

Introduction

Established in 1914, today more than 113,000 team members work in 2,400 Coles supermarkets, convenience stores and liquor outlets nationally and process in excess of 20 million customer transactions each week.

Our market share of the Australian grocery retail market is 30.8 per cent.

In November 2018, Coles listed on the Australian Securities Exchange. We now have more than 460,000 direct shareholders across Australia. We are also owned indirectly by many Australians through their super funds.

We are committed to building strong and collaborative relationships with Australian farmers, producers and growers. Coles sources from around 7,000 suppliers and we are proud to have an Australian First Sourcing policy. All of our Own Brand fresh beef, chicken, eggs, lamb, milk and pork are sourced from Australian farms and 96 per cent of our fruit and vegetables are sourced from Australian farmers.

Coles also supports many of our Australian farmers, producers and growers through long-term partnerships, which enable our suppliers to invest in their future with certainty and to grow their business.

Coles is committed to supporting Australian farmers and food producers to innovate and prosper. In 2015 we launched the Coles Nurture Fund to provide financial support of up to \$500,000 to eligible businesses.

Since it was established in 2015, the Coles Nurture Fund has committed more than \$20 million to over 50 businesses which have introduced new technology, established new products or improved productivity and efficiency.

Contributing to the communities in which we operate has always been important to Coles. In FY19 Coles contributed \$115 million to communities and suppliers through fundraising, partnership and sponsorships. This contribution included direct community support of more than \$101million with an additional \$14 million contributed by customers, suppliers and team members.

Together with our customers, Coles has committed more than \$17 million in drought relief for farming families across Australia over the past 17 months. This included \$3.9 million from the Coles Dairy Drought Relief Fund, \$5 million from the Coles Nurture Fund and \$8.7 million for the Country Women's Association (CWA) Drought Appeal.

As a result of these efforts, more than 3200 drought-affected farming families have received support from the CWA Drought Appeal to help cover household expenses; 639 drought-affected dairy farmers received grants through the Coles Dairy Drought Relief Fund; and 16 food producers received grants from the Coles Nurture Fund to help them combat drought through new initiatives to store fodder, grow more grass and save water.

Coles is currently helping communities affected by drought and bushfires through fundraising at supermarkets for both the CWA Drought Appeal and the Red Cross Disaster Relief and Recovery Fund.

Coles is also supporting communities affected by drought and bushfires by providing donations of water and other key supplies. For example, our team recently worked with the Tenterfield Shire and NSW Farmers Association Tenterfield branch to donate more than 80,000 litres of drinking water to residents at Tenterfield in three separate deliveries. Due to consequences from both drought and fires, Tenterfield's water supply is currently unsuitable for human consumption and needs to be boiled before being consumed.

Dairy at Coles

Dairy is a key staple in the diets of Australian families. Coles provides a wide range of dairy products for our customers to choose from.

In a typical store we stock:

- 92 types of milk within our chilled white milk layout
- 66 types of flavoured milk
- 275 yoghurt products
- 342 types of cheese.

Milk at Coles

100 per cent of Coles fresh milk is sourced from Australian farms.

Coles purchases 433 million litres of fresh white drinking milk annually, equivalent to **4.8 per cent** of Australia's total milk production of just under nine billion litres.

Coles Brand milk represents **3.3 per cent** of Australia's total milk production.

In Coles supermarkets nationally we offer our customers choice in the type of milk they can purchase at price points that suit different household budgets.

Coles ranges more than **90** types of fresh white drinking milk priced from \$2.39 to \$5.94 for a two litre bottle.

Direct Sourcing from Farmers

Coles began sourcing milk directly from farmers in Victoria and southern and central New South Wales in July 2019.

This model has enabled Coles to offer a competitive farm gate price which it pays directly to its dairy farm suppliers.

Coles has previously relied on dairy processors to purchase milk from farmers for Own Brand fresh milk, under contracts that allowed the processor rather than Coles to set the farmgate price.

Under the new sourcing model dairy farmers can decide between one, two or three year contracts with guaranteed pricing for three years, providing them with greater certainty of income.

The model is still in its early stages but some of the feedback from dairy farmers who have entered into direct supply contracts with Coles suggest it has been positive in their capacity to manage their businesses more strategically.

Certainty of income through longer-term contracts allows a shift in mindset from the day-to-day challenge of making ends meet. It engenders greater confidence about planning into the future, and helps provide assurance to other key farm stakeholders, including employees, suppliers of farm inputs and banks.

Coles is also investing an additional \$1.9 million into improving the sustainability of Australia's dairy industry through the newly established Coles Sustainable Dairy Development Group.

The purpose of this investment is to fund research into more sustainable farming practices, adoption of new technology, more efficient use of pasture, feed, health and safety, and support for business development and talent retention, and farmers will have a direct voice in how funds are deployed.

Farm Gate Price

Apart from Victoria and southern and central New South Wales, where, as of this year Coles directly sources milk from its farmer suppliers, Coles is not involved in the setting of the farm gate price between processors and their suppliers.

Our contracts with processors typically include:

- The farm gate milk price, which is set by the processor;
- A provision for other production costs (including farm collection costs and haulage; costs for bottles, caps and labels; factory processing costs); and
- An additional margin or return paid to processors.

The domestic retail price does not dictate the farm gate price. The farm gate price paid to farmers is set by the processors and reflects prevailing market conditions including conditions in international markets.

Conclusion

Coles is a customer led organisation and our customers demand Australian produced dairy products.

Our success is therefore predicated on the success of Australia's dairy industry and we are committed to supporting a sustainable and positive future for dairy in this country.