring provision presented as a significant item in the half year financial report.

Profit from discontinued operations relates to the profit attributable to the Kmart, Target and Officeworks businesses up until the date they were transferred to Wesfarmers Limited.

During the current reporting period, the Group moved from a Gregorian calendar to a Retail calendar, for statutory reporting purposes. The change has been applied prospectively from 1 July 2018. PCP reflects the original Gregorian calendar.

Retail results enhance comparability across reporting periods; the Company's Results Release and Investor Presentation provide further information on the Retail results.

DIVIDENDS

The Company will not pay an interim dividend in relation to the half year ended 30 December 2018. Wesfarmers Limited ('Wesfarmers') has indicated that the dividend expected to be paid to its shareholders in March 2019 will reflect, in part, Coles' earnings up to and including 27 November 2018 (28 November 2018 being the effective date of the demerger).

NET TANGIBLE ASSETS PER SHARE

	30 DECEMBER 2018 \$	31 DECEMBER 2017 \$
Net tangible assets per share	0.76	1.64

ENTITIES WHERE CONTROL WAS GAINED DURING THE PERIOD

On 30 October 2018, control was gained over the following entities:

- Coles Financial Services Pty Ltd and controlled entities¹

¹ Coles FS Holding Company Pty Ltd (formerly Wesfarmers Finance Holding Company Pty Ltd), Coles WFS Pty Ltd (formerly Wesfarmers Finance Pty Ltd), WFPL Funding Co Pty Ltd, WFPL No 2 Pty Ltd, WFPL SPV Pty Ltd and WFPL Security SPV Pty Ltd

APPENDIX 4D (CONTINUED)

Under Listing Rule 4.2A

ENTITIES WHERE CONTROL WAS LOST DURING THE PERIOD

On 30 October 2018, control was lost over the following entities:

- Coles Group International Pty Ltd and controlled entities¹

On 19 November 2018, control was lost over the following entities:

- Kmart Australia Ltd and controlled entities²
- Target Australia Pty Ltd and controlled entities³
- Officeworks Ltd and controlled entities⁴
- ACN 061 462 593 Pty Ltd (formerly Mycar Automotive Pty Ltd)
- ACN 007 870 484 Pty Ltd
- ACN 092 194 904 Pty Ltd

Refer to Note 6.2 of the accompanying half year financial report for further details.

DETAILS OF JOINT VENTURE ENTITY

NAME	OWNERSHIP INTEREST	
	30 DECEMBER 2018	31 DECEMBER 2017
Loyalty Pacific Pty Ltd	50%	50%

The Appendix 4D should be read in conjunction with the accompanying half year financial report

¹ CMNZ Investments Pty Ltd, Retail Investments Pty Ltd and Wesfarmers Risk Management (Singapore) Pte Ltd

² Tyre and Auto Pty Ltd, Kmart Group Asia Pty Ltd (formerly Coles Group Asia Pty Ltd), W4K World 4 Kids Pty Ltd, ANKO Retail Incorporated, KAS Global Holdings Pty Ltd, KAS Pty Ltd, KAS Global Trading Pty Ltd, KAS International Sourcing Bangladesh Pvt Ltd, KAS Direct Sourcing Private Ltd, KAS International Trading (Shanghai) Company Limited, Tyremaster (Wholesale) Pty Ltd, Coles Group New Zealand Holdings Ltd and KAS Services India Private Ltd

³ Fosseys (Australia) Pty Ltd, Target Australia Sourcing (Shanghai) Co Ltd (formerly TGT Business Consulting Services (Shanghai) Co Ltd), Target Australia Sourcing Limited (formerly TGT Sourcing Asia Limited) and The Workwear Group HK limited (formerly TGT Procurement Asia Limited)

⁴ Viking Direct Pty Ltd, Officeworks Property Pty Ltd, Officeworks Business direct Pty Ltd and Officeworks NZ Ltd

COLES GROUP LIMITED AND CONTROLLED ENTITIES

HALF YEAR FINANCIAL REPORT FOR THE PERIOD ENDED 30 DECEMBER 2018

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DIRECTORS' REPORT

This half year financial report is presented by the directors in respect of Coles Group Limited (the 'Company') and the entities it controlled at the end of and during the half year period 1 July 2018 to 30 December 2018 (collectively, the 'Group' or the 'Consolidated Entity').

In accordance with the provisions of the *Corporations Act 2001*, the Directors' Report is as follows:

DIRECTORS

The directors of the Company in office during the half year or at the date of this report are:

James Graham AM	Appointed Chairman and non-Executive Director on 19 November 2018
Steven Cain	Appointed Managing Director on 2 November 2018 following his appointment as Chief Executive Officer on 17 September 2018
David Cheesewright	Appointed non-executive Director on 19 November 2018
Jacqueline Chow	Appointed non-executive Director on 19 November 2018
Abigail Cleland	Appointed non-executive Director on 19 November 2018
Richard Freudenstein	Appointed non-executive Director on 19 November 2018
Wendy Stops	Appointed non-executive Director on 19 November 2018
Zlatko Todorovski	Appointed non-executive Director on 19 November 2018
John Durkan	Appointed Managing Director on 5 September 2014 and resigned on 17 September 2018
Leah Weckert	Appointed Executive Director on 17 September 2018 and resigned on 19 November 2018
Anthony Gianotti	Appointed Executive Director on 13 October 2017 and resigned on 19 November 2018
Robert Scott	Appointed Executive Director on 16 November 2017 and resigned on 19 November 2018

REVIEW AND RESULTS OF OPERATIONS

REVIEW OF OPERATIONS

On 16 March 2018, Wesfarmers Limited ('Wesfarmers') announced its intention to demerge its Coles division to create an independent ASX listed retail company. Economic separation was effective from 28 November 2018.

In order to implement the demerger, changes were made to the corporate structure of the Company, in particular, ownership of Kmart, Target and Officeworks ('KTO') was transferred to Wesfarmers. The results of the Company for the half year ended 30 December 2018, therefore, include the results of the KTO businesses up until the date of transfer, being 19 November 2018. These businesses have been reported as discontinued operations in this half year financial report.

The Group manages its continuing operations within the following divisions:

Supermarkets	Fresh food, groceries and general merchandise retailing (includes Coles Online and Coles Financial Services)
Liquor	Liquor retailing, including a portfolio of hotels
Express	Sale of fuel and convenience store operations

RESULTS OF OPERATIONS

The Company changed its statutory reporting calendar during the half year ended 30 December 2018, on a prospective basis, from a Gregorian calendar to a Retail calendar. This aligns the Company's statutory reporting calendar with internal management reporting and enables better comparison of performance across reporting periods. The statutory results for the half year ended 30 December 2018 include results for 26 weeks and 1 day, whereas the comparative half year ended 31 December 2017 includes results for 26 weeks and 2 days. The Company's Results Release and Investor Presentation provide further information on the results of the operations of the Company.

DIRECTORS' REPORT (CONTINUED)

RESULTS OF OPERATIONS (CONTINUED)

The Group statutory results for continuing operations for the period ended 30 December 2018, and the comparative period ended 31 December 2017, are presented below:

	HALF YEAR ENDED 30 DECEMBER 2018	HALF YEAR ENDED 31 DECEMBER 2017	CHANGE
	\$M	\$M	%
Sales revenue	20,235	19,844	2.0
Earnings before interest and tax (EBIT)	567	779	(27.2)

The key highlights for the period ended 30 December 2018 are as follows:

- Statutory sales revenue from continuing operations increased 2.0% to \$20,235 million largely due to 3.1% growth in Supermarkets' sales revenue.
- EBIT from continuing operations decreased by \$212 million (27%) to \$567 million largely due to a \$146 million restructuring provision in Supermarkets, reduction in Express EBIT of \$35 million and higher corporate costs associated with the demerger.

Net assets of the Company decreased by \$578 million (17.8%) in the half year period from \$3,250 million to \$2,672 million. The decrease was largely a result of the transfer of KTO net assets to Wesfarmers, partly offset by seasonal increases in working capital balances.

Supermarkets

The Supermarkets statutory results from continuing operations for the period ended 30 December 2018, and the comparative period ended 31 December 2017, are presented below:

	HALF YEAR ENDED 30 DECEMBER 2018	HALF YEAR ENDED 31 DECEMBER 2017	CHANGE
	\$M	\$M	%
Sales revenue	15,716	15,249	3.1
EBIT	441	602	(26.7)

The key highlights for the period ended 30 December 2018 are as follows:

- Statutory sales revenue from continuing operations increased 3.1% to \$15,716 million largely driven by successful campaign activity, improved in-store execution and growth in Coles Online sales partially offset by unfavourable weather in the second quarter.
- EBIT from continuing operations decreased 26.7% to \$441 million largely due to a \$146 million restructuring provision associated with the Company's supply chain modernisation program.

Liquor

The Liquor statutory results from continuing operations for the period ended 30 December 2018, and the comparative period ended 31 December 2017, are presented below:

	HALF YEAR ENDED 30 DECEMBER 2018	HALF YEAR ENDED 31 DECEMBER 2017	CHANGE
	\$M	\$M	%
Sales revenue	1,679	1,682	(0.2)
EBIT	84	81	3.7

The key highlights for the period ended 30 December 2018 are as follows:

- Statutory sales revenue from continuing operations decreased 0.2% to \$1,679 million as a result of unfavourable weather in the second quarter which impacted transaction growth. In addition, the change to a Retail reporting calendar impacted the results with New Year's Eve (a key trading day) included in the comparative reporting period but excluded from the current reporting period.
- EBIT from continuing operations increased by 3.7% to \$84 million as a result of productivity efficiencies.

DIRECTORS' REPORT (CONTINUED)

RESULTS OF OPERATIONS (CONTINUED)

Express

The Express statutory results from continuing operations for the period ended 30 December 2018, and the comparative period ended 31 December 2017, are presented below:

	HALF YEAR ENDED 30 DECEMBER 2018	HALF YEAR ENDED 31 DECEMBER 2017	CHANGE
	\$M	\$M	%
Sales revenue	2,840	2,913	(2.5)
EBIT	47	82	(42.7)

The key highlights for the period ended 30 December 2018 are as follows:

- Statutory sales revenue from continuing operations decreased 2.5% to \$2,840 million largely a result of lower fuel volumes.
- EBIT from continuing operations decreased 42.7% to \$47 million as a result of lower fuel volumes and profit margin deterioration from lower sales, making it harder to fractionalise the fixed cost base.

EVENTS AFTER THE REPORTING PERIOD

On 24 January 2019, the Company announced it had executed contracts to develop two automated ambient distribution centres (DCs) under its supply chain modernisation program. Under these contracts the Company expects to incur approximately \$950 million over a six year period relating to the construction and installation of the new DCs. The new DCs are expected to lower supply chain costs and improve the Company's competitive position by delivering improved product availability for customers.

On the 6 February 2019, the Company announced a new 10 year alliance with Viva Energy Group Limited ('Viva Energy'). Under the new alliance, the Company will receive a sales commission per litre from Viva Energy based on fuel volumes achieved. Viva Energy will be responsible for setting the retail price of fuel and will earn the retail fuel margin. Viva Energy will pay the Company \$137 million at transaction close. In addition, a payment for net working capital at transaction close will be paid upon expiry or early termination of the alliance. The new alliance is expected to deliver a more competitive customer offer and better align contributions and incentives for each party to jointly grow the business going forward.

DIVIDENDS

The Company will not pay an interim dividend in relation to the half year ended 30 December 2018. Wesfarmers has indicated that the interim dividend expected to be paid to its shareholders in March 2019 will reflect, in part, the Company's earnings up to and including 27 November 2018 (28 November being the effective date of the demerger).

The Company expects to pay its first dividend in September 2019, which will be a final dividend for the year ending 30 June 2019, reflecting seven months of earnings post the demerger from Wesfarmers.

ROUNDING OF AMOUNTS

The amounts contained in the half year 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.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration is set out on page 9.

This report is made in accordance with a Resolution of the directors of the Company on 19 February 2019.



James Graham AM

Chairman



Steven Cain

Managing Director and Chief Executive Officer

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

As lead auditor for the review of Coles Group Limited for the half year ended 30 December 2018, 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 review; and
- b. No contraventions of any applicable code of professional conduct in relation to the review.

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

Ernst & Young

Ernst & Young

Fiona Campbell

Fiona Campbell
Partner
19 February 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE HALF YEAR ENDED 30 DECEMBER 2018

	NOTES	CONSOLIDATED	
		HALF YEAR ENDED 30 DECEMBER 2018	HALF YEAR ENDED 31 DECEMBER 2017
		\$M	\$M
Continuing Operations			
Sales revenue	3.2	20,235	19,844
Other operating revenue		110	110
Total operating revenue		20,345	19,954
Cost of sales		(15,731)	(15,450)
Gross profit		4,614	4,504
Other income		64	94
Administration expenses	3.3	(3,971)	(3,827)
Other expenses	2	(146)	-
Share of net profit of joint venture	6.1	6	8
Earnings before interest and tax		567	779
Financing costs	3.4	(7)	-
Profit before income tax		560	779
Income tax expense	3.5	(179)	(239)
Profit for the period from continuing operations		381	540
Discontinued Operations			
Profit from discontinued operations after tax	6.2	357	318
Profit for the period		738	858
Profit attributable to:			
Equity holders of the parent entity		738	858
Earnings per share (EPS) attributable to equity holders of the parent:			
Basic and diluted EPS (cents per share)		\$0.55	\$0.64
EPS attributable to equity holders of the parent from continuing operations:			
Basic and diluted EPS (cents per share)	4.3	\$0.29	\$0.40

The above Consolidated Statement of Profit or Loss should be read in conjunction with the accompanying notes

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 30 DECEMBER 2018

	CONSOLIDATED	
	HALF YEAR ENDED 30 DECEMBER 2018 \$M	HALF YEAR ENDED 31 DECEMBER 2017 \$M
Profit for the period	738	858
Other Comprehensive Income		
Items that may be reclassified to profit or loss:		
Net movement in the fair value of cash flow hedges	16	-
Income tax effect	(5)	-
Other comprehensive income which may be reclassified to profit or loss in subsequent periods (net of tax)	11	-
Total comprehensive income attributable to:		
Equity holders of the parent entity	749	858
Total comprehensive income from continuing operations attributable to:		
Equity holders of the parent entity	392	540

The above Consolidated Statement of Other Comprehensive Income should be read in conjunction with the accompanying notes

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 DECEMBER 2018

		CONSOLIDATED		
		30 DECEMBER 2018	30 JUNE 2018	31 DECEMBER 2017
	NOTES	\$M	\$M	\$M
Assets				
Current assets				
Cash and cash equivalents	3.6	484	455	669
Trade and other receivables	3.7	560	728	721
Inventories	3.8	2,429	3,442	3,863
Assets held for sale	6.2	118	-	59
Other assets		125	100	165
Total current assets		3,716	4,725	5,477
Non-current assets				
Property, plant and equipment	3.9	4,201	5,223	5,199
Intangible assets	3.10	1,660	1,966	1,950
Deferred tax assets	3.5	537	724	718
Investment in joint venture	6.1	12	-	-
Other assets		24	91	135
Total non-current assets		6,434	8,004	8,002
Total assets		10,150	12,729	13,479
Liabilities				
Current liabilities				
Trade and other payables	3.11	3,991	8,009	7,796
Income tax payable	3.5	78	(25)	21
Provisions	3.12	703	819	807
Other		233	178	256
Total current liabilities		5,005	8,981	8,880
Non-current liabilities				
Interest-bearing liabilities	4.1	1,630	-	-
Deferred tax liabilities	3.5	192	184	165
Provisions	3.12	589	272	272
Other		62	42	25
Total non-current liabilities		2,473	498	462
Total liabilities		7,478	9,479	9,342
Net assets		2,672	3,250	4,137
Equity				
Contributed equity	4.2	1,631	2,193	2,193
Reserves	4.2	51	39	39
Retained earnings		990	1,018	1,905
Total equity		2,672	3,250	4,137

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 30 DECEMBER 2018

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				
	CONTRIBUTED EQUITY	SHARE-BASED PAYMENTS RESERVE	CASH FLOW HEDGE RESERVE	RETAINED PROFITS	TOTAL
	\$M	\$M	\$M	\$M	\$M
At 1 July 2018	2,193	39	-	1,018	3,250
Net profit for the period	-	-	-	738	738
Other comprehensive income	-	-	11	-	11
Total comprehensive income for the half year	-	-	11	738	749
Capital return	(538)	-	-	-	(538)
Share-based payments expense	-	1	-	-	1
Purchase of shares under Equity Incentive Plan	(24)	-	-	-	(24)
Distributions to Wesfarmers ¹	-	-	-	(766)	(766)
Balance as at 30 December 2018	1,631	40	11	990	2,672
At 1 July 2017	2,193	39	-	1,047	3,279
Net profit for the period	-	-	-	858	858
Total comprehensive income for the half year	-	-	-	858	858
Balance as at 31 December 2017	2,193	39	-	1,905	4,137

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes

¹ Includes retained profits relating to discontinued operations

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 30 DECEMBER 2018

		CONSOLIDATED	
		HALF YEAR ENDED 30 DECEMBER 2018	HALF YEAR ENDED 31 DECEMBER 2017
	NOTES	\$M	\$M
Cash flows from operating activities from continuing operations			
Receipts from customers		21,828	21,039
Payment to suppliers and employees		(20,094)	(19,529)
Interest (paid) / received		(4)	1
Income tax received		389	-
Income tax paid		(405)	(284)
Net cash flows from operating activities from continuing operations		1,714	1,227
Cash flows used in investing activities from continuing operations			
Purchase of property, plant and equipment and intangibles		(556)	(377)
Proceeds from sale of property, plant and equipment		88	92
Proceeds from sale of controlled entities		359	-
Net investments in joint venture		(6)	-
Acquisition of subsidiaries, net of cash acquired		(2)	-
Net cash flows used in investing activities from continuing operations		(117)	(285)
Cash flows used in financing activities from continuing operations			
Proceeds from borrowings		3,725	-
Repayment of borrowings		(2,095)	-
Proceeds from borrowings with related parties		170	-
Repayment of borrowings with related parties		(3,678)	(711)
Distributions to Wesfarmers		(320)	-
Redemption of redeemable preference shares		1,322	-
Capital return		(538)	-
Purchase of shares under Equity Incentive Plan		(24)	-
Net cash flows used in financing activities from continuing operations		(1,438)	(711)
Net increase in cash and cash equivalents from continuing operations		159	231
Cash at the beginning of the financial period from continuing operations		325	288
Cash at the end of the financial period from continuing operations	3.6	484	519

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The half year 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 half year ended 30 December 2018 (collectively, the 'Group' or the 'Consolidated Entity') were authorised for issue in accordance with a resolution of the directors on 19 February 2019.

Reference in this report to 'half year' is to the period from 1 July 2018 to 30 December 2018 (2017: 1 July 2017 to 31 December 2017) unless otherwise stated.

REPORTING ENTITY

Coles Group Limited 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 3.1 Segment reporting for continuing operations.

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The general purpose half year financial report for the period 1 July 2018 to 30 December 2018 has been prepared in accordance with AASB 134 *Interim Financial Reporting* ('AASB 134') and the *Corporations Act 2001*.

In accordance with AASB 134, this half year financial report does not include all information included within an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the consolidated entity as an annual financial report. As this is the first financial report of the Company as a listed entity, all significant accounting policies have been included in the Notes to the consolidated financial statements ('the Notes') explaining the events and transactions that are significant to an understanding of the financial performance and position of the Group.

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value as explained in the Notes.

The accounting policies have been applied consistently for all periods presented, except for the adoption of new standards effective as of 1 July 2018.

REPORTING PERIOD AND COMPARATIVES

Following the demerger from Wesfarmers Limited ('Wesfarmers'), the Group moved from a Gregorian calendar to a Retail calendar, for statutory reporting purposes.

Under a Gregorian calendar, the annual reporting period is 12 months (from 1 July to 30 June), whilst under a Retail calendar the reporting period is based on a defined number of weeks, with the annual reporting period ending on the last Sunday in June. On an ongoing basis, the annual results will be for either a 52 or 53 week period. In both a 52 week and 53 week annual reporting period, the half year will include 27 weeks. In a 53 week annual reporting period, the additional week will be included in the second half results.

The change to a Retail calendar has been applied prospectively from 1 July 2018. The reporting periods will, therefore, be as follows:

HALF YEAR	Commencing on 1 July 2018 and ending 30 December 2018
ANNUAL	Commencing on 1 July 2018 and ending 30 June 2019

Comparative periods reflect the original Gregorian calendar and have not been restated to a Retail calendar.

KEY JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to exercise judgement and make assumptions and estimates in applying the Group's accounting policies which impact amounts reported for assets, liabilities, income and expenses. Assumptions, estimates and judgements are based on historical experience, adjusted for current market conditions and other relevant factors, including management's reasonable expectations of future events and are continuously evaluated.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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

NOTE	JUDGEMENTS
Note 5.1 Impairment of non-financial assets	Impairment of goodwill
Note 6.1 Investment in joint venture	Control and significant influence
Note 7.1 Commitments and contingencies	Leases
NOTE	ESTIMATES AND ASSUMPTIONS
Note 3.8 Inventories	Net realisable value
Note 3.8 Inventories	Commercial Income
Note 3.12 Provisions	Employee benefits
Note 3.12 Provisions	Self-insurance
Note 3.12 Provisions	Restructuring
Note 5.1 Impairment of non-financial assets	Impairment of property, plant and equipment and intangible assets
Note 8.1 Share-based payments	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.

THE NOTES TO THE FINANCIAL STATEMENTS

The Notes include information which is required to understand the financial statements and is material and relevant to the operations, financial position and performance 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 (e.g. acquisitions, disposals and impairments)
- 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:

3. KEY NUMBERS: provides a breakdown of individual line items in the financial statements that the directors consider most relevant and summarises the accounting policies, judgements, assumptions and estimates relevant to understanding these line items.

4. CAPITAL: provides information about the capital management practices of the Group and shareholder returns for the year.

5. RISK: discusses the Group's exposure to various financial risks, explains how these affect the Group's financial position and performance and how the Group manages these risks.

6. GROUP STRUCTURE: explains the Group's structure and how changes have affected the financial position and performance of the Group.

7. UNRECOGNISED ITEMS: provides information about items that are not recognised in the financial statements but could potentially have a significant impact on the Group's financial position and performance.

8. OTHER DISCLOSURES: provides information in relation to items which require disclosure to comply with Australian Accounting Standards and other regulatory pronouncements which are generally considered less critical to an understanding of the financial performance or position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**BASIS OF CONSOLIDATION**

In preparing these financial statements, subsidiaries are consolidated from the date the Group gains control until the date on which control is lost. The Group's share of results of its equity accounted joint venture investment is included in the consolidated financial statements from the date joint control commenced, until the date joint control is lost. 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 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 dates of the transactions. 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 year end 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 used, and are relevant to the understanding of the financial statements, are provided throughout the Notes.

SEASONALITY OF OPERATIONS

The financial performance of the Group is affected by seasonality whereby earnings are typically greater in the half year due to Christmas trading.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ITEMS

Significant items are large gains, losses or events that are not in the ordinary course of business. They are typically gains or losses arising from events that are not considered part of the core operations of the business. These items have been highlighted below to help users of this financial report understand the financial performance of the Group in the half year reporting period.

Significant income items are included in 'other income', whilst significant expenditure items are included within 'other expenses' in the consolidated statement of profit or loss.

DEMERGER OF COLES AND CORPORATE RESTRUCTURE

On 16 March 2018, Wesfarmers announced its intention to demerge its Coles division to create an independent ASX listed retail company.

To implement the demerger, Wesfarmers undertook a capital reduction, the proceeds of which were automatically applied to the acquisition of Coles Group Limited shares on behalf of Wesfarmers shareholders. Eligible Wesfarmers shareholders received one Coles Group Limited share for every Wesfarmers share held. Wesfarmers has retained a minority ownership interest of 15% in Coles Group Limited following the demerger.

Coles Group Limited shares commenced trading on the ASX on 21 November 2018, initially on a deferred settlement basis. Trading of Coles Group Limited shares on standard settlement terms commenced on 29 November 2018.

Prior to the demerger, the Group and Wesfarmers were required to undertake an internal corporate restructure. The restructure included the transfer of the following businesses from the Group to Wesfarmers:

Kmart	Retailer of apparel and general merchandise, including toys, leisure, entertainment, home and consumables
Target	Retailer of apparel, homewares and general merchandise, including accessories, electricals and toys
Officeworks	Retailer and supplier of office products and solutions for home and small-to-medium sized businesses and education providers

As required for statutory reporting purposes, the statutory financial information for the Group has been presented for the half year ended 30 December 2018 and for the comparative half year ended 31 December 2017, including the results of Kmart, Target and Officeworks until the date that control was transferred to Wesfarmers. The statutory financial information does not therefore present the performance of the Group as it is currently structured.

Results from these discontinued operations are disclosed in Note 6.2.

COLES SUPPLY CHAIN MODERNISATION – RESTRUCTURING PROVISION

During the half year, the Company entered into a binding heads of agreement with a third party to develop two new automated ambient distribution centres.

Net profit before tax for the half year includes a provision expense of \$146 million (\$102 million after tax) relating to redundancies and lease exit costs for a number of existing distribution centres that will be closed as part of the supply chain modernisation program.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. KEY NUMBERS**3.1 SEGMENT REPORTING FOR CONTINUING OPERATIONS**

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 in order 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 a portfolio of hotels
Express	Sale of fuel and convenience store operations

Other business operations that are not separately reportable (such as Property), as well as costs associated with enterprise functions (such as 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 (including finance income and costs) and income tax are managed on a Group basis and are not allocated to operating segments.

Segment revenue, expenses and results include transactions between operating segments on an arm's length basis. These transactions are eliminated on consolidation and are not considered material. Performance is measured on segment EBIT which is consistent with the way management monitor and report the performance of these segments.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3.1 SEGMENT REPORTING FOR CONTINUING OPERATIONS (CONTINUED)

	SUPERMARKETS	LIQUOR	EXPRESS	OTHER	TOTAL
	\$M	\$M	\$M	\$M	\$M
Half year ended 30 December 2018					
Sales revenue	15,716	1,679	2,840	-	20,235
Other operating revenue	31	62	10	7	110
Segment revenue	15,747	1,741	2,850	7	20,345
EBIT	441	84	47	(5)	567
Financing costs	-	-	-	-	(7)
Profit before income tax	-	-	-	-	560
Income tax expense	-	-	-	-	(179)
Profit for the period from continuing operations	-	-	-	-	381
Share of net profit of joint venture included in EBIT	-	-	-	-	6
Half year ended 31 December 2017					
Sales revenue	15,249	1,682	2,913	-	19,844
Other operating revenue	29	65	9	7	110
Segment revenue	15,278	1,747	2,922	7	19,954
EBIT	602	81	82	14	779
Profit before income tax	-	-	-	-	779
Income tax expense	-	-	-	-	(239)
Profit for the period from continuing operations	-	-	-	-	540
Share of net profit of joint venture included in EBIT	-	-	-	-	8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3.2 SALES REVENUE

SALE OF GOODS

The Group operates a network of retail stores, convenience stores and hotels, selling food, groceries, general merchandise, liquor and fuel. Revenue from the sale of goods is recognised when the Group sells a product to the customer, which is when the Group satisfies its performance obligation.

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).

Payment of the transaction price is due immediately when the customer purchases the goods.

3.3 ADMINISTRATION EXPENSES

EMPLOYEE BENEFITS EXPENSE

The Group's accounting policy for liabilities associated with employee benefits is set out in Note 3.12. The policy relating to share-based payments is set out in Note 8.1.

RETIREMENT BENEFIT OBLIGATIONS

The Group contributes to a number of superannuation funds on behalf of 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 statement of profit or loss as incurred.

OPERATING LEASES

Operating lease payments are recognised as an expense in the statement of profit or loss on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and released to the statement of profit or loss on a straight-line basis over the lease term. Fixed rate increases to lease payments, excluding contingent or index based rental increases, are recognised on a straight-line basis over the lease term.

Contingent rental payments are made as a result of either turnover based rentals or movements in relevant indices. Such payments are recognised in the statement of profit or loss as they are incurred.

3.4 FINANCING COSTS

BORROWING COSTS

Borrowing 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 borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs incurred in connection with the borrowing of funds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3.5 INCOME TAX

The major components of income tax expense in the consolidated statement of profit or loss are set out below:

	CONSOLIDATED	
	HALF YEAR ENDED 30 DECEMBER 2018	HALF YEAR ENDED 31 DECEMBER 2017
	\$M	\$M
Current income tax expense	237	271
Deferred income tax relating to origination and reversal of temporary differences	(58)	(32)
Income tax expense recognised in statement of profit or loss	179	239

INCOME TAX EXPENSE

The tax expense included in the statement of profit or loss consists of current and deferred tax. Current tax is the expected tax payable on taxable income for the financial year, using tax rates enacted or substantively enacted by the reporting date.

Current tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Similarly, current tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income and not in the statement of profit or loss.

Deferred tax is measured using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated at 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. Deferred tax is charged or credited in the statement of profit or loss, except when it relates to items charged or credited directly to the statement of changes in equity or the statement of comprehensive income, in which case the deferred tax is also recognised in equity, or other comprehensive income, respectively.

GOODS AND SERVICES TAX (GST)

Revenues, 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 and payables 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 statement of financial position. 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 statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3.5 INCOME TAX (CONTINUED)

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

	CONSOLIDATED	
	HALF YEAR ENDED 30 DECEMBER 2018	HALF YEAR ENDED 31 DECEMBER 2017
	\$M	\$M
Profit before tax from continuing operations	560	779
Profit before tax from discontinued operations	509	454
Profit before income tax	1,069	1,233
At Australia's corporate tax rate of 30% (31 December 2017: 30%)	321	370
Adjustments in respect of current income tax of previous years	4	-
Share of results of joint venture	(2)	(3)
Non-deductible expenses for tax purposes	5	8
Adjustments in respect of demerger clear exit	3	-
At the effective income tax rate of 31.0% (31 December 2017: 30.4%)	331	375
Income tax expense reported in the statement of profit or loss	179	239
Income tax attributable to discontinued operations	152	136
	331	375

Deferred income tax balances recognised in the consolidated statement of financial position

	CONSOLIDATED	
	30 DECEMBER 2018	30 JUNE 2018
	\$M	\$M
Provisions	90	80
Employee benefits	208	277
Trade and other payables	20	12
Inventories	49	65
Property, plant and equipment	147	241
Other individually insignificant balances	23	49
Deferred tax assets	537	724
Accelerated depreciation for tax purposes	66	59
Intangible assets	65	70
Derivatives	5	-
Other individually insignificant balances	56	55
Deferred tax liabilities	192	184

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3.5 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 is measured at the rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates enacted or substantially enacted at the reporting date.

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.

Tax provisions are recognised for uncertain tax positions where a risk of an additional tax liability has been identified and it is probable that the Group will be required to settle that tax. Measurement is dependent on management's expectation of the outcome of decisions by tax authorities.

TAX CONSOLIDATION

Pre-demerger

For the period up to 27 November 2018, the Group paid tax as part of Wesfarmers' group taxation arrangements. On 27 November 2018, the Group exited Wesfarmers' Australian income tax consolidated group. The Group's entities that left Wesfarmers' Australian income tax consolidated group exited clear from any further income tax liability relating to the period during which they formed part of that income tax consolidated group. Past or future tax obligations that may arise in respect of the period the Group was a member of the Wesfarmers' Australian income tax consolidated group will be borne by Wesfarmers.

Post-demerger

This half year financial report has been prepared on the basis that the tax consolidation system does not apply to taxation obligations of the Group. In the event an election is made to form an Australian tax consolidated group in the future, with an implementation date preceding this reporting date, there is no requirement to retrospectively amend financial statement disclosures.

If a tax consolidated group is not formed for Australian income tax purposes post demerger, the Group's ongoing effective tax rate may vary from the historical effective tax rate derived under the Wesfarmers' Australian income tax consolidated group. The impact of forming a tax consolidated group on the effective tax rate has not been quantified as at the date of this report.

3.6 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

	CONSOLIDATED	
	30 DECEMBER 2018	30 JUNE 2018
	\$M	\$M
Cash on hand and in transit	479	324
Cash at bank and on deposit	8	1
Bank overdraft	(3)	-
Cash attributable to discontinued operations	-	130
Total cash and cash equivalents	484	455

For the purpose of the cash flow statement, cash and cash equivalents includes cash on hand and in transit, and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3.7 TRADE AND OTHER RECEIVABLES

Trade and other receivables are non-interest bearing and are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, less any provision for impairment.

3.8 INVENTORIES

Inventories comprise goods held for resale which are valued at the lower of cost and net realisable value.

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. See further information on commercial income below.



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. Management has estimated the inventory provisioning percentage for different product categories based on various factors, including expected sales profiles, 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 be either deducted from the cost of inventory (where related to the purchase of inventory) or recognised as a reduction in related expenses (where related to the sale of goods).

Amounts due from suppliers are recognised within trade receivables, except in cases where the Group currently has a legally enforceable right of set-off, in which case only the net amount receivable or payable is recognised.



Key estimate: Commercial income

Management is required to make estimates in determining the amount and timing of recognition of certain commercial income transactions with suppliers.

In determining the amount of volume-related allowances recognised during the period, management estimate the probability that the Group will meet contractual target volumes based on historical and forecast performance.

3.9 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost less accumulated depreciation and any recognised impairment. Property, plant and equipment is depreciated on a straight-line basis to its residual value over its anticipated useful economic life.

The following depreciation rates are applied by the Group:

Buildings	20 – 40 years
Plant and Equipment	3 – 20 years

Land is not depreciated.

Subsequent costs are included in an asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group and the costs can be reliably measured. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. Repairs and maintenance costs are charged to profit or loss during the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3.10 INTANGIBLE ASSETS

Intangible assets, such as licences and developed 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.

For internally generated intangible assets, 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.

GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the share of the net identifiable assets acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Refer to Note 5.1 for further details on impairment testing.

3.11 TRADE AND OTHER PAYABLES

Trade payables are non-interest-bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Refer to Note 6.4 for details of related party payables.

3.12 PROVISIONS

	CONSOLIDATED	
	30 DECEMBER 2018	30 JUNE 2018
	\$M	\$M
Current		
Employee benefits	572	788
Restructuring provision	-	17
Lease provision	1	2
Self-insurance liabilities	122	-
Other	8	12
Total current	703	819
Non-current		
Employee benefits	80	108
Restructuring provision	146	1
Lease provision	119	156
Self-insurance liabilities	244	-
Other	-	7
Total non-current	589	272

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3.12 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 management's best estimate of the 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 statement of profit or loss.

PROVISION	DESCRIPTION	 KEY ESTIMATES
Employee benefits	Provisions for employee entitlements to wages, salaries and annual leave (which are expected to be settled wholly within 12 months of the reporting date) 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 and non-current annual leave (which are not expected to be settled wholly within 12 months of the reporting date) are recognised within the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services up to the reporting date.	• Expected future wages and salary levels • Attrition (applicable to long service leave provisions only)
Self-insurance	The Group is self-insured for workers compensation and general liability risks. Provisions are recognised based on claims reported, and an estimate of claims incurred but not reported. These provisions are determined on a discounted basis, using an actuarially determined methodology. These estimates are reviewed periodically and any reassessment of these estimates will affect self-insurance expense.	Self-insurance provisions are based on a number of management estimates including, but not limited to: • future inflation • average claim size • claims development
Restructuring	Restructuring provisions are recognised when the restructuring has either commenced or been publicly announced and the Group has a detailed formal plan identifying: • the business or part of the business affected • the location and approximate number of employees effected • an estimate of the associated costs • the timeframe for restructuring activities	Restructuring provisions are based on a number of management estimates including, but not limited to: • number of employees impacted • employee tenure and costs • restructure timeframes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. CAPITAL

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

The Group's objective is to maintain an investment grade credit rating 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 will manage the Group's capital through various means including:

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

4.1 INTEREST-BEARING LIABILITIES

Prior to the demerger, the Group was funded through working capital facilities and intercompany loans provided by Wesfarmers. In November 2018, the Group entered into a number of revolving multi-option and term loan facilities. These bilateral bank loan facilities in aggregate total \$4.0 billion ('Coles facilities'). The Coles facilities have the following maturities: \$2.5 billion in November 2021, \$1.3 billion in November 2023 and \$0.2 billion in November 2025.

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 profit or loss when the liabilities are derecognised.

4.2 CONTRIBUTED EQUITY AND RESERVES

ORDINARY SHARES

Ordinary shares issued are classified as equity, are fully paid, carry one vote per share and the right to dividends. Incremental costs directly attributable to the issue of new shares or the exercise of options 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 in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss.

SHARE-BASED PAYMENTS RESERVE

The share-based payments reserve reflects the fair value of options and rights recognised as an expense in the consolidated statement of profit or loss.

DIVIDENDS

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 Group's financial statements in the period in which they are declared by the Board. No interim dividend has been proposed at the date of this report.

Wesfarmers has indicated that the dividend expected to be paid to its shareholders in March 2019 will reflect, in part, Coles' earnings up to and including 27 November 2018 (28 November 2018 being the effective date of the demerger).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4.3 EARNINGS PER SHARE

	HALF YEAR ENDED 30 DECEMBER 2018	HALF YEAR ENDED 31 DECEMBER 2017
EPS for profit attributable to the ordinary equity holders of Coles Group Limited		
Basic and diluted EPS (cents)	\$0.29	\$0.40
Basic and diluted EPS excluding significant items (cents) ¹	\$0.36	\$0.40
Profit for the period from continuing operations (\$M)	381	540
Weighted average number of ordinary shares for basic and diluted EPS (shares, million) ²	1,334	1,334

CALCULATION METHODOLOGY

EPS is the profit after tax (from continuing operations) attributable to ordinary equity holders of Coles Group Limited, divided by the weighted average number of ordinary shares during the year.

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. For the period, the potential dilution to the weighted average number of ordinary shares from employee options and performance rights was nil.

Between the half year reporting date and the issue date of this half year 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 Calculation excludes the \$146 million (\$102 million after tax) restructuring provision presented as a significant item in the half year financial report

² The weighted average number of shares for the half year ended 31 December 2017 has been restated to reflect the change in the Company's capital structure as a result of the demerger from Wesfarmers Limited as if the change had occurred at the beginning of the comparative period

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. RISK**5.1 IMPAIRMENT OF NON-FINANCIAL ASSETS**

For all non-financial assets (including intangible assets and property, plant and equipment) excluding goodwill, the Group performs impairment testing where there are indicators of impairment. In addition, for intangible assets with an indefinite useful life or for intangible assets not yet available for use, regardless of the existence of impairment indicators, the Group performs impairment testing on an annual basis. For impairment testing the recoverable amount of the asset is estimated and compared to the asset's carrying value in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs.

The recoverable amount is the higher of value in use and fair value less costs of disposal (FVLCD). If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately as a credit to the statement of profit or loss.

**Key estimate: Impairment of property, plant and equipment, software and other intangible assets**

Where there are indicators of impairment, and for certain intangible assets, management performs an impairment test. Recoverable amounts for CGUs are the higher of value in use and FVLCD. Value in use and FVLCD models use cash flow projections based on the Group's internal forecasts. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on estimated long-term growth rates.

Fair value of property is determined with the assistance of independent, professional valuers where appropriate.

GOODWILL

Goodwill is reviewed for impairment at least annually by assessing the recoverable amount of each CGU to which the goodwill relates. The recoverable amounts of the CGUs have been determined based on value in use calculations and these calculations require the use of estimates in relation to future cash flows and suitable discount rates. When the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognised immediately in the statement of profit or loss and is not subsequently reversed.

**Key judgement: Impairment of goodwill**

The determination of impairment involves the use of judgement in the assessment of recoverable amount. Management is required to make significant judgements concerning future cash flows, including changes in competitive positions, expectation of growth rates and cost of capital. Inputs into these valuations require assumptions and estimates to be made about forecast earnings before interest and tax and related future cash flows, applicable discounts rates, useful lives and residual values.

The judgements, estimates and assumptions used in assessing impairment are management's best estimates based on current and forecast market conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5.2 FINANCIAL RISK MANAGEMENT

In the normal course of business the Group is exposed to various risks including:

- market risk (including foreign exchange and interest rate risk)
- liquidity risk
- credit risk

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.

FOREIGN EXCHANGE RISK

The Group has exposure to foreign exchange risk principally arising from purchases denominated in foreign currencies. Exposure to foreign exchange risk also arises from foreign currency purchases for capital equipment.

The Group is primarily exposed to the United States dollar (USD) and the Euro (EUR). The Group considers its exposure to USD and EUR arising from purchases to be a long-term and ongoing exposure that is highly probable. In order to protect against exchange rate movements, the Group has entered into forward exchange contracts, which are designated as cash flow hedges.

The table below sets out the total forward exchange contracts at the half year reporting date and their derivative asset and liability positions:

	CONSOLIDATED					
	NOTIONAL VALUE		CARRYING VALUE		WEIGHTED AVERAGE HEDGE RATE	
	30 DECEMBER 2018 \$M	30 JUNE 2018 \$M	30 DECEMBER 2018 \$M	30 JUNE 2018 \$M	30 DECEMBER 2018	30 JUNE 2018
AUD / USD	32	-	-	-	0.71	-
AUD / EUR	425	-	(3)	-	0.58	-

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

	CONSOLIDATED	
	USD \$M	EUR \$M
Financial assets		
Cash and cash equivalents	2	-
Forward exchange contracts	23	245
Financial liabilities		
Trade and other payables	(49)	(18)
Net exposure	(24)	227

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5.2 FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign exchange rate sensitivity

At the half year reporting date, had the Australian dollar moved against the USD and EUR (with all other variables held constant), the Group's post tax profit and other comprehensive income 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 half year reporting date and the determination of reasonably possible movements based on management's assessment of reasonable fluctuations:

- A movement of +/- 10.0% of the AUD/USD exchange rate would result in \$2.2 million higher or \$2.7 million lower Group profit. The Group's other comprehensive income would not be affected.
- A movement of +/- 10.0% of the AUD/EUR exchange rate would result in \$1.8 million higher or \$2.2 million lower Group profit. The impact to the Group's other comprehensive income would be \$25.4 million lower or \$31.0 million higher, respectively.

INTEREST RATE RISK

The Group's exposure to interest rate risk relates primarily to cash and cash equivalents and interest-bearing liabilities.

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

NOTES	CONSOLIDATED			
	30 DECEMBER 2018		30 JUNE 2018	
	EXPOSURE	WEIGHTED AVERAGE INTEREST RATE	EXPOSURE	WEIGHTED AVERAGE INTEREST RATE
	\$M	%	\$M	%
Financial assets				
Cash at bank and on deposit	8	1	1	1
Financial liabilities				
Bank overdraft	(3)	7	-	-
Bank loans	(1,630)	3	-	-
Net exposure to cash flow interest rate risk	(1,625)		1	

The Group manages its interest rate risk relating to interest-bearing liabilities by having access to both fixed and variable rate debt facilities. The Group can enter into instruments to hedge its interest rate risk under the Policy, including interest rate swaps and interest rate caps.

At the half year reporting date the Group has no interest rate hedging instruments in place.

Interest rate sensitivity

A 100 basis point increase or decrease in Australian interest rates represents management's assessment of the reasonably possible change in interest rates.

A movement of +/- 100 basis points in the interest rate would result in an \$11.4 million higher or a lower interest charge to the Group's profit. Other comprehensive income would not be affected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5.2 FINANCIAL RISK MANAGEMENT (CONTINUED)

LIQUIDITY RISK

Liquidity risk refers to the risk of encountering difficulties in meeting obligations associated with financial liabilities and other cash flow commitments. Liquidity risk management aims to ensure there are sufficient funds available to meet financial commitments in a timely manner and to plan for unforeseen events which may curtail cash flows and cause pressure on liquidity. Liquidity risk is measured under both normal market operating conditions and under a crisis situation which curtails cash flow for an extended period. This approach is designed to ensure that the Group's funding framework is sufficiently flexible to ensure sufficient 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.

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

The committed facilities of the Group are set out below:

	CONSOLIDATED	
	30 DECEMBER 2018	30 JUNE 2018
	\$M	\$M
Financing facilities available:		
Bank overdrafts	10	-
Revolving multi-option facilities	2,640	-
Term loan facilities	1,360	-
	4,010	-
Financing facilities utilised:		
Bank overdrafts	3	-
Revolving multi-option facilities	270	-
Guarantees issued	275	-
Term loan facilities	1,360	-
	1,908	-
Financing not utilised:		
Bank overdrafts	7	-
Revolving multi-option facilities	2,095	-
Term loan facilities	-	-
	2,102	-

As at 30 December 2018, the Company has issued bank guarantees totalling \$275 million (30 June 2018: \$nil) through the revolving multi-option facilities. While the Company has provided these guarantees, the probability of having to make payments under these guarantees is considered remote. Refer to Note 7.1 for further details.

The Group holds, at the half year reporting date, \$484 million (30 June 2018: \$325 million) cash and cash equivalents.

Assets pledged as security

A controlled entity has issued a floating charge over assets, capped at \$80 million (30 June 2018: \$80 million), as security for payment obligations to a trade creditor. The assets are, therefore, excluded from financial covenants in all debt documentation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5.2 FINANCIAL RISK MANAGEMENT (CONTINUED)

Maturity analysis for continuing operations

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

	CONSOLIDATED					CARRYING AMOUNT \$M
	< 12 MONTHS	1-2 YEARS	2-5 YEARS	> 5 YEARS	TOTAL CONTRACTUAL CASH FLOWS	
	\$M	\$M	\$M	\$M	\$M	
30 December 2018						
Bank overdraft	3	-	-	-	3	3
Trade and other payables	3,986	-	-	-	3,986	3,986
Bank loans (principal and interest)	59	59	1,624	159	1,901	1,635
Forward exchange contracts	-	-	3	-	3	3
Total	4,048	59	1,627	159	5,893	5,627
30 June 2018						
Bank overdraft	-	-	-	-	-	-
Trade and other payables	6,136	-	-	-	6,136	6,136
Bank loans (principal and interest)	-	-	-	-	-	-
Forward exchange contracts	-	-	-	-	-	-
Total	6,136	-	-	-	6,136	6,136

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.

CREDIT RISK

The majority of the Group's sales are on cash terms and the Group's exposure to credit risk from customer sales is therefore minimal. The Group is exposed to credit risk from its financing activities, including deposits with financial institutions and other financial instruments. There are no significant concentrations of credit risk.

With respect to credit risk arising from cash and cash equivalents and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty. Counterparty limits, credit ratings and exposures are actively managed in accordance with the Policy. Since the Group trades only with recognised creditworthy third parties, there is no requirement for collateral by either party.

Credit risk for the Group also arises from various financial guarantees in which members of the Group act as guarantor. At 30 December 2018, the maximum exposure to credit risk by the Group is the amount disclosed in Note 7.1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5.3 FINANCIAL INSTRUMENTS

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

The following table sets out the fair value measurement hierarchy of the Group's financial assets and liabilities:

	CONSOLIDATED			
	30 DECEMBER 2018			
	LEVEL 1 \$M	LEVEL 2 \$M	LEVEL 3 \$M	TOTAL \$M
Financial liabilities				
Forward exchange contracts	-	3	-	3

The Group did not have any forward exchange contracts at 30 June 2018.

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 best 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 report 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)

There have been no transfers between Level 1, Level 2 and Level 3 during the period.

OFFSETTING OF FINANCIAL INSTRUMENTS

The Group presents its derivative assets and liabilities on a gross basis, with the exception of derivative financial instruments 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, in which case only the net amount receivable or payable is recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5.3 FINANCIAL INSTRUMENTS (CONTINUED)**HEDGE ACCOUNTING**

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.

At the half year reporting date the Group held forward exchange contracts to hedge exposure to foreign exchange fluctuations associated with purchases denominated in foreign currency.

At the start of the hedge relationship, the Group formally designates and documents the hedge relationship. This includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness. Hedge accounting is only applied where effectiveness tests are met on a prospective basis.

Derivative financial instruments are initially recognised at fair value when a derivative contract is entered into and subsequently remeasured to fair value.

The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The method of recognising any remeasurement gain or loss will depend on the nature of the item being hedged. Amounts recognised in equity are transferred to the statement of profit or loss when the hedged transaction affects profit or loss, such as when hedged income or expense is recognised or when a forecast purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the statement of profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, amounts previously recognised in equity remain in equity until the forecast transaction occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. GROUP STRUCTURE

6.1 INVESTMENT IN JOINT VENTURE

INVESTMENT IN JOINT VENTURE

NAME OF COMPANY	PRINCIPAL ACTIVITY	PLACE OF INCORPORATION	OWNERSHIP INTEREST	
			30 DECEMBER 2018	30 JUNE 2018
Loyalty Pacific Pty Ltd	Operator of flybuys loyalty program	Australia	50%	50%

SHARE OF JOINT VENTURE GAINS / LOSSES

The Group's interest in Loyalty Pacific Pty Ltd is accounted for using the equity method in the consolidated statement of financial position. A reconciliation of the carrying amount of the investment is set out below:

	CONSOLIDATED	
	HALF YEAR ENDED 30 DECEMBER 2018 \$M	HALF YEAR ENDED 31 DECEMBER 2017 \$M
Beginning of the period	-	-
Additions	6	-
Profit for the period	6	8
Dividends paid	-	(8)
End of the period	12	-

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.

The Group accounts for its investments in joint ventures using the equity method of accounting in the consolidated financial statements. Under the equity method, the investment in a joint venture 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, which is recognised in profit or loss. The Group's share of other comprehensive income is recognised in other comprehensive income within the statement of comprehensive income. Dividends received from a joint venture 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 on its investment in a joint venture. At each reporting period, the Group determines whether there is objective evidence that the investment in the joint venture 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 and its carrying value. Any impairment loss will be recognised within 'share of net profit of joint venture' in the consolidated statement of profit or loss.

**Key judgement: Control and significant influence**

The Group has a number of management agreements relating to its joint venture 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6.2 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

NON-CURRENT ASSETS HELD FOR SALE

At 30 December 2018, seven of the Group's properties with a total carrying value of \$118 million have been classified as held for sale (30 June 2018: \$nil).

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. Actions required to complete the sale should indicate that it is unlikely significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale be expected to complete within one year from the date of the classification.

If the criteria for held for sale classification above is met for the first time after the reporting date, but before the date the financial report is issued, the Group will not classify the asset or disposal group as held for sale, but will provide disclosure as an event after the reporting period (refer to note 8.3).

DISCONTINUED OPERATIONS

The Group presents as discontinued operations any component of the Group that has either been disposed of or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single coordinated plan to dispose of a separate major line of business, or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale

The net results of discontinued operations and the assets and liabilities are presented separately in the consolidated statement of profit or loss and the statement of financial performance respectively (and the comparatives restated).

The following entities were material wholly-owned subsidiaries during the half year reporting period until 19 November 2018 when the Company transferred control of these entities to Wesfarmers as part of the corporate restructure:

- Kmart Australia Limited and controlled entities ('Kmart')
- Target Australia Pty Ltd and controlled entities ('Target')
- Officeworks Ltd and controlled entities ('Officeworks')

The half year profit for the Kmart, Target and Officeworks discontinued operations is set out below, including comparative information:

	HALF YEAR ENDED 30 DECEMBER 2018 ¹	HALF YEAR ENDED 31 DECEMBER 2017
	\$M	\$M
Revenue	4,341	5,807
Expenses	(3,832)	(5,353)
Profit before income tax	509	454
Income tax expense	(152)	(136)
Profit for the period from discontinued operations	357	318

¹ Financial performance reflects period up to 19 November 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6.2 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (CONTINUED)

Assets and liabilities of the Kmart, Target and Officeworks discontinued operations at the date of transfer to Wesfarmers are set out below, including comparative information:

	19 NOVEMBER 2018	30 JUNE 2018
	\$M	\$M
Assets		
Cash and cash equivalents	138	130
Trade and other receivables	77	91
Inventories	1,707	1,337
Property, plant and equipment	997	985
Goodwill and intangibles	236	254
Other assets	280	291
Total assets disposed	3,435	3,088
Liabilities		
Trade and other payables	2,205	1,709
Other liabilities	875	612
Total liabilities disposed	3,080	2,321
Net assets disposed	355	767

Cash flows for the Kmart, Target and Officeworks discontinued operations during the half year are set out below, including comparative information:

	HALF YEAR ENDED 30 DECEMBER 2018 ¹	HALF YEAR ENDED 31 DECEMBER 2017
	\$M	\$M
Net cash flows from operating activities	322	948
Net cash flows from/(used in) investing activities	219	(205)
Net cash flows used in financing activities	(532)	(674)
Net increase in cash and cash equivalents from discontinued operations	9	69

EPS from the Kmart, Target and Officeworks discontinued operations is set out below:

	HALF YEAR ENDED 30 DECEMBER 2018 ²	HALF YEAR ENDED 31 DECEMBER 2017
Basic and diluted EPS (cents)	\$0.27	\$0.24

GAIN / LOSS ON DISPOSAL

Gain or loss on disposal is the difference between:

- the carrying amount of the net assets plus any attributable goodwill and amounts accumulated in other comprehensive income (for example, foreign translation adjustments and available-for-sale reserves); and
- the proceeds of sale.

No gain or loss has been recorded for the disposal of Kmart, Target and Officeworks.

¹ Cash flows reflect period up to 19 November 2018

² EPS reflects period up to 19 November 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6.3 DEED OF CROSS GUARANTEE

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 ('ASIC Instrument') the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 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 below entered into a Deed of Cross Guarantee on 17 December 2018 (the 'Deed'). The effect of the Deed is that the Company guarantees to pay any deficiency in the event of winding up of 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.

The subsidiaries subject to the Deed are set out below:

NAME	ACN
Coles Supermarkets Australia Pty Ltd	004 189 708
Australian Liquor Group Ltd	089 094 557
Bi-Lo Pty. Limited	002 805 094
Coles Group Finance Limited	008 544 161
Coles Group Properties Holdings Ltd	006 308 112
Coles Group Property Developments Ltd	004 428 326
Eureka Operations Pty Ltd	104 811 216
Liquorland (Australia) Pty. Ltd.	007 512 414
Retail Ready Operations Australia Pty. Ltd.	605 388 412
Coles Group Payments Pty Ltd	628 634 935
Coles Group Supply Chain Pty Ltd	082 423 014
Coles Online Pty Ltd	092 195 143
Grocery Holdings Pty Ltd	007 427 581

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6.4 RELATED PARTY DISCLOSURES

Parent entity

The ultimate parent entity within the Group is Coles Group Limited, which is domiciled and incorporated in Australia. Prior to the demerger and subsequent listing as a standalone entity on the ASX, the ultimate parent entity of the Group was Wesfarmers Limited.

Transactions with subsidiaries

Intercompany transactions, assets and liabilities between entities within the Group have been eliminated in the consolidated financial statements. Transactions with entities transferred from the Group to Wesfarmers have been treated as related party transactions. The nature of these transactions is set out below.

Transactions with Wesfarmers Limited and its controlled entities

As part of the demerger, members of the Wesfarmers Group and Coles Group entered into Transitional Services Agreements (TSA) for the provision of transitional services for up to 24 months. All services provided under a TSA are charged at cost.

The transitional services to be provided by the Wesfarmers Group to the Coles Group are:

- Workers compensation services
- General insurance services
- Other services, including the support of a merchandise ordering system

The transitional services to be provided by the Coles Group to the Wesfarmers Group are:

- Information technology services
- Payroll services and business process outsourcing
- Finance services and systems support
- Other services including the management and facilitation of telecommunications and other third-party recharge products

In addition, the Company has continued to provide, and in some instances, receive a number of ongoing services. This is consistent with current agreements for payments switch, gift card and property services.

As at 30 December 2018 there were amounts owing from Wesfarmers Limited and its controlled entities of \$44.5 million.

Transactions with joint venture

Various transactions occurred between the Group and Loyalty Pacific Pty Ltd (operator of flybuys) during the half year ended 30 December 2018, including:

- Reimbursement of costs incurred
- Payments to Loyalty Pacific Pty Ltd for the cost of loyalty points
- Payments from Loyalty Pacific Pty Ltd for points redeemed

As at 30 December 2018 there were amounts owing to Loyalty Pacific Pty Ltd of \$202.8 million.

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 half year 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.

For the half year ended 30 December 2018, the Group has not recognised a provision for expected credit losses relating to amounts owed by related parties (30 June 2018: \$nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. UNRECOGNISED ITEMS**7.1 COMMITMENTS AND CONTINGENCIES****CAPITAL EXPENDITURE COMMITMENTS**

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

	CONSOLIDATED	
	30 DECEMBER 2018	30 JUNE 2018
	\$M	\$M
Within one year	61	45
Between one and five years	10	5
Total capital commitments for expenditure for continuing operations	71	50

LEASE COMMITMENTS

Future minimum rentals under non-cancellable operating leases at the half year reporting date are set out below:

	CONSOLIDATED	
	30 DECEMBER 2018	30 JUNE 2018
	\$M	\$M
Within one year	1,200	1,161
Between one and five years	4,055	3,923
More than five years	4,659	4,693
Total operating lease commitments for continuing operations	9,914	9,777

A commitment represents a contractual obligation to make a payment in the future. The Group's commitments relate to capital expenditure and operating leases.

Commitments are not recognised in the statement of financial position, but are disclosed. The commitment amounts disclosed above represent the maximum amounts that the Group is obliged to pay, with the exception of commitments under operating leases, where the future minimum payments under non-cancellable operating leases are disclosed.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Embedded leases are treated in the same manner as finance leases. Finance leases are recognised as assets by the lessee, whereas operating leases are recognised as assets by the lessor and disclosed as a commitment by the lessee.

The Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss. 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. Contingent rent is recognised as revenue in the period in which they are earned.

The Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the fair value at inception or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as finance costs in the statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7.1 COMMITMENTS AND CONTINGENCIES (CONTINUED)

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

In the case of operating leases, payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.



Key judgement: Leases

The Group classifies leases as either finance or operating depending on whether the Group holds substantially all of the risks and rewards incidental to ownership. In making this assessment, the Group primarily considers asset ownership at the end of the lease term, any purchase options, the lease term in relation to the asset's life, the present value of future lease payments in relation to the asset's fair value and the nature of the asset. The reported lease commitments of the Group exclude rent considered contingent at lease inception. The effect of this exclusion on the reported lease commitments is not material.

CONTINGENT LIABILITIES

As at 30 December 2018, the Company has bank guarantees totalling \$275 million (30 June 2018: \$nil).

While the Company has provided these guarantees, the probability of having to make payments under these guarantees is considered remote. The nature of the guarantees provided is set out below:

- Guarantees in the normal course of business relating to conditions set out in property development applications and for the sale of properties
- Guarantees relating to workers compensation self-insurance liabilities as required by State WorkCover authorities. The guarantees are based on independent actuarial assessments of the outstanding insurance 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.

Contingencies are not recognised in the statement of financial position but are disclosed.



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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. OTHER DISCLOSURES**8.1 SHARE-BASED PAYMENTS**

During the half year, the Group established the Coles Group Limited Equity Incentive Plan ('Plan') to assist in the motivation, retention and reward of certain employees. The Plan provides flexibility for the Group to offer rights, options and/or restricted shares as incentives, subject to the terms of individual offers and the satisfaction of performance and/or service conditions determined by the Coles Board. It also provides the Group with the ability to invite employees to acquire Coles Group Limited Shares through a salary sacrifice arrangement.

ADDITIONAL INFORMATION ON AWARD SCHEMES

Details of grants made under the Plan during the half year are set out below:

Long Term Incentive (LTI)

TERM	DESCRIPTION
Participants	On 19 December 2018, select members of the senior management team were granted LTI Performance Shares.
Opportunity	LTI Performance Shares which are fully paid ordinary shares in Coles Group Limited granted subject to satisfaction of performance conditions. The shares were granted for nil consideration.
Conditions	The LTI Performance Shares are subject to a performance period which commenced on the date of the Coles Group Limited's listing (21 November 2018) and ends on 30 June 2021 ('Performance Period'). The LTI Performance Shares vest subject to satisfaction of the following performance conditions: • 50 per cent of the LTI Performance Shares are subject to a performance condition based on the Group's cumulative EBIT and return on capital (ROC) performance over the Performance Period; and • the remaining 50 per cent of the LTI Performance Shares are subject to a relative total shareholder return (TSR) performance condition, measured over a period commencing on the day after the Group's FY2019 half year results announcement and ending on 30 June 2021, using the 10-day volume weighted average price of shares at the start and the end of this period. Coles' relative TSR will be compared to a comparator group of companies in the ASX100. LTI Performance Shares are held in trust on a participant's behalf during the Performance Period. LTI Performance Shares are also subject to forfeiture and claw back conditions.

Executive Restricted Shares

TERM	DESCRIPTION
Participants	On 19 December 2018, select members of the senior management team were granted Executive Restricted Shares.
Opportunity	Executive Restricted Shares which are fully paid ordinary shares in Coles Group Limited granted subject to a three-year disposal restriction and a continued service condition. The Executive Restricted Shares were granted for nil consideration.
Conditions	Executive Restricted Shares are subject to a three-year disposal restriction commencing on the date the Executive Restricted Shares are granted ('Trading Restriction Period'). The Executive Restricted Shares are held in trust on a participant's behalf during the Trading Restriction Period. During that time, a participant will be unable to sell, transfer or otherwise deal in the Executive Restricted Shares. The Executive Restricted Shares are subject to forfeiture and claw back conditions. The Executive Restricted Shares are subject to continued service for a three year period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8.1 SHARE-BASED PAYMENTS (CONTINUED)

Restricted Shares

TERM	DESCRIPTION
Participants	On 19 December 2018, select senior managers were granted Restricted Shares.
Opportunity	Restricted Shares which are fully paid ordinary shares in Coles Group Limited granted subject to a disposal restriction and a continued service condition. The Restricted Shares were granted for nil consideration.
Conditions	The Restricted Shares are subject to continued service for a period of one or three years. Restricted Shares are also subject to a disposal restriction commencing on the date the Restricted Shares are granted and continuing for three years or until the employee ceases employment, whichever occurs earlier ('Trading Restriction Period'). The Restricted Shares are held in trust on a participant's behalf during the Trading Restriction Period. During that time, a participant will be unable to sell, transfer or otherwise deal in the Restricted Shares. The Restricted Shares are subject to forfeiture and clawback conditions.

RECOGNITION AND MEASUREMENT

Share-based payments can either be equity-settled or cash-settled. If the employee is provided a choice of settlement options then the grant is treated as cash-settled.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured using the fair value at the date at which they are granted. In determining the fair value, no account is taken of any performance conditions other than those linked to the price of the shares of Coles Group Limited (market conditions).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which any performance conditions (excluding market conditions) are met, ending on the date on which the employees become fully entitled to the award (vesting date). The cumulative expense recognised for equity-settled transactions at each reporting date up until vesting date reflects the extent to which the vesting period has expired and the proportion of the awards that are expected to ultimately vest. No expense is recognised for awards that do not ultimately vest due to a performance condition not being met. The expense is recognised in full if the awards do not vest (or are not exercised) due to a market condition not being met.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in value as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described above.

Cash-settled transactions

The ultimate expense recognised in relation to cash-settled transactions will be equal to actual cash paid to the employees, which will be the fair value at settlement date. The expected cash payment is estimated at each reporting date and a liability recognised to the extent the vesting period has expired and in proportion to the amount of the awards that are expected to ultimately vest.

**Key estimate: Share-based payments**

The fair value of share-based payment transactions is determined by an external valuer, taking into account the terms and conditions upon which the awards were granted. Management must also determine appropriate inputs to the valuation model including, but not limited to, risk-free rates and dividend yields.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8.2 NEW AND REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS

The Group applied AASB 15 *Revenue from Contracts with Customers* ('AASB 15') and AASB 9 *Financial Instruments* ('AASB 9') for the first time in this half year reporting period. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in this half year reporting period but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

AASB 15

The Group adopted this standard from 1 July 2018. The introduction of this standard did not have a material impact on the Group's financial performance or position; accordingly there are no retrospective adjustments.

Additional disclosure of the Group's revenue accounting policies required by the standard are included in Note 3.2.

AASB 9

The Group adopted this standard from 1 July 2018. The introduction of this standard did not have a material impact on the Group's financial report; accordingly there are no retrospective adjustments.

The Group has applied AASB 9 in accordance with the transitional provisions set out in AASB 9. The key change for the Group as a result of adopting this standard is in relation to the impairment of financial assets (mainly loans and receivables). Specifically, the new Standard requires the Group to account for expected credit losses at the point these financial assets are first recognised, and to recognise full lifetime expected losses for financial assets where the credit risk has increased significantly since initial recognition.

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

The expected impacts on the Group of significant new and revised accounting standards and interpretations, which are not yet effective, are summarised below:

AASB 16 Leases ('AASB 16')

NATURE OF CHANGE	IMPACT
This standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of greater than 12 months, unless the underlying asset is of low value.	The Group will apply AASB 16 from 1 July 2019 using the modified retrospective transition approach whereby there is an option on a lease-by-lease basis to calculate the ROU asset as either equal to the lease liability or with respect to historical lease payments. Under this method, there is no requirement to restate comparatives.
A lessee is required to recognise a right-of-use (ROU) asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The ongoing income statement classification of what is currently presented as an occupancy-related expense will be split between amortisation and interest expense under the new standard.	The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e. personal computers and printers) that are considered low value.
The Group will also be required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term or a change in future lease payments resulting from a change in an index or rate). The Group will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the ROU asset	A practical expedient also available to the Group is to combine lease and non-lease components, and account for these as a single lease component. The Group will not elect to apply this practical expedient for its property leases. As such, the calculated lease liability will exclude an estimate of the stand-alone price of any non-lease components.
Lessor accounting under AASB 16 is substantially unchanged from the accounting under AASB 117 Leases.	The Group is finalising the impact assessment for 30 June 2019. This includes identifying changes to the Group's accounting policies, internal and external reporting requirements, IT systems, business process and internal controls. The actual impact on applying the new standard will depend on the following: • Final discount rates used in calculating the lease liability • Composition of the Group's lease portfolio and any new leases entered into in the second half of the financial year • Final determination of reasonably certain renewal options

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8.3 EVENTS AFTER THE HALF YEAR REPORTING PERIOD

On 24 January 2019 the Company announced it had executed contracts to develop two automated ambient DCs under its supply chain modernisation program. Under these contracts the Company has committed to capital expenditure of \$677 million relating to the construction and installation of the new DCs.

On 6 February 2019 the Company signed an updated alliance agreement with Viva Energy. Under the new agreement, the Company will cease purchasing motor fuels and LPG from Viva Energy to sell at alliance sites, and will cease selling motor fuels and LPG on its own account from alliance sites. Viva Energy will appoint the Company as its agent for selling Viva Energy products at alliance sites. The Company will receive a one-off payment of \$137 million at transaction close; ongoing commission will also be payable to the Company from the sale of Viva Energy motor fuels and LPG.

Directors' Declaration

In accordance with a resolution of the directors of Coles Group Limited, the directors declared that, in their opinion:

- a) the financial statements and notes of the Group for the half year ended 30 December 2018 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position as at 30 December 2018 and the performance for the half year ending on that date of the Group; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- 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.

On behalf of the Board

A handwritten signature in blue ink, appearing to read 'James Graham', with a stylized flourish at the end.

James Graham AM
Chairman

19 February 2019

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

Report on the Half Year Financial Report

Conclusion

We have reviewed the accompanying half year financial report of Coles Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 30 December 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half year ended on that date, notes comprising significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of the Group is not 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 30 December 2018 and of its consolidated financial performance for the half year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half Year Financial Report

The directors of the Company are responsible for the preparation of the half year 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 half year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 30 December 2018 and its consolidated financial performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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



Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Fiona Campbell

Fiona Campbell
Partner
Melbourne
19 February 2019

