



20 September 2019

The Manager
Company Announcements Office
Australian Securities Exchange

Dear Manager,

2019 CORPORATE GOVERNANCE STATEMENT

Attached is the Coles Group Limited 2019 Corporate Governance Statement.

Yours faithfully,

A handwritten signature in black ink that reads "Daniella Pereira".

Daniella Pereira
Company Secretary

colesgroup



2019 Corporate Governance Statement.

Become the most trusted retailer in Australia and grow long-term shareholder value.

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Corporate governance statement.

The Board and the management team of Coles Group Limited ('Coles', 'the Company' or 'the Group') are committed to the highest standards of corporate governance and believe that a robust and transparent corporate governance framework is central to the success of our business. We are committed to maintaining and building on the confidence of our shareholders, our customers, our suppliers, our team members and the broader community as we strive to achieve our vision to become the most trusted retailer in Australia and to grow long-term shareholder value.

This corporate governance statement sets out the corporate governance framework currently in place at the Group, including the key policies and practices. Coles complies with the third edition of the ASX Corporate Governance Council's Principles and Recommendations (ASX Recommendations).

Coles is reviewing the Company's governance policies and practices to ensure that they remain appropriate in light of changes in corporate governance expectations and developments as reflected in the fourth edition of the ASX Recommendations. Many of the new recommendations contained in the fourth edition are already addressed in the Company's existing governance arrangements.

This Corporate Governance Statement is current as at 20 September 2019 and has been approved by the Board.

Further information about the corporate governance framework and practices can be accessed on the Company's website www.colesgroup.com.au/corporategovernance, which includes links to each of the publicly available documents referenced in this Corporate Governance Statement.

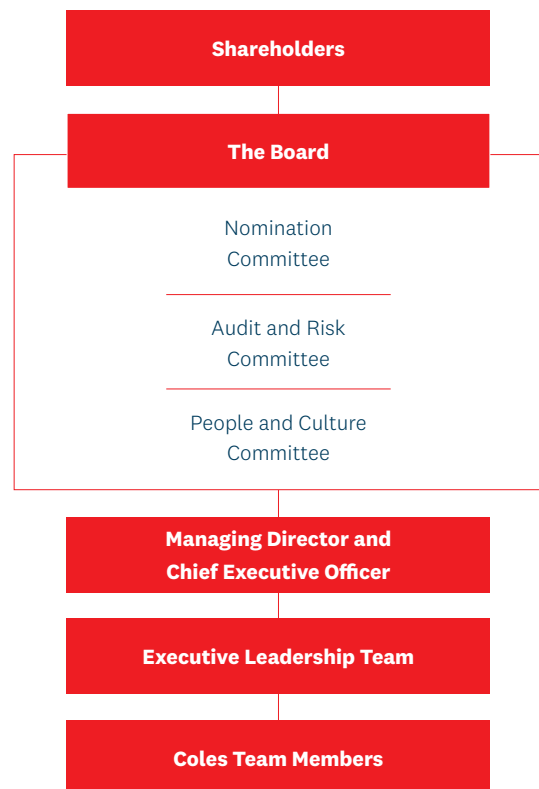
FY19 corporate governance highlights.

FY19 was a significant year for Coles with its demerger from Wesfarmers Limited and listing on the ASX as an independent listed company. As a standalone entity, Coles has established a strong governance framework and continues to be committed to a high level of integrity and ethical standards in all its business practices.

The Company’s FY19 corporate governance highlights and focus areas included:

Board	Establishing the new Board of Directors, appointing a new Managing Director and Chief Executive Officer (CEO) Steven Cain, and adopting new Board and Committee Charters and Group policies.
Strategy	Announcing our refreshed strategy to ‘Win in our second century’, which is underpinned by our vision to become the most trusted retailer in Australia and grow long-term shareholder value.
Risk management	Reviewing and updating the Group’s risk management processes and procedures.
Diversity and inclusion	Continuing our progress towards achieving our Better Together commitments and objectives, including in relation to gender diversity, with the proportion of men and women across the whole Coles workforce for FY19 being 49% men, 51% women. Reviewing gender pay equity to identify, target and reduce any gender pay gaps within the organisation.
Remuneration	Reviewing the executive remuneration framework so that there is a greater focus on performance-based pay, including the development of new principles to guide future decisions in relation to remuneration. Introducing a minimum shareholding policy for executives and Directors to drive greater alignment with shareholders.

Corporate governance framework.



Roles and responsibilities

Board role and responsibilities

The Board provides leadership and approves the strategic direction and objectives of the Group in the long-term interests of, and to maximise value to, shareholders. The Board is accountable to shareholders for the overall performance of the Company, having regard to the interests of other stakeholders, including team members, customers, suppliers and the broader community.

As at the date of this statement, the Board comprises eight Directors: James Graham (Chairman), David Cheesewright, Jacqueline Chow, Abi Cleland, Richard Freudenstein, Wendy Stops, Zlatko Todorovski and Steven Cain (Managing Director and CEO). Details of the Directors, including their qualifications and experience, can be found at pages 40 to 41 of the 2019 Annual Report.



From left to right: David Cheesewright, Jacqueline Chow, Wendy Stops, James Graham (Chairman), Steven Cain (Managing Director and CEO), Zlatko Todorovski, Abi Cleland and Richard Freudenstein.

The Board has a Charter that outlines the responsibilities of the Board, including powers that are expressly reserved to the Board and powers that are specifically delegated to the CEO and management. In particular, the responsibilities of the Board include:

- approving and monitoring the implementation of the Group's core values, Code of Conduct, vision, strategic direction, business plans and policies;
- setting the risk appetite within which the Board expects management to operate;
- reviewing, approving and monitoring the Group's risk policy and risk management systems (for both financial and non-financial risks), including internal compliance and control mechanisms;
- approving and monitoring the progress of major capital expenditure, capital management and capital raising initiatives;
- overseeing the Group's accounting and corporate reporting systems;
- approving the overall remuneration policy and the remuneration of the Non-executive Directors; the CEO; the direct reports to the CEO; and any incentive and/or equity plans;
- overseeing, with recommendations from the People and Culture Committee, that the remuneration policy is aligned with the vision, values, strategic objectives and risk appetite of Coles;
- receiving information regarding material breaches of the Code of Conduct and Anti-Bribery Policy and reports of material incidents under the Whistleblower Policy;
- determining the size, composition and structure of the Board, and the process for evaluating its performance;
- appointing and removing the CEO and the Company Secretary, and approving and reviewing succession plans for the Non-executive Directors, executive Directors, CEO and the direct reports to CEO; and
- satisfying itself that the Board reporting framework is appropriate and, where required, providing constructive feedback to challenge the CEO and the Executive Leadership Team.

Management role and responsibilities

The CEO, with the support of the direct reports to the CEO, is responsible for the day-to-day management of Coles and its businesses. Under the Board Charter, the Board delegates all powers to manage the day-to-day business of the Group to the CEO, with the exception of the powers reserved specifically to the Board.

The key responsibilities of the CEO are set out in the Board Charter and include:

- managing and administering the day-to-day operations of the Group and its businesses in accordance with the core values, strategy, business plans and policies approved by the Board;
- developing strategies for the Group, its businesses and management, and making recommendations to the Board on such strategies, having regard to the Group's core values, reputation and key stakeholders;
- supporting a culture within the Group that promotes ethical and socially responsible behaviour in accordance with the Group's core values;
- developing the Group's annual budget and conducting the Group's activities within the approved annual budget;
- developing and maintaining the Group's Risk Management Framework and systems, including internal compliance and control mechanisms; and
- reporting regularly to the Board with accurate, timely and clear information, such that the Board is fully informed to discharge its responsibilities effectively.

While management is responsible for providing the Board with accurate, timely and clear information, the Board is responsible for satisfying itself that the framework for management reporting to the Board is sufficient. Where appropriate, the Board will provide constructive feedback to challenge the CEO and the Executive Leadership Team.

Members of the Executive Leadership Team have written employment contracts setting out the key terms of their employment. These executives receive a mix of annual remuneration and 'at-risk' remuneration, which is comprised of short-term incentives and long-term incentives.

Further information about Coles' remuneration framework and the review of performance outcomes for FY19 is set out in the Company's Remuneration Report, which is at pages 50 to 62 of the 2019 Annual Report.

Role of the Chairman

The Chairman of the Board is James Graham, who is an independent, non-executive director. The Board Charter sets out the role of the Chairman, which includes to:

- maintain effective communication and promote constructive and respectful relationships between the Board and management;
- lead the Board;
- ensure the efficient organisation and conduct of the Board's function;
- brief all Directors in relation to issues arising at Board meetings;
- chair general meetings of the Company;
- exercise such specific and express powers as are delegated to the Chairman by the Board from time to time; and
- represent the Board.

Company Secretary

The Company Secretary is Daniella Pereira. The Company Secretary reports directly to the Board through the Chairman, and all Directors have access to the Company Secretary. The Company Secretary's role is outlined in the Board Charter and includes co-ordinating the timely completion and dispatch of Board and committee papers, ensuring that the business at Board and committee meetings is accurately recorded in the minutes and assisting the Board and its committees on governance matters.

Director independence

The Board Charter states that the Board shall consist of a majority of non-executive directors who are considered by the Board to be independent.

Under the Charter, Directors must immediately disclose to the Company Secretary and the Chairman any information, facts or circumstances of which they become aware, which may affect their independence. The Board annually assesses the independence of each Director, having regard to:

- any disclosures made by Directors regarding their independence;
- the definition of independence set out in the ASX Recommendations;
- the relationships affecting the independent status of a director as described in the ASX Recommendations; and
- any other matters the Board considers relevant.

The Board has reviewed the position and relationships relevant to each of the Directors in office as at the date of this Corporate Governance Statement and considers that the majority of the

Board and Non-executive Directors are independent: James Graham (Chairman), Jacqueline Chow, Abi Cleland, Richard Freudenstein, Wendy Stops and Zlatko Todorcevski.

David Cheesewright is not currently considered to be independent because he has been nominated as a director by Wesfarmers Limited (Wesfarmers), which is a substantial shareholder in Coles. The Board believes that Mr Cheesewright brings objective and unbiased judgement to the deliberations of the Coles Board and, additionally, that his contribution to the Board is significant due to his expertise and knowledge of the business and the industries in which Coles operates.

James Graham is Chairman and founder of Gresham Partners Limited, which was engaged by Wesfarmers as a financial advisor to Wesfarmers on the demerger of Coles and Wesfarmers. Gresham Partners provided certain advisory services to Coles during the demerger of Coles from Wesfarmers in 2018. Mr Graham was not involved in providing the advisory services, and the services have not continued since the demerger. Coles has no ownership interest in Gresham Partners. The Board has concluded that Mr Graham's relationship with Gresham Partners does not interfere with or compromise his ability to exercise objective or independent judgement in relation to the Group. Mr Graham's extensive experience as a director enables him to bring a deep understanding of Coles' operations and the industry, and the Board considers that his knowledge is invaluable to the Coles Board.

Conflicts of interest

Coles has a Director Conflicts of Interest Policy, which states that Directors:

- have a duty not to place themselves in a position which gives rise to a real or substantial possibility of conflict of interest or duty, in relation to any matter which is or is likely to be brought before the Board;
- have an ongoing obligation to disclose to the Board immediately any real or substantial possibility of conflict of interest or duty;
- are required to declare material personal interests or other conflicts requiring disclosure by formal standing notices; and
- follow the obligations and procedures set out in the policy in the event of a conflict or potential conflict of interest or duty.

Independent advice

The Board Charter states that the Board collectively, and each Director individually, may obtain independent professional advice at the Company's expense, as considered necessary to assist in fulfilling their relevant duties and responsibilities.

Board composition and succession.

Board composition

The Constitution states that the number of Directors shall be not less than three Directors and not more than 10 Directors. Other than the Managing Director, Directors may not retain office without re-election for more than three years or past the third annual general meeting following their last election or re-election. Any newly appointed Directors are required to seek re-election at the first annual general meeting after their appointment.

The Board will review periodically its composition and the duration of terms served by Directors, upon recommendation from the Nomination Committee.

Director nomination and succession

The Nomination Committee is responsible under its Charter for developing and reviewing Board succession plans, with an aim of maintaining an appropriate mix of skills, experience, expertise and diversity over time.

The Committee also oversees the process for recruiting new Directors. Potential candidates for the Board as well as Directors standing for re-election are assessed considering a number of factors, including but not limited to:

- skills, experience, expertise, personal qualities and attributes that will best complement the skill set and characteristics of existing Directors and enhance Board effectiveness;
- diversity (in its broadest sense) of Board composition;
- the capacity to devote the necessary time and commitment to the role; and
- potential conflicts of interest and independence.

Appropriate background checks are performed before any potential candidate is appointed by the Board or recommended to shareholders as a candidate for election. This includes checks of the person's character, experience, education, criminal record and bankruptcy history.

Prior to Directors seeking election or re-election at an annual general meeting of the Company, Coles provides shareholders with all material information known to the Board and relevant to a decision on whether or not to elect or re-elect that Director in the notice of annual general meeting. Each Director is provided a letter setting out the terms of their employment.

The Nomination Committee is also responsible for ensuring that appropriate background checks are conducted before a senior executive is appointed.

Induction and professional development

All newly appointed Directors will participate in an induction program, which includes information relevant to their new role, attendances at key sites and introductions to key staff. This induction includes briefings on the Company's business, strategy,

financial, operational and risk management matters and factors relevant to the sectors and environments in which the Company operates. Where appropriate, the Company also provides training as part of the induction program on the following matters:

- the key duties and responsibilities of directors under the *Corporations Act 2001* (Cth) (Corporations Act) and the ASX Listing Rules (including ASX's continuous disclosure and periodic reporting requirements); and
- accounting and financial matters.

The induction program is coordinated by the CEO, the Chief Financial Officer and the Company Secretary.

Ongoing education programs are provided to Directors throughout the year. The Board (in consultation with the Nomination Committee) regularly assesses, including by reference to the Board skills matrix, whether there are areas that Board members would benefit from further education. Based on this assessment, the Board organises updates and information to be provided to the Board from both management and external experts on various topics relevant to the Company's circumstances, including new and emerging business and governance issues relevant to the Company and material developments in laws and regulations.

Performance reviews and evaluation

The Board undertakes a performance evaluation to review its performance and that of its committees and each Director at least once every two years (including the performance of the Chairman as Chairman of the Board). The Chairman reports to the Board regarding the performance evaluation process and the findings of these reviews.

As the Directors were only appointed in November 2018, a performance evaluation for the 2019 financial year was not conducted internally to assess the performance of the Board as a whole, the Board committees and individual Directors. It is intended that an evaluation will be undertaken in the 2020 financial year.

Executives are also subject to an annual performance review in which performance is measured against agreed outcomes and performance indicators and having regard to the LEaD behaviours outlined on page 18. The performance of the CEO is assessed by the Board against objectives relating to the Company's strategy, business plans and the financial and other performance of the business, as well as the CEO's own performance.
















For the 2019 financial year, the performance of the CEO was reviewed by the Chairman, in consultation with the Board. The performance of the Company's executives during 2019 was reviewed by the CEO, in consultation with the Board.

Board skills matrix


The Board recognises the importance of having Directors who possess a broad range of skills, background, expertise, diversity and experience in order to facilitate constructive decision making and facilitate good governance processes and procedures.

The Board, on the recommendation of the Nomination Committee, determines the composition, size and structure requirements for the Board and will regularly review its mix of skills to make sure it covers the skills needed to address existing and emerging business and governance issues relevant to the entity.

The current mix of skills and experience represented on the Board as at 20 September 2019 is set out in the below skills matrix:

	Number of Directors with the requisite skill	
 Corporate governance	<div style="width: 100%;"></div>	8
 Executive experience	<div style="width: 100%;"></div>	8
 Financial acumen	<div style="width: 100%;"></div>	8
 Strategic thinking	<div style="width: 100%;"></div>	8
 People, culture and remuneration	<div style="width: 100%;"></div>	8
 Risk management	<div style="width: 100%;"></div>	8
 Retail and FMCG skills and experience	<div style="width: 75%;"></div>	6
 Customer service delivery	<div style="width: 92%;"></div>	7
 Supply chains	<div style="width: 75%;"></div>	6
 Interstate / global business experience	<div style="width: 100%;"></div>	8
 Property development and asset management	<div style="width: 37%;"></div>	4
 Marketing	<div style="width: 75%;"></div>	6
 Digital technology and innovation	<div style="width: 100%;"></div>	8
 Sustainability, environment, health and safety	<div style="width: 87%;"></div>	7
 Regulatory and public policy	<div style="width: 87%;"></div>	7

Skill/ experience Explanation

-  Experience serving on boards in diverse industries and for a range of organisations, including public listed entities or other large, complex organisations. An awareness of global practices and trends. Experience in implementing high standards of governance in a large organisation and assessing the effectiveness of senior management.
-  Effective senior leadership in a large, complex organisation or public listed company. Successfully leading organisational transformation and delivering sustained business success, including through line management responsibilities.
-  Senior executive or other experience in financial accounting and reporting, internal financial and risk controls, corporate finance and/ or restructuring, corporate transactions, including ability to probe the adequacies of financial and risk controls.
-  Demonstrated ability to identify and critically assess strategic opportunities and threats and to develop and implement successful strategies to create sustained, resilient business outcomes. Ability to question and challenge on delivery against agreed strategic planning objectives.
-  Experience overseeing or implementing a company's culture and people management framework, including succession planning to develop talent, culture and identity. Board or senior executive experience in applying remuneration policy and framework, including linking remuneration to strategy and performance, and the legislative and contractual framework governing remuneration.
-  Understanding of and experience in identifying and monitoring key risks to an organisation and implementing appropriate risk management frameworks and procedures and controls.
-  Senior management experience in the retail and fast moving consumer goods (FMCG) industry, particularly in the food and liquor industry, including an in-depth knowledge of merchandising, product development, exporting, logistics and customer strategy.
-  Advanced understanding of customer service delivery models, benchmarking and oversight.
-  Senior executive experience in managing or overseeing the operation of supply chains and distribution models in large, complex entities, including retail suppliers.
-  Senior manager or equivalent experience in national or international business, providing exposure to a range of interstate or international political, regulatory and business environments.
-  Experience in property development and asset management.
-  Senior executive experience in consumer and brand marketing and in e-commerce and digital media, including in the retail industry.
-  Expertise and experience in the adoption and implementation of new technology. Understanding of key factors relevant to digital disruption and innovation, including opportunities to leverage digital technologies and cyber security and understanding the use of data and analytics.
-  Identification of key health and safety issues, including management of workplace safety, and mental and physical health. Experience in managing and driving environmental management and social responsibility initiatives, including in relation to sustainability and climate change.
-  Senior management experience working in diverse political, cultural, regulatory and business environments. Experience in regulatory and competition policy and influencing public policy decisions and outcomes, particularly in relation to regulation relevant to food and liquor industries.

Board committees.

The Board has established three standing committees and has delegated to each committee a number of duties to assist the Board in exercising its responsibilities and discharging its duties. Together, they play an important role in assisting the Board's oversight and governance of the Group's operations.

Each committee has a separate charter that sets out the roles and responsibilities of that committee, as well as the membership and any other requirements for the running of the committee. All committees are chaired by and comprise a majority of independent Non-executive Directors. Each committee keeps the Board informed of its activities through the provision of

the minutes of each meeting, and the Chair of each committee formally advises the Chairman of the Board of any matters or recommendations requiring the Board's attention.

The Remuneration Committee was renamed the 'People and Culture Committee' in August 2019 to more accurately reflect the Committee's role and responsibilities.

The members, composition and responsibilities of each committee are set out below, and each Director's attendance at Board and committee meetings is set out on page 47 of the 2019 Annual Report.

Audit and Risk Committee

Members

Zlatko Todorcevski (Chairman)
Jacqueline Chow
Wendy Stops

Composition

- At least three members
- Only Non-executive Directors, a majority of whom must be independent
- An independent Non-executive Director as chair, who is not chair of the Board
- Members of the Committee between them should have the accounting and financial expertise, and sufficient understanding of the industry in which the Group operates, to be able to effectively discharge the Committee's responsibilities
- The chair should have significant and relevant accounting experience

Responsibilities include

- Meeting at least four times annually and holding additional meetings as necessary
- Overseeing the effectiveness of internal controls and the enterprise risk management framework, including monitoring risk parameters of the Group (for both financial and non-financial risks)
- Reviewing and assessing the Group's processes to verify the integrity of financial statements and reporting and compliance with legal and regulatory requirements (including accounting standards), including periodic corporate reports that are not audited or reviewed by the external auditor
- Receiving reports from management on new and emerging sources of risks and the risk controls and mitigation measures that management has put in place to deal with those risks
- Evaluating the adequacy and effectiveness of the Group's identification and management of environmental and social sustainability risks and its disclosure of any material exposures to those risks (financial and non-financial)
- Reviewing the Group's Risk Policy and Risk Management Framework at least annually for recommendation to the Board, including satisfying itself that the Risk Management Framework continues to be sound and that the Group is operating with due regard to the risk appetite set by the Board
- Reviewing any material incident involving fraud or a breakdown of the risk controls and 'lessons learned'

Nomination Committee

Members

James Graham (Chairman)
 David Cheesewright
 Jacqueline Chow
 Abi Cleland
 Richard Freudenstein
 Wendy Stops
 Zlatko Todorcevski

Composition

- All Non-executive Directors
- Independent chair

Responsibilities include

- Meeting at least annually and holding additional meetings as necessary
- Reviewing and making recommendations to the Board on Board composition, competencies and diversity, including assisting the Board to develop and review the Board skills matrix
- Developing and reviewing Board succession plans, Director induction and continuing development programs and making recommendations to the Board
- Ensuring there is a robust and effective process for evaluating the performance of the Board, committees and individual Directors
- Overseeing and making recommendations to the Board on the annual assessment of each Director's independence and overseeing the disclosures made in relation to Director independence

People and Culture Committee

Members

Richard Freudenstein (Chairman)
 David Cheesewright
 Abi Cleland
 James Graham

Composition

- At least three members
- Only Non-executive Directors, a majority of whom must be independent
- An independent Non-executive Director as chair

Responsibilities include

- Meeting at least four times annually and holding additional meetings as necessary
- Reviewing and overseeing the key people and organisational culture strategies and their alignment with the Group's overall strategy and vision
- Approving the appointment of direct reports to the CEO and the general terms of their employment contracts, including termination payments
- Overseeing the succession planning process for the CEO, direct reports to the CEO and other key leadership roles, and reviewing talent management within the Group generally
- Assisting the Chairman of the Board in the annual performance review of the CEO and overseeing the annual performance review of the CEO's direct reports
- Reviewing the Company's policies in respect of diversity, reviewing the measurable objectives for achieving gender diversity set by the Board on an annual basis, and recommending any changes to the Board
- Overseeing the establishment and implementation of the remuneration framework, and making recommendations to the Board on whether the Group's remuneration policies are aligned with Coles' vision, purpose, values, strategies, objectives, Risk Management Framework and risk appetite
- Reviewing and making recommendations to the Board on Non-executive Director remuneration
- Reviewing and making recommendations to the Board on the CEO's remuneration arrangements and performance and, in consultation with the CEO, the CEO's direct reports
- Overseeing management's preparation of the annual Remuneration Report and making recommendations to the Board as appropriate

Shareholders and reporting.

Market disclosure

Coles is committed to complying with its obligations relating to the disclosure of market sensitive information in a timely manner and providing shareholders and the market with up-to-date information about the Company's activities. The Board has adopted a Market Disclosure Policy, which establishes procedures aimed at ensuring that Coles complies with the legal and regulatory requirements under the Corporations Act and the ASX Listing Rules. These procedures include the establishment of a Continuous Disclosure Committee, which monitors the continuous disclosure framework and is responsible for ensuring that the Company complies with its obligations.

Communication with shareholders

Coles aims to communicate all important information relating to Coles to its shareholders and implements processes to facilitate effective two-way communication with shareholders and other stakeholders. Coles recognises that potential investors and other interested stakeholders may wish to obtain information about Coles from time to time.

To achieve this, Coles communicates information to its shareholders and other stakeholders regularly, through a range of different forums and publications, including:

- Coles encourages its shareholders to participate in its Annual General Meeting (AGM), by attending, exercising their voting rights and asking questions of the Board. Coles will conduct

all voting at the AGM on a poll, ensuring that voting outcomes reflect the proportionate holdings of all shareholders who vote (whether in person or by proxy or other representative).

- The Company's external auditor will attend the AGM and will be available to answer questions from shareholders on the conduct of the audit.
- The Board will seek approval of shareholders as required by the Company's Constitution, the Corporations Act and the ASX Listing Rules, or where otherwise considered appropriate by Directors.
- Coles has an investor relations program in place, which includes scheduled and ad hoc briefings with analysts, investors and other stakeholders, including some briefings on a one-on-one basis.
- Regular releases of information are made through the ASX market announcements platform, including the release of the Annual Report and full and half-year results.
- The Company's website provides up-to-date information about the Company and its operations, the Corporate Governance Framework, the Board and management, ASX announcements, the share price, dividend distributions and other relevant information.
- Coles gives shareholders the option to receive communications from, and to send communications to, Coles and its share registry electronically.



Coles team member Brenda and Steven Cain at the ASX listing ceremony in Sydney, 21 November 2018.

Risk management.

Coles has in place a Risk Management Framework which articulates Coles' Risk Policy and sets out Coles' organisational arrangements and requirements for managing risk. The design of the Risk Management Framework is based on ISO 31000: 2018 Risk management – Guidelines ('ISO 31000'), which provides a consistent and internationally recognised set of principles and guidelines for managing risks in organisations. The main components of the Risk Management Framework are:

- *Risk Policy* - articulates Coles' commitment and expectations for risk management.
- *Risk Accountability* - defined roles, accountabilities and activities for managing, communicating and reporting risks.
- *Risk Management Process* - the standard risk management process to be applied to all the Group business, supported by common definitions and tools.
- *Risk Culture* - defines the required behaviours for risk management.

The objective of the Risk Management Framework is to embed risk management within our business operations and accountabilities so that it supports our strategic and operational objectives, informs decision making and establishes appropriate risk management responses. It also provides the Board and Executive Leadership Team with transparent and timely information to enable appropriate oversight of Coles' risks and mitigations.

Our Risk Management Framework is supported by our 'three lines of defence' accountability model, comprising:

- First Line – Team members within brands, business units and functions who are responsible for identifying, assessing, and managing their risks.
- Second Line – The Group Risk and Compliance team and other second line functions (for example, Health, Safety & Wellbeing) who are responsible for risk and compliance frameworks, oversight and monitoring.
- Third Line – The Group Internal Audit team, who are responsible for independent assurance on governance, risk management and internal control.

We also have in place an Executive Risk Committee, which reinforces the accountability for risk management and supports the CEO and Executive Leadership Team with the identification, measurement and mitigation of risks across the Group and the development of a risk-aware culture. The Executive Risk Committee has an external and independent chair experienced in risk management. 'Deep dive' risk reports involve a comprehensive discussion of the management of risk in areas that are key to the success of the business, including emerging risks. These reports are owned

and presented by the relevant risk owner, who is a member of senior management.

One of the core components of our Risk Management Framework is the risk management process, which sets out the requirements and criteria for assessing and reporting risks to which Coles has a material exposure, including environmental and sustainability risks. A summary of these risks and their mitigations is set out at pages 30 to 33 of the 2019 Annual Report.

The Audit and Risk Committee assists the Board in fulfilling its responsibilities in overseeing the effectiveness of the enterprise risk framework, including monitoring risk parameters of the Group and overseeing the Group's systems of internal control and its Risk Management Framework (for both financial and non-financial risks). The Audit and Risk Committee has undertaken a review of the Risk Management Framework in relation to the reporting period to satisfy itself that it continues to be sound.

Internal audit

Coles has an Internal Audit function, which is responsible for independent assurance over Coles' governance, risk management and internal control processes. Under the Coles Risk Management Framework, Internal Audit is responsible for:

- providing independent assessment and assurance to the Board and Executive Leadership Team regarding the effectiveness of the Coles Risk Management Framework and regarding the effectiveness of controls in place to manage particular risks; and
- providing feedback to enhance the Risk Management Framework and supporting processes and activities, with the aim of strengthening the control environment.

The Audit and Risk Committee is responsible under its charter for overseeing the performance and function of Internal Audit. This includes:

- reviewing with management the terms, including the scope, of the internal auditor's engagement, in order to make recommendations to the Board concerning the appointment, re-appointment, rotation and removal of internal auditors;
- reviewing, assessing and approving the appointment, replacement or termination of the Head of Internal Audit and Assurance;
- approving the internal audit charter and annual internal audit plan and ensuring its alignment with the risk profile of the Group;
- receiving reports from Internal Audit and reviewing the scope and adequacy of the internal audit work plan; and
- reviewing, assessing and monitoring management's responsiveness to Internal Audit findings to address risk.

External audit

Coles' external auditor is Ernst & Young (EY). The Audit and Risk Committee is responsible for reviewing and approving the terms and scope of the external auditor's engagement and making recommendations to the Board regarding the appointment, re-appointment, rotation and removal of the external auditor.

The Committee provides an annual report to the Board with respect to whether the non-audit services provided by the external auditor during the year were compatible with the general standards of independence for auditors in accordance with the Corporations Act.

Management assurances / certification

Prior to approval of the financial statements for each full year and half year relevant reporting period, the Board receives written certifications from the CEO and the Chief Financial Officer (CFO) in relation to the Company's financial reporting processes.

In respect of the financial statements for the half year ending 30 December 2018 and the full year ended 30 June 2019, the CEO and the CFO declared that:

- in their opinion, the financial records have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the Group's financial position and performance; and
- their opinion has been formed based on a sound system of risk management and internal control which is operating effectively.

Integrity in financial reporting

The Audit and Risk Committee assists the Board in fulfilling its responsibilities in overseeing the Group's processes which ensure the integrity of financial statements and reporting, compliance with legal and regulatory requirements, and reviewing material changes in accounting or reporting requirements and assessing subsequent effects on the Group's policies and practices.

The Audit and Risk Committee is also responsible for reviewing the process to verify the integrity of any periodic corporate report the Company releases to the market that is not audited or reviewed by the external auditor.

Diversity and inclusion.

Diversity Policy and framework

Coles has a Diversity Policy in place. The policy outlines our 'Better Together' program, which comprises five key diversity and inclusion pillars: Accessibility, Gender balance, Pride, Flexibility and Indigenous.

The Board is responsible for the review and oversight of the policy. The policy also requires the Board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the Group's progress in achieving them. Periodically, management will review:

- the effectiveness of the policy, its objectives and the strategies to achieve the objectives; and
- the division of responsibilities and accountability for developing and implementing diversity initiatives across the organisation.

Management will then report to the Board on the outcome of its review, including any recommendations for changes to the strategies under the Diversity Policy or the way in which they are implemented.

Accessibility.

Improving the accessibility of our stores, site workplaces and digital platforms for team members and customers with a disability.

Gender balance.

Empowering all team members to access and enjoy the same opportunities to build great careers at Coles, regardless of gender.

Pride.

Creating a safe and supportive workplace for all team members by driving awareness and education on important LGBTI topics.

Flexibility.

Supporting and empowering all team members to balance their work and life commitments through a flexible working culture.

Indigenous.

Creating opportunities, raising awareness, sharing stories and strengthening relationships with our Indigenous team members and communities.



Sydney mother Sarah with her nine-year-old son Cameron shops at Coles during Quiet Hour. In FY19, Coles expanded the rollout of Quiet Hour to 261 supermarkets.



Better Together and measurable objectives

Launched in September 2017, the Better Together diversity and inclusion program emphasises that a diverse and inclusive workforce leads to better team member engagement, productivity, retention and overall business performance. Better Together encompasses the five key diversity and inclusion pillars

- each supported by executive sponsors, steering committees or working groups. Our Better Together Charter 2023, adopted in November 2018, details our commitments and objectives in respect of each of the five pillars and has been endorsed by the Board.

2023 Better Together Charter commitments

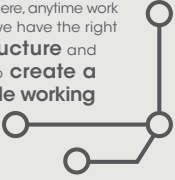
Accessibility

- 1 **>90%** of our team members across Supermarkets, Coles Express and Liquor to have completed **Disability Confidence Training**, ensuring that we are offering the best quality service and support to our Team Members and customers.
- 2  **Quiet hour** offered in all eligible stores nationally.
- 3  **Strive for best practice towards disability inclusion** in our stores, sites and workplaces by scoring in the **top 25th percentile** in the Australian Network on Disability's Access and Inclusion index.


Gender Balance

- 1  Be recognised as an Employer of Choice for **Gender Equality** by achieving and maintaining citation.
- 2 Make year on year progress to achieving **40%** representation of women in leadership positions at an organisational level and at least **30%** representation of any gender at an overall functional level.
- 3 **Achieve pay parity** by having the right policies, practices and governance in place to reach **balance** and offer the **same opportunities** to all Team Members to build great careers at Coles.

Flexibility

- 1 All roles to support **flexible working**.
- 2 Provide anywhere, anytime work by ensuring we have the right **IT infrastructure** and workplaces to **create a truly flexible working culture**. 
- 3 Offer a range of leading policies that **support** all Team Members to **balance their work and life commitments**. 

Pride

- 1 **Be recognised as an active and influential leader in LGBTI workplace inclusion**, by achieving and maintaining status in the Australian Workplace Equality Index.
- 2  **Build a strong ally network at Coles** by establishing state based pride networks and immersing ourselves in local LGBTI communities and events at a state level.
- 3 **Increase** our Team Members' **confidence** to be their authentic selves at work by offering both **mandatory and optional training** to all team members and allies **on LGBTI inclusion in the workplace**.

Indigenous

- 1 Aboriginal and Torres Strait Islander Team Members to represent of all **trade skilled and leadership positions** and **3%** of our total workforce demonstrating our commitment to build great careers at Coles.
- 2 **Continue to support Aboriginal and Torres Strait Islander suppliers** by increasing the number of opportunities available to participate in our supply chain.
- 3  Develop mutually beneficial and **sustainable relationships** with Indigenous community organisations.

In relation to Gender Balance, our progress against each of the measurable objectives is as follows:

- 1. Be recognised as an Employer of Choice for Gender Equality**
Coles continues to move towards becoming an Employer of Choice for Gender Equality with our strongest improvements in the areas of pay parity and flexible working. Our most recent team member survey showed 76% of our more than 113,000 team members feel supported working flexibly at Coles.
- 2. Make year-on-year progress towards achieving 40% representation of women in leadership positions at an organisational level and at least 30% representation of any gender at an overall functional level.**

In FY19, we continued to make progress against our Gender Balance targets as set out in the table below:

Population	Target	FY18 female representation	FY19 female representation
Board of Directors ¹	N/A	N/A	38%
Executive Leadership Team ¹	40% women in leadership positions	18%	38%
Senior Executives ²		36%	40%
All leadership roles (PG8+) ³		33%	33%

¹Includes CEO.

²General Managers and Executive Leadership Team.

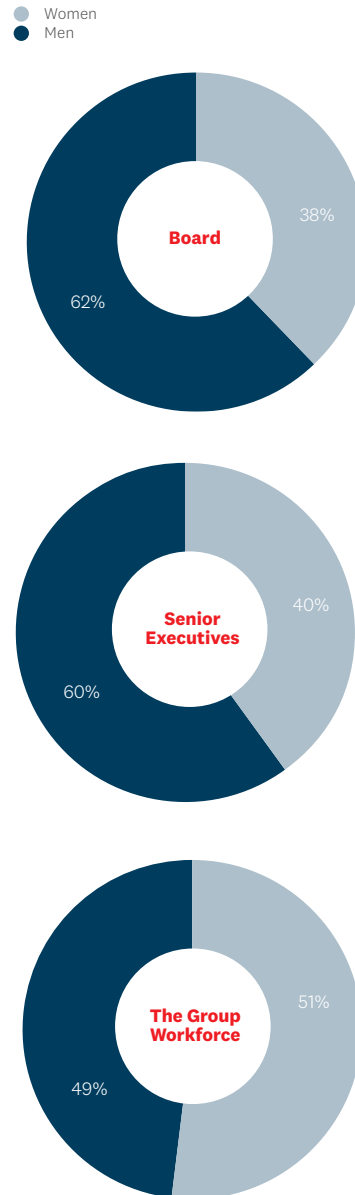
³Pay grade 8 includes middle managers and specialist roles.

- 3. Achieve pay parity by having the right policies, practices and governance in place to reach balance and offer the same opportunities to all team members to build great careers at Coles.**

Organisation-wide we have a gender pay gap of 4% versus the Australian average of 14% (Workplace Gender Equality Agency reporting 14 August 2019). In FY20 we will conduct a more comprehensive review of our gender pay gap examining like-for-like roles to finalise our pay parity action plan to close the gap by 2023.

Details of our progress against the other Better Together diversity pillars are set out in our 2019 Sustainability Report.

For FY19, the proportion of men and women on the Board, in senior executive positions (being members of the Executive Leadership Team and employees who are in the position of General Manager) and across the workforce generally are set out below.



A culture of acting lawfully, ethically and responsibly.

Our LEaD framework

LEaD provides a framework for the behaviours and actions expected of all team members, including executives and Directors. The **LEaD** framework comprises three key pillars which drive the way we work to execute our strategy, deliver against our purpose and build long-term sustainable value for our shareholders. The three pillars are: **Look ahead**, **Energise everyone** and **Deliver with pride**.

Look ahead is all about being future focused: knowing the landscape, being less reactive and more planned, and communicating the vision well.

Energise everyone is all about bringing people on the journey: collaborating across the business and supporting and empowering everyone, while taking the time to celebrate the wins along the way.

Deliver with pride is all about executing: being accountable and holding each other to account, staying the course and having fun while we do it.

LEaD underpins our recruitment, induction, training and development programs for all team members and managers. By meeting these behaviours, we can build deeper long-term relationships with our suppliers, provide an outstanding customer experience and have caring and passionate team members. Our behaviours and the LEaD framework reflect the expectations of our customers, investors, regulators and the community.

Our LEaD behaviours.



Look ahead

Know your stuff
Have a plan
Explain the why



Energise everyone

Build it together
Empower and support
Celebrate progress



Deliver with pride

Own it
Stay the course
Have fun with it

Code of Conduct

Coles has a Code of Conduct which sets out the standards of behaviour which are expected of its Directors and team members (including executives).

Whistleblower Policy

As part of Coles' commitment to the highest standards of conduct and ethical behaviour in all its business activities, the Company has adopted a Whistleblower Policy to encourage anyone to come forward with concerns. The policy requires Coles team members, Directors and officers who have reasonable grounds to suspect that 'Potential Misconduct' has occurred or is occurring within, or against Coles to make a report. The policy also encourages anyone else (including Coles' past team members, contractors, suppliers and their employees) who has reasonable grounds to suspect that 'Potential Misconduct' has occurred or is occurring within, or against Coles to make a report. Potential Misconduct is any suspected or actual misconduct or an improper state of affairs or circumstances in relation to Coles. It includes any unethical, illegal, corrupt, fraudulent or undesirable conduct or any breach of Coles policies such as its Code of Conduct by a Coles director, team member, contractor, supplier, tenderer or any other person who has business dealings with Coles.

Coles team members may raise any concerns internally. Additionally, anyone (including Coles team members, suppliers and contractors) may make anonymous reports to the Stopline Hotline, an independent and confidential reporting line. The policy emphasises that Coles will not tolerate anyone being discouraged from speaking up or being adversely affected because they have reported misconduct in accordance with the policy.

Anti-bribery Policy

Coles has an Anti-bribery Policy that prohibits Directors and team members from engaging in activity that constitutes bribery or corruption and sets out a number of guidelines to assist team members to determine what constitutes bribery or corruption.

Sustainability, Health, Safety and Wellbeing

Coles is committed to providing a safe and healthy environment for team members, customers, suppliers, contractors, visitors and supply chain partners. The Health, Safety and Wellbeing Policy describes the systems and processes in place to manage the risks and hazards that come with operating Coles' business and ensure that Coles' actions are appropriate to our risk profile.

The Audit and Risk Committee is responsible for overseeing the effectiveness of systems of internal controls and the Risk Management Framework, including Coles' exposure to environmental risks.

Details of Coles' material economic, environmental and social sustainability risks, as well as details of how Coles manages these risks, are referred to in the *How we manage risk* section in our 2019 Annual Report.

Securities Dealing Policy

Coles has a Securities Dealing Policy that states that, in general, Directors, members of the Executive Leadership Team and other executives at the General Manager level and above (Restricted Persons) may not deal in Coles' securities during specified periods (known as 'blackout periods') that cover the period leading up to and immediately following the release of the quarterly retail sales results, half-yearly results and full-year results. Outside of those blackout periods, Restricted Persons must seek prior approval to deal in Coles' securities from the Company Secretary (or her delegate).

In all cases, Restricted Persons are prohibited from trading in securities when they are in possession of 'inside information'.

The Securities Dealing Policy also covers the Company's policy on Restricted Persons hedging (or otherwise locking in a profit over) unvested securities issued under the Company's Share Plans.

Other Policies

Coles has a number of other Company policies which outline expected standards of behaviour of Directors and team members, including:

- Appropriate Workplace Behaviour and Equal Opportunity Policy
- Confidentiality Policy
- Conflict of Interest Policy
- Delegation of Authority Policy
- Director Conflicts of Interest Policy
- Environment Policy
- Ethical Sourcing Policy
- Gifts, Events and Entertainment Policy
- Political Donations Policy
- Privacy Policy

These policies can be accessed by team members on the Company's intranet.

The Company continually assesses and upgrades its policies and procedures to ensure compliance with corporate governance requirements.