



17 February 2021

The Manager
Company Announcements Office
Australian Securities Exchange

Dear Sir or Madam

Coles Group Limited (Coles) – Appendix 4D and Half Year Report for the period ended 3 January 2021

In accordance with ASX Listing Rule 4.2A and the *Corporations Act 2001* (Cth), 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 3 January 2021.

Coles will conduct an analyst briefing on the half year results from 9.45am AEDT. This briefing will be audio webcast and is accessible via the Company's website at www.colesgroup.com.au.

This announcement is authorised by the Board.

Yours faithfully,

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

Daniella Pereira
Company Secretary



Appendix 4D and Half Year Financial Report

For the half year ended 3 January 2021



APPENDIX 4D

Under ASX Listing Rule 4.2A.3

Current reporting period	29 June 2020 to 3 January 2021
Previous corresponding period (PCP)	1 July 2019 to 5 January 2020

This information should be read in conjunction with the Coles Group Limited 2020 Annual Report.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	1H21 27 WEEKS \$M				1H20 27 WEEKS \$M
Revenue from ordinary activities	20,569	up	8.0%	from	19,046
Earnings before interest and income tax (EBIT)	1,020	up	12.1%	from	910
Profit from ordinary activities after tax attributable to members	560	up	14.5%	from	489
Profit after tax attributable to members	560	up	14.5%	from	489

Total revenue from ordinary activities increased by 8.0% to \$20,569 million driven by improved trading performance of the Group's reportable segments from successful channel and trading plan execution and increased demand for in-home consumption associated with COVID-19.

EBIT increased by 12.1% to \$1,020 million with higher revenue and gross margin benefits associated with strategic sourcing and supply chain initiatives offsetting the impact of lower fuel commission income and increased administration expenses during the current period (inclusive of costs associated with COVID-19).

Net profit for the period increased by 14.5% to \$560 million largely driven by the increase in EBIT.

DIVIDENDS

NAME	AMOUNT PER SECURITY	FRANKED AMOUNT PER SECURITY
Current period		
Interim dividend	33.0 cents	33.0 cents
Previous corresponding period		
Interim dividend	30.0 cents	30.0 cents
Year end (28 June 2020)		
Final dividend	27.5 cents	27.5 cents
Conduit foreign income component:		nil
Record date for determining entitlement to the interim dividend:		1 March 2021
Payment date of interim dividend:		26 March 2021

The Company operates a Dividend Reinvestment Plan (DRP) under which eligible holders of ordinary shares are able to reinvest all or part of their dividend payments into additional fully paid Coles Group Limited shares. The DRP will operate at nil discount. The last date to elect to participate in the DRP is 2 March 2021. In accordance with the DRP Rules, the offer price will be calculated as the arithmetic average of the daily volume weighted average market price of the Company's shares during the 5 trading days commencing on 9 March 2021.

NET TANGIBLE ASSETS PER SHARE

	3 JANUARY 2021	5 JANUARY 2020
Net tangible assets per share (\$)¹	0.88	0.72

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

APPENDIX 4D (CONTINUED)

ENTITIES WHERE CONTROL WAS GAINED DURING THE PERIOD

NAME	DATE
Coles Captive Insurance Pte. Ltd. ¹	Incorporated on 9 December 2020

¹ Registered in Singapore.

DETAILS OF EQUITY ACCOUNTED INVESTMENTS

NAME	TYPE	OWNERSHIP INTEREST	
		3 JANUARY 2021	5 JANUARY 2020
Loyalty Pacific Pty Ltd	Joint venture	50%	50%
Queensland Venue Co. Pty Ltd	Associate	50%	50%

Additional Appendix 4D disclosure requirements can found in the accompanying Half Year Financial Report.

COLES GROUP LIMITED AND CONTROLLED ENTITIES

ABN 11 004 089 936

HALF YEAR FINANCIAL REPORT FOR THE PERIOD ENDED 3 JANUARY 2021

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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 (collectively, 'the Group') at the end of and during the half year period from 29 June 2020 to 3 January 2021.

DIRECTORS

The following persons were directors of the Company during the half year period and up to the date of this report, unless stated otherwise:

James Graham AM	Chairman and Non-Executive Director
Steven Cain	Managing Director and Chief Executive Officer
David Cheesewright	Non-executive Director
Jacqueline Chow	Non-executive Director
Abigail Cleland	Non-executive Director
Richard Freudenstein	Non-executive Director
Wendy Stops	Non-executive Director
Paul O'Malley	Non-executive Director (appointment effective 1 October 2020)
Zlatko Todorcevski	Non-executive Director (retired 30 September 2020)

REVIEW AND RESULTS OF OPERATIONS

REVIEW OF OPERATIONS

The Group's reportable segments are set out below:

SUPERMARKETS	Fresh food, groceries and general merchandise retailing (includes Coles Online and Coles Financial Services)
LIQUOR	Liquor retailing, including online delivery services
EXPRESS	Convenience store operations and commission agent for retail fuel sales

RESULTS OF OPERATIONS

The Group results for the half year ended 3 January 2021, and the comparative half year ended 5 January 2020, are presented below:

	HALF YEAR ENDED 3 JANUARY 2021 27 WEEKS \$M	HALF YEAR ENDED 5 JANUARY 2020 27 WEEKS \$M	CHANGE %
Sales revenue	20,378	18,846	8.1%
EBIT	1,020	910	12.1%

Sales revenue increased 8.1% to \$20,378 million driven by successful execution of trading plans, growth in eCommerce, and revenue uplift associated with increased demand for in-home consumption associated with COVID-19.

EBIT for the Group increased 12.1% to \$1,020 million primarily due to improved trading performance and cost management initiatives, partly offset by lower fuel commission income and higher administration expenses (inclusive of costs associated with COVID-19).

DIRECTORS' REPORT (CONTINUED)

REVIEW AND RESULTS OF OPERATIONS (CONTINUED)

IMPACTS OF COVID-19

Coles continues to play an important role during the COVID-19 pandemic, providing an essential service to the community while prioritising the safety of our team members and customers.

Supermarkets

During the reporting period, Supermarkets continued to experience increased sales from elevated levels of in-home consumption through its stores and eCommerce business, with customers favouring neighbourhood stores over shopping centre and central business district (CBD) stores. Costs continued to be elevated to maintain a safe in-store environment for team members and customers, although these moderated during the reporting period as restrictions eased.

Liquor

Liquor sales remained elevated during the reporting period despite the relaxation of restrictions for on-premise consumption, with a continued trend towards eCommerce sales, customer preference for large format stores and value-oriented purchases.

Express

Fuel volumes began to recover during the reporting period as restrictions eased. Convenience store (C-Store) sales remained strong with customers continuing to shop locally and use convenience stores for top-up shopping.

AWARD COVERED SALARIED TEAM MEMBER REVIEW

In February 2020, Coles announced it was conducting a review into the pay arrangements for team members who receive a salary and are covered by the General Retail Industry Award 2010 (GRIA). The review does not relate to team members who are remunerated in accordance with approved enterprise agreements and who comprise over 90% of our workforce. As announced in February 2020, Coles recognised a provision of \$20 million in its 2020 Half Year Financial Report in relation to expected remediation costs.

Coles has continued to be supported by a dedicated team of external experts as we complete the review. Remediation to affected current and former team members commenced in June 2020.

The Fair Work Ombudsman (FWO) is conducting an investigation into the subject matter of the announcement which is ongoing at the date of this report.

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

BALANCE SHEET

The key balance sheet highlights for the half year ended 3 January 2021 are as follows:

Cash and cash equivalents increased by \$186 million to \$1,178 million largely driven by additional sales associated with the peak trading period falling at the end of the half year, and the timing of trade payables settlements relative to the prior reporting period.

Inventories increased by \$257 million to \$2,423 million primarily driven by the seasonal build of inventory associated with the Christmas and New Year trading period.

Trade and other payables increased by \$436 million to \$4,173 million, largely driven by a higher volume of stock purchases to cover Christmas trading and the timing of trade payables settlements relative to the prior reporting period.

Interest-bearing liabilities decreased by \$214 million to \$1,140 million. During the half year, Coles issued \$450 million of Australian dollar medium term notes (Notes), comprising \$300 million of 10-year fixed rate Notes and \$150 million of five-year floating rate Notes. The 10-year fixed rate Notes are priced at a coupon of 2.1% and the five-year floating rate Notes are priced at a margin of 0.97% over 3-month BBSW. Proceeds from the Notes were used to repay bank debt.

DIRECTORS' REPORT (CONTINUED)

REVIEW AND RESULTS OF OPERATIONS (CONTINUED)

SUPERMARKETS

The Supermarkets results for the half year ended 3 January 2021, and the comparative half year ended 5 January 2020, are presented below:

	HALF YEAR ENDED 3 JANUARY 2021	HALF YEAR ENDED 5 JANUARY 2020	CHANGE
	27 WEEKS	27 WEEKS	
	\$M	\$M	%
Sales revenue	17,800	16,583	7.3%
EBIT	903	789	14.4%

Sales revenue for Supermarkets increased 7.3% to \$17,800 million driven by the successful execution of trading plans, tailored range changes, Own Brand innovation, growth in eCommerce, and on-going benefits from in-home consumption throughout the reporting period.

EBIT increased by 14.4% to \$903 million driven by growth in sales, gross margin improvement from strategic sourcing and supply chain efficiencies, partly offset by an increase in administration expenses (inclusive of costs associated with COVID-19).

LIQUOR

The Liquor results for the half year ended 3 January 2021, and the comparative half year ended 5 January 2020, are presented below:

	HALF YEAR ENDED 3 JANUARY 2021	HALF YEAR ENDED 5 JANUARY 2020	CHANGE
	27 WEEKS	27 WEEKS	
	\$M	\$M	%
Sales revenue	1,946	1,691	15.1%
EBIT	104	76	36.8%

Sales revenue for Liquor increased 15.1% to \$1,946 million reflecting strong performance across all banners, channels and categories, particularly eCommerce and larger format stores, driven by investment in service and team capability, enhanced range and growth in the store network.

EBIT increased by 36.8% to \$104 million driven by increased sales and improved cost of doing business, partly offset by margin deterioration from ongoing changes in mix as a result of COVID-19, with customers shifting towards more value-orientated products.

EXPRESS

The Express results for the half year ended 3 January 2021, and the comparative half year ended 5 January 2020, are presented below:

	HALF YEAR ENDED 3 JANUARY 2021	HALF YEAR ENDED 5 JANUARY 2020	CHANGE
	27 WEEKS	27 WEEKS	
	\$M	\$M	%
Sales revenue	632	572	10.5%
EBIT	32	28	14.3%

Sales revenue for Express increased by 10.5% to \$632 million largely driven by an uplift in C-store sales, supported by in-store refrigeration investment, targeted range reviews and strong growth in forecourt sales.

EBIT increased by 14.3% to \$32 million for the half year driven by strong C-Store sales and cost control initiatives, partially offset by lower fuel commission income from reduced fuel volumes.

DIRECTORS' REPORT (CONTINUED)

REVIEW AND RESULTS OF OPERATIONS (CONTINUED)

EVENTS AFTER THE REPORTING PERIOD

Dividends

On 17 February 2021, the directors declared an interim dividend of 33.0 cents per fully paid ordinary share with a payment date of 26 March 2021, fully franked at the corporate tax rate of 30%. The aggregate amount of the interim dividend to be paid out of profits, but not recognised as a liability at 3 January 2021 is \$440 million¹.

The Group is not aware of any other matter or circumstance that has occurred since the end of the half year reporting date that has significantly affected or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in subsequent reporting periods.

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 17 February 2021.



James Graham AM

Chairman



Steven Cain

Managing Director and Chief Executive Officer

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

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 3 January 2021, I declare to the best of my knowledge and belief, there have been:

- a) No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the 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



Fiona Campbell
Partner
17 February 2021

STATEMENT OF PROFIT OR LOSS

FOR THE HALF YEAR ENDED 3 JANUARY 2021

		CONSOLIDATED	
		HALF YEAR ENDED 3 JANUARY 2021	HALF YEAR ENDED 5 JANUARY 2020
		27 WEEKS	27 WEEKS
	NOTES	\$M	\$M
Sales revenue	2	20,378	18,846
Other operating revenue		191	200
Total operating revenue		20,569	19,046
Cost of sales		(15,226)	(14,185)
Gross profit		5,343	4,861
Other income		65	76
Administration expenses		(4,387)	(4,027)
Share of net loss of equity accounted investments		(1)	-
Earnings before interest and tax (EBIT)		1,020	910
Financing costs		(219)	(220)
Profit before income tax		801	690
Income tax expense	4	(241)	(201)
Profit for the half year		560	489
Profit attributable to:			
Equity holders of the parent entity		560	489
Earnings per share (EPS) attributable to equity holders of the Company:			
Basic and diluted EPS (cents)	3	42.0	36.7

The accompanying notes form part of the Half Year Financial Report.

STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 3 JANUARY 2021

	CONSOLIDATED	
	HALF YEAR ENDED 3 JANUARY 2021	HALF YEAR ENDED 5 JANUARY 2020
	27 WEEKS	27 WEEKS
	\$M	\$M
Profit for the half year	560	489
Other comprehensive income		
Items that may be reclassified to profit or loss:		
Net movement in the fair value of cash flow hedges	(9)	(10)
Income tax effect 4	2	3
Other comprehensive loss which may be reclassified to profit or loss in subsequent periods	(7)	(7)
Total comprehensive income attributable to:		
Equity holders of the parent entity	553	482

The accompanying notes form part of the Half Year Financial Report.

STATEMENT OF FINANCIAL POSITION

AS AT 3 JANUARY 2021

		CONSOLIDATED		
	NOTES	3 JANUARY 2021 \$M	28 JUNE 2020 \$M	5 JANUARY 2020 \$M
Assets				
Current assets				
Cash and cash equivalents	5	1,178	992	797
Trade and other receivables		415	434	353
Inventories		2,423	2,166	2,473
Income tax receivable		-	42	53
Assets held for sale		48	75	106
Other assets		69	70	63
Total current assets		4,133	3,779	3,845
Non-current assets				
Property, plant and equipment		4,276	4,127	3,918
Right-of-use assets		7,703	7,660	7,347
Intangible assets		1,620	1,597	1,553
Deferred tax assets	4	870	849	772
Equity accounted investments		220	217	221
Other assets		137	120	118
Total non-current assets		14,826	14,570	13,929
Total assets		18,959	18,349	17,774
Liabilities				
Current liabilities				
Trade and other payables		4,173	3,737	3,665
Provisions	6	877	861	754
Income tax payable		10	-	-
Lease liabilities		910	885	1,205
Interest-bearing liabilities		-	-	8
Other		294	198	226
Total current liabilities		6,264	5,681	5,858
Non-current liabilities				
Interest-bearing liabilities	7	1,140	1,354	1,355
Provisions	6	481	472	464
Lease liabilities		8,258	8,198	7,556
Other		24	29	22
Total non-current liabilities		9,903	10,053	9,397
Total liabilities		16,167	15,734	15,255
Net assets		2,792	2,615	2,519
Equity				
Contributed equity		1,590	1,611	1,608
Reserves		48	43	40
Retained earnings		1,154	961	871
Total equity		2,792	2,615	2,519

The accompanying notes form part of the Half Year Financial Report.

STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 3 JANUARY 2021

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				
	CONTRIBUTED EQUITY	SHARE-BASED PAYMENTS RESERVE	CASH FLOW HEDGE RESERVE	RETAINED EARNINGS	TOTAL
	\$M	\$M	\$M	\$M	\$M
At 29 June 2020	1,611	56	(13)	961	2,615
Net profit for the half year	-	-	-	560	560
Other comprehensive loss	-	-	(7)	-	(7)
Total comprehensive income for the half year	-	-	(7)	560	553
Share-based payments expense	-	12	-	-	12
Purchase of shares under Equity Incentive Plan	(21)	-	-	-	(21)
Dividends paid	-	-	-	(367)	(367)
Balance as at 3 January 2021	1,590	68	(20)	1,154	2,792
At 1 July 2019	1,628	43	(1)	1,687	3,357
Effect of adoption of AASB 16 Leases	-	-	-	(831)	(831)
At 1 July 2019 (adjusted)	1,628	43	(1)	856	2,526
Net profit for the half year	-	-	-	489	489
Other comprehensive loss	-	-	(7)	-	(7)
Total comprehensive income for the half year	-	-	(7)	489	482
Share-based payments expense	-	5	-	-	5
Purchase of shares under Equity Incentive Plan	(20)	-	-	-	(20)
Dividends paid	-	-	-	(474)	(474)
Balance as at 5 January 2020	1,608	48	(8)	871	2,519

The accompanying notes form part of the Half Year Financial Report.

STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 3 JANUARY 2021

	NOTES	CONSOLIDATED	
		HALF YEAR ENDED 3 JANUARY 2021	HALF YEAR ENDED 5 JANUARY 2020
		27 WEEKS \$M	27 WEEKS \$M
Cash flows from operating activities			
Receipts from customers		22,202	20,221
Payments to suppliers and employees		(20,045)	(18,685)
Interest paid		(18)	(20)
Interest component of lease payments		(199)	(193)
Interest received		3	2
Income tax paid		(207)	(301)
Net cash flows from operating activities		1,736	1,024
Cash flows used in investing activities			
Purchase of property, plant and equipment and intangibles		(615)	(372)
Proceeds from sale of property, plant and equipment		112	221
Investments in joint venture		(4)	(9)
Net cash flows used in investing activities		(507)	(160)
Cash flows used in financing activities			
Proceeds from borrowings		4,236	3,520
Repayment of borrowings		(4,450)	(3,625)
Payment of principal elements of lease payments		(441)	(416)
Dividends paid		(367)	(474)
Purchase of shares under Equity Incentive Plan		(21)	(20)
Net cash flows used in financing activities		(1,043)	(1,015)
Net increase in cash and cash equivalents		186	(151)
Cash at the beginning of the financial period		992	940
Cash at the end of the financial period (net of bank overdrafts)	5	1,178	789

The accompanying notes form part of the Half Year Financial Report.

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 (collectively, 'the Group') at the reporting date or during the half year ended 3 January 2021 were authorised for issue in accordance with a resolution of the directors on 17 February 2021.

References in this report to 'half year' are the 27 week period from 29 June 2020 to 3 January 2021 (1H20: 27 weeks, 1 July 2019 to 05 January 2020) 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 2 Segment reporting.

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The general purpose Half Year Financial Report for the period 29 June 2020 to 3 January 2021 has been prepared in accordance with AASB 134 *Interim Financial Reporting* ('AASB 134') and the *Corporations Act 2001*.

In accordance with AASB 134, the Half Year Financial Report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the 2020 Financial Report and any public announcements made by the Group during the half year reporting period in accordance with the continuous disclosure requirements of the ASX listing rules.

The accounting policies adopted are consistent with those of the previous financial year and corresponding half year reporting period.

The Half Year Financial Report is presented in Australian dollars and all values are rounded to the nearest million dollars unless otherwise stated, in accordance with ASIC *Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. The Company is an entity to which the class order applies.

This Half Year Financial Report presents reclassified comparative information where required for consistency with the current half year's presentation.

KEY JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

The judgement, estimates and assumptions applied in the Half Year Financial Report, including the key sources of estimation uncertainty are the same as those applied in the 2020 Financial Report.

NEW AND AMENDED STANDARDS AND INTERPRETATIONS ADOPTED FROM 29 JUNE 2020

A number of other amendments and interpretations apply for the first time in this half year reporting period but do not have an impact on the 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.

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

There are no other standards, amendments or interpretations 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.

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. SEGMENT REPORTING

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

The Group's reportable segments are set out below:

SUPERMARKETS	Fresh food, groceries and general merchandise retailing (includes Coles Online and Coles Financial Services)
LIQUOR	Liquor retailing, including online delivery services
EXPRESS	Convenience store operations and commission agent for retail fuel sales

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

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

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

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

	SUPERMARKETS	LIQUOR	EXPRESS	OTHER	TOTAL
	\$M	\$M	\$M	\$M	\$M
Half year ended 3 January 2021					
Sales revenue	17,800	1,946	632	-	20,378
Segment EBIT	903	104	32	(19)	1,020
Financing costs					(219)
Profit before income tax					801
Income tax expense					(241)
Profit for the half year					560
Share of net profit of equity accounted investments included in EBIT					(1)
Half year ended 5 January 2020					
Sales revenue	16,583	1,691	572	-	18,846
Segment EBIT	789	76	28	17	910
Financing costs					(220)
Profit before income tax					690
Income tax expense					(201)
Profit for the half year					489
Share of net profit of equity accounted investments included in EBIT					-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. EARNINGS PER SHARE (EPS)

	HALF YEAR ENDED 3 JANUARY 2021	HALF YEAR ENDED 5 JANUARY 2020
EPS attributable to equity holders of the Company:		
Basic and diluted EPS (cents)	42.0	36.7
Profit for the half year (\$M)	560	489
Weighted average number of ordinary shares for basic and diluted EPS (shares, million)	1,334	1,334

CALCULATION METHODOLOGY

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

4. INCOME TAX

The major components of income tax expense in the Statement of Profit or Loss are set out below:

	CONSOLIDATED	
	HALF YEAR ENDED 3 JANUARY 2021	HALF YEAR ENDED 5 JANUARY 2020
	\$M	\$M
Current income tax expense	260	248
Deferred income tax relating to origination and reversal of temporary differences	(19)	(47)
Income tax expense reported in Statement of Profit or Loss	241	201

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

	CONSOLIDATED	
	HALF YEAR ENDED 3 JANUARY 2021	HALF YEAR ENDED 5 JANUARY 2020
	\$M	\$M
Profit before tax	801	690
Profit before income tax	801	690
At Australia's corporate tax rate of 30% (5 January 2020: 30%)	240	207
Non-deductible expenses for tax purposes	1	1
Non-assessable income for tax purposes	-	(7)
At the effective income tax rate of 30.1% (5 January 2020: 29.1%)	241	201
Income tax expense reported in the Statement of Profit or Loss	241	201

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. INCOME TAX (CONTINUED)

The major components of income tax expense recognised in the consolidated statement of other comprehensive income (OCI)

	CONSOLIDATED	
	HALF YEAR ENDED 3 JANUARY 2021	HALF YEAR ENDED 5 JANUARY 2020
	\$M	\$M
<i>Deferred tax related to items recognised in OCI during the year:</i>		
Net loss on revaluation of cash flow hedges	2	3
Deferred tax charged to OCI	2	3

Deferred income tax balances recognised in the Statement of Financial Position

	CONSOLIDATED	
	3 JANUARY 2021	28 JUNE 2020
	\$M	\$M
Provisions	57	56
Employee benefits	264	249
Trade and other payables	34	34
Inventories	48	45
Property, plant and equipment	140	139
Intangible assets	20	17
Lease liabilities	2,753	2,725
Cash flow hedges	8	6
Other individually insignificant balances	12	19
Deferred tax assets	3,336	3,290
Accelerated depreciation for tax purposes	96	96
Right-of-use assets	2,311	2,297
Other individually insignificant balances	59	48
Deferred tax liabilities	2,466	2,441
Net deferred tax assets	870	849

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

	CONSOLIDATED	
	3 JANUARY 2021	28 JUNE 2020
	\$M	\$M
Cash on hand and in transit	655	540
Cash at bank and on deposit	523	452
Total cash and cash equivalents	1,178	992

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.

6. PROVISIONS

	CONSOLIDATED	
	3 JANUARY 2021	28 JUNE 2020
	\$M	\$M
Current		
Employee benefits	761	746
Restructuring provision	2	6
Self-insurance liabilities	105	100
Other	9	9
Total current provisions	877	861
Non-current		
Employee benefits	96	89
Restructuring provision	129	127
Self-insurance liabilities	256	256
Total non-current provisions	481	472

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. INTEREST-BEARING LIABILITIES

	CONSOLIDATED	
	3 JANUARY 2021	28 JUNE 2020
	\$M	\$M
Non-current		
Bank debt	97	758
Capital market debt	1,043	596
Total non-current interest-bearing liabilities	1,140	1,354

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

All interest-bearing loans and borrowings are initially recognised at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

8. DIVIDENDS PAID AND PROPOSED

	CENTS PER SHARE		TOTAL \$M	
	3 JANUARY 2021	5 JANUARY 2020	3 JANUARY 2021	5 JANUARY 2020
Fully franked dividends determined and paid during the period				
Prior year final dividend	27.5	24.0	367	320
Prior year special dividend	-	11.5	-	154
	27.5	35.5	367	374
Fully franked dividends proposed and unrecognised at reporting date				
Interim dividend proposed and unrecognised at reporting date	33.0	30.0	440 ¹	399
	33.0	30.0	440	399

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

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

9. IMPAIRMENT OF NON-FINANCIAL ASSETS

In accordance with Australian Accounting Standards, the Group tests property, plant and equipment, right-of-use assets and intangible assets for impairment to ensure they are not carried above their recoverable amounts:

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

Goodwill was subject to full annual impairment testing as at 28 June 2020. The Group's impairment tests for goodwill are based on fair value less costs of disposal (FVLCD). FVLCD calculations are based on the discounted cash flows expected to arise from the asset or cash generating unit (CGU) using assumptions that a market participant would use when pricing the asset or CGU. The key assumptions used to determine the recoverable amounts for the CGUs to which goodwill relates are disclosed in the Financial Report for the year ended 28 June 2020.

A review of indicators of impairment relating to goodwill was performed as at 3 January 2021. Indicators of impairment were identified for the Express CGU and a full impairment test was performed. A post-tax discount rate of 6.4% and a nil terminal growth rate was applied.

Sensitivity analysis was performed to determine the point at which the recoverable amount is equal to the carrying amount for the Express CGU. Based on current economic conditions and CGU performance, no reasonably possible change in a key assumption used in the determination of the recoverable value is expected to result in an impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

Impairment calculations for the Group's other CGUs have not been updated as no indicators of impairment were identified as at 3 January 2021 for these CGUs.

No material impairment has been recognised in the half year ended 3 January 2021.

10. FINANCIAL INSTRUMENTS

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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 statements are categorised within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole.

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

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

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

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

DERIVATIVES

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

CARRYING AMOUNTS VERSUS FAIR VALUES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. RELATED PARTY DISCLOSURES

Parent entity

The ultimate parent entity within the Group is the Company, which is domiciled and incorporated in Australia.

Transactions with subsidiaries

Intercompany transactions, assets and liabilities between entities within the Group have been eliminated in the consolidated financial statements.

Transactions with joint venture and associates

Various transactions occurred between the Group and Loyalty Pacific Pty Ltd (operator of flybuys) during the half year ended 3 January 2021, including:

- sale of goods to members of flybuys
- purchase of points from Loyalty Pacific Pty Ltd
- reimbursement of costs incurred

As at 3 January 2021 there were amounts owing to Loyalty Pacific Pty Ltd of \$201 million (28 June 2020: \$201 million).

Various transactions occurred between the Group and Queensland Venue Co Pty Ltd (QVC) during the half year ended 3 January 2021, including:

- service fees paid
- sales of inventory to QVC

As at 3 January 2021 there were amounts receivable from QVC of \$35 million (28 June 2020: \$32 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 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.

As at 3 January 2021, the Group has not recognised a provision for expected credit losses relating to amounts owed by related parties (28 June 2020: \$nil).

12. COMMITMENTS

Capital expenditure commitments of the Group are set out below:

	CONSOLIDATED	
	3 JANUARY 2021	28 JUNE 2020
	\$M	\$M
Within one year	159	264
Between one and five years	389	378
Total capital commitments for expenditure	548	642

13. CONTINGENCIES

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. EVENTS AFTER THE HALF YEAR REPORTING PERIOD

Other than events disclosed elsewhere in this report, the Group is not aware of any matter or circumstance that has occurred since the end of the half year reporting date that has significantly affected or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in subsequent reporting periods.

DIRECTORS' DECLARATION

The directors of Coles Group Limited (the Company) declare that, in their opinion:

- a) the financial statements and notes of the Group for the half year ended 3 January 2021 are in accordance with the *Corporations Act 2001*, including:
 - I. giving a true and fair view of the financial position as at 3 January 2021 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.

Signed in accordance with a resolution of the directors.



James Graham AM

Chairman

17 February 2021



Steven Cain

Managing Director and Chief Executive Officer

17 February 2021

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 3 January 2021, the Statement of Profit or Loss, Statement of Other 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 3 January 2021 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 3 January 2021 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
17 February 2021

