

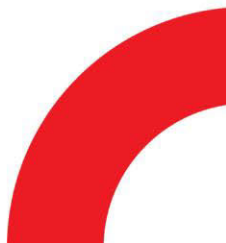
Supermarket Pricing Inquiry

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Submission to Queensland Supermarket Pricing Select Committee

12 April 2024



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Executive Summary

At Coles, our purpose is 'Helping Australians eat and live better every day'. Coles knows Australian households and families are being challenged by cost of living pressures as they manage increasing mortgage and rental payments, and growing electricity, fuel and transport costs. Delivering on this purpose means providing choice and value to customers, while ensuring the long-term viability of our valued supplier partners.

Coles enjoys supplier partnerships that have endured more than 50 years in fresh produce, and in meat, dairy and grocery many of our partnerships extend for more than 20 years. These partnerships underpin our Australia First Sourcing Policy, where more than 96% of fresh produce by volumeⁱ, is sourced from Australian suppliers. Last year, Coles paid \$32.3 billion to our more than 8,000 supplier and service partners.

A key driver of supermarket price increases has been cost price increase requests from our suppliers and farmers. Coles received an average of over 70 requests per week from suppliers and farmers in FY22 and FY23 (almost double the level of FY21 requests).

Coles is also impacted by the increased cost of doing business with increases in energy, labour, logistics, packaging, interest and tax costs.

Despite increased costs, Coles delivers on its commitment to provide value to customers through:

- Thousands of weekly specials;
- Coles Own Brand range which complements the proprietary brands in our stores to provide customers with a choice of products to suit their budget;
- \$1.5 billion investment in automation to deliver a better customer experience and lower cost base through state-of-the-art facilities; and
- Coles' internal cost reduction program enabling us to reinvest our cost savings back into the business to mitigate increasing costs.

Despite the impact of inflationary global and local events over that time, including a pandemic, the conflict in Ukraine, natural disasters and other supply chain disruptions, Coles Net Profit After Tax (NPAT)ⁱⁱ has remained largely stable over the last five years with minor variation year on year.

That is, while supermarket prices may have increased in our stores, this did not translate to greater NPAT in FY23.

For every \$100 of operating revenue that Coles earned in FY23:

- \$73.09 was the cost to buy and get products to our stores, the vast majority of which is spent with suppliers;
- \$11.87 was spent on our team member salaries, wages and benefits;
- \$8.80 was spent on administration costs such as property costs and depreciation/amortisation;
- \$2.71 was spent on federal and state governments taxesⁱⁱⁱ including income tax, excise, payroll tax, customs duty, property tax and fringe benefits tax;
- \$0.97 was spent on interest in relation to debt and lease financing costs; and
- The residual \$2.57 represents Coles NPAT.

The grocery retail sector is undergoing structural change as customer habits evolve driving growth in online retailing, as new entrants emerge and new technology, including automation, shape the future.

Coles operates under a competition and consumer regulatory framework that is world leading, robust and fit for purpose. Coles was the first Australian supermarket retailer to adopt an independent arbitration process to help resolve commercial disputes. Coles was also instrumental in the creation of the Food and Grocery Code of Conduct, becoming a foundation signatory in 2015. The industry code, to which its signatories are bound, sets out standards of business conduct between grocery retailers and wholesalers and their suppliers.

1. Introduction

- **Coles is a longstanding supermarket of choice for Australians seeking quality and value.**
- **Coles is a central part of the community as a retailer, employer, supplier partner and local community partner.**

At Coles, our purpose is 'Helping Australians eat and live better every day'. We know that cost of living pressures are making that simple proposition more challenging for families and households. As one of Australia's largest supermarkets, we take seriously our core role in providing essential goods to Australians. We are always looking at ways to deliver value to our customers and are committed to helping lower the cost of living.

Customers

Coles has been a contributor to the Australian economy and community for 110 years. From a single store in 1914 in Collingwood, Victoria, Coles has grown into one of Australia's largest and most enduring businesses that processes around 17 million customer transactions nationally each week across a network of more than 1,800 stores.

More than ever, customers are seeking value and Coles remains committed to providing immediate cost of living relief through our value campaigns, Flybuys discounts and our growing, award winning Coles Own Brand offering.

We continue to enhance our offer in response to changing consumer behaviour. This includes a move away from the once weekly grocery shop in a bricks and mortar store, and evolving needs such as the growing popularity of online shopping, packaged meals and convenience.

Coles is also investing in the future to sustain a lower cost base through state-of-the-art automation to underpin Coles' next stage of growth as we expand to service a growing population.

Team Members

Coles employs in excess of 120,000 team members. Our team members reflect the diverse communities in which we operate, and Coles spent \$5.1 billion on salaries, wages and benefits for our team members in FY23. During the same period, more than 26,000 team members worked in our stores and distribution centres in Queensland during which time Coles spent more than \$1 billion on salaries, wages and benefits.

Suppliers

Our spend on suppliers and services is our biggest operational cost, totaling \$32.3 billion in FY23 out of sales revenue of \$40.5 billion.

Long-term, mutually beneficial relationships are foundational to Coles' operations. We partner with more than 8,000 suppliers to deliver more than 40,000 product lines. Across fresh, fresh convenience, frozen, dairy, bakery, poultry, lamb, beef, pork, deli, grocery, pantry, confectionary and health and home, Coles enjoys partnerships with

suppliers that have endured for more than ten, and in many instances, more than 20 years. These partnerships endure across a spectrum of suppliers with annual contract values from the hundreds of thousands to the hundreds of millions of dollars.

We highly value these long-term partnerships, and it is our ambition to continue to build on these successes and contribute to the long-term sustainability of our valued suppliers.

Coles has an Australia First Sourcing Policy, backing local producers and farmers, proudly supporting their employment and growth. More than 96% of fresh produce by volume^v, is sourced from Australian suppliers, and has been for many years. We are proud of our many partnerships with Queensland suppliers such as Coastal Hydroponics, Rocky Ponds, Rugby Farms, Livestock Pty Ltd and Melbrig Feedlot.

Our suppliers are subject to the same cost pressures experienced across households, as well as the domestic and global economies. We work constructively with our suppliers on promotional campaigns to offer great value to customers and to limit or defer the impact of supplier cost price increases to keep costs low for customers.

Community

At Coles we believe we have an important role to play in the communities in which we operate. During FY23 we provided more than \$40 million^v in support to community partners such as Hummingbird House, Guide Dogs, Fight MND, Hospitals United for Sick Kids, Little Athletics and Redkite, to name a few. Our contributions allow these important community organisations to increase the scope of their services and help even more Australians. In addition, we supplied the equivalent of 40.1 million meals of unsold, edible food to food rescue organisations such as SecondBite and Foodbank who support well over a thousand charities throughout local communities to feed individuals and families suffering food insecurity. In FY23 Coles supplied the equivalent of more than 6.7 million meals to SecondBite and Foodbank to support Queensland community groups.

In 2022 Coles announced a 10-year, \$10 million partnership with the Great Barrier Reef Foundation to help strengthen the regeneration and resilience of the Great Barrier Reef.

With an extensive network of stores and distribution centres, Coles is often amongst the first to provide aid and essentials to communities directly affected by natural disasters. Two recent examples include in January 2024, Coles worked closely with the Queensland and Northern Territory Governments to respond to immediate needs on the ground and re-establish supply chains into north Queensland and the Northern Territory, in response to Cyclone Jasper. During December 2023 Queensland was faced with multiple significant flooding and rain events such as Cyclone Jasper that cut off road and rail access. This left supermarkets without essential food and stocks. During this time our team members came together to support those impacted by donating essential items to local relief centres.

In March 2023, Coles worked closely with the Western Australian, Northern Territory, South Australian and Federal Governments to reconfigure supply chains and collaborated with Governments to secure air freight from the Australian Defence

Forces to ensure continued supply for communities in northern Western Australia where devastating floods and cyclones cut all road and rail access leaving communities isolated.

During the COVID pandemic, Coles worked extensively with Governments, team members and the community to ensure households always maintained safe and ready access to the essentials they needed.

Shareholders

Of our more than 440,000 shareholders, 88% hold less than 2,000 shares^{vi}. They include mums, dads, families and retirees who not only shop with us, they invest in us and rely on our long-term sustainability. Of Coles' larger investors many are superannuation funds and we acknowledge the importance of our business in contributing to the financial security of Australians retiring from the workforce. Many shareholders are Australian based families and companies, and 80% of Coles' profits were paid out in dividends to shareholders in FY23.

Most Australians are either a customer, team member or shareholder in Coles and we remain committed to our purpose of helping Australians eat and live better every day. Fair, competitive and reasonable pricing paid to our suppliers or charged to our customers is a key way in which we aim to secure that purpose.

Unions

Coles works constructively with our union partners. In 2020 Coles and the Transport Workers Union signed a charter on standards in road transport and the gig economy focusing on safety, driver education and mental health.

In 2019 Coles, the Shop Distributive and Allied Employees Association, the Transport Workers Union and the Australian Workers Union signed an Ethical Retail Supply Chain Accord which aims to achieve a safe, sustainable, ethical and fair retail supply chain for workers within the horticulture supply chain.

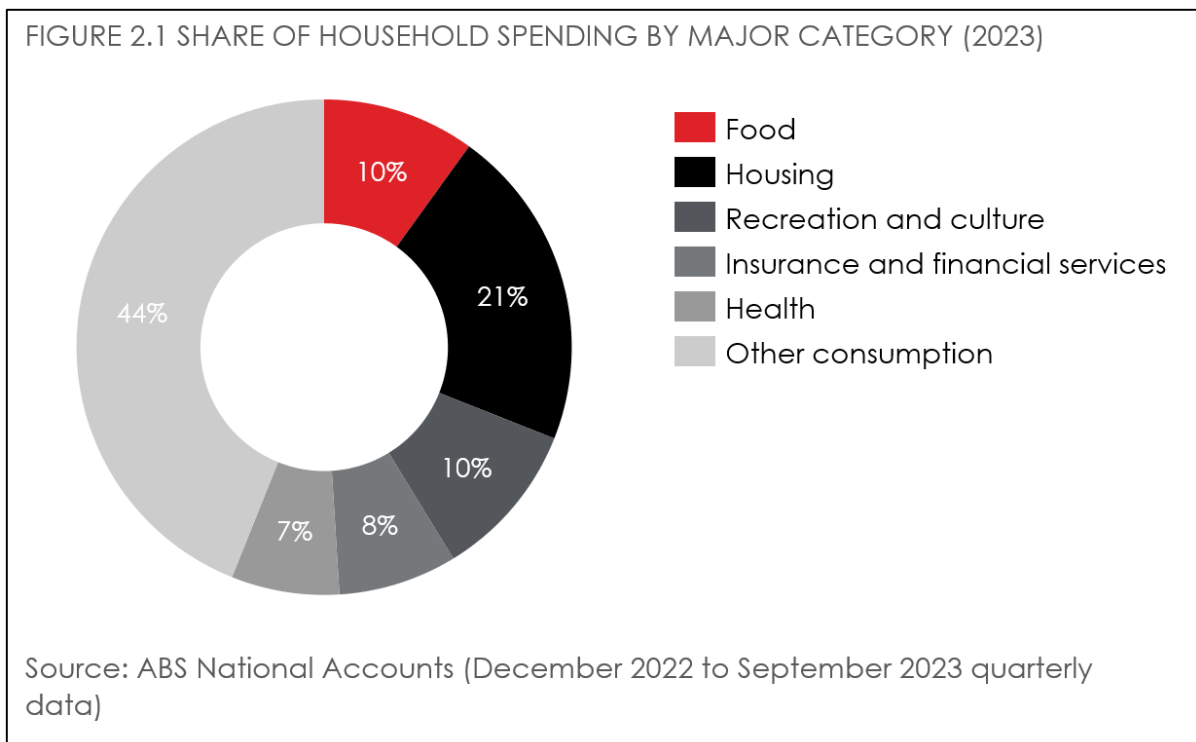
2. Customers

- **Coles understands its customers and responds to their needs.**
- **Spend on food is only a small part of a household's budget and has been declining over many years.**
- **Coles is committed to providing customers with choice and value.**

At Coles, our customers are at the centre of our pricing and ranging decisions. Customers have always had an eye on value, they tell us what they want and need and, more than ever, cost of living pressures are the greatest single concern for many households.

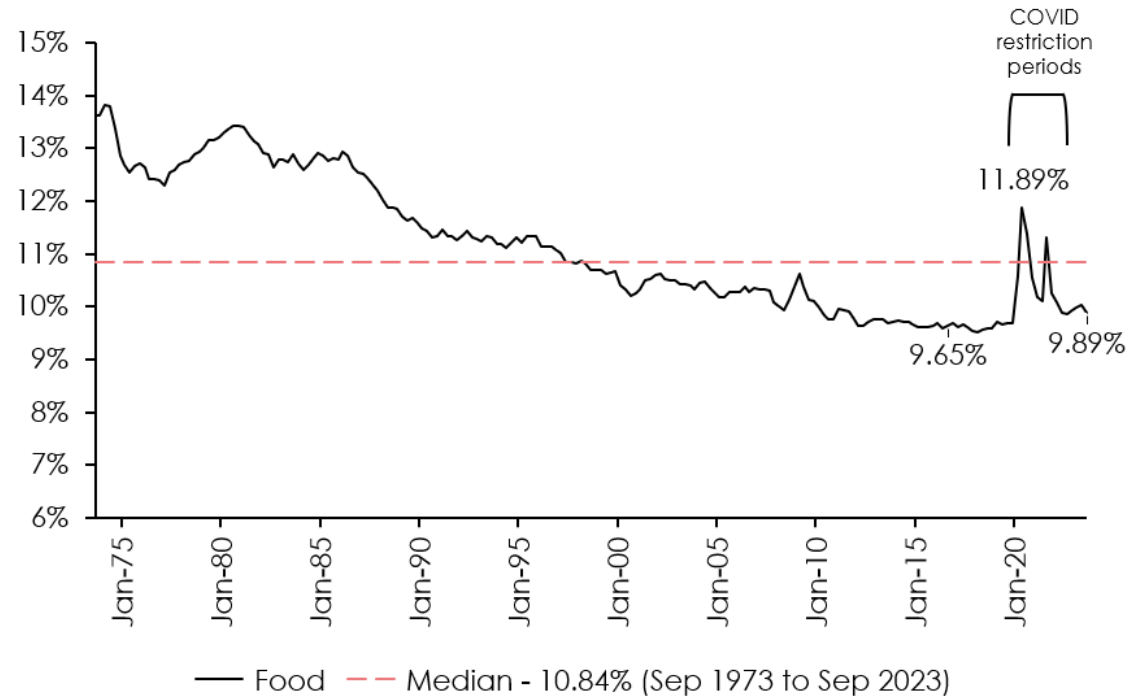
Customers are becoming more value conscious with many concerned about their ability to cover living costs. We know increasing mortgage and rental payments, growing electricity and fuel prices and the rising cost of education, medical care, and insurance are putting pressure on household budgets. Whilst we are not able to influence these escalating costs, we can support Australian families by providing great value and choice across our stores.

In 2023, the average Australian household spent around 10% of its income on food and groceries.



According to the Australian Bureau of Statistics (ABS), the proportion of household spending on groceries has been trending downward over decades as consumers have apportioned spending across various discretionary and non-discretionary expenses. Coles is committed to providing value to cost-conscious households to continue this trend.

FIGURE 2.2 NOMINAL SHARE OF HOUSEHOLD SPENDING ON FOOD
(SEPTEMBER 1973 TO SEPTEMBER 2023)



Source: ABS National Accounts

We note that the food share of spending spiked up during COVID restriction periods in 2020 and 2021 when many cafes and restaurants were not able to operate and stay at home orders were in place in some states. Food spending has since normalised to its longer run trend share of household spending.

Through our customer insights work, customers have shared they are increasingly eating and entertaining at home, seeking out loyalty points and bonus offers, and looking for more affordable alternatives as they seek more value in response to cost of living pressures.

In seeking more value, the Coles Own Brand range has become increasingly important in delivering trusted value to customers. Changing customer trends have seen growth in the Coles Own Brand range, as well as shopping in bulk to make their dollar go further.

We continue to invest in providing value through everyday trusted pricing, weekly specials, Flybuys and our Own Brand portfolio.

3. Supplier Partnerships

- Our spend on suppliers and services is our biggest operational cost, totaling \$32.3 billion in FY23 out of sales revenue of \$40.5 billion.
- Coles values long-term partnerships with suppliers and enjoys decades long, positive relationships with many suppliers.
- Operational costs remain high including transport, processing, packaging, and labour.
- In meat, Coles enters forward contracts for red meat with less than 2% of Coles Beef bought from sale yards. Coles has specific requirements for size, packaging and consumer preferences, such as hormone free beef and sources cattle in most instances from suppliers and processors with decades long relationships with Coles.
- In horticulture, Coles enter seasonal commitments, which are volume based, with agreed quality and volume specifications, ethical requirements, and distribution centre locations as part of these commitments. The length of these commitments varies based on seasonality and regionality.
- In 2019 Coles started sourcing Coles Own Brand fresh white milk directly from farmers on long-term contracts at competitive prices.
- Coles was a founding signatory to and is bound by the 2015 Food and Grocery Code of Conduct.

Long-term, sustainable partnerships

Long-term, mutually beneficial relationships are foundational to Coles' operations. Coles is committed to a sustainable Australian farming and food and grocery manufacturing sector. Our spend on suppliers and services is our biggest operational cost, totaling \$32.3 billion in FY23 out of sales revenue of \$40.5 billion.

We partner with more than 8,000 suppliers to deliver more than 40,000 product lines. Where possible, we seek to offer longer-term tenure with our suppliers to provide them greater certainty of demand, which gives them the confidence to invest in their own businesses.

Across fresh, fresh convenience, frozen, dairy, bakery, poultry, lamb, beef, pork, deli, grocery, pantry, confectionary and health and home, Coles enjoys partnerships with suppliers that have endured for more than ten, and in many instances, more than 20 years. These partnerships endure across a spectrum of suppliers with annual contract values from the hundreds of thousands to the hundreds of millions of dollars.

We highly value these long-term partnerships and it is our ambition to continue to build on these successes and contribute to the long-term sustainability of our valued suppliers.

Our customers prefer Australian grown and made products and seek to buy local produce where possible. Coles has an Australia First Sourcing Policy, backing local producers and farmers and supporting their employment and growth; proudly, more than 96% of fresh produce by volume^{vii}, is sourced from Australian suppliers. All of Coles

Own Brand fresh pork, chicken, turkey, duck, beef, lamb, milk, and eggs are Australian grown.

Partner of choice

Coles represents around 5% of the market for the agricultural sector (see section 7), and we are proud of our relationships with suppliers, and that Coles remains a partner of choice in a large market with many alternatives.

Coles is a partner of choice not only due to its scale and network, but because Coles invests in the long-term viability of its supplier partners. It is not in the interests of Coles, our suppliers or the community for Coles to have fragile or disrupted supply from our partners. Our suppliers are subject to the same cost pressures experienced across households, as well as domestic and global economies, and we work with them to adjust to challenges and help them grow and prosper. This includes a process for suppliers to submit cost price increase requests for their products when their costs are impacted by inflation and other factors. We also support our suppliers through grants and payments including:

Coles Nurture Fund (CNF)

The Coles Nurture Fund was launched in 2015 to support small and medium Australian businesses. Australian businesses can apply for a grant of up to \$500,000 to help them develop market leading products, technologies and processes. Since commencing the fund in 2015 over \$33 million in financial support has been provided to 100 businesses including \$6.8 million to 23 Queensland businesses. Some of these are:

Bartle Frere Bananas to invest in new technologies to develop a carbon neutral banana range while reducing runoff into the Great Barrier Reef.

Mt Alma Organics to purchase and install specialised equipment for washing, grading and sorting produce.

Black River Produce to plant locally grown asparagus and help reduce imports of the vegetable into Australia.

Sutton Farms to increase water and fertiliser efficiency by introducing grow bag technology and a new irrigation system for its cherry tomatoes grown in the field.

Moonrocks purchased a controlled temperature storage facility, new machinery and equipment to size and pack garlic for their growing operation. The grant has allowed Moonrocks to provide more locally grown garlic to Queensland customers.

Coles Sustainable Dairy Development Group (CSDDG)

In 2019 Coles began to source Own Brand milk directly from Australian dairy farmers. At the same time, we established the CSDDG where we invest in farm sustainability projects in consultation with our dairy farmers. To date we've invested almost \$4 million in a range of projects.

Dairy Farm Sustainability Accelerator Fund

We have also launched the Dairy Farm Sustainability Accelerator Fund. More than \$1.5 million will be allocated in FY24 and FY25 for Coles dairy farmers so they can apply for funding between \$7,500 and \$50,000 to accelerate sustainability initiatives.

Disaster recovery support

A number of our suppliers have been affected by severe weather events and we have worked with them to support their recovery and enable them to continue to operate.

Food and Grocery Code of Conduct and dispute resolution

Coles was the first Australian supermarket retailer to adopt an independent arbitration process to help resolve commercial disputes.

Coles was also instrumental in the subsequent creation of the Food and Grocery Code of Conduct, becoming a foundation signatory in 2015. The Code, to which its signatories are bound, sets out standards of business conduct between grocery retailers and wholesalers and their suppliers.

If our supplier partners have a concern about their relationship with or treatment by Coles, there are a range of avenues available for resolving issues. Coles Supplier Central, a portal that can be accessed by our suppliers, provides details of these avenues including:

- The Food and Grocery Code of Conduct, which outlines the complaints handling procedure and includes the contact details of our Code Arbiter.
- The Dairy Industry Code of Conduct, which includes detailed dispute resolution mechanisms for dairy farmers supplying Coles.
- The Australian Supplier Payment Code which Coles is bound by includes dispute resolution mechanisms for all suppliers.
- Coles Support Helpline (Stopleveline) is an independent and confidential reporting line for suppliers (and team members and customers). The line operates 24 hours daily, seven days a week.
- Coles Whistleblower Policy provides a mechanism for raising actual or suspected misconduct within the Coles Group.

How Coles engages with red meat suppliers

Coles procures directly from over 2,500 producers across Australia including 124 Queensland livestock producers. We are proud of the long-term relationships we have with these producers and processors, with many spanning decades.

Coles purchases almost all its red meat directly from farmers. Less than 2% of our beef comes from saleyards. Coles buys feedlot and pasture raised cattle on forward contracts and we agree prices with our farmers at this time.

These contracts provide security of demand for our suppliers and security of supply for Coles and our customers.

While livestock prices fluctuate, there are many other operational costs that impact the price consumers pay. Those costs, including transport, processing, packaging, labour and operating costs such as for refrigeration and energy, have gone up and remain high.

How Coles engages with horticulture suppliers

Coles is proud to have long standing relationships with many of our suppliers; currently more than five of our suppliers have been providing their high-quality, locally grown produce to Coles for 50 years.

Coles enters seasonal commitments, which are volume based, with agreed quality specifications, ethical requirements, and distribution centre locations as part of these commitments. The length of these commitments varies based on seasonality and regionality.

From these commitments both parties then negotiate on a per order basis (with orders typically placed weekly over multiple days). Price is agreed by Coles and the supplier using a variety of factors from current market availability, and volumes needing to be moved within the time period of supply, along with promotional plans for the item.

As part of the standard weekly process either party has the right to refuse a proposed cost or adjust volumes for the proposed week as part of a negotiation.

As part of seasonal commitments Coles agrees with the supplier specifications for the product. These are driven by customer insight on quality and characteristics (e.g. size). Coles regularly varies specifications after extreme weather to support suppliers and reduce food waste.

One example of how Coles supports our suppliers when specifications or volumes cannot be met is in June 2022 when Coles worked with our fresh produce growers to supply iceberg lettuces to our South-East Queensland customers after floods and cold weather impacted local supply. We were able to assist our Lockyer Valley farmer suppliers to use some of their crops that were impacted by wet weather by offering our customers two smaller lettuces for the same price they would pay for one.

How Coles engages with dairy farmers

Coles Brand milk for our Queensland stores is supplied by Bega and Norco, Australia's oldest dairy co-operative.

In 2019, Coles initiated a direct sourcing model with dairy farmers for Coles Own Brand milk in Southern New South Wales and Victoria, which has been extended to Western Australia, South Australia and Tasmania as well as Coles Own Brand Cheese.

Coles' role as a direct acquirer of raw milk resulted from Coles' decision to change the way it participates in the dairy supply chain for the supply of private label Coles Own Brand milk building direct relationships with farmers. The main determinants of dairy farm profitability are farming costs (particularly the cost of fodder) and farmgate prices (a price set by the processors under the old model).

Coles created a new direct sourcing model where it contracts directly with dairy farmers. Under the direct sourcing model, Coles offers a competitive farmgate milk price directly to farmers, and contracts of up to three years that are publicly available to provide greater confidence over future income.

In FY23 we sourced milk from 101 Australian dairy farms and introduced a tenure payment for dairy farmers on two and three-year agreements. The purpose of the payment is to secure milk volumes in an increasingly competitive market and to recognise our long-term dairy farmer partners.

4. Factors Affecting the Cost of Groceries

- External factors impacting global supply chains and cost of doing business have been the most significant drivers of grocery prices over the last few years.
- Coles is not immune to inflationary pressures and the economy-wide increased cost of doing business.
- A key driver of supermarket price increases has been cost price increase requests from our suppliers and farmers.
- Seasonal issues and natural disasters have a significant impact on fresh produce pricing.

There are a wide variety of factors that affect the cost of groceries, including:

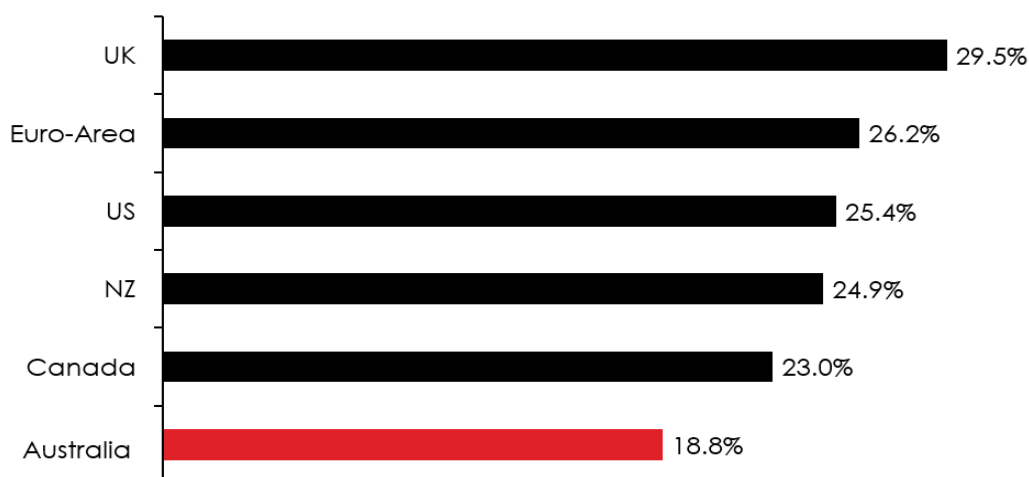
- Inflation
- Global commodity prices
- Supplier price variation requests
- Seasonal variation and natural disasters
- Supply chain disruptions
- Cost of doing business

Inflation

The ABS shows Australian food prices were up 18.8% since December 2019 to December 2023. That food price growth is less than the UK (29.5%), the Euro area (26.2%), the US (25.4%), New Zealand (24.9%) and Canada (23.0%).

While Coles acknowledges international comparisons are not relevant for Australian families concerned about cost of living, it demonstrates the importance of measures Coles undertakes to limit as much as possible inflationary impacts on consumers and highlights that these inflationary challenges are global.

FIGURE 4.1 FOOD CPI GROWTH, DECEMBER 2019 TO DECEMBER 2023 SELECTED COUNTRIES/REGIONS



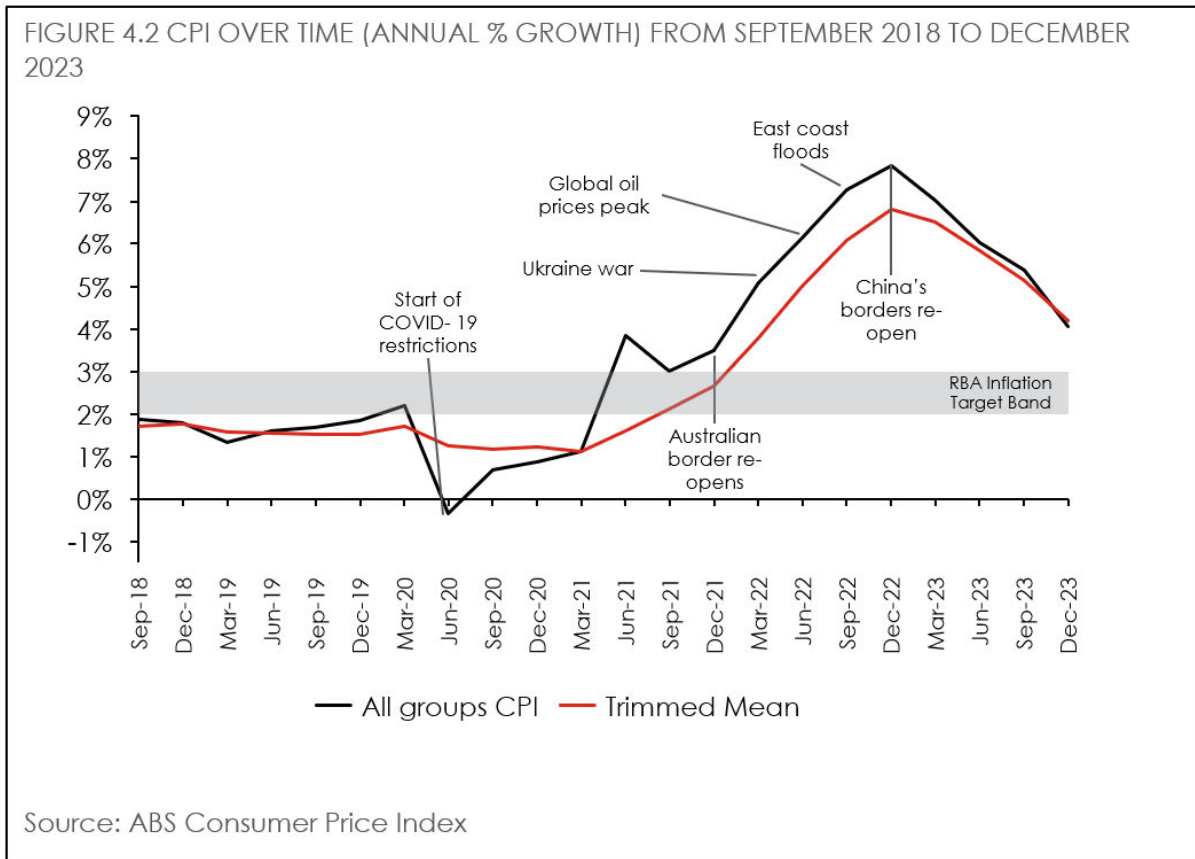
Source: ABS Consumer Price Index; Stats NZ Consumer Price Index; Office for National Statistics UK Consumer Price Inflation; US Bureau of Labor Statistics Consumer Price Index; Statistics Canada Consumer Price Index; Eurostat Harmonised Index of Consumer Prices

Note: UK, US, Canadian and Euro-Area inflation data is available monthly, whereas Australian and NZ headline data is quarterly

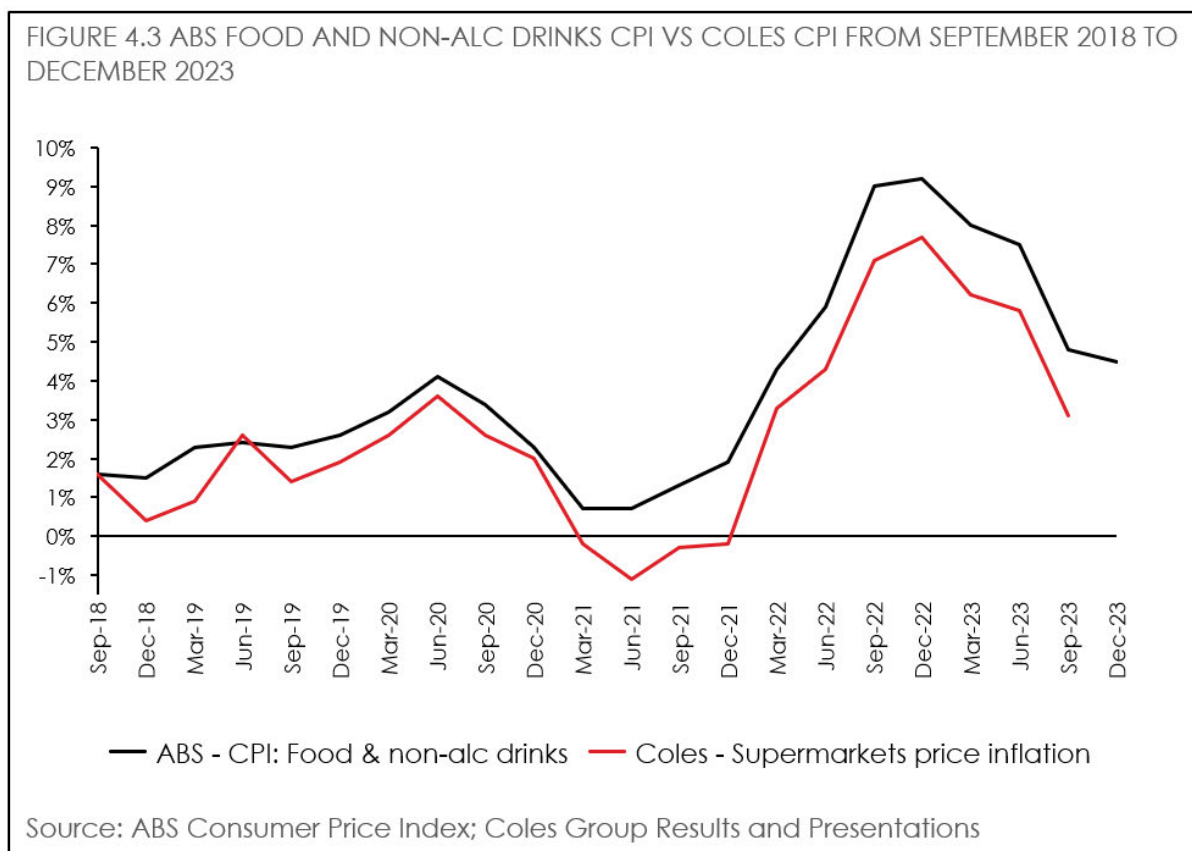
According to the Reserve Bank of Australia in their Statement on Monetary Policy February 2023:

High inflation outcomes in Australia reflect a range of developments, including: supply issues related to the war in Ukraine; other global supply disruptions resulting from the COVID-19 pandemic; and domestic supply disruptions from poor weather.

Coles and its suppliers, like households across the country, are not immune to these inflationary pressures.



Coles has kept price inflation in our supermarkets below the rate reported by the Australian Bureau of Statistics for Food and non-alcoholic drinks Consumer Price Index (CPI) for the past 16 quarters. For the September quarter 2023, annual price inflation in Coles supermarkets declined to 3.1% down from 5.8% the previous quarter.



Coles supermarkets price inflation is lower than the ABS food and non-alcoholic inflation series, but follows a similar trajectory, peaking in December 2022 before falling through 2023.

Global commodity prices

Significant increases in global commodity prices have flowed through to Australia and impacted Coles and its suppliers, resulting in the pass through of increasing input costs to fresh and packaged goods.

The Economist Intelligence Unit commodity index surged 80% over pre COVID levels by June 2022. A range of global supply chain indicators and prices highlight when and where price pressures were emerging:

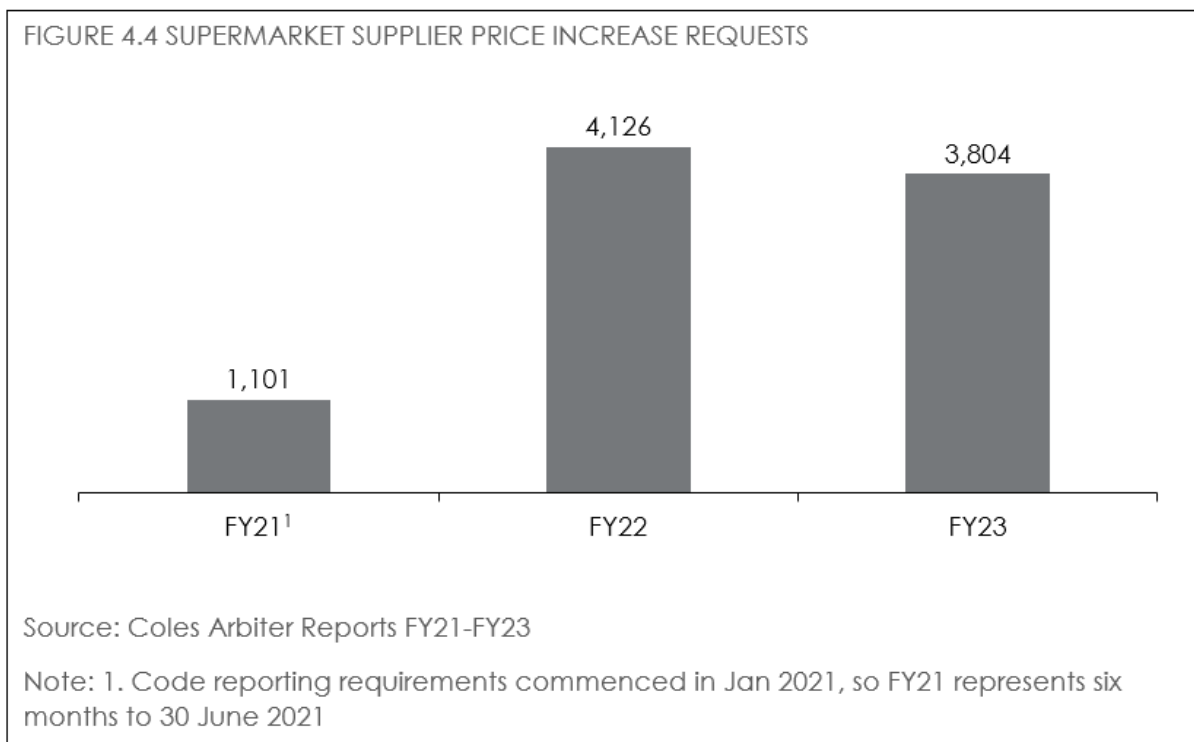
- Shipping costs increased more than ten-fold from January 2020 to September 2021.
- Global oil prices increased from US\$63 in December 2019 to US\$113 in June 2022.
- Wheat prices more than doubled from US\$219 in December 2019 to US\$491 in June 2022.

- Fertiliser prices more than tripled from US\$254 in December 2019 to US\$860 in June 2022.
- Global commodity prices increased by 80% from December 2019 to June 2022.
- The \$A declined from US\$0.77 in June 2021 to US\$0.66 in December 2022. The period of global price pressures also coincided with a decline in the value of the \$A. When the \$A falls in value the local cost of imported items becomes more expensive. The \$A was trading at US\$0.77 in June 2021, but by December 2022 it had declined in value to US\$0.66, a 14.7% decline.

Supplier price variation requests

A key driver of supermarket price increases has been cost price increase requests from our suppliers and farmers.

Coles provides annual reports of the number of price requests from suppliers in accordance with the Food and Grocery Code of Conduct^{viii} as summarised below:



That is:

- In the first six months of 2021, Coles received 1,101 requests from suppliers for cost increases, equivalent to c.42 per week; and
- This almost doubled to c.79 per week in FY22 and c.73 in FY23, largely driven by inflation and increases in global commodity prices.

Among the key reasons provided by suppliers to support their requests were that they had incurred cost increases in relation to the following items:

- Packaging
- Freight
- Utilities
- Wheat
- Labour
- International shipping.

Seasonal variation and natural disasters

Natural disasters and seasonal variations can significantly impact the price of fresh produce. We have seen firsthand the damage caused by recent cyclones and floods. When these events occur, they can lead to a reduction in the quality and quantity of fresh produce.

The recent Cyclone Jasper delivered excessive amounts of rain which impacted crop size and yields and led to product shortages and subsequently higher prices for consumers in December. To support our Queensland lemon growers and to not import any stock, Coles agreed to take smaller lemons into the loose specification.

Conversely a favourable season can lead to an oversupply causing prices to drop. For example, in late 2022 optimum growing conditions resulted in an excellent zucchini crop. Growers received increased farm gate prices. Due to the positive 2022 season, and without confirmed demand, some farmers planted a much larger crop in 2023 which led to an oversupply of zucchinis therefore resulting in lower prices.

As has been illustrated already multiple times in 2024, natural disasters and seasonal variations sometimes create an unpredictable environment for farmers, supermarkets, and consumers.

Supply chain disruption

Global supply chain pressures have also significantly impacted Coles and its suppliers. The Global Supply Chain Pressure Index (GSCPI) has been used by the US Federal Reserve as a key indicator of supply chain stress. The index peaked in December 2021 at a level nearly three times higher than the peak seen in the prior two decades, such as the supply chain stress resulting from COVID restrictions.

From the start of 2020 to late 2021 shipping costs increased by over 10 times. Oil prices increased by 79% over pre COVID levels by June 2022.

Analysis by the RBA during the peak inflationary period of 2022 suggests that a significant proportion of price growth was emanating from supply factors. The RBA's Statement on Monetary Policy February 2023 included an analysis on drivers of inflation, concluding that:

Supply shocks have accounted for at least half of the increase in inflation ...

Similar to the experience of other advanced economies, model-based estimates suggest that supply-side factors have been the biggest driver of the

increase in inflation in Australia over the past year. These supply-side factors have been persistent, leading to an extended period of inflation.

Domestically, the disruption to national supply chains caused by natural disasters and labour shortages have resulted in increased costs to Coles and its suppliers.

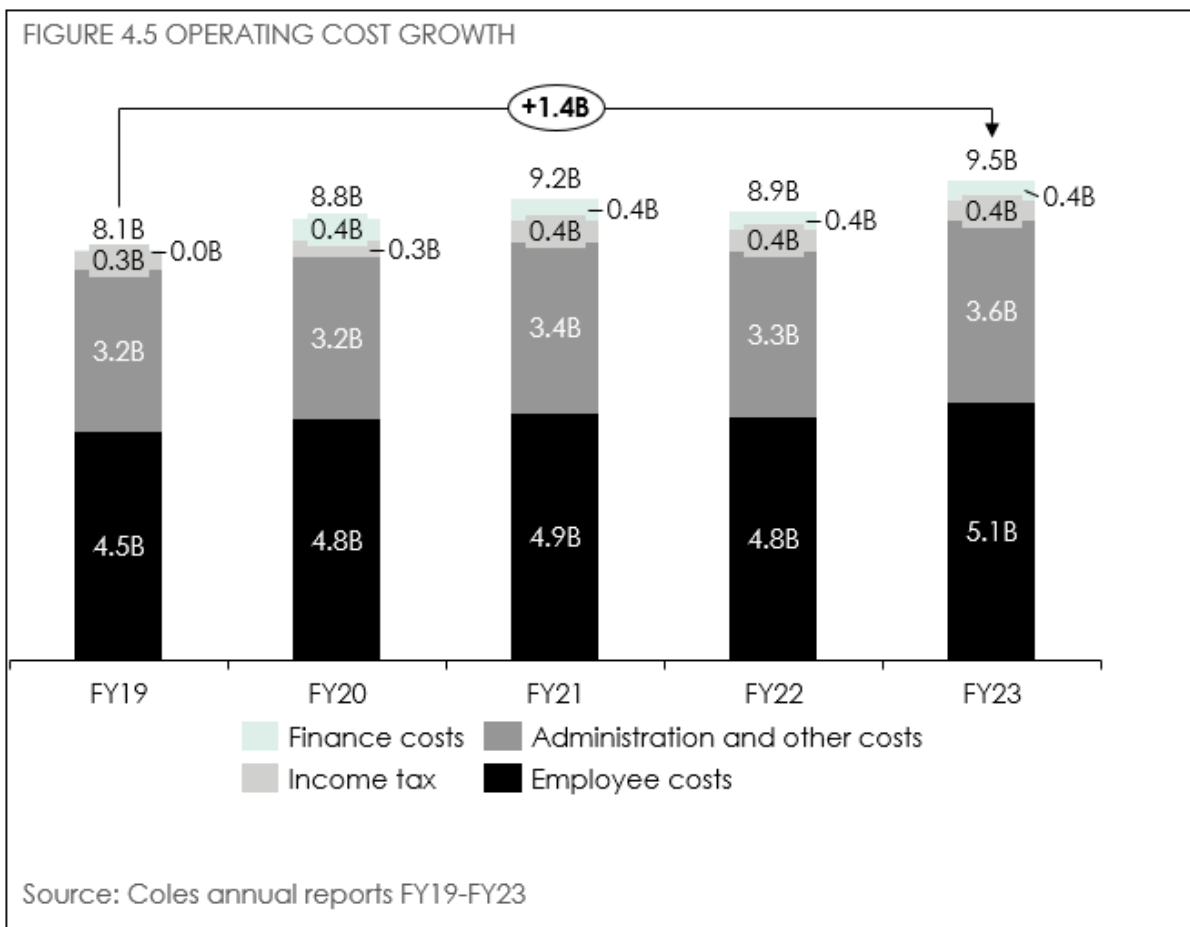
Road and rail supply to North Queensland is regularly disrupted due to natural disasters and planned maintenance necessitating alternate modes and routes of delivery.

Cost of doing business

Inflation is an economy wide challenge that impacts Coles as well as our suppliers.

The cost Coles pays to a supplier is not the only cost involved in retailing the product; in addition to the cost of operating our stores, Coles must pay for overheads such as energy, insurances, labour and various Government compliance costs and taxes.

The cost of doing business has increased: energy, labour, logistics and packaging costs have all risen resulting in a \$1.4b increase in Coles annual operating costs from FY19 to FY23, including notable increases in annual employee costs of almost \$600m during this period, driven in part by increasing wages.



Energy

Prices for utilities have increased by an annual average rate of 2.5% over the past five years, with annual growth peaking at 14.9% in March 2023.

Labour

Employee costs increased by almost \$600m across a five-year period, driven by employing more team members and increasing wage costs.

Logistics

Coles operates more than 1,800 stores. Most goods are transported by our third-party logistics partners to our distribution centres and stores via road freight.

The cost of automotive fuel has increased by an annual average rate 6.2% over the past five years, with annual growth peaking at 35.1% in March 2022.

Packaging

Packaging costs have escalated over the past five years. Pulp, paper and converted paper product manufacturing output prices have grown at an annual average rate of 6.2%, with annual growth peaking at 16.7% in March 2023. Glass and glass product manufacturing outputs have grown at an annual average rate of 5.2%, peaking at 22.1% in September 2022.

Tax

Payroll tax payments have increased by 19% from \$253 million in 2020 to \$301 million in 2023, due to increased tax rates and salary and wages increases.

The payroll tax increases announced in the 2022-23 Queensland Budget have contributed to these increasing payroll tax costs.

Inventory

Following the pandemic and ongoing domestic supply chain disruptions, Coles has increased inventory levels as a contingency to minimise disruptions and ensure that our customers have access to the goods they require throughout the year. However, the growth in stock holding has occurred concurrently with an increase in operating and holding costs.

FIGURE 4.6 INVENTORY BALANCE



Source: Coles annual reports FY19-FY23

State Based Pricing

Coles employs a state-based pricing model where prices are largely consistent across metropolitan and regional stores, particularly across key packaged staples. A customer can purchase the same product in Brisbane for the same price as it retails for in Rockhampton including, for example:

- Coles Full Cream Milk 2L
- Coles White Bread
- Coles Dairy Cheese Slices Processed
- Coles Durum Wheat Pasta Spaghetti
- Coles Italian Diced Tomatoes
- Coles Simply Thin BBQ Sausages 24 pack
- Coles Oats Rolled
- Kleenex Everyday 2 Ply Facial Tissues
- Quilton 3 ply White Toilet Paper.

Coles is able to offer its customers this level of confidence due to the investment in our supply chain including positioning our distribution centres, such as Redbank, close to population centres which enables freight to be used more efficiently.

There are a small minority of remote stores (10-15 nationally), none of which are in Queensland, where a freight weighting is applied due to the high cost to transport. This is heavily subsidised and even in these remote locations there are still key items where Coles is able to maintain consistent national pricing.

5. Measures to Lower Grocery Prices

- **Coles delivers value to customers every day and remains committed to providing immediate cost of living relief through our specials, promotional campaigns and Flybuys loyalty discounts.**
- **Investing in and growing Coles Own Brand delivers value and quality products to cost-conscious customers.**
- **Investing in automation delivers operational efficiencies that enable Coles to scale and respond to Australia's growing population with a lower cost base that underpins our value proposition for customers.**

At Coles we are always looking at ways to deliver value to our customers and we are committed to helping lower the cost of living for Australian households.

Value at the check out

We know customers are looking for great value every day and Coles' pricing seeks to provide everyday low pricing on the products we retail. Offering value to our customers in the form of specials and promotions has been a long-standing practice at Coles, recent and current examples include:

- Thousands of weekly specials offering short term discounts of up to 50% on high volume lines critical to the customer basket such as popular proprietary lines of dairy, fruit and vegetables, meat and seafood, bread, eggs and frozen food among many others;
- Promotional campaigns such as 'Great Value Hands Down', 'Down, Down' and 'Dropped & Locked' to offer customers strong, consistent value through promising a great price that will remain low for an extended specified period;
- Markdowns to reduce wastage; and
- Only for Christmas/Only for Easter promotions to lower the cost of celebrating key events with family and friends, such as Coles lowering the price of Christmas hams in October 2023 to \$8 per kilo, the lowest price in four years.

As recently as January 2024, we announced red meat promotions that were planned over many months and saw Coles Australian Lamb Loin Chops at their lowest price in four years, saving customers more than 25% and savings on Coles Beef Sizzle Steak of 15%, Coles Beef Rump Steak of 21%, Coles Beef Porterhouse Steak of 22% and Coles Beef Scotch Steak Fillet of 20%.

This is in addition to further savings for our customers by lowering the price of more than 300 products in our stores and online. We know the school holidays and back to school period can be an expensive time of year for many families, that is why Coles lowered the price on a variety of essentials and products that are popular with customers.

This follows another significant price reduction investment made in September 2023, where we dropped the price of 500 products by an average of 19.7%, in support of our commitment to provide 'Great Value Hands Down'.

Prior to that, we locked the price of 1,100 products for five months in August 2022, and dropped and locked the prices of 150 items in October 2022, 300 items in January 2023 and 480 items in June 2023.

Coles Own Brand

Globally, retailer private labels have continued to evolve from being a low-specification and cheap alternative to proprietary brands, to becoming a strategic differentiator with more sophisticated offers. Coles Own Brand has grown in line with this trend to play an important role for customers.

Our Own Brand range complements the proprietary brands in our stores to provide customers with a choice of products to suit their budget and the needs of their family. Our Own Brand range delivers value through competitively priced products, being typically 10-40% cheaper for consumers than similar proprietary brands, while still providing equivalent high quality, with sustainability, health, and convenience credentials and attributes.

Flybuys

Approximately 17 million transactions take place across our store and digital platforms each week and our Flybuys loyalty program reaches the majority of Australian households.

Flybuys helps our customers to save money through individual offers, earning rewards on every dollar they spend in our supermarkets and by collecting points through our network of partners.

We have made it easier for customers to unlock the value they received from Flybuys at Coles by rolling out instant redemptions across parts of our network.

Members can choose from hundreds of reward options when redeeming their points, including using Flybuys dollars to pay for their shopping.

Simplify and Save to Invest

Our internal cost reduction program, Simplify and Save to Invest, has enabled us to reinvest our cost savings back into the business to mitigate the increasing cost of doing business which has largely been driven by higher input prices faced by many of our suppliers, combined with the escalating cost of fuel, labour, freight, and energy.

Our Smarter Selling program achieved its target of \$1 billion in cumulative benefits over four years from 2019-2023. We carried forward this initiative and have launched our Simplify and Save to Invest program which is designed to deliver more than \$1 billion of cumulative savings over the next four years.

Investing in automation

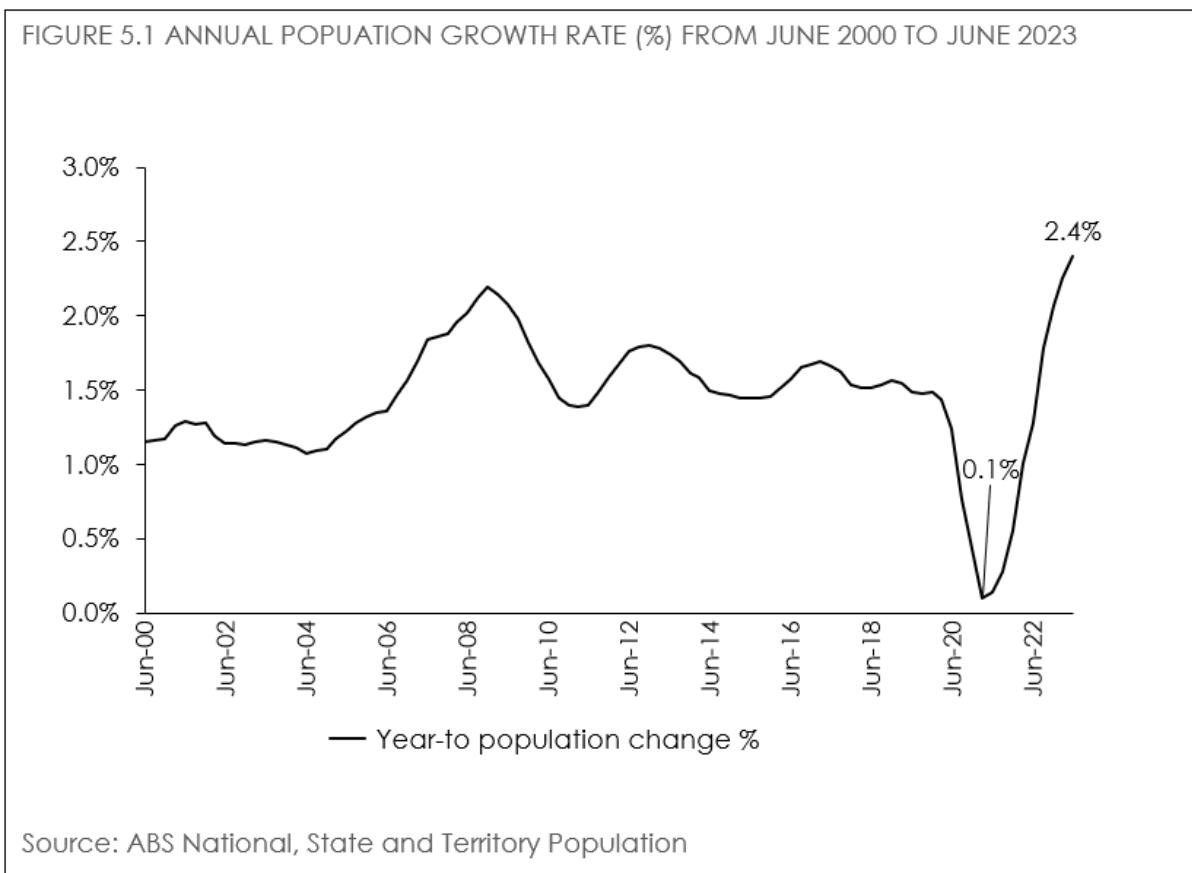
Coles invests in the future and customer experience. Since 2018, Coles has been working with international logistics technology firms Witron and Ocado to deliver automated distribution centres in our supply chain network and in support of our Online delivery business.

The four Witron and Ocado sites are major, long-term investments that underscore the critical role technology plays in our future in building speed and efficiency in our operations and enhancing customer experience with better availability, selection and convenience.

The first of these sites was opened in April 2023, at Redbank in Queensland, improving network efficiency in South East Queensland. Coles was proud to have the Premier and Prime Minister open the facility. The Premier noted the significant investment in Queensland and the Prime Minister commented at the time:

It is a great example of investment in new technology and investment in Australia, a billion dollars [from] Coles in this investment and at Kemp's Creek in Western Sydney, in order to boost productivity, boost efficiency, lower costs, therefore lower prices and make a difference for people going forward.

Over coming months and years, the completion of the remaining three sites will deliver long-term structural cost advantage in our supply chain through automation, data and technology. Australia has experienced strong population growth over the past two decades, which has recently accelerated to a high rate of 2.4% over the year to June 2023. Our investment in automation will enable Coles to scale and respond to Australia's growing population.



6. Financial Statements

- For every \$100 of operating revenue in FY23, Coles paid \$73.09 primarily to suppliers, \$11.87 to team members, \$2.71 in taxes and generated \$2.57 in Net Profit After Tax (NPAT)
- Coles NPAT has remained largely stable through the inflationary peak in 2022-2023.

Disclosures

As an ASX listed company, Coles makes regular public disclosures of financial performance information through annual reports, half year and quarterly results presentations, and sharing material information consistent with our continuous disclosure obligations.

Coles is accountable through its disclosures and provides transparency for all stakeholders, a level of transparency that is not consistent across private supermarket operators or Australian subsidiaries of large multi-national players.

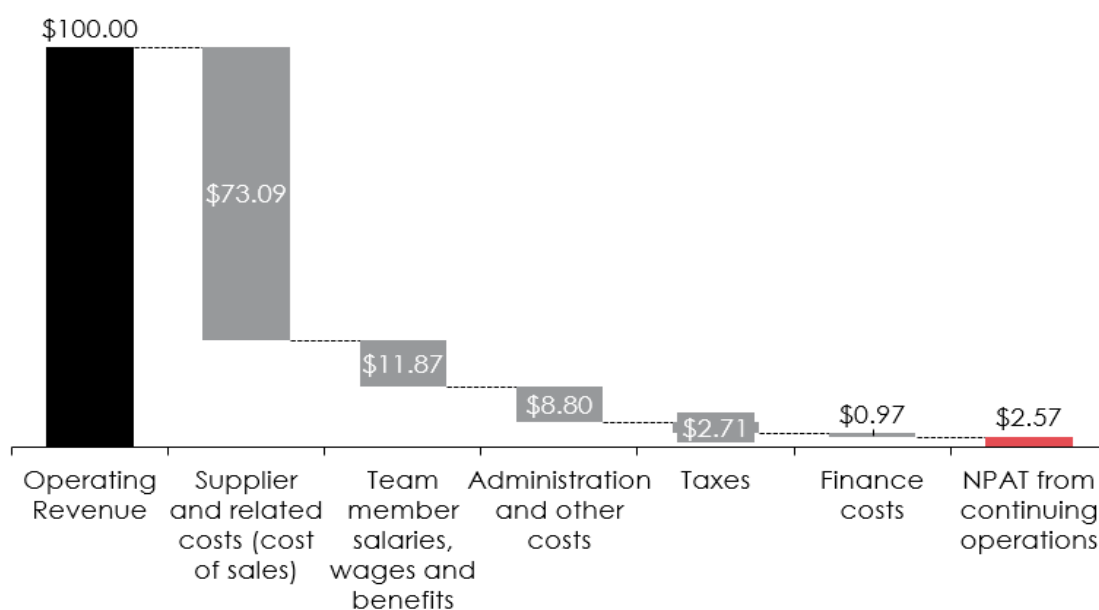
Profit

The supermarket sector is a typical example of a high volume, low margin sector. As disclosed in our 2023 Annual Report, Coles reported:

- operating revenues of \$40.6 billion;
- net profit after tax from continuing operations of \$1.04 billion, delivering an NPAT of 2.57% down from 2.73% in FY22.

Put another way, for every \$100 of operating revenue earned by Coles, we make NPAT of \$2.57.

FIGURE 6.1 NPAT % WATERFALL CHART SHOWING HOW \$100 OF REVENUE FLOWS THROUGH TO \$2.57 OF NET PROFIT AFTER TAX IN FY23



Source: Coles annual report FY23

For every \$100 of operating revenue that Coles earned in FY23:

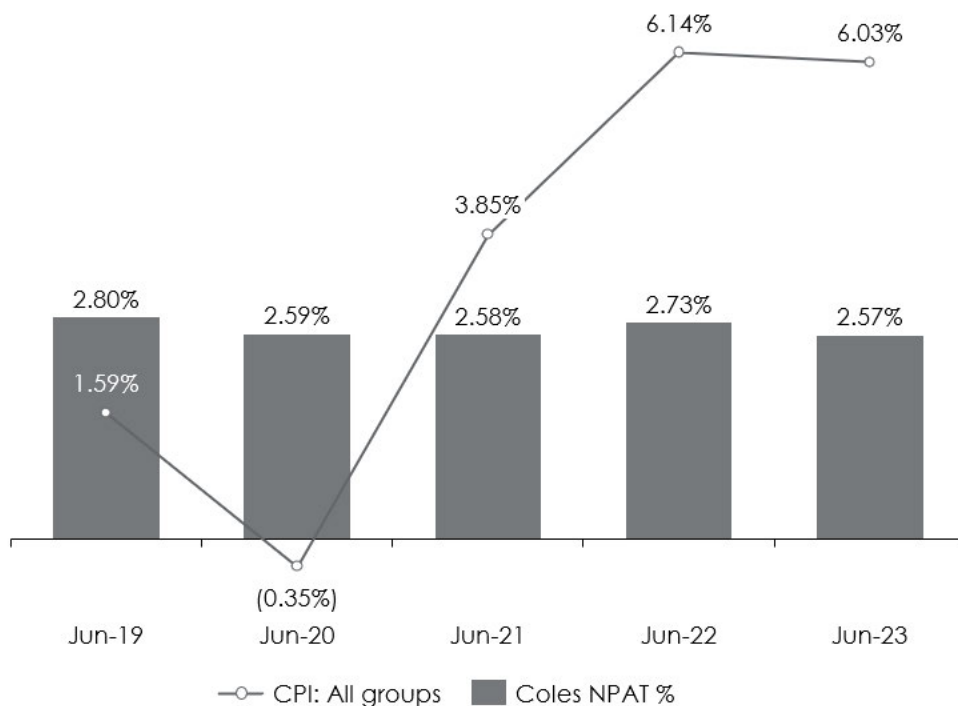
- \$73.09 was the cost to buy and get products to our stores, the vast majority of which is spent with suppliers;
- \$11.87 was spent on our team member salaries, wages and benefits;
- \$8.80 was spent on administration costs such as property costs and depreciation/amortisation;
- \$2.71 was spent on federal and state governments taxes^x including income tax, excise, payroll tax, customs duty, property tax and fringe benefits tax;
- \$0.97 was spent on interest in relation to debt and lease financing costs; and
- The residual \$2.57 represents Coles NPAT.

In FY23, 80% of Coles' NPAT was used to pay dividends to our more than 440,000 shareholders, many of whom are retail shareholders: mums, dads, families and retirees. The remaining profits were reinvested in the business.

Despite the impact of inflationary global and local events including a pandemic, the conflict in Ukraine, natural disasters and other supply chain disruptions, Coles NPAT %^x has remained largely stable over the last five years with minor variation year on year.

That is, while supermarket prices may have increased in our stores due to inflationary pressures, this did not translate to greater NPAT in FY23.

FIGURE 6.2 COLES NPAT % & ANNUAL CPI



Source: Coles annual reports FY19-FY23 and ABS Consumer Price Index

Note: As Coles NPAT data is available for Financial years only, year-to CPI change is reported for the June quarter of each year

Tax contribution

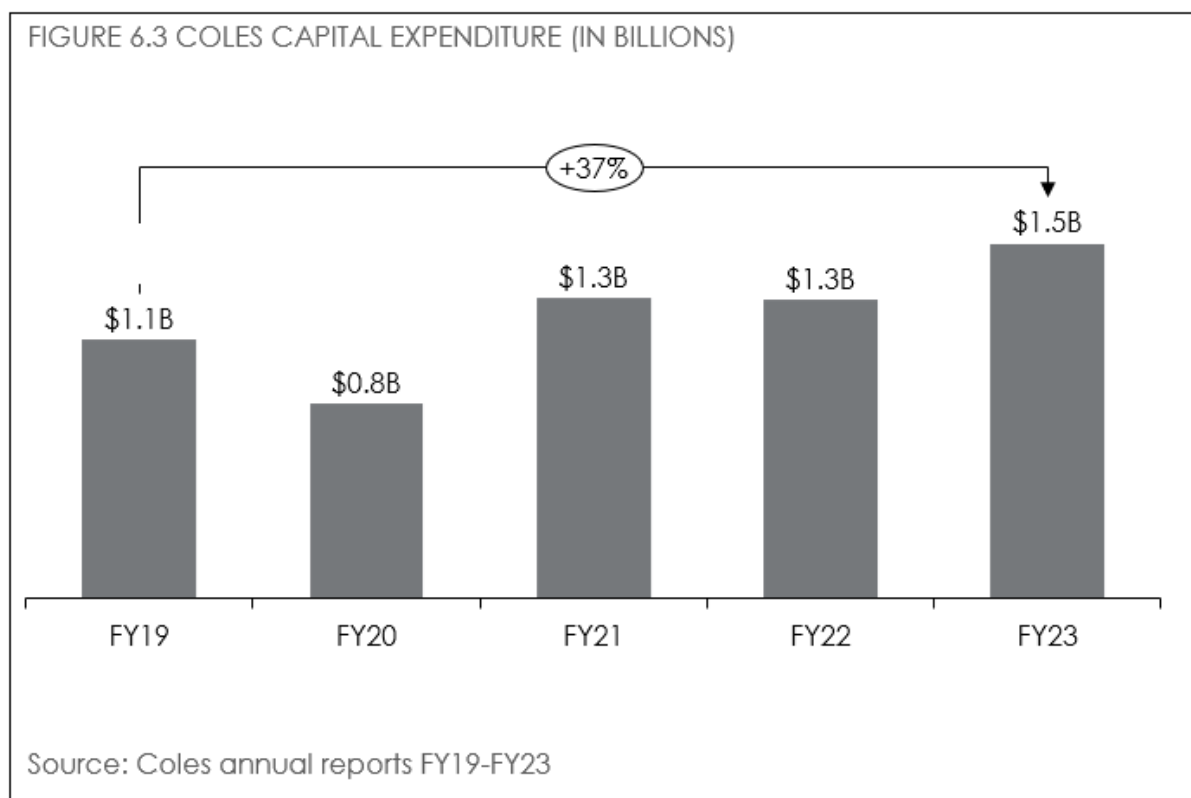
Coles is a top 100 taxpayer – and we're proud of it. Coles' economic contribution to the Australian economy in 2023 was \$2.1 billion of taxes paid to, and collected on behalf of, federal and state government authorities:

- \$1.1 billion in tax was paid by Coles to federal and state governments, including income tax and other taxes, such as excise, payroll tax, customs duty, property taxes and fringe benefits tax.
- \$1 billion in tax was collected and paid for by Coles including PAYG withholding tax, wine equalisation tax, and net goods and services tax.

In FY23 Coles paid more than \$56 million in taxes to the Queensland Government.

Capital expenditure

Over the past 5 years, Coles has invested over \$6 billion in capital expenditure^{xi} to enhance the customer experience, generating thousands of jobs across Australia over that time.



These investments include:

- Investment in the store network.
Nationally Coles has opened 207 new stores and refurbished 850 existing stores to deliver the best in-store experience for our customers. In Queensland Coles has opened 47 new stores and refurbished 178 existing stores.
- Investment in Automated Distribution Centres.

Coles is investing \$1 billion to deliver two Automated Distribution Centres (ADC) in Queensland and New South Wales. The first ADC in Redbank, Queensland commenced operation in April 2023 and Coles was honoured the Prime Minister opened the facility, accompanied by then Queensland Premier, Annastacia Palaszczuk. Ms Palaszczuk said, "Coles' investment will drive productivity growth in Queensland while ensuring food security to one of the fastest growing regions in the country."

The Redbank ADC is the largest of its kind in the Southern Hemisphere and will service 219 Coles supermarkets in Queensland and Northern New South Wales, as far north as Port Douglas and as far south as Laurieton in NSW.

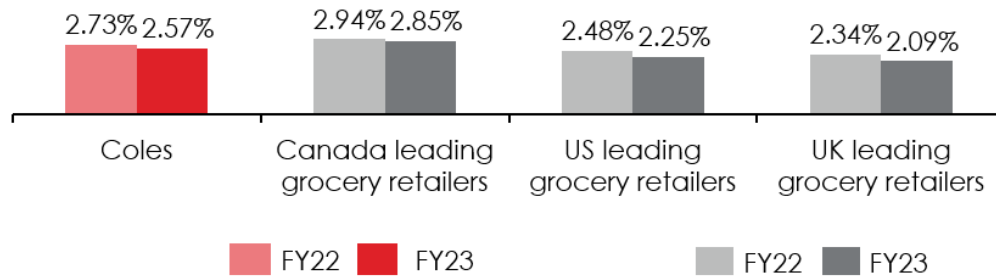
The second automated Distribution Centre is in construction in Kemp's Creek, New South Wales and is expected to be commissioned in 2024.

- Investment in Automated Customer Fulfillment Centres.
Coles is also investing \$400m to develop two eCommerce Customer Fulfillment Centres (CFC) for online orders (in Victoria and NSW). This project is expected to deliver customers an improved online shopping experience, product range and availability. The first CFC in New South Wales is expected to commence operation at the end of FY24 and the second CFC in Victoria by mid-FY25.

International comparison

Coles NPAT % is comparable with leading global grocery retailers as shown in the table below which contrasts the median NPAT % for the two leading grocery retailers in Canada, United Kingdom, and the USA.

FIGURE 6.4 NPAT % COMPARISON WITH COMPETITORS



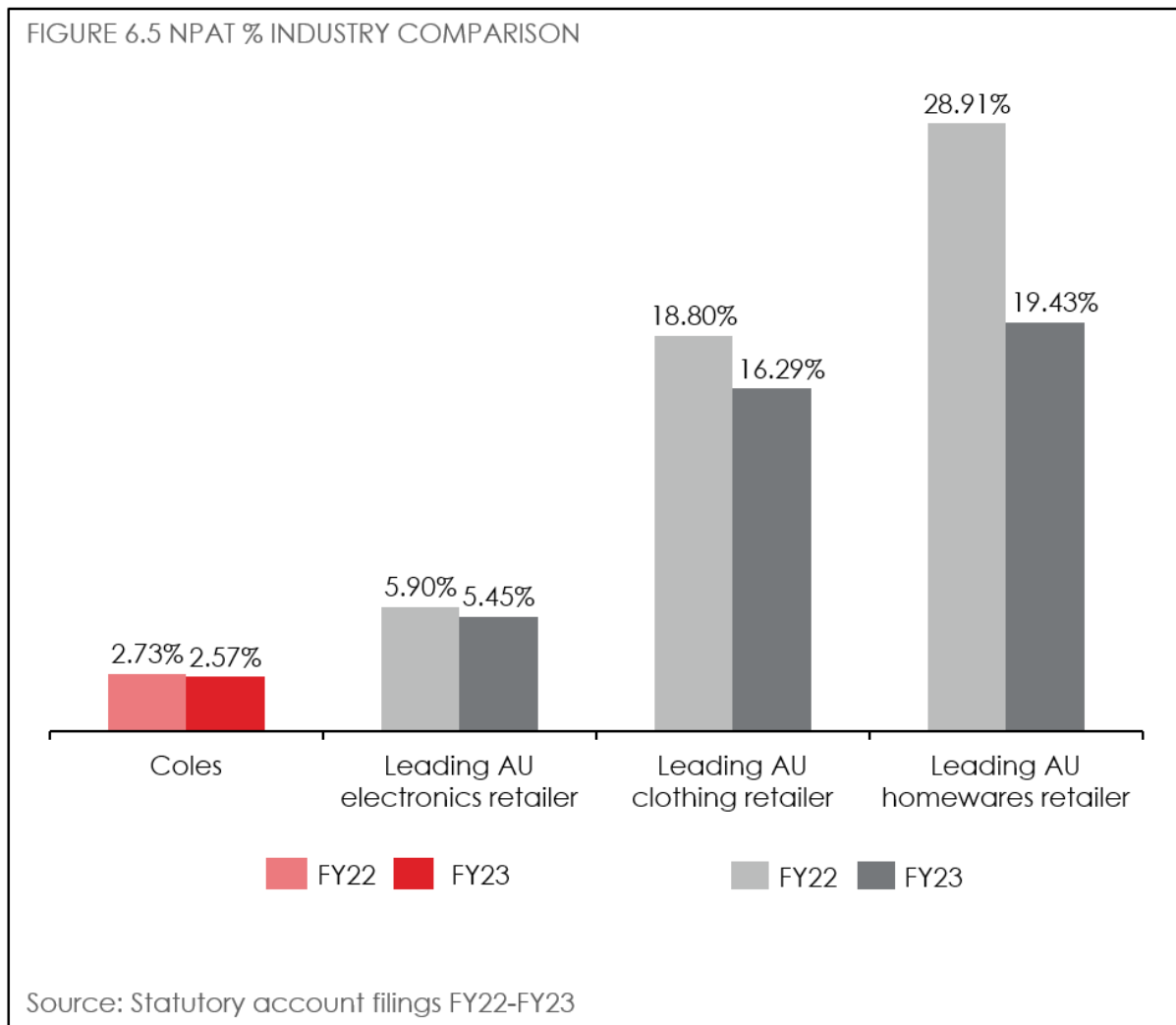
Source: Annual reports FY22-FY23

Note: Leading grocery retailer reflects the median NPAT % of the two leading grocery retailers in the region. NPAT from continuing operations has been sourced from statutory filings and excludes non-controlling interests. Non-underlying/adjusting items have been excluded from NPAT for the UK retailers

Comparatively, Coles invests more in Capital Expenditure (CAPEX) relative to sales than leading global operators, demonstrating Coles' commitment to reinvesting in customer experience, in store and online, and investing in the future as we expand to service a growing population.

Retailer sector comparison

Comparably, grocery retailers operating businesses essential to the community earn a much lower NPAT % than discretionary retailers as shown below.



7. Competition

- The Australian supermarket sector is highly competitive as noted by the Productivity Commission.
- The supermarket sector is undergoing structural change with the growth of online and new entrants to the market, such as Costco and Amazon. In parallel, ALDI has also been growing its market presence.
- The supermarket sector represents around 17% of Australia's gross agricultural output. Coles represents less than 30% of the supermarket sector, equating to less than 5% of Australia's gross agricultural output.

The grocery retail sector is undergoing structural change reflecting customer habits, driving growth in online retailing, new entrants emerging and new technology, including automation and the use of drones, which are shaping the future.

The food retailing sector is highly competitive, consisting of many participants including:

- ALDI;
- Amazon;
- Coles;
- Costco;
- Drakes;
- Independent retailers;
- Metcash/IGA; and
- Woolworths.

In its 2023 submission to the inquiry into promoting economic dynamism, competition and business formation, the Productivity Commission wrote in relation to supermarkets:

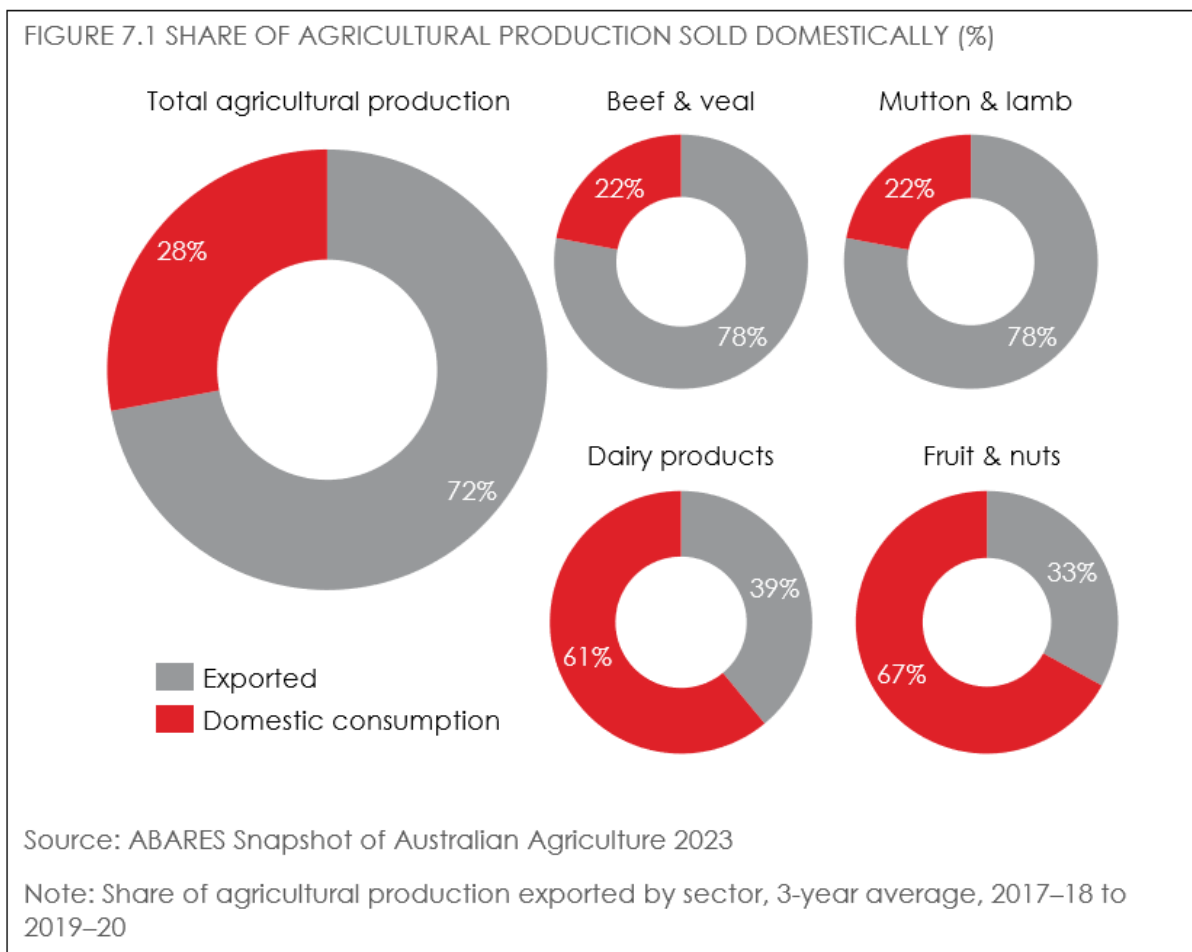
The sector has observed aggressive competition between Australia's two major domestic supermarkets despite the high level of concentration.

Woolworths Group [had] a 37% share of the market in 2021 and Coles 28%. The other two main competitors, Aldi and Metcash (which includes IGA and Foodland) had a 10% and 7% share respectively (Hunt Export Advice 2023). There are other competitors in the wings offering new delivery options — including Amazon Fresh.

Supermarkets reported that they have responded to increases in competition by limiting price increases and enhancing the 'in-store experience' — improving the level of customer service and increasing the range of services offered. Retailers are unwilling to lower costs by reducing headcount due to the negative impact it may have on service and sales. In short, two large players with a competitive fringe have provided a highly competitive market in Australia.

Export Markets

It is also important to recognise that Australian farmers and producers have many avenues into which to sell their products, including to a growing export market.



As the above chart indicates, around 72% of the value of Australia's agricultural produce is exported. By revenue, the supermarket sector represents around 60% of food retail offerings.

If shares in the retailing of domestic consumption of agricultural production were broadly consistent with the above, this would suggest the supermarket sector represents around 17% of Australia's gross agricultural output. Coles represent less than 30% of the supermarket sector, which would equate to less than 5% of agricultural output. Our suppliers have a range of options for selling their product which is why we work hard to be a preferred partner.

8. Consumer Regulatory Framework

- **The competition and regulatory framework is world leading, robust and fit for purpose.**

Australian supermarkets are subject to regulatory frameworks that direct all aspects of operations from food safety standards, workplace health and safety frameworks and industrial relations requirements. Our conduct with customers and suppliers is likewise subject to a robust regulatory framework.

The competition and consumer regulatory framework for supermarkets in Australia is world leading, with many international jurisdictions only now implementing long standing measures in Australia such as a Grocery Code of Conduct and unit pricing on shelf edges.

The Australian framework is primarily governed by the Australian Consumer Law and the Competition and Consumer Act 2010, which is enforced by the Australian Competition and Consumer Commission (ACCC). Key aspects of the regulatory framework include:

- **Competition and Consumer Act 2010 (CCA):** This legislation aims to promote fair trading and competition in the marketplace. It prohibits some anti-competitive behaviour, such as price-fixing and misleading conduct.
- **Australian Consumer Law (ACL):** The ACL is part of the CCA and provides consumer protection provisions. It covers areas such as product safety, consumer guarantees, and unfair contract terms.
- **Unfair Practices:** The ACCC monitors and enforces regulations related to unfair practices in the supermarket sector. This includes misleading advertising, deceptive conduct, and unfair contract terms.
- **Code of Conduct:** The Food and Grocery Code of Conduct, established in 2015, regulates the conduct of supermarkets and their dealings with suppliers in the grocery sector. It aims to ensure fair dealing and transparency in relationships between wholesalers, supermarkets and suppliers.
- **Price Discrimination:** The CCA prohibits price discrimination that has the effect of substantially lessening competition. This includes situations where supermarkets engage in predatory pricing or discriminatory practices that harm competition.
- **Mergers and Acquisitions:** The ACCC assesses mergers and acquisitions in the supermarket sector to determine whether they would substantially lessen competition. This is to prevent monopolistic practices that could harm consumers and other businesses.

Expanding on this framework, the Food and Grocery Code of Conduct (Code of Conduct) was initiated by the supermarkets and governs the relationship between its signatories and suppliers. Coles was one of the first supermarket signatories to the Government's Code of Conduct in 2015, reflecting our commitment to fair dealing.

As a founding signatory of the Code of Conduct, Coles is bound by the Code of Conduct which is enforced by the ACCC.

As part of the Code of Conduct, the Independent Reviewer oversees dispute resolution between suppliers and major retailers or wholesalers and reports annually. Additionally, the Dairy Code of Conduct is a mandatory industry code that regulates and imposes minimum standards of conduct between dairy farmers and milk processors.

In addition, there are a number of current regulator and departmental reviews including:

- The ACCC inquiry into Supermarket Pricing;
- The Food and Grocery Code of Conduct Review 2023–24 which will assess the effectiveness of the Code in improving the commercial relationship between retailers, wholesalers and suppliers in the grocery sector; and
- The Competition Review which will examine competition laws and policies to ensure they remain relevant to the modern economy. The review will focus on reforms to improve productivity and reduce the cost of living.

Furthermore, there are two current federal Parliamentary inquiries being assisted by supermarkets:

- The Select Committee on Supermarket Prices; and
- The Select Committee on the Cost of Living.

Coles welcomes the opportunity to further contribute to Australia's world leading and robust regulatory and oversight framework.

ⁱ Excluding floral, nuts, dried fruit, sauces, dressings and packaged salads

ⁱⁱ Wherever NPAT is referenced throughout this document, it refers to Net Profit After Tax for continuing operations attributable to the shareholders

ⁱⁱⁱ Taxes included in this analysis reflect the 'Australian taxes paid by Coles' as disclosed in the 2023 Tax Contribution Report. There are timing differences between the cash payments included in this report and the FY23 Financial Statements, which are immaterial

^{iv} Excluding floral, nuts, dried fruit, sauces, dressings and packaged salads

^v Includes Coles' direct contribution of cash, time and management costs as well as fundraising from customers, suppliers and team members (leverage)

^{vi} As at 17 January 2024

^{vii} Excluding floral, nuts, dried fruit, sauces, dressings and packaged salads

^{viii} Coles as a signatory to the Food and Grocery Code is required to provide annual reports to the Code Arbiter on the number of responses provided to suppliers of all packaged, and fresh produce supplier price requests that have not been resolved within 5 days. This requirement became effective in January 2021

^{ix} Taxes included in this analysis reflect the 'Australian taxes paid by Coles' as disclosed in the 2023 Tax Contribution Report. There are timing differences between the cash payments included in this report and the FY23 Financial Statements, which are immaterial

^x NPAT % is calculated as NPAT divided by Total Operating Revenue

^{xi} Based on purchase of property plant and equipment and intangibles, as recorded in the cash flow in the Coles annual reports FY19-FY23