Metcash Limited
ABN 32 112 073 480
1 Thomas Holt Drive
Macquarie Park
NSW 2113 Australia

4 December 2017

Market Announcements Office
Australian Securities Exchange Limited
20 Bridge Street
Sydney NSW 2000

Dear Sir/Madam

METCASH LIMITED – 2018 HALF YEAR RESULTS AND FINANCIAL REPORT

In accordance with ASX Listing Rule 4.2A, please find attached the following documents for release to the market:

a) ASX Announcement – Metcash Limited 2018 half year results

b) Appendix 4D and Half Year Financial Report (including the Directors' Report and Independent Auditor's Review Report) of Metcash Limited for the half year ended 31 October 2017.

Yours faithfully

Julie D. Hutton

Julie Hutton
Company Secretary

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1 Thomas Holt Drive
Macquarie Park
NSW 2113 Australia

4 December 2017

ASX Announcement

Metcash Limited 2018 half year results

- Group sales revenue (including the acquisition of HTH) up 7.6% to $7.06bn (1H17: $6.56bn)
- Group reported profit after tax up 24% to $92.9m (1H17: $74.9m)
- Group EBIT up 18.7% to $152.0m (1H17: $128.1m)
- Food – continuation of significant headwinds in Supermarkets, improved earnings in Convenience
- Liquor – continued growth
- Hardware – inclusion of HTH and strong performance of Mitre 10
- Working Smarter and HTH integration programs tracking to plan
- Strong operating cashflows
- Strong balance sheet – net cash position of $14.0m (FY17: net debt of $80.8m)
- Interim dividend of 6.0 cents per share, fully franked
- Strong financial position provides strategic flexibility

Group Overview

Metcash Limited (ASX:MTS) today released its financial results for the half year ended 31 October 2017.

The Group generated sales revenue of $7.06bn, an increase of 7.6% on the prior corresponding period. The first half of FY17 only includes one month of sales ($51.5m) from Home Timber & Hardware (HTH), following its acquisition on 2 October 2016.

Underlying profit after tax[1] increased 19.6% to $99.0m (1H17: $82.8m) and includes earnings growth in all Pillars. Reported profit after tax increased 24% to $92.9m (1H17: $74.9m).

Group EBIT increased 18.7% to $152.0m (1H17: $128.1m), reflecting the inclusion of earnings from HTH (1H17: nil) together with growth in the underlying Hardware business, continued growth in Liquor and an increase in earnings from the Food Pillar. In Food, a positive contribution from the Convenience business and Working Smarter savings helped negate the impact of the tough trading conditions experienced in the first half.

Group EBIT also includes a positive Corporate contribution of $7.9m (1H17: $4.0m), principally due to the reversal of a provision against the Huntingwood, NSW DC hail insurance claim, which was settled in 1H18. The prior corresponding period included a gain from the sale of surplus property.

[1] Underlying profit after tax excludes Working Smarter restructure costs of $4.4m (post tax), and HTH integration costs of $1.7m (post tax)

The Group delivered strong operating cashflows in the half of $161.4m (1H17: $130.6m), with strong cash generation across the Pillars and ~$20m received on settlement of the Huntingwood hail insurance claim.

The strong cash performance led to a $94.8m reduction in net debt, and a net cash balance of $14.0m at the end of October 2017.

The Board today determined to pay a FY18 interim dividend of 6.0 cents per share, fully franked.

Group CEO, Ian Morrice said: "The first half results were very pleasing despite the continuation of some of the most challenging market conditions in our history. It was good to see earnings growth across all our Pillars, as well as strong operating cashflows.

"Both Liquor and Hardware continued to perform well, and our Hardware team is continuing to do a great job on the integration of HTH. Synergy benefits from the acquisition are being delivered in line with our expectations, and there has been a turnaround in HTH's performance in a relatively short period of time.

"We are now half way through our three year Working Smarter program, and the initiative is delivering significant benefits, particularly in our Supermarkets business. The savings achieved have been a key factor in Supermarkets maintaining its earnings, despite the significant headwinds that include a continuing high level of deflation.

"As announced at the time of our FY17 results in June, I am stepping down as Group CEO and will shortly be handing over to Jeff Adams. It has been an honour to lead Metcash since 2013, and I wish the company every success in the future."

Jeff Adams said: "I am pleased with the first half performance and the excellent work done to further strengthen Metcash's financial position.

"The company has a good portfolio of businesses, a very strong and capable management team, and the strength of its financial position provides significant strategic flexibility for the future.

"The on-going success of our independent retailers will be a key focus for me. They play a vital role in local communities, and in the health of our economy.

"I am excited by the opportunity to build on the good work overseen by Ian in transforming Metcash, and in supporting our Independent Retailers", Mr Adams said.

Review of Trading Results

Food

Food sales declined 1.4% to $4.36bn (1H17: $4.42bn).

Supermarkets sales declined 0.8% with the adverse impact of continuing intense competition on sales (excluding tobacco), being largely offset by an increase in tobacco sales.

Supermarkets wholesale sales (excluding tobacco) declined 3.7% in 1H18, although there was a significant improvement in second quarter sales compared to the first quarter. There was a continued high level of grocery deflation in the period (2.7%), with significant competitor investment in price and promotions. Competitors also continued to expand their footprint, particularly in South Australia, and Western Australia where economic conditions remain challenging.

Sales continued to improve on the Eastern seaboard, while South Australia and Western Australia remained weaker.

Our IGA retail network recorded a decline in 'like for like' (LfL) sales of 1.1%.

Convenience sales decreased 4.6% to $723.6m (1H17: $758.5m), reflecting reduced sales of tobacco and drinks through petrol forecourts following revisions to key contracts in 2017.

Food EBIT increased 5.8% to $89.4m (1H17: $84.5m) reflecting positive earnings from the Convenience business, compared to an operating loss of $4.3m in the prior corresponding period which included asset write downs. Supermarkets earnings were broadly flat compared to the prior corresponding period, with benefits from the Working Smarter program offsetting the decline in wholesale sales (excluding tobacco).

Liquor

Sales increased 5.1% to $1.64bn (1H17: $1.56bn) reflecting continued growth in the IBA bannered network. Wholesale sales through the IBA bannered network increased 8.7%, driven by a number of contract customers converting to the IBA network. Retail sales through the IBA network increased 1.6% on a LfL basis.

EBIT increased $0.5m to $27.6m (1H17: $27.1m) reflecting stronger sales to both the IBA bannered network and contract customers, partly offset by an increase in the bad debts provision in Western Australia and costs associated with the implementation of the NSW Container Deposit Scheme.

Hardware

Hardware sales increased $482.6m to $1.06bn (1H17: $581.6m) reflecting strong underlying sales growth, and a full period of HTH sales compared to one month in the prior corresponding period.

Combined wholesale sales increased 7%[2], driven by strong trade sales underpinned by healthy levels of new construction and renovations, and favourable weather. Mitre 10 continued to perform well, delivering LfL wholesale sales growth of ~6%, and there was a significant turnaround in HTH with LfL wholesale sales up ~3%.

EBIT increased by $14.6m to $27.1m (1H17: $12.5m) due to the inclusion of earnings from HTH (1H17: Nil) and stronger earnings from Mitre 10.

Financial Position and Interim Dividend

Group debt reduced by $94.8m from a net debt position of $80.8m in April 2017 to a net cash position of $14.0m at the end of October 2017. Average net debt for 1H18 was ~$280m (1H17: ~$375m).

Strong cash generation across the pillars, tight working capital management and settlement of the Huntingwood DC insurance claim resulted in a Group operating cash flow of $161.4m (1H17: $130.6m). Net investing outflows were $18.5m (1H17: $141.6m), largely reflecting capital expenditure in the half. Net investing outflows in the prior corresponding period included payments related to the HTH acquisition.

The lower level of debt in 1H18 led to a reduction in the net finance cost to $11.0m (1H17: $12.9m).

The company's strong financial position enables Metcash to continue investing in the growth of its businesses and independent retailer networks, while maintaining strategic flexibility for the future.

The Board today determined to pay a FY18 interim dividend of 6.0 cents per share, fully franked. The record date for the interim dividend is 15 December 2017, and payment will be made on 19 January 2018.

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[2] Wholesale sales include sales by Mitre 10 and HTH to both independent retailers and company-owned stores. 1H17 includes HTH sales pre and post acquisition

Outlook

Group earnings for FY18 will cycle inclusion of the 53rd trading week that occurred in the second half of FY17.

In Liquor, the current modest level of growth in the overall market is expected to continue into 2H18, albeit there is some uncertainty over the impact of the recently introduced Container Deposit Scheme in NSW, and the roll out to other states. Liquor earnings are expected to be seasonally weighted to the second half of the financial year.

In Hardware, positive sales momentum is expected to continue into 2H18. The business is confident of delivering between $20–$25 million of annualised gross synergies from the acquisition of HTH by the end of FY18. Hardware earnings are also expected to be seasonally weighted to the second half of the financial year.

In Food, external headwinds including intense competition, particularly in South Australia and Western Australia are continuing. As with Liquor, there is some uncertainty over the market impact of the Container Deposit Scheme. Benefits from the Working Smarter program are expected to help mitigate the impact of these difficult market conditions.

For further information:

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Metcash Group

Metcash Limited (ABN 32 112 073 480) and its controlled entities

Appendix 4D for the half year ended 31 October 2017 (1H18)

Results for announcement to the market

	1H18 $m	1H17 $m	Variance $m	Variance %
Sales revenue	**7,058.4**	**6,559.3**	**499.1**	**7.6**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	185.3	159.7	25.6	16.0
Depreciation and amortisation	(33.3)	(31.6)	(1.7)	(5.4)
Earnings before interest and tax (EBIT)	**152.0**	**128.1**	**23.9**	**18.7**
Net finance costs	(11.0)	(12.9)	1.9	14.7
Underlying profit before tax	141.0	115.2	25.8	22.4
Tax expense on underlying profit	(40.9)	(31.7)	(9.2)	(29.0)
Non-controlling interests	(1.1)	(0.7)	(0.4)	(57.1)
Underlying profit after tax (i)	**99.0**	**82.8**	**16.2**	**19.6**
HTH integration and acquisition costs	(2.5)	(6.4)	3.9	60.9
Working Smarter restructuring costs	(6.3)	(4.8)	(1.5)	(31.3)
Acquisition and restructure costs	(8.8)	(11.2)	2.4	21.4
Tax benefit on acquisition and restructure costs	2.7	3.3	(0.6)	(18.2)
Net profit for the period attributable to members	**92.9**	**74.9**	**18.0**	**24.0**
Underlying earnings per share (cents) (ii)	**10.1**	**8.8**	**1.3**	**14.8**
Reported profit per share (cents)	9.5	8.0	1.5	18.8

(i) Underlying profit after tax represents reported profit after tax from continuing operations attributable to equity holders of the parent, excluding HTH integration and acquisition costs and Working Smarter restructure costs, both after tax.

(ii) Underlying earnings per share (EPS) is calculated by dividing underlying profit after tax by the weighted average shares outstanding during the period.

Explanatory note on results

The Group generated sales revenue of $7.06 billion, an increase of 7.6% on the prior year corresponding period. The first half of FY17 only includes one month of sales ($51.5 million) from Home Timber & Hardware (HTH), following its acquisition on 2 October 2016.

Underlying profit after tax increased 19.6% to $99.0 million (1H17: $82.8 million) and includes earnings growth in all pillars. Reported profit after tax increased 24% to $92.9 million (1H17: $74.9 million).

Group EBIT increased 18.7% to $152.0 million (1H17: $128.1 million), reflecting the inclusion of earnings from HTH (1H17: nil) together with growth in the underlying Hardware business, continued growth in Liquor, and an increase in earnings from the Food & Grocery pillar. In Food & Grocery, a positive contribution from the Convenience business and Working Smarter savings helped negate the impact of the tough trading conditions experienced in the first half.

Group EBIT also includes a positive Corporate contribution of $7.9 million (1H17: $4.0 million) principally due to the reversal of a provision against the Huntingwood hail insurance claim, which was settled in 1H18. The prior corresponding period included a gain from the sale of surplus property.

This Appendix 4D should be read in conjunction with the Metcash Half Year Financial Report for 31 October 2017.

Appendix 4D (continued)

For the half year ended 31 October 2017

Dividends on ordinary shares

On 4 December 2017, the Board determined to pay a fully franked FY18 interim dividend of 6.0 cents per share, sourced from the profit reserve established by Metcash Limited (Parent Company), with a record date of 15 December 2017. The Dividend Reinvestment Plan remains suspended from 26 June 2017.

Other disclosures

Net tangible assets backing

At 31 October 2017, the net tangible assets was 56.3 cents per share (FY17: 49.7 cents per share).

Entities where control has been gained or lost

There were no changes in control over entities during the current period that were material to the Group.

Statement of compliance

This report is based on the consolidated half year financial report of Metcash Limited and its controlled entities which has been reviewed by Ernst & Young. The financial report was lodged with the ASX on 4 December 2017.

Metcash Limited has a formally constituted audit committee.

On behalf of the Board

Ian R Morrice

Ian Morrice
Director
Sydney, 4 December 2017

This Appendix 4D should be read in conjunction with the Metcash Half Year Financial Report for 31 October 2017.

Metcash Limited

ABN 32 112 073 480

Financial Report

For the half year ended 31 October 2017

Directors’ report

For the half year ended 31 October 2017

Your Directors submit their report of Metcash Limited (the ‘Company’) and its controlled entities (together the ‘Group’ or ‘Metcash’) for the half year ended 31 October 2017 (‘1H18’).

Board information

The directors in office during the financial year and up to the date of this report are as follows.

Robert A Murray (Chairman)
Ian R Morrice (Chief Executive Officer)
Patrick N J Allaway
Fiona E Balfour
Tonianne Dwyer
Murray P Jordan
Helen E Nash

Jeff Adams was appointed as Group CEO-elect on 4 September 2017. Jeff is expected to take over the CEO role from Ian Morrice on 5 December 2017 and is expected to be appointed as an Executive Director of the Board on that date. Ian will assist with the Group CEO transition process until June 2018.

Review of results and operations

Consolidated net profit for the period after income tax attributable to shareholders of the Company was $92.9 million (1H17: $74.9 million).

Auditor’s independence

The auditor’s independence declaration for the half year has been received and is included on page 16.

Subsequent events

There were no events that have occurred after the end of the half year that would materially affect the reported results or would require disclosure in this report.

Rounding

The amounts contained in this report and in the financial statements have been rounded to the nearest $100,000 (where rounding is applicable) under the option available to the Company under *ASIC Corporations Instrument 2016/191*. The Company is an entity to which the legislative instrument applies.

Signed in accordance with a resolution of the Directors.

Ian R Morrice

Ian Morrice
Director
Sydney, 4 December 2017

Statement of comprehensive income

For the half year ended 31 October 2017

	Notes	1H18 $m	1H17 $m
Sales revenue		7,058.4	6,559.3
Cost of sales		(6,429.9)	(6,034.5)
Gross profit		628.5	524.8
Other income	3	52.3	55.9
Distribution costs		(240.7)	(233.9)
Administrative costs		(287.5)	(222.0)
Share of profit of equity-accounted investments		1.7	5.3
Acquisition and restructure costs	3	(8.8)	(11.2)
Finance costs	3	(13.3)	(14.9)
Profit before income tax		**132.2**	**104.0**
Income tax expense		(38.2)	(28.4)
Net profit for the period		**94.0**	**75.6**
Net profit for the period is attributable to:			
Equity holders of the parent		**92.9**	**74.9**
Non-controlling interests		1.1	0.7
		94.0	75.6
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss		(0.3)	0.5
Other comprehensive income for the period, net of tax		(0.3)	0.5
Total comprehensive income for the period		**93.7**	**76.1**
Total comprehensive income for the period is attributable to:			
Equity holders of the parent		92.6	75.4
Non-controlling interests		1.1	0.7
		93.7	**76.1**
Earnings per share attributable to the ordinary equity holders of the Company			
From net profit for the period			
- basic earnings per share (cents)		9.5	8.0
- diluted earnings per share (cents)		9.5	7.9

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

Statement of financial position

As at 31 October 2017

	Notes	October 2017 $m	April 2017 $m
ASSETS			
Current assets			
Cash and cash equivalents		132.6	96.5
Trade receivables and loans	6	1,288.5	1,150.0
Inventories		902.3	759.2
Assets held for sale		13.3	18.8
Derivative financial instruments		0.4	0.3
Total current assets		**2,337.1**	**2,024.8**
Non-current assets			
Derivative financial instruments		11.1	12.7
Trade receivables and loans	6	22.2	16.4
Equity-accounted investments		103.7	103.3
Property, plant and equipment		232.6	242.1
Net deferred tax assets		108.9	103.8
Intangible assets and goodwill		1,139.1	1,152.7
Total non-current assets		**1,617.6**	**1,631.0**
TOTAL ASSETS		**3,954.7**	**3,655.8**
LIABILITIES			
Current liabilities			
Trade and other payables		1,856.0	1,524.3
Interest bearing borrowings		6.4	3.0
Derivative financial instruments		0.7	0.8
Provisions		117.7	139.7
Income tax payable		21.2	6.1
Other financial liabilities		10.6	10.0
Total current liabilities		**2,012.6**	**1,683.9**
Non-current liabilities			
Interest bearing borrowings		123.8	187.1
Provisions		127.8	141.4
Derivative financial instruments		1.5	2.3
Other financial liabilities		1.0	3.7
Total non-current liabilities		**254.1**	**334.5**
TOTAL LIABILITIES		**2,266.7**	**2,018.4**
NET ASSETS		**1,688.0**	**1,637.4**
EQUITY			
Contributed and other equity		1,719.3	1,719.3
Retained earnings/(accumulated losses)		(38.7)	(87.7)
Other reserves		(1.4)	(3.0)
Parent interest		1,679.2	1,628.6
Non-controlling interests		8.8	8.8
TOTAL EQUITY		**1,688.0**	**1,637.4**

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

Statement of changes in equity

For the half year ended 31 October 2017

	Contributed and other equity $m	Retained earnings/ (accumulated losses) $m	Other reserves $m	Owners of the parent $m	Non-controlling interests $m	Total equity $m
At 1 May 2017	**1,719.3**	**(87.7)**	**(3.0)**	**1,628.6**	**8.8**	**1,637.4**
Total comprehensive income, net of tax	-	92.9	(0.3)	92.6	1.1	93.7
Transactions with owners						
Dividends paid (Note 5)	-	(43.9)	-	(43.9)	(1.1)	(45.0)
Share-based payments	-	-	1.9	1.9	-	1.9
At 31 October 2017	**1,719.3**	**(38.7)**	**(1.4)**	**1,679.2**	**8.8**	**1,688.0**
At 1 May 2016	**1,626.0**	**(259.6)**	**(5.6)**	**1,360.8**	**8.3**	**1,369.1**
Total comprehensive income, net of tax	-	74.9	0.5	75.4	0.7	76.1
Transactions with owners						
Proceeds from equity raising	93.3	-	-	93.3	-	93.3
Dividends paid (Note 5)	-	-	-	-	(1.1)	(1.1)
Share-based payments	-	-	1.0	1.0	-	1.0
At 31 October 2016	**1,719.3**	**(184.7)**	**(4.1)**	**1,530.5**	**7.9**	**1,538.4**

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

Statement of cash flows

For the half year ended 31 October 2017

	Notes	1H18 $m	1H17 $m
Cash flows from operating activities			
Receipts from customers		7,584.3	7,242.1
Payments to suppliers and employees		(7,381.6)	(7,068.3)
Interest and dividends, net		(7.0)	(8.1)
Income tax paid, net of tax refunds		(34.3)	(35.1)
Net cash generated by operating activities		**161.4**	**130.6**
Cash flows from investing activities			
Proceeds from sale of businesses		-	1.6
Proceeds from sale of business assets		4.9	27.2
Payments for acquisition of business assets		(18.9)	(19.0)
Payment on acquisition of businesses, net of cash acquired	4(a)	-	(154.9)
Proceeds from loans repaid by other entities		7.1	8.1
Loans to other entities		(11.6)	(4.6)
Net cash used in investing activities		**(18.5)**	**(141.6)**
Cash flows from financing activities			
Proceeds from equity raising, net of share issue costs		-	92.8
Repayments of borrowings, net		(61.8)	(60.6)
Payment of dividends to owners of the parent		(43.9)	-
Payment of dividends to non-controlling interests		(1.1)	(1.4)
Net cash from/(used in) financing activities		**(106.8)**	**30.8**
Net increase in cash and cash equivalents		36.1	19.8
Add opening cash and cash equivalents		96.5	26.4
Cash and cash equivalents at the end of the period		**132.6**	**46.2**

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

Notes to the financial statements

For the half year ended 31 October 2017

1. Corporate information

The half year report of Metcash Limited (the 'Company') and its controlled entities (together the 'Group') for the half year ended 31 October 2017 were authorised for issue in accordance with a resolution of the Directors on 4 December 2017.

Metcash Limited is a for profit company limited by ordinary shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. The registered office of the Company is 1 Thomas Holt Drive, Macquarie Park, NSW 2113.

The basis of preparation for these financial statements and the significant accounting policies applied are summarised in Appendix A.

2. Segment information

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer (the chief operating decision maker) in assessing performance and in determining the allocation of resources. Discrete financial information about these operating segments is reported on at least a monthly basis.

The information reported to the CEO is aggregated based on product types and the overall economic characteristics of industries in which the Group operates. The Group's reportable segments are therefore as follows:

- **Food & Grocery** activities comprise the distribution of a range of products and services to independent supermarket and convenience retail outlets.
- **Liquor** activities comprise the distribution of liquor products to retail outlets and hotels.
- **Hardware** activities comprise the distribution of hardware products to independent retail outlets and the operation of company owned retail stores.

Geographically the Group operates predominantly in Australia. The New Zealand operation represents less than 5% of revenue, results and assets of the Group. The Group does not have a single customer which represents greater than 10% of the Group's revenue.

Sales between segments are based on similar terms and conditions to those in place with third party customers.

Segment results

	Segment revenue		Segment profit before tax	
	1H18	1H17	1H18	1H17
	$m	$m	$m	$m
Food & Grocery	4,355.0	4,417.9	89.4	84.5
Liquor	1,639.2	1,559.8	27.6	27.1
Hardware	1,064.2	581.6	27.1	12.5
Segment results	**7,058.4**	**6,559.3**	**144.1**	**124.1**
Corporate (a)			7.9	4.0
Group earnings before interest and tax ('EBIT')			**152.0**	**128.1**
Net finance costs			(11.0)	(12.9)
Acquisition and restructure costs (Note 3)			(8.8)	(11.2)
Net profit before tax from continuing operations			**132.2**	**104.0**

(a) The Corporate result of $7.9 million (1H17: $4.0 million) is principally due to the reversal of a provision against the Huntingwood, NSW DC hail insurance claim which was settled in 1H18. The 1H17 result included $4.9 million of net gains on sale of surplus properties.

Notes to the financial statements

For the half year ended 31 October 2017

3. Revenue and expenses

	1H18 $m	1H17 $m
(i) Other income		
Lease income – rent	35.3	37.5
Lease income – outgoings recoveries	14.3	11.5
Interest from other persons/corporations	2.3	2.0
Net gain from disposal of plant and equipment	0.4	0.3
Net gain from disposal of property	-	4.6
	52.3	55.9
(ii) Operating lease expenses		
Property rent – stores	45.5	41.1
Property rent – warehouse and other properties	40.1	40.5
Property outgoings	19.3	18.4
Equipment and other leases	11.1	10.8
	116.0	110.8
(iii) Employee benefit expenses		
Salaries and wages	279.7	224.4
Defined contribution plan expense	20.2	18.9
Share-based payments	1.9	1.0
Other employee benefit expenses	24.8	19.7
	326.6	264.0
(iv) Depreciation and amortisation		
Depreciation of property, plant and equipment	19.3	18.6
Amortisation of software	9.6	8.0
Amortisation of other intangible assets	4.4	5.0
	33.3	31.6
(v) Provisions for impairment, net of reversals	12.0	16.4
(vi) Acquisition and restructure costs		
HTH integration and acquisition costs (Note 4(a))	2.5	6.4
Working Smarter restructuring costs (Note 4(b))	6.3	4.8
Total acquisition and restructure costs before tax	8.8	11.2
Income tax benefit attributable to acquisition and restructure costs	(2.7)	(3.3)
Total acquisition and restructure costs after tax	6.1	7.9
(vii) Finance costs		
Interest expense	9.0	10.0
Deferred borrowing costs	0.6	0.9
Finance costs from discounting of provisions	3.7	4.0
	13.3	14.9

4. Significant events and transactions

The following items provide an explanation of significant events and transactions since the end of the last annual reporting period, as required under AASB 134 *Interim Financial Reporting*.

(a) Business combinations – Home Timber & Hardware ('HTH')

On 2 October 2016, the Group acquired 100% of the shares of Danks Holdings Pty Limited (the holding company for Home Timber & Hardware or 'HTH') for a total purchase consideration of $178.7 million. HTH is an integrated hardware wholesaler and retailer, including the Home Timber & Hardware, Thrifty-Link, Hardings and Hudson Building Supplies retail brands. The acquisition created a ~$2 billion hardware business servicing a retail network of ~750 bannered stores and a further ~500 unbannered stores.

The purchase consideration of $178.7 million was fully paid in cash and has been allocated as follows.

	Total $m
Purchase consideration	
Cash consideration	193.5
Less: Cash and bank balances acquired	(14.8)
Net cash outflow on acquisition, before transaction costs	178.7
Net assets acquired	
Trade receivables and loans	170.1
Inventories	100.7
Property, plant and equipment	29.8
Software development costs	1.7
Goodwill	8.9
Deferred tax assets	4.2
Trade payables and provisions	(136.7)
Net assets, at acquisition date fair value	**178.7**

The acquisition date fair values ascribed to net assets in the FY17 annual report were based on a preliminary accounting assessment. During the current period, fair values have been adjusted mainly for an increase of $3.5 million in property, plant and equipment and a reduction of $13.1 million in trade payables and provisions. This was partly offset by a reduction of $5.3 million in inventories and $5.5 million in deferred tax assets. This resulted in a decrease of $7.8 million in goodwill. There were no significant changes to the post-acquisition period income statement included within the FY17 annual report.

The carrying amount of acquired trade receivables includes a provision for amounts estimated to be uncollectible at the date of acquisition.

During the current period, costs of $2.5 million (FY17: $13.6 million) were incurred in relation to the acquisition and subsequent integration. These costs are separately disclosed within acquisition and restructure costs in note 3.

(b) Working Smarter restructuring costs

During the period, the Group incurred $6.3 million (FY17: $19.1 million) of costs in relation to implementing the Working Smarter program. These costs are separately disclosed within acquisition and restructure costs (note 3) to enable a better understanding of the Group's results. Implementation costs are incremental and non-routine in nature and are directly attributable to the program, such as redundancies, restructuring costs and advisor fees.

4. Significant events and transactions (continued)

(c) CEO transition and LTI performance rights issue

Jeff Adams was appointed as the Group CEO-elect on 4 September 2017. Jeff is expected to take over the CEO role from Ian Morrice on 5 December 2017. Ian will assist with the CEO transition until June 2018.

Jeff was issued 467,804 performance rights under the Long Term Incentive (LTI) Plan for FY18 - FY20. Other key executives were issued a total of 2,942,867 performance rights during 1H18 under the same plan.

These rights are subject to two performance conditions: Relative Total Shareholder Return (RTSR) and Earnings per Share Compound Annual Growth Rate (EPS CAGR) for the three year period from 1 May 2017 to 30 April 2020. The fair value of these has been determined using a Black-Scholes model for the EPS CAGR performance metric and a Monte Carlo model for the RTSR performance metric which considered key assumptions regarding price volatility and dividend yield. The average fair value per performance right was $2.30 and $1.52 for the EPS CAGR and RTSR components, respectively, equating to a total of $6.4 million for all rights issued during 1H18.

The share-based payment expense for 1H18 was $1.9 million (1H17: $1.0 million).

5. Dividends paid and declared on ordinary shares

	October 2017 $m	April 2017 $m
Dividend paid on ordinary shares during the year		
Final fully franked dividend for FY17: 4.5c (FY16: nil)	43.9	-
Dividend declared (not recognised as a liability as at 31 October 2017)		
Interim fully franked dividend for FY18: 6.0c (FY17: nil)	58.5	-

On 4 December 2017, the Board determined to pay a fully franked FY18 interim dividend of 6.0 cents per share, sourced from the profit reserve established by Metcash Limited (Parent Company), with a record date of 15 December 2017. The Dividend Reinvestment Plan remains suspended from 26 June 2017.

6. Trade receivables and loans

	October 2017 $m	April 2017 $m
Current		
Trade receivables – securitised	790.3	744.6
Trade receivables - non-securitised	399.6	338.5
Allowance for impairment loss	(56.3)	(57.3)
	1,133.6	1,025.8
Other receivables and prepayments	135.4	105.5
Trade and other receivables	1,269.0	1,131.3
Customer loans	27.5	28.0
Allowance for impairment loss	(8.0)	(9.3)
Customer loans	19.5	18.7
Total trade receivables and loans - current	1,288.5	1,150.0
Non-current		
Customer loans	28.8	22.5
Allowance for impairment loss	(8.5)	(8.1)
Customer loans	20.3	14.4
Other receivables	1.9	2.0
Total trade receivables and loans - non-current	22.2	16.4

7. Financial risk management - put options

The Group has granted two contingent put options, which are recognised at a fair value of nil. One relates to the acquisition of a retail supermarket and another relates to the acquisition by Mitre 10 from co-investors of an additional ownership interest in an equity-accounted investment. The holders of these put options have the right to put these assets back to the Group under certain prescribed circumstances. The put option purchase prices are defined within the option deeds and are active until April 2022. The put option consideration is estimated to be $9.5 million (FY17: $10.9 million).

In addition, the Group has granted put options to the remaining shareholders of Ritchies Stores Pty Ltd (Ritchies) over their 74% ownership interests in that business. The Group holds a 26% equity-accounted investment in Ritchies.

These put options can be exercised annually during a prescribed period immediately following the approval of Ritchies annual financial statements or in certain limited circumstances by individual shareholders within a prescribed period. The put options can, however, only be exercised during these periods if Ritchies achieves a margin related annual financial hurdle ('hurdle') in the previous financial year.

Should the hurdle be achieved and the shareholders elect to exercise the put option, the purchase consideration payable by Metcash is based on a multiple of the prior year reported earnings adjusted for a number of material factors that are subject to commercial negotiation and agreement between the parties.

As the hurdle was not achieved in 2017, it is not possible to determine the specific consideration that would have been payable under the put option agreement at that time. However, assuming the financial hurdle had been achieved, and based on Ritchies reported financial results for the year ended June 2017, Metcash estimates that the consideration payable in respect of the Ritchies 2017 financial year would have been between $120 million and $135 million.

The determination of the put option consideration and maturity dates include a number of potentially material judgements and estimates and therefore the actual consideration and timing could vary.

Refer to note 14 of the Group's FY17 financial statements for further information on put options.

8. Contingent assets and liabilities

	October 2017 $m	April 2017 $m
Bank guarantees to third parties in respect of property lease obligations	21.3	16.7
Bank guarantees in respect of workers compensation	3.3	11.3
Outstanding debts under the American Express charge card agreement	266.3	276.0

American Express charge card
The Group has a Customer Charge Cards agreement with American Express (Amex) under which Amex settles Metcash's trade debts and collects directly from customers. Under the agreement, Metcash retains a contingent liability to Amex should a customer default on payment to Amex. The maximum amount payable is limited to the actual face value of the outstanding debts due to Amex and does not include any interest or any other costs incurred by Amex.

The agreement will continue on an evergreen basis unless either party provides a 12 month notice of cancellation. The earliest date on which the agreement could be cancelled is 6 April 2021.

Financial guarantee contracts
The Group has granted a financial guarantee contract relating to the bank loan of a joint venture, Adcome Pty Ltd. Under the contract, the bank has the right to require Metcash to repay the debt under certain prescribed circumstances of default. The estimate of the maximum amount payable in respect of the guarantee, if exercised, is $47.5 million (FY17: $47.5 million).

Had the guarantee been exercised at 31 October 2017, the amount payable would have been $45.3 million (FY17: $43.9 million). The fair value of the financial guarantee contract at the reporting date was $2.6 million (FY17: $3.7 million) and is recognised as a financial liability.

Put options
Refer note 7 for details of put options outstanding at balance sheet date.

9. Subsequent events

There were no events that have occurred after the end of the half year that would materially affect the reported results or would require disclosure in this report.

Notes to the financial statements (continued)

For the half year ended 31 October 2017

Appendix A - Summary of significant accounting policies

1. BASIS OF PREPARATION

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investment activities of the Group as the annual financial report.

The half year financial report should be read in conjunction with the annual financial report of Metcash Limited for the year ended 30 April 2017 ("FY17"). It is also recommended that the half year report be considered together with any public announcements made by Metcash Limited during the half year ended 31 October 2017.

The half year financial report has been prepared in accordance with the requirements of the *Corporations Act 2001*, AASB 134 *Interim Financial Reporting* and other mandatory professional reporting requirements.

The report presents the results of the current period, which comprised the 26 week period that commenced on 1 May 2017 and ended on 29 October 2017. The prior period results comprise the 26 week period that commenced on 25 April 2016 and ended on 23 October 2016.

2. CHANGES IN ACCOUNTING POLICY

The accounting policies adopted in the preparation of the half year financial report are consistent with those adopted in the preparation of the annual financial report, except the following accounting standards, which are applicable to the Group for the first time during the current period.

AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses*
AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*
AASB 2017-2 *Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle*

The adoption of these standards did not have a significant impact on the Group's financial results, financial position or disclosures. Accounting policies are applied consistently by each entity in the Group.

Appendix B – Equity-accounted investments

The following table presents key information about the nature, extent and financial effects of the Group's interests in joint ventures and associates.

Investee	Principal activities	Reporting date	October 2017 %	April 2017 %
Associates				
Abacus Independent Retail Property Trust	Retail property investment	30 June	25.0	25.0
Ritchies Stores Pty Ltd	Grocery retailing	30 June	26.0	26.0
BMS Retail Group Holdings Pty Ltd	Grocery retailing	30 June	25.1	25.1
Dramet Holdings Pty Ltd	Grocery retailing	30 June	26.0	26.0
Joint ventures				
Adcome Pty Ltd	Grocery retailing	30 April	45.0	45.0
Lecome Pty Ltd	Grocery retailing	30 April	50.0	50.0
Progressive Trading Pty Ltd	Grocery retailing	30 April	52.2	52.2
Metfood Pty Limited	Merchandise services	30 April	50.0	50.0
Waltock Pty Limited	Hardware retailing	30 June	49.0	49.0
Banner 10 Pty Ltd	Hardware retailing	30 June	49.0	49.0
G Gay Hardware Pty Ltd	Hardware retailing	30 June	49.0	49.0
LA United Pty Ltd (a)	Liquor wholesaling	30 June	63.0	63.0
Liquor Alliance Pty Ltd (a)	Liquor wholesaling	30 June	50.0	50.0

(a) The Group has a direct ownership of 26.0% in LA United Pty Ltd, an indirect ownership of 37.0% via its interest in Liquor Alliance Pty Ltd. While the Group has beneficial ownership of more than 50% of the entity, key operating and financial decisions require the unanimous consent of other joint venture partners. Accordingly, LA United Pty Ltd and Liquor Alliance Pty Ltd are accounted for as joint arrangements.

Directors' declaration

For the half year ended 31 October 2017

In accordance with a resolution of the directors of Metcash Limited, I state that, in the opinion of the directors:

a. The financial statements and notes of the consolidated entity:

   i. give a true and fair view of its financial position as at 31 October 2017 and of its performance for the half year ended on that date; and

   ii. comply with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

b. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Ian R Morrice

Ian Morrice
Director
Sydney, 4 December 2017

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Auditor's Independence Declaration to the Directors of Metcash Limited

As lead auditor for the review of Metcash Limited for the half-year ended 31 October 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Ernst & Young

Ernst & Young

RRobinson

Renay Robinson
Partner, 4 December 2017

Building a better working world

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Independent Auditor's Review Report to the Shareholders of Metcash Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Metcash Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 October 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 October 2017 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Group's consolidated financial position as at 31 October 2017 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Ernst & Young

Ernst & Young

RRobinson

Renay Robinson
Partner
Sydney, 4 December 2017