



Metcash Limited

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1 Thomas Holt Drive
Macquarie Park
NSW 2113 Australia

26 July 2019

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

Dear Sir/Madam

METCASH LIMITED – 2019 ANNUAL REPORT

In accordance with ASX Listing Rule 4.7, please find attached a copy of the Metcash Limited 2019 Annual Report.

Copies are being despatched today to those members who have requested a copy.

An electronic copy will also be made available today on the company's website, www.metcash.com.

Yours faithfully

A handwritten signature in black ink, appearing to read "Julie Hutton".

Julie Hutton
Company Secretary

Investing for growth





Artisan Bread

WE HAVE
1000s
OF PRICES
SHOPPER
STORIES

Special Offer
BREAD
\$2

Special Offer
BREAD
\$1.50



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About Us

Metcash is Australia's leading wholesale distribution and marketing company with sales of over \$14 billion in FY19. We believe that it is important to Australia that there is a sustainable, independent, family-owned business sector. Independent retailers support their local communities. We help them to be the 'Best Store in Town' by providing merchandising, operational and marketing support across our food, liquor and hardware pillars.

Our Pillars



Food

In Food, we proudly support a network of over 1,600 independently owned stores Australia-wide, including the well known IGA and Foodland brands. Our retailer partners mix the charm, knowledge and convenience of a local store, with the quality and competitive prices of a national one. The stores we support sit at the heart of the local community, sourcing a range of the best products from local producers and contributing to the local economy.



Liquor

In Liquor, we are the largest supplier to independent liquor retailers and the largest broad range liquor wholesaler in Australia. Through our Independent Brands Australia (IBA) banner group, we support ~2,700 stores across leading independent retail brands such as Cellarbrations, The Bottle-O, IGA Liquor, Duncan's, Thirsty Camel, Big Bargain and Porters Liquor.



Hardware

In Hardware, we support the largest independent hardware group in Australia and are a leader when it comes to servicing the Trade market. Under the Independent Hardware Group (IHG), we support the leading independent hardware brands Mitre 10 and Home Timber & Hardware along with Hardings, Thrifty-Link Hardware and True Value Hardware; we supply more than 1,600 stores nationwide.

Our Purpose

Championing Successful Independents

Our Values

We believe:

Independence is worth fighting for; in treating our people, retailers and suppliers the way we like to be treated; and in giving back to the communities where we live and work.

Our Vision



Best Store in Town



Passionate about independents



A favourite place to work



Business partner of choice



Support thriving communities

Chairman's Report

"At the heart of our strategy continues to be the championing of our independent retailers. Our priority is the successful execution of our MFuture plans, which is being well supported by the quality, dedication and passion of our leadership team, the Board and our retailers."

Welcome to Metcash's Annual Report for the year ended 30 April 2019. I am pleased to advise that the company delivered a solid set of financial results and continued to successfully execute its strategic initiatives.

The year also included detailing our plans under the new five-year MFuture program, which aims to deliver a pathway to sustainable growth with a balanced approach to revenue growth and cost out.

From a financial perspective, solid earnings and cash flows were delivered by our Pillars despite challenging market conditions, and we continue to be well positioned with a strong balance sheet.

Underlying profit after tax for the year was \$210.3m, down slightly on the prior year. From a shareholder perspective, underlying earnings per share increased 1.8% to 22.6 cents, reflecting the benefit of the \$150m share buy-back in August last year.

The Board determined to pay a final dividend of 7.0 cents per share, bringing total dividends for the year to 13.5 cents per share - a 3.8% increase on the prior year.

Strategy update

The integration of Home Timber & Hardware (HTH) is now largely complete, with the delivery of further synergies in the year underpinning strong earnings growth in Hardware, despite softer construction activity. HTH has been a successful acquisition for both Metcash and the broader IHG retailer network. The network is now more competitive and stronger, and well positioned as the second-largest player in the market.

FY19 was the final year of our very successful Working Smarter program, which has helped offset the impact of inflation over the past three years. Total cost savings under the Working Smarter program were ~\$125m, well above our initial ~\$100m target.

We will continue to have a strong focus on costs under our new MFuture program, which we commenced at the start of FY20. Importantly, the new program also incorporates a strong focus on growing our top line, and includes significant investments to further improve the competitiveness of our Food, Liquor and Hardware retailer networks.

At our strategy day in March we detailed our MFuture growth initiatives, and the related capital investment, which we expect to be able to fund from internal sources. More detail on MFuture is contained in the CEO report and Pillar sections.

Appointment of new CEO Liquor

We were pleased to announce during the year the appointment of Chris Baddock as the new Chief Executive Officer (CEO) of the Liquor pillar. Chris' appointment followed the completion of an extensive executive search for a successor to Scott Marshall following his appointment as CEO of Supermarkets & Convenience in March last year.

Chris has extensive experience in the Liquor market which includes a strong track record of delivering sustainable growth and working with independent retailers. We are delighted to have Chris join the leadership team.

I would like to make a special mention of Rod Pritchard, who has filled in as interim CEO of Liquor admirably from March last year.

Remuneration

This was the final year of our five-year remuneration transition which has seen a progressive increase in the executive 'at risk' component of Key Management Personnel (KMP) total reward. The Board determined that this was an appropriate time to undertake a further review of the structure of executive remuneration having regard to changes in market practice and feedback from our shareholders.

Commencing in FY20, changes will be made that create an even stronger link between executive and shareholder outcomes. These include the deferral of a component of any STI earned to be delivered as equity, and the expansion of our minimum shareholding policy to include KMP. Our KMP will now have the majority of 'on target', 'at risk' remuneration delivered as deferred equity.

While the salaries of certain key executives are below the peer group market median, no member of the Group leadership team was awarded an increase for the upcoming financial year.

STI bonuses paid to KMP in respect of FY19 ranged from 47% to 62% of maximum, and there will be a 90% partial vesting of the FY17-19 LTI. This is the first time in 12 years an LTI has vested.

The Board believes remuneration outcomes for the year are a fair reflection of the performance of Metcash, our businesses and management.

Last year I advised that we had made a significant improvement in gender pay parity, with the overall gap reducing to less than 2%. I am pleased to advise that we have again narrowed this gap, which at the end of FY19 was 1%.

Our achievements in this important area were recognised earlier this year with Metcash receiving an 'Employer of Choice' citation from the Workplace Gender Equality Agency.

Further detail on our remuneration structure and outcomes for FY19 can be found in our Remuneration Report commencing on page 46.

Board update

In June, we announced that Anne Brennan had notified the Board of her intention to step down as a non-executive director due to unforeseen and potential conflicts related to her other directorships. Anne will continue as a non-executive director through to our AGM in August, with appropriate protocols in place to address the potential conflicts. I would like to thank Anne for her contribution since joining the Board in March last year.

We also announced in June that Fiona Balfour has decided not to stand for re-election at this year's AGM following almost nine years as a non-executive director of Metcash. The Board sincerely thanks Fiona for her long-term contribution and service to Metcash, which has included providing invaluable insight and guidance as Chair of the People and Culture Committee since 2014. Helen Nash has been appointed Chair of the P&CC, replacing Fiona.

Peter Birtles and Wai Tang have been appointed as non-executive directors effective 1 August 2019. Both Peter and Wai bring a high level of relevant skills and experience to Metcash and we look forward to them joining us.

The Board has a strong interest in ensuring the company has the right culture and behavioral styles. It was pleasing to see the results of our annual employee survey showed further improvements in culture and behavior across the organisation.

The survey also showed that the Board and Group leadership team have a constructive behavioral style within Metcash, which is important for driving change from the top.

The future

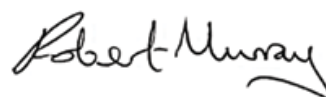
At the heart of our strategy continues to be the championing of our independent retailers. Our priority is the successful execution of our MFuture plans, which is being well supported by the quality, dedication and passion of our leadership team, the Board and our retailers.

While our markets remain challenging, we are encouraged by the confidence of our independent retailers in the future and their willingness to continue to invest in their stores. Together, we are improving the quality and competitiveness of our retailer networks across Supermarkets, Liquor and Hardware to underpin their ongoing success.

Thanks

On behalf of the Board, I would like to thank all our people, the leadership team, our partner independent retailers and suppliers, and our shareholders for their ongoing support.

To my fellow directors, thank you for your support, commitment and significant contribution to Metcash over the past year. I am excited about our plans for the future and look forward to continuing to work together as a cohesive Board.



Rob Murray
Chairman



Jeff Adams, Group CEO

"I am encouraged by the confidence our retailers have shown in the future of our network by continuing to invest in their stores."

CEO's Report

I am pleased to report that the Group delivered a solid financial result in highly competitive and challenging market conditions, while continuing to execute its strategic initiatives.

From a financial perspective, we reported an underlying profit after tax for the year of \$210.3m. This included solid earnings in both our Food and Liquor pillars, and strong growth in the Hardware pillar due to additional synergies from the Home Timber & Hardware acquisition (HTH).

Underlying earnings per share increased 1.8% to 22.6 cents, reflecting the benefit of the \$150m share buy-back in August last year.

Statutory profit after tax for the year was \$192.8m. This compares to a loss in the prior year of \$148.2m, which included a charge of \$345.5m (post tax) related to the impairment of goodwill and other assets.

Importantly, our Pillars continued to generate solid cash flows, which together with our ongoing focus on working capital resulted in operating cash flow for the year of \$244.9m. Our financial position remains strong, with net debt at the end of the financial year of \$42.9m, which is a gearing ratio of 3.3%.

Operating performance

The Group reported sales revenue (which now excludes charge-through sales due to the implementation of new accounting standard AASB 15) of \$12.7bn, an increase of 1.8% on the prior year. Including charge-through sales, Group revenue increased 1.4% to \$14.6bn with sales growth in the Food and Liquor pillars, partly offset by a small decline in Hardware.

Group EBIT declined 1.4% to \$330.0m, with earnings growth in the Hardware and Liquor pillars being more than offset by a decline in the Food pillar and a higher Corporate expense. In the prior year, Corporate included the benefit from the reversal of a ~\$10m provision against the NSW Distribution Centre hail insurance claim that was settled in FY18.

Food

Supermarkets sales (including charge-through sales) were down 0.5% to \$7.24bn, with continued growth on the eastern seaboard offset by a decline in sales in Western Australia.

There was some improvement in the still highly competitive market conditions, particularly in the second half of the year, which was evident in the reduction in price deflation for 2H19 to 0.9%, from 1.3% in the first half.

In Convenience, sales increased 4.4% to \$1.56bn due to sales growth from major customers, increased tobacco sales and the addition of new customers.

Food EBIT was down \$5.6m to \$182.7m and includes ~\$10m investment in MFuture growth initiatives.

I am pleased with the confidence our retailers have shown in the future of our network by continuing to invest in their stores. This year we had a further 79 stores complete our Diamond Store Accelerator (DSA) store upgrade program, which brings total stores through the program to ~400 with average sales growth of ~10% from these stores. As part of MFuture, we have simplified the program which is expected to help accelerate its roll-out through the remainder of the network.

Strengthening our retailer networks

Our Community Co private label range is now available in all IGA and Supa IGA stores nationally. The range has grown to 280 products, including a number of fresh items, and we are very pleased with how Community Co is being received by our retailers and their customers. We have plans to add more Community Co products to the range in the coming year.

We opened the first of our new small format convenience stores. The store, located at Bondi, New South Wales is branded 'The Fresh Pantry by IGA', and is the first of our small format convenience store trials under the MFuture program.

Liquor

In Liquor, total sales (including charge-through sales) increased 5.6% to \$3.67bn, reflecting continued growth in sales to the IBA bannered group and ALM wholesale customers. A high proportion of this growth is value driven related to the continuation of the 'premiumisation' trend to higher quality but lower consumption.

Warehouse sales to the IBA bannered network on a like-for-like basis increased 1.9%, supported by the ongoing investments to improve the quality of the store network and shopper experience. This is the sixth consecutive year of like-for-like sales growth, reflecting the strength of the IBA network.

Liquor EBIT increased 1.3% to \$71.2m, with the implementation of the new accounting standard having a \$1.9m negative impact on the year-on-year movement.

There were a further 81 stores refreshed and 110 cool rooms upgraded during the year. In total, we have completed ~330 refreshes and ~610 upgraded cool rooms.

In private and exclusive label, the number of SKUs across our wine, beer and spirit categories increased to ~80; with private label sales continuing to grow, particularly in the wine category, which was up 20% on the prior year.

Quality stores with localised ranges and personable and knowledgeable service is what differentiates our IBA network and provides us with a competitive advantage.

During the year we invested in, and mobilised, a dedicated 'on-premise' team which is delivering pleasing results. We have historically under-indexed in 'on-premise' sales and our plans include targeting the significant opportunity in this segment through better leveraging our existing network and strengthening our alignment with key partners.

Hardware

In Hardware, total sales (including charge-through sales) declined 0.9% to \$2.10bn. Sales were negatively impacted by the slowdown in construction activity, the closure of unprofitable company-owned stores, and the loss of a large HTH wholesale customer in Queensland. On a like-for-like basis, total wholesale sales to the IHG banner group increased 2.3%, and retail sales through the IHG banner group increased 3.0%.

Hardware EBIT increased by \$11.9m (17.2%) to \$81.2m, reflecting additional synergy benefits in the year from the HTH acquisition and the benefit from the closure or sale of unprofitable company-owned stores.



CEO's Report

continued

We accelerated Hardware's successful Sapphire store upgrade program during the year with a further 30 stores upgraded in FY19. We now have 60 network stores that have been through the program and have plans to upgrade a further 140 by 2022. These stores have delivered an average retail sales improvement of over 15%. We also made good progress on our digital initiatives such as Truck Tracker and Trade Plus that support our strong Trade business.

We continue to be excited about the growth opportunities with our Hardings plumbing business and are making good progress with its roll-out in New South Wales and Tasmania. The first new store-in-store design studio is under construction in Tooronga, Victoria.

MFuture

Our MFuture program is now underway which, as the Chairman outlined, has a balanced approach to both revenue growth and cost savings.

From a revenue perspective, we will be investing to drive growth across our Food, Liquor and Hardware pillars.

In Food, we are focusing on ensuring our store footprint positions us to capitalise on the market trend to local and convenience shopping. This includes a strong focus on our retail brands, including having the right brand and offer by format and location.

In Liquor, the national expansion of our Porters Liquor brand and growth in the private and exclusive label range is aimed at further capturing the trend to higher value products. Our initiatives also include growing our share of the 'on-premise' market, and we are accelerating our digital capability and trialing corporate retail stores.

In Hardware, we will focus on leveraging our extensive IHG network through our 'Whole of House' strategy to grow our proportion of sales in the construction of a house.

We are also accelerating the successful Sapphire store upgrade program and expanding our market-leading digital offer.

From a cost perspective, MFuture takes over from our successful Working Smarter program and we aim to offset the impact of inflation over the next five years. We have already identified initial savings of around \$50m over FY20 and FY21.

We have estimated that the potential capital investment in MFuture will be approximately \$300m over the five-year period.

In recognition of the strategic importance of our growth agenda, a new position was created in the Group leadership team to ensure MFuture is driven at the most senior executive level. We were pleased to have Matt Havens join us in April this year as Chief Strategy and Transformation Officer. Matt has extensive domestic and international experience in this area.

Safety

The safety of our people and those we engage with is paramount at Metcash, and pleasingly we made good progress in the year towards our 'Zero Harm' target.

Adoption of the ICAM incident investigation methodology has helped add further discipline to our investigation process and deliver more robust corrective actions. We also introduced a 'Making Safety Simple' campaign which is focused on education and awareness.

These helped deliver improvements in both our key safety measures in FY19. The Lost Time Injury Frequency Rate (LTIFR) declined by 36.3% to 7.59, and the Total Recordable Injury Frequency Rate (TRIFR) reduced by 12.4% to 32.15.

While we are pleased with these improvements there is still a long way to go to reach our 'Zero Harm' target. Safety is at the highest level in terms of our priorities and we have good plans in place to drive further improvement in FY20.

Outlook

In Supermarkets, there has been a continued improvement in the sales trajectory of wholesale sales (excluding tobacco) through the first seven weeks of FY20.

As announced, Metcash has entered into a five-year supply agreement with Drakes Supermarkets in Queensland. Metcash, however, expects to cease supplying Drakes Supermarkets in South Australia once their new distribution centre becomes operational (expected to be 30 September 2019).

Supermarkets will continue to invest in growth initiatives through the MFuture program and expects related operating expenditure in FY20 to be in line with that incurred in FY19. The contribution to Supermarkets EBIT from the resolution of onerous lease obligations in FY20 is expected to be significantly lower than that reported in FY19. Cost savings through the MFuture program in FY20 are expected to help offset inflation in the Food pillar.

In Liquor, continuation of the 'premiumisation' consumption trend is expected to be the key driver of market growth in FY20. The business is continuing to focus on key MFuture initiatives including building and improving the quality of its IBA network, growing its share of the 'on-premise' market, the trial of corporate stores, expanding private label and the roll-out of Porters Liquor.



In Hardware, sales through the first seven weeks of FY20 are lower than the corresponding prior year period, reflecting the loss of a major customer in Queensland in the first half and a slowdown in trade sales. It is too early to say whether the changes in the economic environment for the residential housing sector will feed into construction and DIY activity in FY20, however there appears to be an improvement in the level of confidence in the network post the election. Additional cost savings are expected to help mitigate the adverse impact of any further slowdown in construction activity in FY20.

Thanks

I would like to sincerely thank our independent retailers and suppliers, and the Metcash team and Board for their support and encouragement throughout the year. We remain focused on championing our independent retailers; and together we are looking forward to further strengthening their competitiveness through the MFuture program, which I believe will underpin their ongoing success.

Jeff Adams
Group CEO



"The potential capital investment in MFuture will be ~\$300m over the five-year period."

Delivering a pathway to sustainable growth

Our Strategy



A balanced approach to revenue growth and cost out

- Accelerating successful current initiatives
- Following the shopper into new growth initiatives
- Improving our infrastructure to enable simpler and cheaper processes
- Ensuring we have a sustainable cost base into the future



Improved competitiveness for our retailer networks

- Product range
- Service
- Price
- Location



Matching store formats to customer shopping missions

- Trial of new formats and ownership models

Our Strategy is underpinned by



Retailer support
for our strategic
direction



Alignment with
our retailer and
supplier partners
on what will be
delivered



Experienced and
tailored teams



A history of
successful cost-
out programs

Key initiatives



Food

- Clear brand strategy by store format
 - Appropriate range and pricing
 - Small format store pilot
- Delivered through acceleration of DSA program



Hardware

- Acceleration of Sapphire program
- 'Whole of House' strategy
- Roll-out of Hardings Plumbing and Tait flooring across the network
- Accelerated roll-out of digital capability



Liquor

- Grow share of 'on-premise' market
- National roll-out of Porters Liquor
- Corporate store trial
- Accelerate digital capability



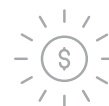
Financial Highlights

A strong financial position



\$12.7bn

Group Sales Revenue



\$210.3m

Underlying Profit After Tax



\$244.9m

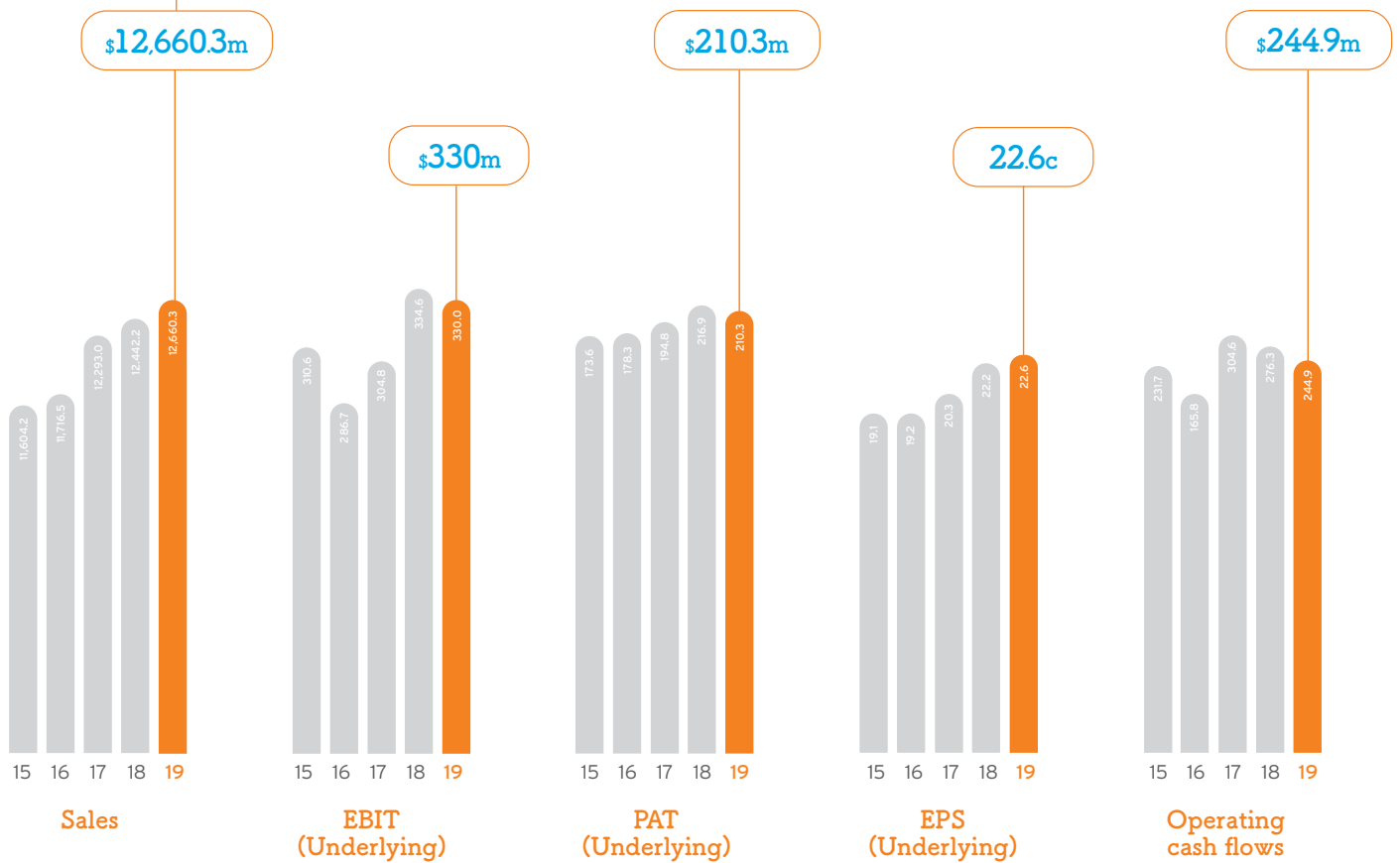
Operating Cash Flows

Five-Year review

Financial Performance	2019	2018	2017	2016	2015
Sales revenue ¹ (\$m)	12,660.3	12,442.2	12,293.0	11,716.5	11,604.2
Underlying EBIT ² (\$m)	330.0	334.6	304.8	286.7	310.6
Finance costs, net (\$m)	(28.9)	(26.4)	(33.6)	(38.3)	(68.4)
Underlying profit after tax ² (\$m)	210.3	216.9	194.8	178.3	173.6
Reported profit/(loss) after tax ² (\$m)	192.8	(148.2)	171.9	216.5	(384.2)
Operating cash flows (\$m)	244.9	276.3	304.6	165.8	231.7
Cash realisation ratio (%)	92%	101%	118%	70%	97%
Financial Position					
Shareholders' equity ² (\$m)	1,250.1	1,334.2	1,583.2	1,369.1	1,156.6
Net debt/(cash) (\$m)	42.9	(42.8)	80.8	275.5	667.8
Gearing ratio (%)	3.3%	-	4.7%	16.8%	36.6%
Return on funds employed (%)	27.7%	24.4%	19.0%	17.2%	15.1%
Share Statistics					
Fully paid ordinary shares	909.3	975.6	975.6	928.4	928.4
Weighted average ordinary shares	928.6	975.6	958.8	928.4	907.0
Underlying earnings per share ² (cents)	22.6	22.2	20.3	19.2	19.1
Reported earnings/(loss) per share ² (cents)	20.8	(15.2)	17.9	23.3	(42.4)
Dividends declared per share (cents)	13.5	13.0	4.5	-	6.5
Dividend payout ratio (%)	60%	59%	22%	-	34%
Share Statistics					
Number of employees (full-time equivalents)	6,378	6,378	6,708	5,807	6,398

1. Sales revenue has been adjusted to reflect the new Accounting Standard AASB 15 in all reporting periods.

2. EBIT, Profit after tax, Shareholders' equity and EPS have been adjusted to reflect AASB 15 in FY19 and FY18. There have been no adjustments to earlier reporting periods.

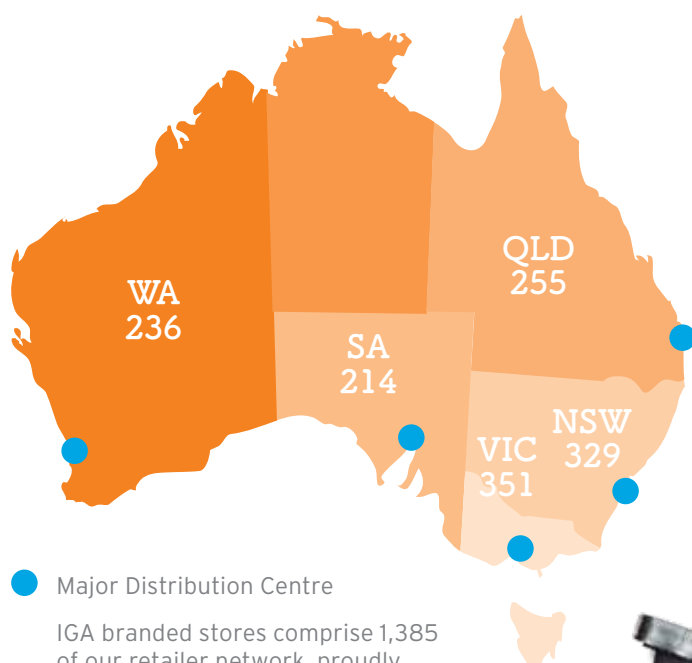




Food

In Supermarkets, we proudly support a network of over 1,600 independently-owned stores Australia-wide, including the well known IGA and Foodland brands. In our Convenience business, we provide a 'one wholesaler solution' for more than 90,000 customers nationwide, including forecourt retail, convenience businesses, small coffee shops, fresh food outlets, and restaurants.

IGA national network of stores



● Major Distribution Centre

IGA branded stores comprise 1,385 of our retailer network, proudly supported by five major distribution centres and smaller regional centres.





New DSA store – Romeo's Foodland, Rundle Mall, Adelaide, SA

Your local store

No two independent stores in our network are alike, from the products they sell to the charities and organisations they support and the local people who work there. They sit at the heart of their communities, perfectly tailored for the locals.

Our retailers mix the charm, knowledge and convenience of a local store with the quality and competitive prices of a national one. Being part of a network of 1,600 stores means that we can offer everyday low prices on the products that matter most to customers. It is these attributes that create a point of difference for our retailers that local communities value.

Our independent retailers are active in their communities and support a variety of local charities, sporting clubs, schools and other initiatives via our Community Chest program.

Local communities also benefit through contributions to Community Chest from the sales of our Community Co private label range, while delivering great value to customers. Community Co has continued to expand its taste-tested quality range since its launch in FY17 and is now available in all IGA and Supa IGA stores nationally. A further 100 products were added to the range during the year including a number of fresh items. We now have around 280 products in the range and expect to grow this to around 750.

Community Co has been awarded 15 Product of the Year Awards since its launch, including 10 in FY19. The range has been well received by both retailers and shoppers and has grown to represent approximately \$100m of sales on an annualised basis.

FY19 sales and earnings

Total Food sales (including charge-through sales) increased 0.3% to \$8.79bn. Supermarkets sales (including charge-through sales) were down 0.5% to \$7.24bn, with continued growth on the eastern seaboard again being offset by a decline in sales in Western Australia; albeit there was an improvement in the sales trajectory in Western Australia. There was also an improvement in the sales trajectory of retail sales across our IGA network, with LfL¹ sales down 0.5% compared to a decline of 0.9% in the prior comparative year. Convenience sales increased 4.4% to \$1.56bn reflecting sales growth from major customers, increased tobacco sales and the addition of new customers.

Food EBIT decreased 3.0% to \$182.7m. A decline in wholesale sales (excluding tobacco) and an investment in MFuture growth initiatives of ~\$10m were partly offset by an incremental contribution from the resolution of onerous lease obligations and higher joint venture earnings.

Since its launch in 2017, Community Co has been awarded 15 Product of the Year Awards, including 10 in FY19.

¹ Scan data from 1,118 IGA stores



Food continued

MFuture growth initiatives

Our successful Working Smarter program has been an important contributor to earnings over the past three years in an environment of intense competition, price deflation and weak economic conditions in Western Australia. FY20 represents the start of the next five-year phase of our strategy which is designed to further improve the competitiveness of our independent retailers and drive sales growth, as well as simplify our operations and deliver cost efficiencies.

At the core of our strategy is ensuring we follow the global shopper trend to smaller and more frequent local shopping and the delivery of a personalised experience. We are uniquely positioned to leverage this trend through our extensive network of large, medium and small supermarkets in convenient locations run by passionate independent retailers.

At the centre of our strategy is a redesign of our brands based on the shopper mission, store size and retail offer. Our network will have a range of IGA endorsed brands, each with a differentiated product range and consistent store standards. They will also have competitive everyday pricing and unmatched local service.

The new brand strategy will be delivered largely through acceleration of our Diamond Store Accelerator (DSA) program. Store upgrades will be linked to ensuring each store has the right brand by format and location, as well as the right range, pricing and shopper experience. As at the end of FY19, ~400 stores had completed the DSA program and a further ~500 network stores have been identified as potentially suitable for the program. The process for retailers to participate in the program has been simplified to help accelerate its roll-out through the network.

We are uniquely positioned to leverage the global shopper trend to smaller and more frequent shopping.



Our Supermarkets business is well positioned to capitalise on the global trend to small format convenience stores with our network having approximately 500 IGA Xpress and small IGA stores situated in easy to access convenient locations. Our current focus is on ensuring we get the offer right for this store format and we are in the process of undertaking a 10-store trial to test the concept in different market demographics. The first trial store opened in May this year at Bondi, New South Wales under the brand 'The Fresh Pantry by IGA'. This next generation of small format stores will have a strong focus on fresh products including meal solutions, while also catering for customers who want to do a full shop. They operate under a low cost operating model that enables more competitive pricing for shoppers.

Our key growth initiatives have been endorsed by the representative body of our independent retailers. This is an important step in the successful execution of our growth strategy for the next five years.

There is renewed confidence across our independent retailers and this is driving increased investment through both store upgrades and the establishment of new stores. This, together with the support and passion from Metcash, is expected to further improve the competitiveness of our retailers and underpin their ongoing success.

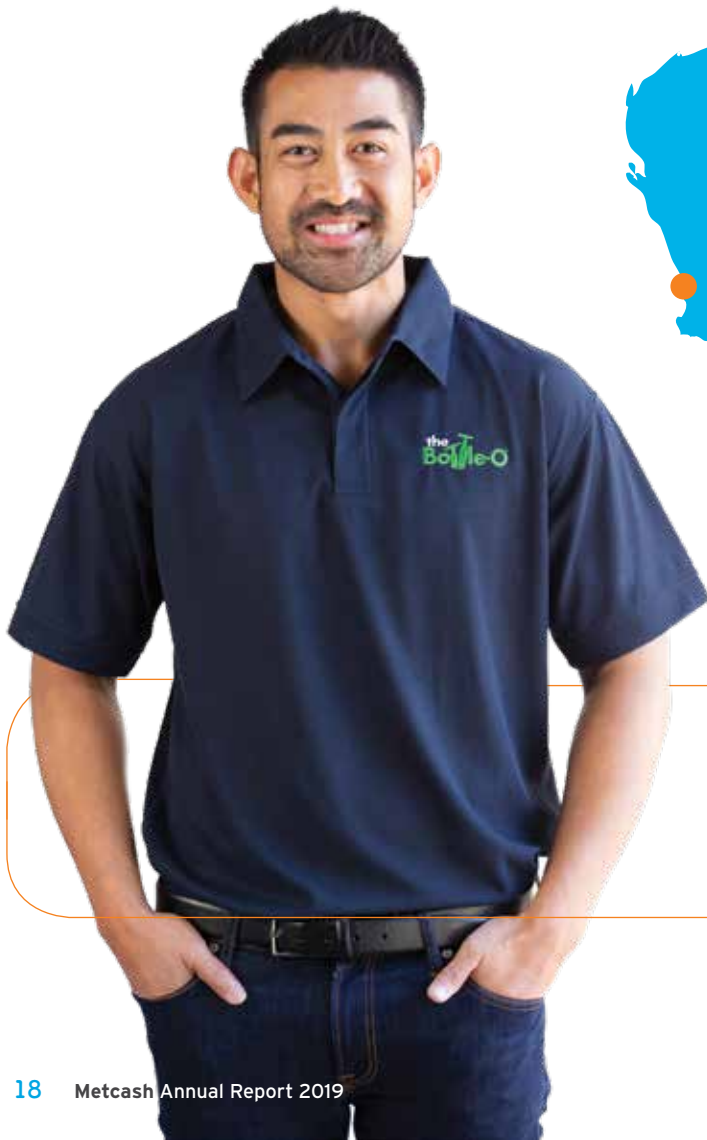


New DSA store – Ritchie's IGA, Rowville, VIC

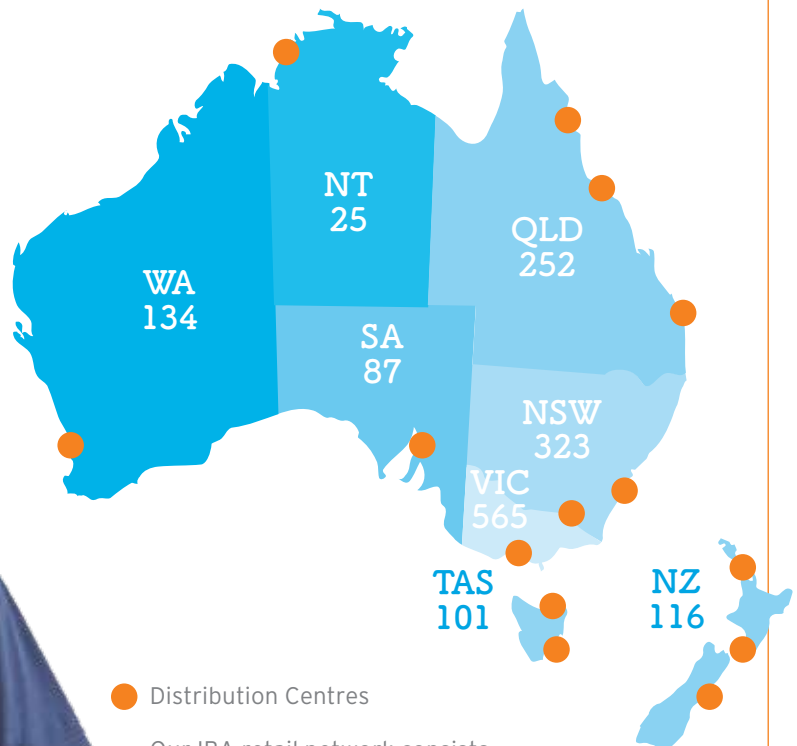


Liquor

We are the largest supplier of liquor to independently owned liquor retailers in Australia and the largest broad range liquor wholesaler in Australia. Through our Independent Brands Australia division we supply around 2,700 liquor retail outlets and we supply over 12,000 liquor customers from our Australian Liquor Markets division.



IBA national network of stores



Our IBA retail network consists of ~1,600 Tier 1 bannered stores across Australia and New Zealand.



Independent Brands Australia (IBA)

The IBA network includes a stable of strong national brands, including Cellarbrations, The Bottle-O, IGA Liquor, Duncan's, Liquor @, Thirsty Camel, Big Bargain and Porters Liquor. It is the second-largest network of liquor retail outlets in Australia with approximately 2,700 stores. We support IBA bannered retailers through a framework that offers national buying power, marketing support, shopper-focused promotional programs and network investment to provide the 'Best Store in Town'.

Our IBA network is well positioned to meet current shopper trends with local and convenient store locations, tailored ranges and marketing programs.

The IBA retail network has grown to represent approximately 55% of total sales in the Liquor pillar.

Australian Liquor Marketers (ALM)

ALM supplies over 12,000 liquor customers. In addition to supplying liquor stores, ALM incorporates a specialist on-premise liquor division that supports bars, pubs, restaurants and hotels. It also provides a similar supply service in New Zealand via the Tasman Liquor Company.

Through our network of 14 distribution centres located in each State and Territory in Australia, and in New Zealand, we support independent businesses with a competitively priced and extensive liquor range, delivered through our cost effective and efficient supply chain.

FY19 sales and earnings

Total Liquor sales (including charge-through sales) increased 5.6% to \$3.67bn, reflecting continued sales growth in the IBA bannered group and ALM wholesale customers. A high proportion of this growth is value driven related to continuation of the 'premiumisation' trend to higher quality but less consumption. Warehouse sales to the IBA bannered network on a LfL¹ basis increased 1.9%, supported by the ongoing investments to improve the quality of the store network and shopper experience.

Liquor EBIT increased 1.3% to \$71.2m and includes a negative impact of \$1.9m on the year-on-year movement arising from the implementation of the new accounting standard AASB 15.



Liquor sales increased 5.6% to

\$3.67bn

¹ Scan data from 1,163 stores we supply (branded and unbranded).



Liquor continued

Future growth initiatives

We are continuing to progress current initiatives designed to deliver 'The Best Store in Town' for our retailers. This includes ongoing investment to improve the quality of the IBA store network and shopper experience through further store refreshes and cool room upgrades, as well as ensuring our product ranges meet changing consumption trends and local tastes.

Our support to IBA independent retailers includes providing promotional programs to ensure they remain competitive. In June 2019 we began working with Complexica to incorporate artificial intelligence (AI) into our promotion planning.

This technology helps to further improve the planning and analysis of our retail promotional campaigns, as well as predict and optimise their effectiveness at a product, category and location level. The use of this technology will enable us to provide more tailored promotional campaigns to ensure our independent retailers are delivering the offers that their customers want.

We remain focused on growing our 'award winning' private and exclusive label ranges, and now have approximately 80 products across the wine, beer and spirit categories with potential to further expand the range. We have a strong focus on growing the wine category which now represents 85% of total private and exclusive label sales. The quality of the private and exclusive label wines has been recognised widely with over 50 awards received in FY19.

To support our growth in the higher-value segment we acquired the well known premium brand Porters Liquor in 2017. We commenced a roll-out of Porters following the completion of a branding review and the establishment of an expansion model in FY18. We expect to grow the network from 21 stores in New South Wales to approximately 100 stores nationally over the next few years.

Our most recent Porters store was opened at North Narrabeen, New South Wales in April this year, and our first Porters store in Victoria is planned to open at Moonee Ponds at the end of July 2019.

Our growth strategy includes a renewed focus on increasing our share of the 'on-premise' liquor market. Historically we have under-indexed in 'on-premise' sales and this provides a significant growth opportunity.

Our strategy includes strengthening our alignment between key partners, better leveraging our existing network and investing in a dedicated 'on-premise' team.

We have commenced trialing corporate stores with the potential to establish a portfolio of 'best in class' company-owned stores. These stores provide a platform to 'test and learn' new retail concepts, thereby helping to provide confidence and support to our retailers when rolling out new programs across the network. The 10-store trial is expected to be completed by the end of FY20.

We remain focused on growing our 'award winning' private and exclusive label ranges, and have approximately 80 products across the wine, beer and spirit categories with potential to further expand the range.



New Porters Liquor - part of the New South Wales brand roll-out

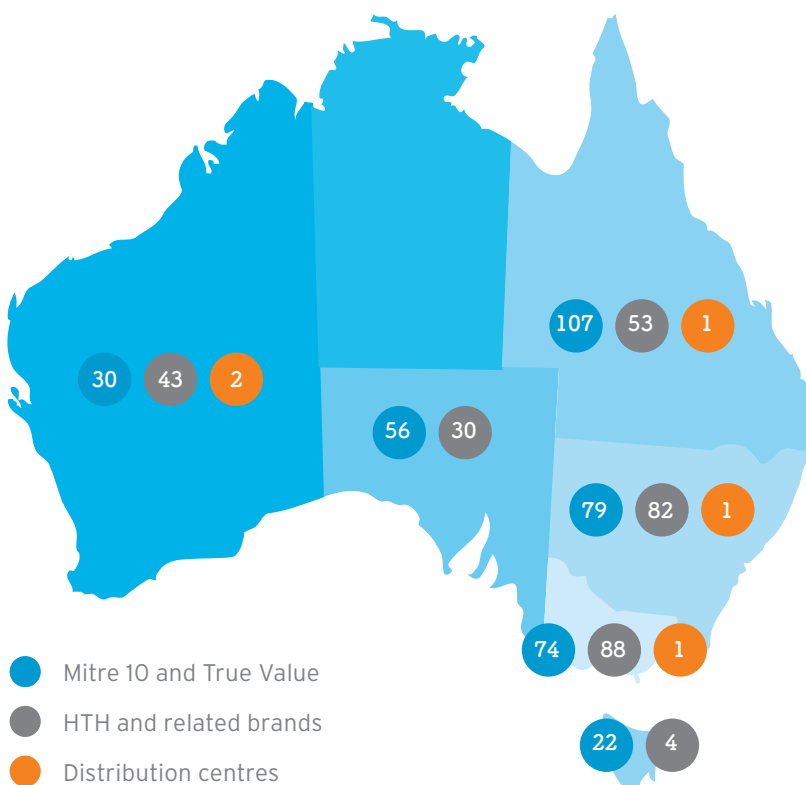


Hardware

Metcash's Independent Hardware Group (IHG) is the largest independent hardware group in Australia, and a leader when it comes to servicing the Trade market.

Mitre 10 is the 'mighty helpful' hardware store and the largest independent network of hardware operators with over 300 stores, located in metro and regional areas, across Australia. Mitre 10's Trade customers include national residential builders through to the local handyman - with the right service and products to help tradies 'get in, get out and get on with it'.

IHG national network of stores



During 2019, Mitre 10 achieves a significant milestone - its 60th anniversary since establishment in 1959.

Home Timber & Hardware also has a national footprint of approximately 180 stores with a strong Trade focus, highlighted by its 'Go Where the Tradies Go' brand essence.

In addition to the Mitre 10 and Home Timber & Hardware brands, IHG supports independent operators under the small format convenience banners Thrifty-Link Hardware and True Value Hardware, as well as a number of unbannered independent operators. IHG also includes a full bathroom and kitchen appliance offer through the wholly owned Hardings business.

IHG is Australia's largest home improvement wholesaler supplying more than 1,600 stores nationwide. These stores cater to a broad range of Trade and DIY customers and range from large format warehouses to convenience operations and Trade centres, as well as frame and truss sites in two States.

The culture of IHG is built on being a low cost and transparent business partner to our members, with an unwavering commitment to protect and grow a sustainable independent hardware sector for the long term.



New Sapphire store – Hume & Iser Mitre 10, Bendigo, VIC

FY19 sales and earnings

Hardware sales (including charge-through sales) declined 0.9% to \$2.10bn. Sales were negatively impacted by the slowdown in construction activity, the closure of unprofitable company-owned stores, and the loss of a large HTH wholesale customer in Queensland. Total LfL wholesale sales to the IHG banner group¹ increased 2.3%, supported by MFuture initiatives, including the Sapphire store upgrade program. Retail sales through the IHG banner group increased 3.0% on a LfL² basis.

Hardware EBIT increased by \$11.9m or 17.2% to \$81.2m, reflecting additional synergy benefits in the year from the HTH acquisition and the benefit from the closure or sale of unprofitable company-owned stores.

↑
\$
17.2%
increase in
Hardware earnings



¹ Includes sales to independent retailers and company-owned stores.

² LfL sales growth based on a sample of 171 network stores that provide scan data.



New Sapphire store – Tait Mitre 10, Mount Waverley, VIC

Hardware continued



MFuture growth initiatives

We are pleased with the progress of our Sapphire store upgrade program which has delivered average sales growth of over 15% for the 60 stores that have completed the program to date. Our MFuture program includes accelerating the roll-out of this program to enable a further 140 stores to be upgraded by 2022.

Under the Sapphire program stores are modernised to keep them leading edge and shopper friendly, including having a colour centre at the front of the store and a well positioned helpful hub with kiosk and digital facilities. The upgraded stores include a core range of products across the key categories of fasteners, hand tools, power tools, paint and cement.

The Sapphire program is being rolled out across a mix of store formats including small DIY, mixed Trade and DIY, and our new Trade Only stores. Our Trade Only stores are located and set up to provide convenience for Trade customers with the primary aim of allowing them to 'get in and get out' as quickly as possible. We now have 11 Trade Only stores and expect to increase this to 40 stores by 2022.

Our MFuture growth initiatives include leveraging IHG's extensive retail network to increase our participation in the supply of a greater range of products in the building of a house, where historically this has focused on the supply of timber and fasteners. We have identified opportunities to expand supply through our 'Whole of House' strategy, potentially up to 70% of a house build.

Our plans include participating in each stage of building a house, from the foundations through to frame and truss, lock-up, fixing and finally the fit-out. We are now able to participate in frame and truss construction in every State, and we are rolling out our quality Hardings Plumbing range across the IHG network. We have also established alliances to participate in other areas including the supply and installation of plasterboard and insulation, and the supply of appliances and kitchens.

Our Trade Only stores are located and set up to provide convenience for Trade customers, with the primary aim of allowing them to 'get in and get out' as quickly as possible.

We currently have 92 corporate or joint venture stores in the IHG network and expect to add more stores as part of our MFuture plans. These stores help underpin independent retailer confidence by enabling the trial and testing of new concepts, as well as providing an exit route for independent retailers without a succession plan for their business.

We continue to invest in our leading digital offer and now have over 400 network stores that have adopted our 'Click & Collect' program. 'Click & Collect' sales are proving popular with DIY customers and are growing strongly, albeit from a low base. We are now rolling out the program to our HTH retailers and believe 'Click & Collect' sales could reach around 5% of total IHG sales within the next few years.

Our digital offer focused on assisting Trade customers is also increasing strongly in take-up. The offer includes our 'Truck Tracker' app, which enables customers to monitor their delivery, including when it will arrive on site. Further investment in digital technology is planned to ensure we continue to provide the best possible service for our customers.



Hardings roll-out across the IHG network



New Sapphire store - Versatile Mitre 10, Perth, WA



Corporate Social Responsibility

Being a responsible corporate citizen is fundamental to our operating principles and a key foundation to our business strategy. This year we made further progress with our social and environment practices - particularly in community support, reducing the gender pay gap, safety and energy usage.

Community and charities

Our extensive network of independent retailers across Australia means we are a key contributor to local communities. No two communities are the same, and we believe our ability to build and foster relationships within each community, and tailor our support to specific communities, is what sets us apart.

The IGA Community Chest Fund (IGA CCF) has helped to support local communities for over 30 years. This year we supported more than 1,600 local community groups, schools and sporting clubs as well as local and national charities. A total of \$3.5m of donations were made this year, bringing total donations since inception of the fund to approximately \$85m.

Through the IGA CCF, we continue to support the McGrath Foundation, St Vincent de Paul (Vinnies) and the Special Olympics Australia. Other recipients of charitable donations included the Lord Mayor's Charitable Trust, Guide Dogs Queensland, the Olivia Newton John Cancer Wellness Centre, the Humpty Dumpty Foundation and the Special Children's Christmas Party.

In 2019 we celebrated 10 years of partnership with the McGrath Foundation, and over this period we have helped fund three specialist breast care nurses in regional Australia.

Special Olympics Australia is a charity close to our hearts and one which we have supported for 28 years. IGA was a Gold Partner for the 2019 Special Olympics and contributed approximately \$300,000 to help fulfil the dreams of our competitors at the Summer Games held in Abu Dhabi.

Metcash staff participated in the annual Vinnies CEO Sleepout held at various venues across Australia and, together with additional Community Chest support, raised over \$300,000 to help provide shelter and support services to those in need.

Through our Community Chest fund we also delivered financial support to Drought Angels to support the many people hit hard by the devastating drought across the eastern States of Australia.

In October 2018, we supported dairy farmers through the sale of our Community Co fresh milk sold in IGA stores in New South Wales, Victoria and Queensland.

Donations of 12 cents for 2-litre varieties and 17 cents for 3-litre varieties were allocated directly to drought-affected farmers in those States via our IGA CCF. Metcash did not participate in the \$1 per litre milk offer due to the negative impact this has had on farming communities and the supply chain.

Our support of the Stephanie Alexander Kitchen Garden Foundation has provided hundreds of school children with the opportunity to grow, harvest and cook fresh, healthy produce.

Food donation and food waste

Every year Metcash and our independent retail network donates food and non-food items to Foodbank and Oz Harvest. This year over 420,000 kilograms of food and non-food items from our distribution centres and store network were donated and distributed to people in need.

This year we also worked with the Food For Change Foundation to trial a new local community food rescue and donation program. The primary aim of this partnership is to link local retailers with local charities to ensure that available food is rescued from landfill and instead provided to those in need in the local community. Through the Food For Change Foundation and our Corporate stores we facilitated the provision of over 28,000 meals to locals in need.

During the year Metcash was awarded two grants from the NSW EPA totalling \$80,000 to roll out programs to support our IGA retailers to reduce food waste. We have been working with expert Sustainability Consultants, EDGE Environment, to monitor and record waste, engage staff and implement food waste avoidance strategies.

To support our community to reduce household food waste we created a Food Smart Challenge through our IGA Family Program. This program provided participants with resources to understand their own household food waste and ways to reduce it, including providing a free Food Smart Kit.

Healthier choices and healthier communities

We understand our role in supporting healthy communities through the development and ranging of nutritious products, as well as the provision of useful information to assist people looking to make healthier food choices.

This year we launched more healthy choice options under our Community Co range, including salads, fresh vegetables and snacking options.

Our IGA Family Program provides communities with access to a range of educational resources on how to live a healthier lifestyle, including nutritious recipes and lifestyle education.

The program involves working with various companies to deliver information on health and nutrition, including providing meal recipes and fact sheets for families. Currently we have over 25,000 families registered to the program, which is operating in 600 IGA stores across Australia.

In 2017, the IGA Family Program partnered with the Stephanie Alexander Kitchen Garden Foundation to assist schools to establish kitchen garden programs to help children understand how to grow, harvest and cook fresh, healthy food. The program has continued to grow with 40 school kitchen gardens now established across Australia, providing hundreds of school children with the opportunity to grow, harvest and cook fresh, healthy produce.



Corporate Social Responsibility continued

People

Our people are our most valued asset, with belonging and inclusion fundamental to our culture and core values. We recognise that each person has unique strengths and that high performance is underpinned by embracing those strengths.

Progress against gender targets is regularly reported to the Board and includes a focus on improving female representation in leadership and in roles traditionally occupied by males. Our workforce at the end of FY19 comprised 31.4% females and 68.6% males, supported by our equal opportunity hiring policies. The gender mix of the Metcash Board at the end of FY19 was 66.7% female and 33.3% male.

Metcash's commitment to drive gender pay equality is reflected in Group CEO Jeff Adams being a Gender Pay Equity Ambassador with the Workplace Gender Equality Agency (WGEA).

This year we further reduced the gender pay gap to 1%, compared to 2% in FY18. Our achievements in gender pay equality were recognised in February this year with the awarding of a citation from the WGEA as an Employer of Choice for Gender Equality.

Initiatives implemented in FY19 to support diversity and enhance inclusion in our workplace included:

- Promotion and leadership support for flexible working arrangements, including start-finish times, shift options, job sharing, work from home;
- Establishing a Diversity & Inclusion Committee to champion diversity awareness, flexible working and gender equality across the business; and
- Tailoring parental leave policies to support both women and men.

We believe there is much to be proud of in how Metcash has addressed equality and balance for all employees.

Safety and wellbeing

The safety of our people and those we engage with is paramount at Metcash, and pleasingly we made good progress in the year towards our 'Zero Harm' target.

The importance of safety at Metcash is represented by the Safety function reporting directly to the Group CEO.

Adoption of the ICAM incident investigation methodology in the year has helped add further discipline to the investigation process and deliver more robust corrective actions.

We also introduced a 'Making Safety Simple' campaign which is focused on education and awareness.

Other initiatives included an increased emphasis on the identification and rectification of hazards to make our workplace safer, and the successful trialling and implementation of the 'Shockwatch' mobile plant and pedestrian safety system into high traffic areas at our Laverton distribution centre. We have also included leading safety indicator activities into leadership role scorecards.

FY19 included improvements in both our key safety measures. The Lost Time Injury Frequency Rate (LTIFR) declined by 36.3% to 7.59 and the Total Recordable Injury Frequency Rate (TRIFR) reduced by 12.4% to 32.15.

While we are pleased with these improvements there is still a long way to go to reach our 'Zero Harm' target. Safety is at the highest level in terms of our priorities and we have good plans in place to drive further improvement in FY20.

In addition to our focus on safety, Metcash provides employees with the opportunity to access a range of benefits to promote health and wellbeing. These include flexible working arrangements, wellbeing leave days, paid parental leave and allowing eligible employees to access an additional week of leave per year.

Human rights and modern slavery

Metcash has a wide and diverse supply chain that encompasses goods and services from both food and non-food sectors.

The company is committed to upholding human rights within our business and across our supply chain. We acknowledge our role and responsibility in seeking to safeguard human rights through responsible, ethical and sustainable business practices.

Metcash's first year of reporting against the requirement of the Modern Slavery Act is the financial year ending 30 April 2020.

Royal Flying Doctor Service

In 2019, IGA entered a three-year collaborative sponsorship with Royal Flying Doctor Service (RFDS) Central Operations. As part of the sponsorship, IGA helps facilitate the purchase of future RFDS aeromedical aircraft. There are also two IGA-badged full-sized aeromedical training simulators in South Australia and Northern Territory which are used by RFDS pilots for training and education.

Tony Vaughan ASM, CEO of RFDS Central Operations, says the significance of IGA's financial support is that it will reach far and wide - and deliver lasting community benefits.

"The RFDS conducts over 100 aeromedical flights across Australia every day - airlifts 25 South Australians and Territorians every day - but it relies on the support from the community to keep its crews in the sky."

"Our association with locally-owned IGA stores stretches for decades, and it's terrific to now have the company also supporting our work in this tangible manner. IGA's sponsorship will directly support our capital-raising program for ongoing upgrades to our fleet of medically-equipped aircraft that deliver emergency aeromedical services throughout South and Central Australia."

IGA retailers are passionate about giving back to their local communities and RFDS has been awarded the most reputable charity brand in Australia for the last eight years. RFDS covers both metro, regional and remote locations in South Australia and Northern Territory, many of which are also served by IGA stores. The partnership works seamlessly with IGA's values, which include giving back to the local communities.



Environment

Responsible sourcing

Metcash is committed to the responsible sourcing of products sold under our private label brands and continues to raise awareness for responsibly sourcing products within our business and across our independent retailer network.

We are a member of various global organisations focused on the responsible sourcing of products, including the Roundtable on Sustainable Palm Oil (RSPO). This includes working with our suppliers to ensure that 100% of the palm oil used in our private label food products is RSPO-Certified Sustainable Palm Oil (CSPO). This year we commenced a review of our non-food private label brands to identify whether they contain any palm oil derivatives.

Metcash is committed to only selling free range eggs under its Community Co private label range and is working in line with industry expectations around sourcing free range eggs for all private label brands. Many of our independent retailers have already taken a strong stance on responsible sourcing and source only free range and cage-free eggs from local producers. Our independent IGA retailer in Warrandyte, Victoria, was the first known grocery store in Australia to only stock cage-free eggs from Australian producers.

We remain committed to the delivery of 100% Forest Stewardship Council certification for all our private label brand toilet paper, tissues and paper towels and continue to work with our suppliers to meet this goal.

Waste and recycling

This year we further increased the amount of waste diverted from landfill, from 82.5% in the prior year, to 86%. This mainly comprised paper, plastics and cardboard sent for recycling as well as organics and food waste sent for composting.

We have an ongoing focus on reducing our waste that goes to landfill and continue to work with our contractors, building managers and people to promote better recycling and recovery.



Last year Metcash and our independent retailers committed to eliminate the distribution and sale of single use plastic bags. To assist customers in the transition from single use to environmentally friendly alternatives, we developed a range of reusable bags that were made available in stores. Since the ban we have taken out close to a billion single use plastic bags from circulation. We remain committed to working with our suppliers to reduce the use of plastic and identifying ways to further reduce plastic across the network.

Metcash has also continued to work on opportunities to reduce the use of soft plastic as a member of the Australian Packaging Covenant's Soft Plastic Working Group. This includes analysing the use of soft plastics packaging materials in Australia and identifying projects to help drive the delivery of the recently announced National Packaging Targets.

Emissions and energy reduction

We have continued to see the benefit of initiatives implemented to reduce energy consumption across the Group. Total energy consumption for the year declined 8.5% from 408,125 GJ in FY18 to 373,307 GJ, resulting in the company exceeding its target of a 10% reduction in energy usage over the four years ending FY20.

Our distribution centres and warehouses are the largest users of energy across the Group and represent our greatest opportunities for further energy reduction. This includes our new distribution centre in South Australia that is expected to be completed in mid 2020, where we have identified the potential introduction of solar.

Together with our landlords, we are currently assessing the opportunity to introduce solar into our other distribution centres and further reduce our emissions footprint.

Drought Angels

Staff and customers across Australia have rallied within their local communities to fundraise for Drought Angels, a charity that supports farming families affected by the drought.

In addition to many local initiatives to support farmers doing it tough, IGA stores throughout the nation have enabled customers to buy Raindrop Tokens for \$2, raising more than \$800,000 for Drought Angels to provide support to farmers.

Founding Director of the Chinchilla-based charity Drought Angels, Natasha Johnston, said the huge fundraising support would help the thousands of farmers registered as needing assistance as well as enabling their army of volunteers to provide assistance where it is needed most.

"It's overwhelming in every way for these farmers but knowing that so many people support them, in spirit and by giving from their own pockets, can make an enormous difference as they get up every day and keep going while hoping for rain," Ms Johnston said.

"Funds are used where and how they are most needed - some families need food, water and basic necessities; others need help financially for everyday things like fuel or feed or getting the kids to school," Ms Johnston said.

Our People



Jeff Adams

BA, Business Administration
and Management

Group CEO Metcash Group

Jeff has over 40 years of retail experience across domestic and international businesses in the United States, Europe, Asia, Central America and the Middle East. Most recently, Jeff was CEO of Operations for Turkey at Tesco Kipa.



Mark Laidlaw

B.Ec, CPA

CEO Independent Hardware Group

Mark joined Metcash in 2001 and was appointed CEO of Mitre 10 Australia in May 2010. Mark has extensive experience in general management, sales, operations and commercial management and prior to joining Metcash, Mark worked for Mobil Oil.



Scott Marshall

B.Business

CEO Supermarkets & Convenience

Scott began his career with Metcash in the ALM business over 26 years ago and was appointed CEO of ALM in December 2013. In March 2018 Scott was appointed CEO, Supermarkets & Convenience. His areas of experience cover warehousing operations and management, sales, retail operations, State general management and marketing management.



Rod Pritchard

Dip. Marketing

Interim CEO Australian Liquor Marketers

In 2015 Rod joined ALM and was General Manager, Merchandise for three years before being appointed as interim CEO in March 2018. Rod has over 19 years' experience in the liquor industry, including a 15-year period with Brown-Forman (operating as Swift & Moore until 2006).



Brad Soller

B.Comm, B.Acc, M.Comm, CA (SA)

Group CFO Metcash Group

Brad joined Metcash in January 2015 and prior to that was the CFO of David Jones and CFO of Lendlease. Brad is a Chartered Accountant having worked with PwC in both London and Johannesburg.



Matt Havens

BA Hons, MBA

Chief Strategy and Transformation Officer Metcash Group

Matt joined Metcash in April 2019 bringing over 25 years of experience in strategy, transformation and growth from his work in the United States, Europe and Asia. Prior to joining Metcash, Matt was a Partner with BCG Digital Ventures where he specialised in customer-led business transformation.



Edwin Gear

B.Sc, MBA

Chief Information Officer

Edwin joined Metcash in 2014 and was appointed as Group CIO in April 2015. Edwin is responsible for IT's crossfunctional collaboration with Group companies. Before joining Metcash, Edwin held various executive roles in merchandising, logistics and technology with Foodstuffs Wellington and Mitre 10 in New Zealand and Supergroup in South Africa.



Penny Coates

BA Hons, Chartered Fellow
CIPD, GAICD

Chief People and Culture Officer

Penny joined Metcash in 2015 as Chief People and Culture Officer. Penny has extensive international HR and line management experience gained in the retail, financial services and professional services industries. Prior to joining Metcash, Penny worked for TAL as its Chief Customer Service and Operations Officer.

Our Board



Robert Murray

MA Hons, Economics (Cantab)

Non-executive Chairman

Chair of the Nomination Committee.



Jeff Adams

BA, Business Administration and Management

Group CEO, Executive Director



Fiona Balfour

BA (Hons), MBA, Grad Dip IM, FAICD

Non-executive Director

Chair of the People and Culture Committee, Member of the Nomination Committee.



Anne Brennan

BCom (Hons), FCA, FAICD

Non-executive Director

Member of the Audit, Risk and Compliance Committee, Member of the Nomination Committee.



Tonianne Dwyer

BJuris Hons, LLB Hons, GAICD

Non-executive Director

Chair of the Audit, Risk and Compliance Committee, Member of the Nomination Committee.



Murray Jordan

MPA

Non-executive Director

Member of the Audit, Risk and Compliance Committee, Member of the Nomination Committee, Member of the People and Culture Committee.



Helen Nash

BA Hons, GAICD

Non-executive Director

Member of the People and Culture Committee, Member of the Nomination Committee.



Julie Hutton

B Asian Studies (Viet), LLB, LLM, GAICD

Company Secretary

Financial Report

For the year ended 30 April 2019

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Directors' report

For the year ended 30 April 2019

Your Directors submit their report of Metcash Limited (the 'Company') and its controlled entities (together the 'Group' or 'Metcash') for the financial year ended 30 April 2019 ('FY19').

Operating and Financial Review

1. Metcash's business model

Metcash is Australia's leading wholesaler and distributor, supplying and supporting approximately 5,000 independent retailers which form part of our bannered network and several other unbannered businesses across the food, liquor and hardware sectors. Metcash's retail customers operate some of Australia's leading independent brands including: IGA, Mitre 10, Home Timber & Hardware, Cellarbrations and the Bottle-O.

Metcash operates a low cost distribution model that enables independent retailers to compete against the vertically integrated retail chains and other competitors. The Group's core competencies include: procurement, logistics, marketing, retail development and retail operational support. Metcash operates major distribution centres in all the mainland states of Australia which are complemented by a number of smaller warehouses and a portfolio of corporate stores.

The Group employs over 6,000 people and indirectly supports employment in the independent retail network.

2. Strategic objectives

Metcash's purpose and vision is *championing successful independents*. Metcash's vision includes:

- being a business partner of choice for suppliers and independents;
- supporting independent retailers to be the *Best Store in Town*;
- being passionate about independents;
- being a favourite place to work; and
- supporting thriving communities.

The strategic vision is underpinned by a number of programs and initiatives across the three pillars (Food, Liquor and Hardware) aimed at supporting our independent retailers. These include store upgrade support, the introduction of private label brands, core ranging, marketing support, brand clarity as well as training and development programs for independent retailers.

The Group commenced a five-year *Mfuture* program at the beginning of FY20. The program spans all business pillars and support functions and adopts a balanced approach to revenue growth and cost out. The program has a strong focus on accelerating successful current initiatives, following the shopper into new growth initiatives, improving the Group's infrastructure to enable simpler and cheaper processes and ensuring a sustainable cost structure into the future. The program aims to deliver competitive and successful independent retailer networks across all pillars and identify opportunities for vertical integration where appropriate.

3. Key developments

New distribution centre in South Australia (SADC)

During the year, the Group entered into an agreement for the construction of a new 68,000 sqm DC in South Australia, which is expected to be completed in the second half of 2020. The new DC will enable local independent retailers in South Australia to benefit from significant operational efficiencies, greater range availability and improved speed to market. It will also provide local suppliers with access to Metcash's extensive distribution network.

Contract with Drakes Supermarkets group

In May 2018, the Group announced the potential loss of a supply contract with the Drakes Supermarkets group (Drakes), a major retailer in South Australia and Queensland. In June 2019, the Group announced that it will supply Drakes in South Australia until 30 September 2019, with Drakes holding options to extend to any date up to 30 September 2020. The Group also entered into a supply contract with Drakes in Queensland for a further five years following on from the previous supply agreement which expired on 2 June 2019.

In August 2018, the Group announced that it had entered long term supply agreements with the majority of the remaining independent supermarket retailers in South Australia.

3. Key developments (continued)

Capital management

The Group completed an off-market share buyback of 66,385,128 ordinary shares (or 6.8% of total shares on issue) for \$150 million in August 2018. The ordinary shares were bought back at \$2.26 per share, which represented a 14% discount to Metcash's share price at the time. The buyback comprised a fully franked dividend of \$1.65 per share (\$109.5 million) and a capital component of \$0.61 per share (\$40.5 million).

Changes in key management personnel (KMP)

Chris Baddock was appointed Chief Executive Officer (CEO) – Liquor with effect from July 2019. Rod Pritchard, Interim CEO – Liquor, will return to his role as General Manager Merchandise – Liquor, and will assist with Chris' transition into the role.

Tonianne Dwyer was appointed Chair of the Audit, Risk and Compliance Committee (ARCC) following Patrick Allaway's retirement from his role as Non-executive Director and Chair of the ARCC in June 2018.

Dividend declaration

The Board has determined to pay a fully franked final FY19 dividend of 7.0 cents, which represents a full year dividend payout ratio of 60% of Underlying Earnings Per Share.

4. Key financial measures

Warehouse earnings

Metcash's operations are designed to allow significant volumes to be distributed through its warehouse infrastructure at a relatively fixed cost base. The ability to leverage volumes through the warehouse is a key driver of profitability for both Metcash and the independent network.

In addition to warehouse revenue, earnings are impacted by product category mix and the proportion of the Group's products bought by the network. Warehouse sales and related margins are driven by competitive pricing, promotional activities and the level of supplier support through volumetric and other rebates.

Metcash has a number of key programs in place to drive sales and margins, including through pricing and promotion, product range, retail operational standards and consumer alignment.

Cost of doing business

The Group's profitability depends on the efficiency and effectiveness of its operating model. This is achieved by optimising the Group's cost of doing business (CODB) - which comprises the various costs of operating the distribution centres and the administrative support functions. The Group has achieved ~\$125 million of savings from the *Working Smarter* program which has been in place for the past three financial years.

The Group-wide *Mfuture* program commenced in FY20 and includes initiatives aimed at growth and maximising the effectiveness of the Group's CODB. The program implementation team was established and other setup activities were completed during FY19.

Funds employed and return on capital

The Group's funds employed is primarily influenced by the seasonal working capital cycle. The Group has longer term capital investments predominantly based on its supply chain capabilities, including warehouse automation technologies and software development. In a number of instances, the Group invests alongside the independent retail network, mainly in the form of equity participation or short-term loans.

The Board's intention is to continue to invest in the business for future growth and otherwise return surplus capital to shareholders.

Impact of new accounting standards on key financial measures

Metcash's key financial measures were retrospectively restated upon the initial adoption of AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*.

From FY20, these financial measures will also be influenced by the application of AASB 16 *Leases*. Appendix A to the financial report provides a description of the key changes arising from the new accounting standards and the expected impact of the initial application of AASB 16 *Leases*.

5. Review of financial results

Group overview

	FY19 \$m	FY18 \$m
Sales revenue	12,660.3	12,442.2
Earnings before interest, tax, depreciation and amortisation (EBITDA)	386.4	391.2
Depreciation and amortisation	(56.4)	(56.6)
Earnings before interest and tax (EBIT)	330.0	334.6
Net finance costs	(28.9)	(26.4)
Underlying profit before tax	301.1	308.2
Tax expense on underlying profit	(88.5)	(88.5)
Non-controlling interests	(2.3)	(2.8)
Underlying profit after tax (a)	210.3	216.9
Significant items	(25.0)	(380.1)
Tax benefit attributable to significant items	7.5	15.0
Net profit/(loss) for the year	192.8	(148.2)
Underlying earnings per share (cents) (b)	22.6	22.2
Reported earnings/(loss) per share (cents)	20.8	(15.2)

The financial results for FY18 were retrospectively restated upon the initial adoption of AASB 15 Revenue from Contracts with Customers. Refer Appendix A for a further description of the restatement.

- (a) Underlying profit after tax (UPAT) is defined as reported profit after tax attributable to equity holders of the parent, excluding significant items identified in note 3(vii) of the financial report.
- (b) Underlying earnings per share (EPS) is calculated by dividing UPAT by the weighted average shares outstanding during the period.

Reported Group revenue, which now excludes charge-through sales, increased 1.8% to \$12.66 billion (FY18: \$12.44 billion). Including charge-through sales, Group revenue increased 1.4% to \$14.56 billion (FY18: \$14.36 billion) with sales growth in the Food and Liquor pillars partly offset by a small decline in Hardware sales.

Group EBIT declined 1.4% to \$330.0 million (FY18: \$334.6 million), with earnings growth in the Hardware and Liquor pillars being more than offset by a decline in the Food pillar earnings and a reduction in the net Corporate result.

In Hardware, additional synergies from the Home Timber & Hardware (HTH) acquisition was the main driver of the increase in earnings. In Liquor, earnings were underpinned by continued growth in the IBA network. While in Food, the decline in EBIT was largely due to the decline in wholesale sales (excluding tobacco), and incremental operating expenditure related to *Mfuture* initiatives which is expected to deliver revenue benefits in the future.

Additional cost savings through the Working Smarter program helped to offset inflation across the Group.

Corporate EBIT loss was \$5.1 million (FY18: EBIT gain of \$6.7 million). The prior financial year Corporate EBIT included the reversal of a ~\$10 million provision against the NSW Distribution Centre hail insurance claim that was settled in FY18.

UPAT declined 3.0% to \$210.3 million (FY18: \$216.9 million) reflecting lower reported EBIT and an increase in finance costs due to the Group's \$150 million share buyback in 1H19.

Underlying earnings per share increased 1.8% to 22.6 cents due to ~4% earnings accretion delivered through the share buyback.

Statutory profit after tax was \$192.8 million (FY18: statutory loss of \$148.2 million). The prior financial year included a charge of \$345.5 million (post-tax) related to the impairment of goodwill and other net assets.

Directors' report continued

For the year ended 30 April 2019

Segment results

	Segment revenue		Earnings before interest and tax (EBIT)	
	FY19 \$m	FY18 \$m	FY19 \$m	FY18 \$m
Food	7,836.4	7,831.8	182.7	188.3
Liquor	3,658.8	3,467.1	71.2	70.3
Hardware	1,165.1	1,143.3	81.2	69.3
Corporate	-	-	(5.1)	6.7
Metcash Group	12,660.3	12,442.2	330.0	334.6

The financial results for FY18 were retrospectively restated upon the initial adoption of AASB 15 Revenue from Contracts with Customers. Refer Appendix A for a further description of the restatement.

Food

Total Food sales (including charge-through sales) increased 0.3% to \$8.79 billion (FY18: \$8.77 billion).

In Supermarkets, there was some improvement in the still highly competitive market conditions, particularly in the second half of the year. This was evident in deflation for 2H19 reducing to 0.9% (1H19: 1.3%). Deflation for the full year was 1.1% (FY18: 2.4%) and reflects a reduction in the level of promotional activity in the market.

Supermarkets sales (including charge-through sales) were down 0.5% to \$7.24 billion (FY18: \$7.28 billion), with continued growth on the eastern seaboard again being offset by a decline in sales in Western Australia.

The trajectory of the decline in wholesale sales (excluding tobacco) in the second half improved to negative 1.3% (1H19: negative 1.9%), reflecting the fourth consecutive half-year period of improvement in the rate of decline. The decline for the full year was 1.5% (FY18: 3.6%) and largely represents the impact of challenging conditions in Western Australia.

There was an improvement in the sales trajectory of the IGA retail network, with like-for-like (LfL) sales down 0.5% (FY18: 0.9%). There was a further increase in retailer and supplier satisfaction scores, and our teamwork score increased 80 basis points to ~72%.

Convenience sales increased 4.4% to \$1.56 billion (FY18: \$1.49 billion) reflecting sales growth from major customers, increased tobacco sales and the addition of new customers.

Food EBIT decreased \$5.6 million (3.0%) to \$182.7 million (FY18: \$188.3 million). The decline in wholesale sales (excluding tobacco) and an incremental investment in *Mfuture* growth initiatives of ~\$10 million were partly offset by an incremental contribution from the resolution of onerous lease obligations of ~\$7 million (all of which occurred in the first half of the financial year) and improved earnings from joint ventures. Working Smarter savings continued to help offset inflation.

The EBIT margin for Food was maintained at 2.1%.

The implementation of AASB 15 had a \$1.6 million positive year-on-year impact on EBIT.

Liquor

Total Liquor sales (including charge-through sales) increased 5.6% to \$3.67 billion (FY18: \$3.47 billion) reflecting continued growth in sales to the IBA bannered group and ALM wholesale customers. A high proportion of this growth was value driven related to continuation of the 'premiumisation' trend to higher quality but less consumption.

Wholesale sales through the IBA bannered network increased 5.3%, partly reflecting conversion of a number of contract customers to the IBA banner in FY18, including Thirsty Camel in South Australia and the Northern Territory.

Warehouse sales to the IBA bannered network on a LfL basis increased 1.9% (FY18: 1.5%) supported by the on-going investments to improve the quality of the store network and shopper experience. This represents the sixth consecutive year of LfL sales growth, showing the strength of our IBA retailer network.

Liquor EBIT increased \$0.9 million or 1.3% to \$71.2 million (FY18: \$70.3 million). The EBIT margin declined 10 basis points to 1.9% (FY18: 2.0%) reflecting sales growth being largely value driven and the impact of additional costs associated with the introduction and administration of container deposit schemes, investment in the 'on-premise' team and the corporate store trial.

The implementation of AASB 15 had a negative \$1.9 million year-on-year impact on EBIT.

Directors' report continued

For the year ended 30 April 2019

Hardware

Hardware sales (including charge-through sales) declined 0.9% to \$2.10 billion (FY18: \$2.12 billion). Sales were negatively impacted by the slowdown in construction activity, the closure of unprofitable company-owned stores, and the loss of a large HTH wholesale customer in Queensland in 1H19. Excluding the loss of this customer, sales increased 0.3%.

The level of activity in both the trade and do-it-yourself (DIY) sectors was impacted by the softer market, albeit DIY showed signs of improvement in the second half.

Total LfL wholesale sales to the IHG banner group increased 2.3%, supported by initiatives including the Sapphire store upgrade program.

Retail sales through the IHG banner group increased 3.0% (FY18: 7.4%) on a LfL basis.

Hardware EBIT increased by \$11.9 million or 17.2% to \$81.2 million (FY18: \$69.3 million), reflecting additional synergy benefits in the year from the HTH acquisition and the benefit from the closure or sale of unprofitable company-owned stores. In addition to synergies, Working Smarter cost savings helped offset inflation.

An increase in the proportion of trade sales in the sales mix to ~65% (FY18: ~63%) had an adverse impact on wholesale margins.

The EBIT margin increased to 3.9% (FY18: 3.3%) reflecting increased earnings in the retail business.

The implementation of AASB 15 had a \$0.1 million positive year-on-year impact on EBIT.

Corporate

Corporate EBIT loss was \$5.1 million (FY18: EBIT gain of \$6.7 million). The prior financial year Corporate EBIT included the reversal of a ~\$10 million provision against the NSW Distribution Centre hail insurance claim that was settled in FY18.

Finance costs and tax

Net finance costs increased during the year reflecting higher debt utilisation as a result of the off-market share buyback in August 2018. This impact was partially offset by strong operating cash generation, tight working capital management and prudent capital expenditure.

Tax expense of \$88.5 million on underlying profit represents an effective tax rate of 29.4% (FY18: 28.7%). The higher effective tax rate in FY19 reflects a normalisation towards the 30% corporate tax rate, as previously foreshadowed.

Significant items

The FY19 significant items included transition costs related to the SADC and the *Working Smarter* programs.

The FY18 significant items included an impairment expense of \$352.1 million recorded against the carrying value of assets in the Food segment. The impairment expense predominantly related to goodwill and other intangible assets, but also included certain residual tangible assets and lease exposures.

Refer note 3 of the financial report for further information.

Cash flows

	FY19 \$m	FY18 \$m
Operating cash flows	244.9	276.3
Investing cash flows	(47.9)	(43.8)
Share buyback	(150.3)	-
Dividends paid and other financing activities	(132.4)	(108.9)
(Increase)/reduction in net debt	(85.7)	123.6

The statement of cash flows for FY18 was retrospectively restated upon the initial adoption of AASB 15 Revenue from Contracts with Customers. Refer Appendix A for a further description of the restatement.

The Group continued to deliver strong operating cash flows during the current year with a continued focus on efficient working capital management. The FY18 operating cash flows included ~\$20 million received on settlement of the Huntingwood, NSW DC insurance claim.

The Group had net investing outflows of \$47.9 million which primarily related to capital expenditure.

The Group paid \$127.4 million (FY18: \$102.4 million) in dividends during the current financial year – a total of 13.5 cents per share.

Directors' report continued

For the year ended 30 April 2019

Financial position

	FY19 \$m	FY18 \$m
Trade receivables	1,472.5	1,458.6
Inventories	779.3	754.1
Trade payables and provisions	(2,210.5)	(2,170.2)
Net working capital	41.3	42.5
Intangible assets	793.5	792.3
Property, plant and equipment	225.8	215.5
Equity-accounted investments	87.7	88.3
Customer loans and assets held for sale	48.2	50.9
Total funds employed	1,196.5	1,189.5
Net cash/(debt)	(42.9)	42.8
Tax, put options and derivatives	96.5	101.9
Net assets/equity	1,250.1	1,334.2

The financial position as at FY18 was retrospectively restated upon the initial adoption of AASB 15 Revenue from Contracts with Customers while AASB 9 Financial Instruments was adopted on 1 May 2018. Refer Appendix A for a further description of the restatement.

The Group balance sheet remains strong with low gearing, despite over \$275 million of capital being returned through dividends and the off-market share buyback.

The Group invested \$58.5 million in capital expenditure during the year, largely offsetting depreciation and amortisation expenses of \$56.7 million.

Group net debt increased by \$85.7 million during the current year, from a net cash position of \$42.8 million at FY18 to a net debt position of \$42.9 million. The increase in net debt was a result of the capital management initiatives described in the report, partially offset by strong operating cash generation. Metcash had \$660.5 million in unused debt facilities and \$142.6 million of cash and equivalents available at the reporting date for immediate use.

Commitments, contingencies and other financial exposures

Metcash's operating lease commitments, which predominantly relate to warehouses and retail stores, increased from \$1,373.1 million to \$1,499.3 million at 30 April 2019. Of the total commitment, \$535.6 million is recoverable from tenants under subleases, down from \$578.9 million at 30 April 2018. Further details of lease commitments and the implications of AASB 16 Leases are presented in note 16 and Appendix A of the financial statements, respectively.

Put options, including in relation to Ritchies Stores Pty Ltd, are detailed along with other contingent liabilities in note 14 of the financial statements.

Metcash has a relatively low exposure to interest rate risk and minimal foreign exchange exposures. Variable interest rate exposures on core debt are hedged within a range, in accordance with treasury policy. At year end, 50% of gross debt was fixed. Further details are set out in note 14 of the financial statements.

6. Outlook

In Supermarkets, there has been a continued improvement in the sales trajectory of wholesale sales (excluding tobacco) through the first seven weeks of FY20.

As announced, Metcash has entered into a five-year supply agreement with Drakes supermarkets in Queensland. Metcash, however, expects to cease supplying Drakes supermarkets in South Australia once their new DC becomes operational (expected to be 30 September 2019).

Supermarkets will continue to invest in growth initiatives through the *Mfuture* program and expects related operating expenditure in FY20 to be in line with that incurred in FY19. The contribution to Supermarkets EBIT from the resolution of onerous lease obligations in FY20 is expected to be significantly lower than that reported in FY19. Cost savings through the *Mfuture* program in FY20 are expected to help offset inflation in the Food pillar.

In Liquor, continuation of the 'premiumisation' consumption trend is expected to be the key driver of market growth in FY20. The business is continuing to focus on key *Mfuture* initiatives including building and improving the quality of its IBA network, growing its share of the 'on-premise' market, the trial of corporate stores, expanding private label and the rollout of Porters Liquor.

In Hardware, sales through the first seven weeks of FY20 are lower than the corresponding prior year period, reflecting the loss of a major customer in Queensland in 1H19 and a slowdown in trade sales. It is too early to say whether the changes in the economic environment for the residential housing sector will feed into construction and DIY activity in FY20, however there appears to be an improvement in the level of confidence in the network post the election. Additional cost savings are expected to help mitigate the adverse impact of any further slowdown in construction activity in FY20.

We are encouraged by the commitment of our independent retailers across all pillars to continue to invest in their stores.

7. Material business risks

The following section outlines the material business risks that may impact on the Group achieving its strategic objectives and business operations, including the mitigating factors put in place to address those risks. The material risks are not set out in any particular order and exclude general risks that could have a material effect on most businesses in Australia under normal operating conditions.

Strategic risks

Consumer behaviour and preferences continue to change and are influenced by factors such as economic conditions, healthy living trends and increasing choices in both online and in-store retail options.

Metcash's business operations and strategic priorities are subject to ongoing review and development. Management regularly reviews plans against market changes and, where necessary, modifies its approach.

Market risks

Market conditions continue to evolve with continued competition from new and existing competitors, both from a retail and wholesale perspective, ongoing uncertainty in the broader economy, ongoing price deflation, and potential adverse interest rate and foreign exchange movements, all of which may lead to a decline in sales and profitability.

FY19 represents the end of Metcash's successful three-year Working Smarter program, which was focused on delivering significant cost savings. The Company has now moved into the next five-year phase of its strategy which, while remaining focused on cost, aims to deliver a pathway to long-term sustainable growth. This program has been called *Mfuture*, and it reflects a balanced approach to revenue growth and cost out. The strategy includes; accelerating successful current initiatives, following the shopper into new growth initiatives across our pillars, improving our infrastructure to enable simpler processes and ensuring we have a sustainable cost structure in the future. At the heart of our strategy is delivering competitive and successful independent retailer networks across our pillars.

Operational and compliance risks

As Australia's leading wholesaler, Metcash is reliant upon the success of our suppliers and retailers. Metcash continues to invest in programs to improve the health of the independent retail network and improving Metcash's infrastructure to make it simpler to do business. These programs now aim to strengthen Metcash as the business partner of choice for both our suppliers and retailers. As with any significant change, there is a risk that these transformation programs fail to deliver the expected benefits. Metcash has strengthened its governance frameworks to manage these change programs through the establishment of dedicated project teams to ensure projects are delivered and risks are addressed in a timely manner.

Metcash's operations require compliance with various regulatory requirements including work health & safety, food safety, environmental regulations, workplace industrial relations, public liability, privacy & security, financial and legal. Any regulatory breach could have a material negative impact on the wellbeing, reputation or financial results of Metcash or its stakeholders. The Group's internal processes are regularly assessed and tested as part of robust risk and assurance programs addressing areas including; safety, security, sustainability, chain of responsibility, quality and food safety. Metcash maintains a strong 'safety-first' culture and has established standards and 'Chain of Responsibility' policies to identify and manage risk.

Metcash is committed to 'Championing Successful Independents' and a key element of this is underpinned by ensuring our operations are conducted in a socially responsible manner. Metcash aims to manage the costs of compliance to ensure our costs of doing business are not significantly impacted.

Inefficiency or failure within our supply chain or in key support systems (including technology) could impact the Group's ability to deliver on our objectives. Metcash has comprehensive business continuity plans in place to address significant business interruptions and failures within operational systems. Our strategic planning and ongoing monitoring of operations ensure our supply chain and support systems are able to scale appropriately to respond to our business needs.

Directors' report continued

For the year ended 30 April 2019

Financial risks

Metcash's ability to reduce its cost of doing business is critical to support independent retailers in remaining competitive in the continued challenging environment. The competitive trading conditions and broader economic conditions increase the credit risk associated with our activities. Metcash's strategy is to support successful independents through appropriate credit management processes.

Funding and liquidity risk remains material to the Group due to the need to adequately fund business operations, our growth initiatives and absorb potential loss events that may arise. Inability to adequately fund our business operations and growth plans may lead to difficulty in executing the Group's strategy. Metcash maintains a prudent approach towards capital management, which includes optimising working capital, targeted capital expenditure, capital and asset recycling and careful consideration of its dividend policy. In addition, banking facilities are maintained with sufficient tenor, diversity and headroom to fund business operations. The Group's financial risk management framework is discussed in further detail in note 14 of the financial statements.

People and culture

The increasing competitive landscape and the ongoing need for market participants to remain agile in order to adapt to consumer preferences continues to place pressure on the competition for talent. The ability to attract and retain talent with the necessary skills and capabilities to operate in a challenging market whilst being able to effect transformation is critical to Metcash's success. Metcash is committed to being a favourite place to work by unlocking the potential of its people through empowerment and ensuring the Group's cultural values align with their values. Integrity is the foundation of the ethical values and standards of behaviour set for all employees through the Group's Code of Conduct.

Metcash invests in its people through training and development opportunities, by promoting diversity and workplace flexibility and maintaining succession planning. The short and long-term incentive schemes align the Group's remuneration structure to shareholders' interests.

End of the Operating and Financial Review

Board information

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

ROBERT A MURRAY (MA Hons, Economics (Cantab))
Independent Non-executive Chair

Robert (Rob) is the Chair of the Metcash Limited Board of Directors and is also the Chair of the Nomination Committee. Rob was appointed to the Board on 29 April 2015 and was appointed Chair on 27 August 2015.

Rob has extensive experience in FMCG. He has held positions with industry leaders, having been CEO of both Lion Nathan and Nestle Oceania, and he therefore brings with him a deep understanding of consumers and their requirements as well as the issues faced by those supplying the industry.

As a former director of Dick Smith Holdings Limited (2014 to 2016), Super Retail Group Limited (2013 to 2015) and Linfox Logistics, Rob also has experience in the logistics, electronics, automotive, leisure and sports industries.

Rob is currently a non-executive director of Southern Cross Media Group Limited (since 2014), Advisory Chairman of Hawkes Brewing Company and is a member of the not-for-profit charity the Bestest Foundation.

JEFFERY K ADAMS (BA, Business Administration and Management)
Group Chief Executive Officer, Executive Director

Jeffery (Jeff) has over 40 years of retail experience across domestic and international businesses in the United States, Europe, Asia, Central America and the Middle East, giving him an international perspective on the challenges and dynamics of the Australian retail market. He has extensive experience in the food and grocery industries in particular, having worked for almost 20 years with UK retailer Tesco, and brings a strong track record in developing and executing growth strategies in difficult retail market conditions.

Jeff was previously Chief Executive Officer of Tesco Kipa (Turkey). He also served as an Executive Vice President of Operations at Fresh & Easy Neighborhood Market Inc. in the United States from 2008. Before moving to Fresh & Easy, Jeff served as the Chief Executive Officer of Tesco Lotus (Thailand) from 2004.

FIONA E BALFOUR (BA (Hons), MBA, Graduate Dip Information Management, FAICD)
Independent Non-executive Director

Fiona was appointed to the Board on 16 November 2010. She is the Chair of the People and Culture Committee and a member of the Nomination Committee.

Fiona has more than 30 years' executive experience across several diverse industries: aviation, telecommunications, financial services, education and the not-for-profit sectors.

Fiona brings specialist expertise in information and communications technology to her role gained through extensive executive experience in technology roles including as Chief Information Officer at Qantas and later Telstra. This experience allows Fiona to bring deep insight into the Group's technology implementation and transformation projects, as well as technology-related risks. Fiona was awarded the information technology industry 'National Pearcey Medal' in 2006 for a "Lifetime achievement and contribution to the development and growth of the Information Technology Professions, Research and Industry".

Fiona is a non-executive director of Airservices Australia (since 2013), Western Sydney Airport Co (since 2017) and Land Services South Australia Pty Ltd (since 2018), and a former non-executive director of Salmat Limited (2010 to 2018), TAL (Dai-ichi Life Australia) Limited (2010 to 2016), Australian Red Cross Blood Service (2017 to 2018) and SITA SC (Geneva) (2001 to 2006).

ANNE BRENNAN (BCom (Hons), FCA, FAICD)
Independent Non-executive Director

Anne joined the Board on 26 March 2018 and is a member of the Audit, Risk and Compliance Committee and Nomination Committee.

Anne brings to the Board deep financial expertise and experience gained from a finance-based career of over 35 years, including partnerships at KPMG, Arthur Anderson and Ernst & Young. Anne's experience in the corporate sector includes positions as Finance Director of Coates Group, and as Chief Financial Officer of CSR Limited. Having held senior finance positions in both professional services firms and large listed entities, Anne has developed her financial expertise across numerous industries and is uniquely placed to bring both an advisory and operational perspective to her role.

Anne is a non-executive director of Argo Investments Limited (since 2011), Charter Hall Limited (since 2010), Nufarm Limited (since 2011), Rabobank Australia Limited (since 2011) and Rabobank NZ Limited. She was also previously a non-executive director of Myer Holdings Limited (2009 to 2017) and The Star Entertainment Group Limited (2012 to 2014).

Directors' report continued

For the year ended 30 April 2019

TONIANNE DWYER (B Juris (Hons), LB (Hons), GAICD)
Independent Non-executive Director

Tonianne joined the Board on 24 June 2014. She is the Chair of the Audit, Risk and Compliance Committee (since June 2018) and is also a member of the Nomination Committee.

Through her career and her experience on a number of boards, Tonianne brings to the Board a breadth of understanding of diverse industries, including infrastructure, environment and real estate.

Tonianne enjoyed a successful 20-year career in the UK, focussing on investment banking and real estate. Since returning to Australia, she has continued her involvement with real estate, being a director of Dexu Property Group and Dexu Wholesale Property Fund (since 2011). This enables Tonianne to bring particular insight and perspective to Metcash's property portfolio and risks.

Tonianne is also a non-executive director of ALS Limited (since July 2016), Oz Minerals Limited (since March 2017) and Queensland Treasury Corporation (since February 2013) and is a director of Chief Executive Women and Deputy Chancellor of the University of Queensland (both since 2017). She was also previously a non-executive director of Cardno Limited (2012 to 2016).

MURRAY P JORDAN (MPA)
Independent Non-executive Director

Murray has been a member of the Board since 23 February 2016. He is also a member of the Audit, Risk and Compliance Committee, the People and Culture Committee and the Nomination Committee.

Murray has extensive experience in the independent retail sector, bringing unique insight and perspective to the Board regarding the challenges faced by independent retailers and the valuable role they play in the community. Murray was previously Managing Director of New Zealand business Foodstuffs North Island Limited, a co-operative wholesale company, supplying independently owned and operated businesses in the supermarkets, foodservice and liquor sectors. He has also held key management positions in property development and investment.

Murray is a non-executive director of Sky City Entertainment Group Limited (since December 2016), Stevenson Group Limited (since July 2016) and Chorus Limited (since September 2015), each a New Zealand company. He is also a trustee of the Starship Foundation in New Zealand that raises funds for the National Children's Hospital and a trustee of the Foodstuffs member protection and co-operative perpetuation trusts.

HELEN NASH (BA Hons, GAICD)
Independent Non-executive Director

Helen was appointed to the Board on 23 October 2015. She is a member of the People and Culture Committee and Nomination Committee.

Helen has more than 20 years' executive experience across three diverse industries: consumer packaged goods, media and quick service restaurants.

Helen brings rounded commercial and consumer focused experience to her role. She initially trained in the UK as a Certified Management Accountant. 18 years in brands and marketing allow her to bring a strong consumer lens to the Board. She gained extensive strategic, operational and general management experience in her role of Chief Operating Officer at McDonalds Australia, overseeing business and corporate strategy, store operations including all company and franchised stores, marketing, menus, research and development and information technology.

Helen is currently a non-executive director of Blackmores Limited (since October 2013), Southern Cross Media Group Limited (since April 2015) and Inghams Group Limited (since May 2017), and a former non-executive director of Pacific Brands Group Limited (2013 to 2016).

FORMER DIRECTORS

Patrick N J Allaway resigned from his role as Non-Executive Director on 25 June 2018.

COMPANY SECRETARY

JULIE S HUTTON (B Asian Studies (Viet), LLB, LLM, GAICD)

Julie was previously a partner at law firm Baker & McKenzie where she specialised in mergers & acquisitions, private equity and corporate restructures. Julie is a Graduate of the Australian Institute of Company Directors and was formerly a Non-executive Director of AVCAL, a national association which represents the private equity and venture capital industries in Australia.

Indemnification and insurance of Directors and Officers

Under the Constitution of the Company, the Company indemnifies (to the full extent permitted by law) each Director, the Company Secretary, past Directors and Company Secretaries, and all past and present executive officers (as defined under the Constitution) against all losses and liabilities incurred as an officer of Metcash or its related companies. The indemnity also includes reasonable costs and expenses incurred by such an officer in successfully defending proceedings relating to that person's position. The Company must enter into a deed indemnifying such officers on these terms, if the officer requests. The Company has entered into such deeds with each of its Directors and the Company Secretary.

During the financial year, the Company has paid, or agreed to pay, a premium in respect of a contract of insurance insuring officers (and any persons who are officers in the future) against certain liabilities incurred in that capacity. Disclosure of the total amount of the premiums and the nature of the liabilities in respect of such insurance is prohibited by the contract of insurance.

Directors' report continued

For the year ended 30 April 2019

The following table presents information relating to membership and attendance at meetings of the Company's Board of Directors and Board committees held during the financial year. The information reflects those meetings held and attended during a Director's period of appointment as a Director during the year.

	Appointed	Retired	Meetings held	Meetings attended	Ordinary shares held at reporting date
Board of Directors					
Robert A Murray (Chair)(a)	29 Apr 2015	-	5	5	84,005
Jeffery K Adams	5 Dec 2017	-	5	5	-
Fiona E Balfour	16 Nov 2010	-	5	5	87,804
Anne Brennan	26 Mar 2018	-	5	4	21,000
Tonianne Dwyer	24 Jun 2014	-	5	5	60,000
Murray P Jordan	23 Feb 2016	-	5	5	42,651
Helen E Nash	23 Oct 2015	-	5	5	37,431
Patrick N J Allaway	7 Nov 2012	25 Jun 2018	1	1	-
Audit, Risk & Compliance Committee					
Tonianne Dwyer (Chair) (b)	24 Jun 2014	-	8	8	
Anne Brennan	26 Mar 2018	-	8	8	
Murray P Jordan	23 Feb 2016	-	8	8	
Patrick N J Allaway	7 Nov 2012	25 Jun 2018	4	4	
People & Culture Committee					
Fiona E Balfour (Chair) (c)	16 Nov 2010	-	8	8	
Murray P Jordan	31 Aug 2016	-	8	8	
Helen E Nash	23 Oct 2015	-	8	8	
Nomination Committee					
Robert A Murray (Chair)	29 Apr 2015	-	1	1	
Fiona E Balfour	27 Feb 2013	-	1	1	
Anne Brennan	26 Mar 2018	-	1	1	
Tonianne Dwyer	24 Jun 2014	-	1	1	
Murray P Jordan	23 Feb 2016	-	1	1	
Helen E Nash	23 Oct 2015	-	1	1	
Patrick N J Allaway	27 Feb 2013	25 Jun 2018	1	1	

(a) Mr Murray was appointed as Chair of the Board on 27 August 2015.

(b) Following Mr Allaway's resignation, Ms Dwyer was appointed as Chair of the Audit, Risk & Compliance Committee on 1 July 2018.

(c) Ms Balfour was appointed as Chair of the People & Culture Committee on 16 October 2014.

From time to time, additional Board committees are established and meetings of those committees are held throughout the year, for example, to consider material transactions or material issues that may arise. The Board also holds regular calls with the Group CEO to stay abreast of current matters. These committee meetings and update calls are not included in the above table.

In addition, the Group holds a strategy session each year. In FY19, this strategy session was held in October 2018. All Board members in office at that time attended the FY19 strategy session.

Remuneration report

Dear Shareholder,

On behalf of the Board I am pleased to present our Remuneration Report for the financial year ended 30 April 2019. We believe the outcomes for the year are a fair reflection of the performance of Metcash, our businesses and key individuals.

Our framework

Executive pay comprises Fixed Pay, Short-Term Incentive ('STI') and Long-Term Incentive ('LTI') components and is designed to ensure that executives have a significant proportion of remuneration at risk, which is payable on the delivery of positive outcomes for shareholders. All components of executive reward are benchmarked by independent external remuneration specialists, Aon Hewitt, against a peer group of companies reflecting a similar industry, revenue, asset level and market capitalisation.

We continue to listen to shareholders and refine our pay mix and structure. In FY19, we concluded a three-year pay mix transition which has seen a progressive increase in executive 'at risk' pay as a component of on-target total reward.

Over the last year we have also responded to feedback from our shareholders and completed a deeper review of executive pay. In consultation with KPMG, we explored adopting the emerging market practice of a single variable reward scheme. This type of plan had some initial attractiveness given they typically result in a larger proportion of performance pay being delivered as equity. However, considering the shareholder feedback in relation to the practical application of these plans in other organisations, we determined a similar outcome could be achieved through specific changes to the current STI and LTI plans. These changes, which were subject to an external independent expert review, result in no overall increase to the total value of executive rewards and create a stronger link between executives and shareholders.

In FY20, we will introduce a deferred STI arrangement with a portion of any incentive earned deferred and delivered as equity. In addition, we will expand the minimum shareholding guidelines to include key executives. Our executives will have the majority of their on-target 'at risk' remuneration delivered as deferred equity.

The performance conditions for the next LTI grant, which cover the three years ending 30 April 2022, have been amended to ensure better alignment between shareholder interests and our new strategic *Mfuture* initiatives. The two performance conditions for the FY20-FY22 LTI grant will be an Absolute Total Shareholder Return (ATSR) measure (50%) and a Return on Funds Employed (ROFE) measure (50%).

I'm delighted to share that we have made a significant improvement in gender pay parity over the last 12 months. The Workplace Gender Equality Agency awarded Metcash with the Employer of Choice citation. Metcash is one of only a few organisations across Australia to receive the citation, which recognises employer commitment and best practice in promoting gender equality in Australian workplaces.

FY19 performance

Our markets continued to be highly competitive, particularly in Food where a high level of promotional activity and deflation continued throughout the year. The highly competitive market conditions, together with ~\$10 million of investment in growth initiatives resulted in Food earnings declining by \$5.6 million. Liquor and Hardware continued to report growth in EBIT, with Hardware earnings up \$11.9 million being reflective of the synergies from the acquisition of HTH. In addition, the Corporate result declined by \$11.8 million as the prior year included the release of a provision in relation to the settlement of the Huntingwood insurance claim.

UPAT decreased \$6.6 million which is reflective of the lower EBIT noted above and higher finance costs following the successful \$150 million share buyback. Importantly, as a result of the buyback, underlying earnings per share increased 1.8% to 22.6 cents.

The Group continues to generate strong operating cashflows, resulting in a cash realisation ratio of 92%.

Dividends for the year increased by 0.5 cents to 13.5 cents per share.

Remuneration outcomes

Fixed remuneration

Mr Soller and Mr Marshall received increases in fixed remuneration during the year. Mr Soller's increase was awarded to remain aligned to the benchmarked peer group while Mr Marshall's increase was due to increased responsibilities which now include leading the logistics function for both the Food and Liquor pillars.

As part of the Aon Hewitt pay benchmarking review, it was noted that executive pay has continued to increase across our peer group, particularly for the Group CEO level. Fixed remuneration for Mr Adams is below the peer group market median, however, Mr Adams has chosen to forgo any market increase in FY20. At the date of this report, it is not anticipated that other members of the KMP will be awarded fixed increases in FY20. The Board will review all KMP's pay in FY21 in line with market data and company performance.

Directors' report continued

For the year ended 30 April 2019

Short term incentives

STI outcomes for KMP are based on pool and balanced scorecard results and ranged from 47.4% to 61.7% of maximum reflecting operational outcomes. Mr Adams' STI has been determined at \$1,600,000.

Long term incentive schemes

The FY17-19 LTI is expected to partially vest at 90%, subject only to the KMP being employed as at 15 August 2019. In addition to the service condition, this plan was subject to two equally-weighted performance hurdles, being relative total shareholder return (RTSR) and underlying earnings per share compound annual growth rate (UEPS CAGR). Based on an independent valuation, the actual RTSR over the performance period was 14.8% higher than the peer group, and therefore this hurdle was met at the Maximum outcome. A 5.6% UEPS CAGR was achieved over the same period, and therefore an 80% Stretch outcome was achieved. Given the equal weighting, the combined vesting is expected to be at 90%.

Subject to meeting the service condition, the LTI will be settled in the form of Metcash shares, purchased on-market and allocated to participants on 15 August 2019. Shares allocated to employees will not be eligible for the FY19 final dividend, consistent with the plan rules. Whilst shares allocated to employees will not be restricted from trading, KMP will be subject to the minimum shareholding policy.

Full vesting under the FY20-FY22 LTI grant will only occur if Metcash achieves an ATSR greater than 10% and a ROFE greater than 23.1%.

Non-executive Director remuneration

A review of director fees was completed by Aon Hewitt resulting in modest increases in FY19. Whilst fees remain below the comparison peer group as with the Group CEO, the Board has determined that there will be no fee increases in FY20.

Consistent with good corporate governance, a comprehensive external review of Board performance and effectiveness is undertaken every two years. We participated in this review between April 2019 to June 2019.

I believe our remuneration framework and outcomes for the year deliver a balanced and equitable outcome for all stakeholders.

I thank you for your ongoing support and trust you find this Report informative.



Fiona Balfour
Chair, People and Culture Committee

Directors' report continued

For the year ended 30 April 2019

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1. Overview of the Remuneration Report

The Directors present the Remuneration Report for the Company and its controlled entities (the 'Group') for the year ended 30 April 2019 ('FY19'). This report forms part of the Directors' Report and has been audited in accordance with section 308(3C) of the *Corporations Act 2001* and Australian Accounting Standards.

The report sets out the remuneration arrangements for the Group's Key Management Personnel ('KMP'), comprising its Non-executive Directors, Group Chief Executive Officer ('Group CEO') and Group Executives of Metcash, who together have the authority and responsibility for planning, directing and controlling the activities of the Group.

The KMP in FY19 are listed below.

Name	Position	Term as KMP in FY19
Non-executive Directors		
Robert Murray	Chair	Full year
Fiona Balfour	Director	Full year
Anne Brennan	Director	Full year
Tonianne Dwyer	Director	Full year
Murray Jordan	Director	Full year
Helen Nash	Director	Full year
Patrick Allaway	Director	1 May 2018 to 25 June 2018
Executive Director		
Jeff Adams	Group Chief Executive Officer ('Group CEO')	Full year
Group Executives		
Brad Soller	Group Chief Financial Officer ('CFO')	Full year
Scott Marshall	Chief Executive Officer, Food	Full year
Mark Laidlaw	Chief Executive Officer, Independent Hardware Group ('IHG')	Full year

Chris Baddock will commence his employment as Chief Executive Officer, Australian Liquor Marketers ('ALM') in July 2019 and will be reported as KMP from FY20.

For the remainder of this report, the Group CEO and Group Executives are referred to as the KMP.

2. Remuneration governance

The People & Culture Committee ('Committee') is the key governing body in respect of remuneration matters. In addition to Non-executive Director and Executive remuneration, the Committee oversees major people-related programs such as culture, diversity and inclusion.

The Committee makes recommendations to the Board based on its review of proposals received from management. The Committee may also commission external advisers to provide information and/or recommendations on remuneration. If recommendations are sought in respect of KMP remuneration, interaction with external advisers is governed by protocol, which ensures the Committee can obtain independent advice. The Committee Chair appoints and engages directly with external advisers on KMP remuneration matters. Further, remuneration recommendations obtained from external advisers are used as a guide, rather than as a substitute for the Committee's thorough consideration of the relevant matters. The Committee considers the recommendations, along with other relevant factors, in making remuneration decisions.

Both the Committee and the Board are satisfied that the existing protocols ensure that remuneration recommendations obtained from external advisers are free from undue influence from the KMP to whom the remuneration recommendations apply.

Aon Hewitt was engaged in FY19 to provide recommendations in relation to the FY20 KMP remuneration. Services provided by Aon Hewitt included benchmarking market remuneration levels, including short-term (STI) and long-term incentives (LTI). Total fees of \$33,200 (FY18: \$42,240) were paid for these services. In addition to remuneration recommendations, Aon Hewitt provided certain other people-related services during the year. Total fees of \$169,336 (FY18: \$143,090) were paid for these services.

KPMG was engaged in FY19 to review the executive pay structure to ensure it was aligned to emerging contemporary practices and shareholder interests. Total fees of \$80,604 (FY18: nil) were paid for these services.

In addition, PWC was engaged by the Committee to provide an opinion on market suitability and appropriateness of the FY20 executive pay redesign. Total fees of \$15,300 (FY18: nil) were paid for these services.

3. Executive remuneration policy

3.1. Overview

The overarching objectives of Metcash's executive remuneration policy are for remuneration to be:

- Commensurate with the Group's long-term performance reflected in metrics that drive shareholder value;
- At the level necessary to attract and retain the leadership and capability required by the Group; and
- Commensurate with the Group's current-year performance and the executive's contribution to it.

The Committee takes a considered, iterative and conservative approach to executive reward design. The Group commenced a journey starting in FY15 to implement a market-aligned remuneration structure. Over the past four years, progress has been made to better align outcomes with market practices and shareholder feedback. Over the last two years, we have received feedback from proxy advisors, investors and shareholders as to how the remuneration structure of executives could be improved, specifically related to:

- Creating a stronger alignment between executive reward and shareholder outcomes given KMP executives hold few shares;
- Reflecting changing remuneration practices in the market; and
- The LTI performance hurdles are not always perceived as aligned to, nor a reliable indicator of, long term sustainability and the strategic direction of the company.

On behalf of the Board, the Committee engaged PWC and KPMG to undertake the review of the existing plan design and make recommendations as to how these could be amended in the best interests of both employees and shareholders. The subsequent changes made by the Board will result in no overall increase to the total value of executive reward, however, the changes will:

- Increase the proportion of performance-based variable reward delivered as equity and consequently reduce the cash proportion;
- Increase shareholdings held by KMP resulting in greater alignment between executive reward and shareholder interests, which is not solely reliant upon the three-year LTI plan; and
- Better align the performance metrics for the LTI plan to the business strategy.

The table below shows the journey we have made with Executive Pay over the past four years and into FY20:

	FY15	FY16	FY17	FY18	FY19	FY20
STI	Financial performance	- Market-aligned design - Financial performance and transformation progress - Stretch targets introduced to drive improved profit outcomes	- STI pool funded through company financial performance and paid on participants Balanced Scorecard performance - Increased weighting in total remuneration mix	- Participant behaviours introduced into STI - Reduced weighting in total remuneration mix	Introduction of Metcash behaviours as an equally-weighted determining factor Reduced weighting in total remuneration mix	- Market aligned part deferral of STI into share rights - Majority of performance pay delivered in equity
LTI	FY14 - FY16 grants consolidated into one three-year grant (Transformation incentive)	- No new grants - Covered by Transformation Incentive	- Resumption of annual grant program - Market-aligned design with TSR and earnings hurdles - Lower weighting in total remuneration mix	Increased weighting in total remuneration mix	Increased weighting in total remuneration mix Minimum shareholding policy covering NEDs	- Minimum Shareholding Policy expanded to cover all KMP - LTI FY20 – FY22 performance conditions: ATSR and ROFE

3.2. Remuneration components

3.2.1. Fixed remuneration

Fixed remuneration at Metcash is referred to as Total Employment Cost ('TEC'). TEC comprises salary, statutory superannuation and salary sacrifice items such as motor vehicle lease and additional superannuation contributions.

TEC levels are set according to the nature and scope of the executive's role as well as his/her performance and experience. Metcash benchmarks its executive remuneration with reference to ASX-listed and unlisted companies of a comparable size and complexity at the median percentile level.

The Committee recommends changes to KMP remuneration each year, taking into consideration market trends, the executive's job size and the executive's performance. Changes to KMP remuneration are endorsed by the Committee and recommended to the Board for approval.

Mr Soller and Mr Marshall received increases in fixed remuneration during the year. The increase in Mr Soller's TEC was required to align his fixed remuneration of \$892,500 with market benchmarks while the increase in Mr Marshall's TEC to \$892,500 effective 1 January 2019 was a result of increased responsibilities which now include leading the logistics function for both the Food and Liquor pillars.

Despite being below the market data peer group, Mr Adams has chosen to forgo any market increase in FY20. At the date of this report, it is not anticipated that other members of the KMP will be awarded fixed increases in FY20.

3.2.2. Short Term Incentives

The Group's STI plan is an at-risk, cash-based component of total remuneration. Its purpose is to incentivise senior executives to deliver annual performance outcomes aligned to shareholder interests.

The Group and Pillar STI pool outcomes are determined with reference to pre-determined underlying Group and Pillar EBIT performance measures. Once determined, an STI pool is distributed across individual participants based on their relative individual Balanced Scorecard performance and behavioural outcomes, equally-weighted.

STI pools are only released for distribution when the threshold Group or Pillar EBIT budget result, as applicable, is achieved. The Board may also exercise its discretion to adjust the pool to reflect the performance of the Group or a specific Pillar.

Achievement of a 'Minimum' 95% of budgeted Group or Pillar EBIT releases 50% of the respective STI pools. Achievement of budgeted or 'Target' financial performance releases 100% of an STI pool. Over-achievement of the budgeted financial performance is capped at 150% of an STI pool.

The Group CEO and Group CFO participate in the Group STI pool. The pillar CEOs participate in their respective Pillar STI pools which are determined by a combination of their respective pillar EBIT and the consolidated Group EBIT.

Directors' report continued

For the year ended 30 April 2019

Once an STI pool is released for distribution, a participant's STI award is determined based on individual performance and behaviours. An individual's overall performance rating is equally-weighted between their scorecard results and Metcash behaviours. Individual performance acts as a multiplier against the pool reward by a factor of 0% to 150%. Individual results are also scaled so that the collective individual participants' results are distributed in a manner consistent with a normal distribution curve and also such that the aggregate STI payments across the pool do not exceed the STI pool amount.

For KMP, financial objectives represent a 60% weighting in their Balanced Scorecards.

Role-specific non-financial measures included in the Balanced Scorecards reflect KMP's key strategic objectives and include increases in retailer sales, improvements in retailer and supplier satisfaction, delivery of store refresh targets, improvements in safety, delivery of specific projects, and team culture change and engagement goals.

The STI Balanced Scorecard performance measures vary for each KMP based on the budgets and strategies for their respective pillars. The scorecards for KMPs for FY19 are set out below:

Balanced Scorecard	Weightings	Measure	Threshold	Target	Stretch	Result
Financial Objectives						
Deliver Financial Results	60%	Sales	- 2.5% below budget	Budget	+ 2.5% above budget	Below Target to Above Target
		UPAT	- 5.0% below budget	Budget	+ 5.0% above budget	Above Target
		EBIT	- 5.0% below budget	Budget	+ 5.0% above budget	Target
		ROFE	- 5.0% below budget	Budget	+ 5.0% above budget	Target to Stretch
Non-financial Objectives						
Our Partners						
Growth for Retailers	5% to 20%		Target sales result across our retailers			Target to Stretch
Partner of Choice						
Our People						
Strong & Positive Culture	10% to 20%		Engagement and Leadership			Above Target to Stretch
Safety						
Our Business						
Top Growth Projects	5% to 20%		Delivery of Strategic Growth Projects			Target to Stretch

FY19 outcomes against this Balanced Scorecard are summarised below:

Balanced Scorecard Outcomes	J Adams Group CEO	B Soller Group CFO	S Marshall CEO - S&C	M Laidlaw CEO - IHG
Financial Objectives (60%)				
<i>Sales</i>	Target	Target	Above Target	Below Target
<i>UPAT</i>	Above Target	Above Target	N/A	N/A
<i>EBIT</i>	Target	Target	Target	Target
<i>ROFE</i>	Stretch	Stretch	Stretch	Target
Non-financial Objectives (40%)				
Our Partners				
<i>Growth for Retailers</i>	Target	N/A	Above Target	Target
<i>Partner of Choice</i>	N/A	N/A	Stretch	Above Target
Our People				
<i>Strong & Positive Culture</i>	Stretch	Stretch	Above Target	Stretch
<i>Safety</i>	Above Target	Above Target	Above Target	Above Target
Our Business				
<i>Top Growth Projects</i>	Target	Stretch	Above Target	Target

Directors' report continued

For the year ended 30 April 2019

The STI opportunities as a percentage of TEC for KMP are outlined below, along with the actual FY19 STI awards as a percentage of the maximum STI opportunity:

Position	Below threshold % of TEC	Threshold % of TEC	Target % of TEC	Maximum % of TEC	FY19 actual % of maximum STI
J Adams, Group CEO	0%	16.7%	66.7%	150.0%	59.3%
B Soller, Group CFO	0%	12.5%	50.0%	112.5%	57.3%
S Marshall, CEO Supermarkets and Convenience	0%	12.5%	50.0%	112.5%	61.7%
M Laidlaw, CEO IHG	0%	12.5%	50.0%	112.5%	47.4%

KMP STI rewards are subject to clawback for cause or material misstatement of the Group's financial statements.

In order for an individual participant to achieve the maximum performance outcome, all of the following results must be delivered:

- Maximum achievement against Group and/or Pillar EBIT financial performance hurdles, as applicable ('STI pool'); and
- Maximum achievement in overall individual performance results against all financial and non-financial measures contained in the individual's Balanced Scorecard and an exceptional rating against Metcash's behaviours framework.

3.2.3. Long Term Incentives

The Group's LTIs are designed to enable Metcash to attract and retain key executives, whilst incentivising these executives to achieve challenging RTSR and earnings hurdles aligned to shareholder value. The Group had four active LTI plans in operation in FY19.

- FY19-FY21 LTI – this grant was issued to KMP during FY19 and is subject to two performance conditions: RTSR and UEPS CAGR over a three-year period from 1 May 2018 to 30 April 2021.
- FY18-FY20 LTI – this grant was issued to KMP during FY18 and is subject to two performance conditions: RTSR and UEPS CAGR over a three-year period from 1 May 2017 to 30 April 2020;
- FY17-FY19 LTI – this grant was issued to KMP during FY17 and was subject to two performance conditions: RTSR and UEPS CAGR over a three-year period from 1 May 2016 to 30 April 2019; and
- IHG Integration Incentive grant – issued to Mr Laidlaw during FY17, which is a cash-settled LTI. The plan was subject to three performance conditions: achievement of a threshold FY18 IHG EBIT gate-opener, IHG integration synergies measured at 30 April 2018 and includes a deferred component representing 33% of the award that is dependent on FY19 IHG EBIT (including synergies realisation) and which is deferred until July 2019.

Further detail regarding each of the above LTI schemes is set out below.

Other than the IHG Integration Incentive, no grants issued under any of the Group's LTI plans vested in FY19. The FY17-FY19 LTI is expected to partially vest on 15 August 2019, subject only to the participants remaining in employment until 15 August 2019.

Key terms of active LTIs

The FY17-FY19, FY18-FY20 and FY19-FY21 LTIs are Performance Rights grants (the right to acquire Metcash shares at no cost, subject to the satisfaction of performance and service conditions) and are subject to two equally-weighted performance hurdles.

Relative Total Shareholder Returns ('RTSR')

RTSR is measured against a group of selected peers, being consumer staples companies in the ASX 300 as at the beginning of the LTI plan period on 1 May. The TSR of those peer companies is multiplied against an index weighting. The sum of the weighted TSRs ('Index TSR') is the score against which Metcash's TSR is compared.

The rights vest against this hurdle as follows:

Relative Total Shareholder Return	Vesting %
Less than Index TSR	0%
Equal to Index TSR	50%
Between Index TSR and Index TSR + 10%	Straight-line pro-rata
Index TSR + 10% or above	100%

Full vesting will only occur if Metcash's RTSR is 10% or higher than the peer companies over the performance period.

Directors' report continued

For the year ended 30 April 2019

Metcash Underlying Earnings per Share Compound Annual Growth Rate ('UEPS CAGR')

The rights vest against the UEPS CAGR hurdle as follows:

UEPS CAGR vesting %	FY17-FY19 LTI	FY18-FY20 LTI	FY19-FY21 LTI
Threshold	0%	50%	25%
Target	50%	63%	50%
Stretch	67%	75%	75%
Equal to or above maximum	100%	100%	100%

Full vesting under each grant will only occur if Metcash achieves an UEPS CAGR of greater than 6.5% for the FY17-FY19 and FY18-FY20 LTIs and 4.0% for the FY19-FY21 LTI over the grants' respective three-year performance periods.

The Board will assess the impact of the new accounting standard AASB 16 *Leases*, which became effective from 1 May 2019, on the UEPS CAGR component of the FY18-FY20 and FY19-FY21 LTIs in order to apply a consistent basis in determining UEPS over the three-year performance period of these LTIs.

Grants to KMPs during the financial year

The following FY19-FY21 LTI grant was made to KMP during FY19:

Participant	Grant date	Hurdle	Vesting date	No. of rights	Fair value per right	Grant entitlement ¹ (% of TEC)
J Adams ²	29 August 2018	UEPS CAGR	15 August 2021	184,049	2.59	67%
		RTSR	15 August 2021	184,049	0.84	
B Soller	13 July 2018	UEPS CAGR	15 August 2021	91,257	2.16	70%
		RTSR	15 August 2021	91,257	0.70	
S Marshall	13 July 2018	UEPS CAGR	15 August 2021	91,257	2.16	70%
		RTSR	15 August 2021	91,257	0.70	
M Laidlaw	13 July 2018	UEPS CAGR	15 August 2021	80,521	2.16	70%
		RTSR	15 August 2021	80,521	0.70	

¹ The grant entitlement is expressed as a percentage of the face value of performance rights issued divided by the participants' TEC at grant date, prior to any applicable pro-rata impact from part year service.

² The performance rights grant was approved by shareholders at the AGM in August 2018.

The following FY18-FY20 LTI grants were made to KMP in FY18:

Participant	Grant date	Hurdle	Vesting date	No. of rights	Fair value per right	Grant entitlement (% of TEC)
J Adams ¹	4 September 2017	UEPS CAGR	15 August 2020	233,902	\$2.57	67%
		RTSR	15 August 2020	233,902	\$1.70	
B Soller	14 July 2017	UEPS CAGR	15 August 2020	93,612	\$2.28	50%
		RTSR	15 August 2020	93,612	\$1.51	
S Marshall	14 July 2017	UEPS CAGR	15 August 2020	79,846	\$2.28	50%
		RTSR	15 August 2020	79,846	\$1.51	
M Laidlaw	14 July 2017	UEPS CAGR	15 August 2020	77,464	\$2.28	47%
		RTSR	15 August 2020	77,464	\$1.51	

¹ Mr Adams' FY18-FY20 LTI performance rights were pro-rated from the date of Mr Adams' employment on 4 September 2017. The performance rights grant was approved by shareholders at the AGM in August 2017.

Directors' report continued

For the year ended 30 April 2019

FY19 outcomes

The FY17-FY19 LTI grant met the performance conditions as follows:

Performance condition	Weighting	Performance result	Expected vesting (%)
RTSR	50%	RTSR performance over the three-year plan period was 14.8% above Index TSR	100%
UEPS CAGR	50%	UEPS CAGR performance over the three-year plan period was 5.6%	80%

As a result, the following FY17-FY19 LTI rights are expected to vest, subject only to the KMP remaining in employment until 15 August 2019:

Participant	Hurdle	No. of rights held	No. of rights expected to vest	No. of rights forfeited
B Soller	UEPS CAGR	92,969	74,376	18,593
	RTSR	92,969	92,969	-
S Marshall	UEPS CAGR	79,297	63,438	15,859
	RTSR	79,297	79,297	-
M Laidlaw	UEPS CAGR	76,932	61,546	15,386
	RTSR	76,932	76,932	-

Refer section 8 of this report for information in relation to minimum shareholding guidelines introduced during the current financial year. Performance rights that do not vest are forfeited and there is no re-testing.

IHG Integration Incentive

The IHG Integration Incentive was a cash-settled scheme designed to incentivise key members of the IHG executive team to realise significant stretch synergies on formation of the Independent Hardware Group ('IHG') following the acquisition of the Home Timber & Hardware Group ('HTH') on 2 October 2016.

The incentive was subject to three performance hurdles being: (1) a minimum FY18 EBIT target, (2) the achievement of a minimum level of operating synergies in FY18 and (3) a minimum FY19 EBIT target (including synergies realisation), which was aligned to the integration strategy approved by the Board at the time of the HTH acquisition.

During FY18, IHG delivered the FY18 EBIT target and realised maximum IHG synergies. Accordingly, the total incentive paid to Mr Laidlaw in FY17 and FY18 for the first two performance hurdles was \$706,894.

FY19 outcomes

IHG delivered an FY19 EBIT result that met the third performance hurdle. The remaining incentive due to Mr Laidlaw for FY19 is \$348,172 which is payable on 12 July 2019.

3.2.4. Total remuneration mix

The chart below outlines the FY19 remuneration mix for KMP. Each remuneration component is shown as a percentage of total remuneration measured at Target and for Maximum earnings opportunity. LTI values have been measured at grant date, based on the face value of incentives granted in FY19.

The KMP remuneration mix transition was completed in FY19 with Fixed Pay (TEC) and STI reducing and long term 'at risk' pay increasing as a proportion of total remuneration. KMP remuneration weighting as a percentage of TEC during FY19 was as follows:

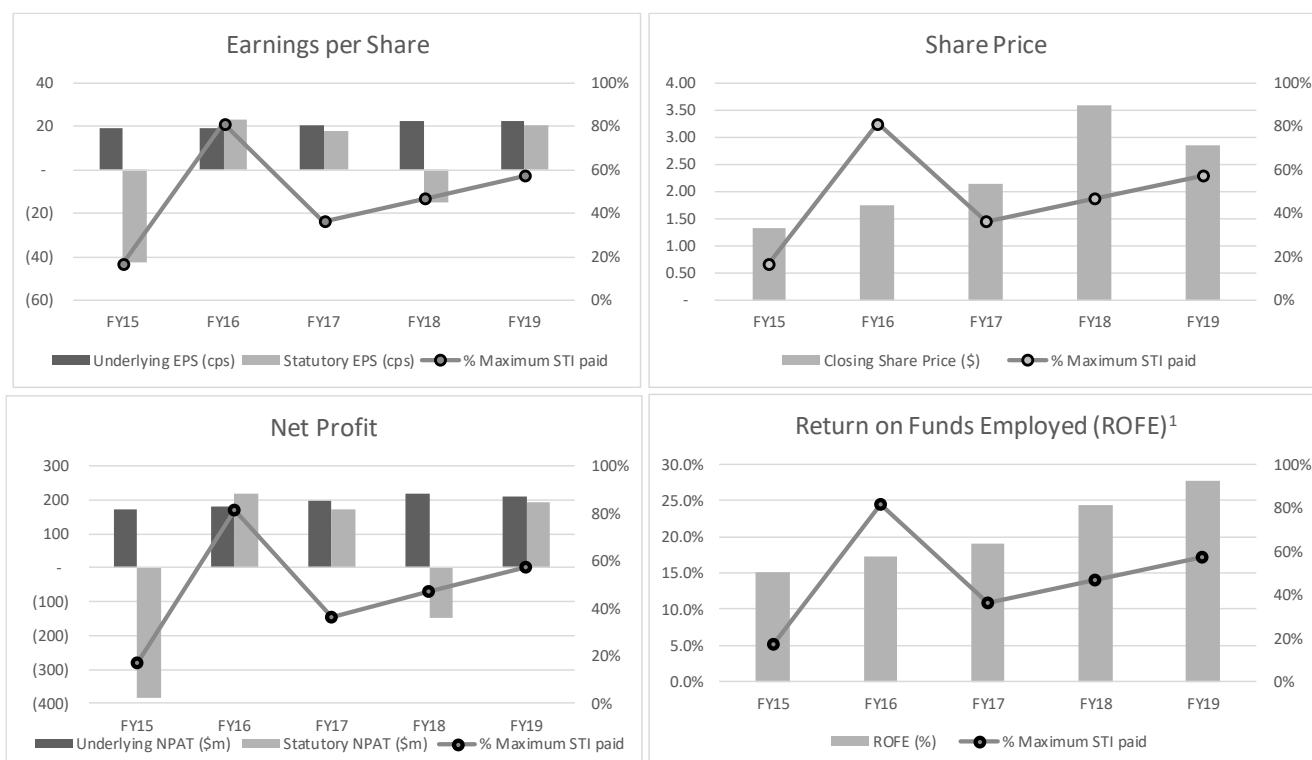
	Target			Maximum		
	TEC	STI	LTI	TEC	STI	LTI
J Adams	43%	29%	28%	32%	47%	21%
B Soller	46%	23%	31%	36%	40%	24%
S Marshall	46%	23%	31%	36%	40%	24%
M Laidlaw ¹	45%	23%	32%	35%	40%	25%

¹ M Laidlaw's LTI excludes \$348,172 of IHG Incentive granted in FY17.

4. FY19 performance and remuneration outcomes

4.1. Group performance and at-risk remuneration outcomes FY15-FY19

The charts below show Metcash financial performance and percentage of maximum STI paid to KMP in the five-year period ended 30 April 2019.



¹ ROFE is calculated based on an average of opening and closing funds employed and based on underlying earnings.

Other Group performance metrics during this period were as follows.

Financial year	FY15 ⁽¹⁾	FY16 ⁽¹⁾	FY17 ⁽¹⁾	FY18	FY19
Revenue (\$b)	11.6	11.7	12.3	12.4	12.7
Gearing ratio (net hedged) (%)	36.6%	16.8%	4.7%	(3.2)%	3.3%
Dividends declared per share (cents)	6.5	-	4.5	13.0	13.5
Average STI payments to KMP as a % of maximum	17.1%	78.9%	36.0%	47.0%	57.5%

⁽¹⁾ The revenue numbers for FY15, FY16 and FY17 have been adjusted to ensure comparability with the FY18 and FY19 numbers, which incorporate changes arising from AASB 15 *Revenue from Contracts with Customers*. Please refer Appendix A for further information.

STI payments in FY15 were low as Food did not meet its sales and EBIT targets resulting in nil payments for participants, whereas FY16 STI reflected improved profitability levels and a significant increase in share price during the year. In FY17, the Food pillar performed below threshold level, the Liquor pillar performed at target level and the Hardware pillar delivered earnings in excess of target.

In FY18, Hardware and Corporate delivered EBIT results at or above the maximum hurdle. The Liquor pillar performed at target level and the Food pillar performed between threshold and target. Taking into account the impairment of goodwill, the Board applied its discretion to the KMP STI payments which were paid at an average of 47% of maximum.

In FY19, the Group delivered EBIT results that were marginally above target level. The Food and Hardware pillars performed marginally above target level and the Liquor pillar performed at target.

The IHG Integration Incentive and the expected partial vesting of the FY17-FY19 LTI were the only LTI programs that vested during this five-year period.

Directors' report continued

For the year ended 30 April 2019

4.2. Actual FY19 KMP remuneration

The table below reflects actual cash payments made or due to KMP in respect of performance during FY19. The table does not comply with IFRS requirements. The required statutory disclosures are shown in section 7 of this report:

KMP	Total employment cost \$	STI ¹ \$	LTI ^{2, 3} \$	Total \$
J Adams	1,800,000	1,600,000	-	3,400,000
B Soller	889,341	575,000	453,505	1,917,846
S Marshall	864,167	600,000	386,812	1,850,979
M Laidlaw	750,000	400,000	723,447	1,873,447

¹ Cash incentive payable relating to FY19 performance under the Company's STI scheme, as set out in table 4.3.

² The FY17-FY19 LTI is expected to vest during FY20 subject only to the KMP remaining in employment until 15 August 2019. The amounts presented above are based on the expected number of rights that will vest multiplied by the volume weighted average price of Metcash shares during the 20 trading days preceding the end of the FY19 financial year.

³ M Laidlaw's LTI includes the IHG integration incentive.

4.3. FY19 STI outcomes

KMP	Target potential STI \$	Maximum potential STI \$	STI awarded % of maximum	STI awarded \$	Maximum STI forfeited \$
J Adams	1,200,000	2,700,000	59.3%	1,600,000	1,100,000
B Soller	446,250	1,004,063	57.3%	575,000	429,063
S Marshall	432,083	972,188	61.7%	600,000	372,188
M Laidlaw	375,000	843,750	47.4%	400,000	443,750

5. KMP service agreements

Name	Agreement term	Executive notice	Metcash notice	Redundancy
J Adams	Four years (based on current 457 visa limitations) ¹	12 months	12 months	12 months
B Soller	Ongoing unless notice given	3 months	6 months	6 months
S Marshall	Ongoing unless notice given	12 months	12 months	12 months
M Laidlaw	Ongoing unless notice given	3 months	9 months	Metcash notice + 6 months

¹ Mr Adams' visa expires in August 2021.

In the event of cessation of employment, a KMP's unvested performance rights will ordinarily lapse, however, this is subject to Board discretion which may be exercised in circumstances such as death and disability, retirement, redundancy or special circumstances.

In some circumstances surrounding termination of employment, the Group may require individuals to enter into non-compete arrangements with the Group. These arrangements may require a payment to the individual.

Directors' report continued

For the year ended 30 April 2019

6. Non-executive Director remuneration

6.1. Policy

The objectives of Metcash's policy regarding Non-executive Director fees are:

- To preserve the independence of Non-executive Directors by not including any performance-related element; and
- To be market competitive with regard to Non-executive Director fees in comparable ASX-listed companies and to the time and professional commitment in discharging the responsibilities of the role.

To align individual interests with shareholders' interests, Non-executive Directors are encouraged to hold Metcash shares. Non-executive Directors fund their own share purchases and must comply with Metcash's share trading policy.

6.2. Structure of Non-executive Director remuneration

Non-executive Director remuneration is structured as follows:

- All Non-executive Directors are paid a fixed annual fee;
- The Board Chair is paid a fixed annual fee which is inclusive of all Board, Chair and Committee work;
- except for the Board Chair, additional fees are paid to Non-executive Directors who chair or participate in Board Committees;
- Non-executive Directors are not entitled to participate in the Group's short or long-term incentive schemes; and
- No additional benefits are paid to Non-executive Directors upon retirement from office.

6.3. Aggregate fee limit

Non-executive Director fees are limited to a maximum aggregate amount approved by shareholders. The current \$1,600,000 limit was approved in 2012.

The People & Culture Committee is responsible for reviewing and recommending Non-executive Director fees.

The Non-executive Director fees were increased in FY19 based on a full benchmarking process performed by Aon Hewitt. The FY19 fees are currently set at a level, on average, below the benchmarked market median. Notwithstanding, the Board has determined that there will be no fee increases in FY20.

6.4. Non-executive Director fee structure

	FY19 \$ ¹	FY18 \$ ¹
Board		
Chair	429,975	409,500
Non-executive Director	145,721	138,782
Committee		
Audit, Risk & Compliance		
Chair	34,817	33,159
Member	15,661	14,916
People & Culture		
Chair	34,817	33,159
Member	15,661	14,916
Nomination		
Chair	-	-
Member	-	-

¹ Per annum fees as at the end of the financial year, including superannuation.

Directors' report continued

For the year ended 30 April 2019

6.5. Non-Executive Director remuneration

Name	Financial year	Fees \$	Superannuation \$	Total \$
R Murray	FY19	409,523	20,452	429,975
	FY18	389,520	19,980	409,500
F Balfour	FY19	164,875	15,663	180,538
	FY18	157,024	14,917	171,941
A Brennan	FY19	147,381	14,001	161,382
	FY18	14,396	1,368	15,764
T Dwyer	FY19	162,296	15,418	177,714
	FY18	140,363	13,335	153,698
M Jordan	FY19	161,683	15,360	177,043
	FY18	153,985	14,629	168,614
H Nash	FY19	147,381	14,001	161,382
	FY18	140,363	13,335	153,698
P Allaway (retired)	FY19	27,479	2,611	30,090
	FY18	157,024	14,917	171,941
Total	FY19	1,220,618	97,506	1,318,124
	FY18	1,152,675	92,481	1,245,156

Directors' report continued

For the year ended 30 April 2019

7. Statutory disclosures

7.1. Fixed and at-risk remuneration

FY19	Fixed remuneration \$	STI \$	Relocation benefits \$	Superannuation \$	Leave ¹ \$	LTI (share-based payments) \$	LTI (cash) \$	Total \$	Performance related %
J Adams	1,800,000	1,600,000	-	-	34,659	219,409	-	3,654,068	49.8%
B Soller	868,889	575,000	-	20,452	(62,167)	108,173	-	1,510,347	45.2%
S Marshall	843,715	600,000	-	20,452	53,117	90,555	-	1,607,839	42.9%
M Laidlaw	729,548	400,000	-	20,452	(13,659)	95,059	348,172	1,579,572	53.4%
Total	4,242,152	3,175,000	-	61,356	11,950	513,196	348,172	8,351,826	48.3%

¹ Including changes in annual and long service leave entitlements.

FY18	Fixed remuneration \$	STI \$	Relocation benefits \$	Superannuation \$	Leave ⁴ \$	LTI (share-based payments) \$	LTI (cash) \$	Total \$	Performance related %
KMPs employed as at 30 April 2018									
J Adams ¹	724,932	494,118	68,342	-	(34,706)	136,813	-	1,389,499	50.2%
B Soller	830,020	841,500	-	19,980	(3,448)	212,794	-	1,900,846	55.5%
S Marshall	720,689	486,850	-	19,980	96,786	179,135	-	1,503,440	44.3%
M Laidlaw	722,246	820,000	-	19,980	21,503	173,792	593,527	2,351,048	67.5%
KMPs resigned/retired as at 30 April 2018									
I Morrice ²	1,063,135	776,438	-	11,933	131,159	751,214	-	2,733,879	55.9%
S Cain ³	1,075,524	-	-	17,461	2,766	(911,602)	-	184,149	-
Total	5,136,546	3,418,906	68,342	89,334	214,060	542,146	593,527	10,062,861	45.9%

¹ Mr Adams commenced employment on 4 September 2017 and was appointed as Executive Director and Group CEO on 5 December 2017, with fixed remuneration set at \$1,800,000 per annum. The amount disclosed above reflects Mr Adams' total remuneration for the period from 5 December 2017 to 30 April 2018 as KMP. In addition, Mr Adams received total fixed remuneration of \$467,925 and actual STI award of \$305,882 as non-KMP for the period from 4 September 2017 to 4 December 2017.

² Mr Morrice was Group CEO from 1 May 2017 to 5 December 2017 and ceased employment on 23 June 2018. The amount disclosed above reflects Mr Morrice's total remuneration for the period from 1 May 2017 to 5 December 2017 as KMP. In addition, Mr Morrice received total fixed remuneration of \$724,932 and actual STI award of \$523,562 as non-KMP for the period from 6 December 2017 to 30 April 2018.

³ Mr Cain resigned as CEO Supermarkets and Convenience effective 15 March 2018 and ceased employment on 14 September 2018. The amount disclosed above reflects Mr Cain's total fixed remuneration from 1 May 2017 to 15 March 2018 as KMP. In addition, Mr Cain received total fixed remuneration of \$690,746 as non-KMP for the period from 16 March 2018 to 14 September 2018.

⁴ Including changes in annual and long service leave entitlements.

Directors' report continued

For the year ended 30 April 2019

7.2. KMP performance rights holdings

Name	Balance at 1 May 2018	Granted during the year	Balance at 30 April 2019	Balance at report date
J Adams	467,804	368,098	835,902	835,902
B Soller	373,162	182,514	555,676	555,676
S Marshall	318,286	182,514	500,800	500,800
M Laidlaw	308,792	161,042	469,834	469,834
Total	1,468,044	894,168	2,362,212	2,362,212

The FY17-FY19 LTI plan is expected to partially vest at 90% subject only to the KMP remaining in employment until 15 August 2019. The vested performance rights will be converted to shares and allocated to KMP on 15 August 2019.

7.3. KMP shareholdings

Name	Balance at 1 May 2018	On market trade	Other adjustments ¹	Balance at 30 April 2019	Balance at report date
Directors					
R Murray	64,005	20,000	-	84,005	84,005
J Adams	-	-	-	-	-
F Balfour	87,804	-	-	87,804	87,804
A Brennan	-	21,000	-	21,000	21,000
T Dwyer	40,000	20,000	-	60,000	60,000
M Jordan	23,041	19,610	-	42,651	42,651
H Nash	37,431	-	-	37,431	37,431
P Allaway (retired)	206,786	-	(206,786)	-	-
Executives					
B Soller	17,582	-	-	17,582	17,582
M Laidlaw	157,752	-	-	157,752	157,752
S Marshall	53,978	-	-	53,978	53,978
Total	688,379	80,610	(206,786)	562,203	562,203

¹ Reflecting changes in KMP composition following retirement or resignation.

8. Minimum shareholding guidelines

Minimum shareholding guidelines have been implemented for all KMPs commencing as of the effective date specified below or upon the date of appointment as KMP, whichever occurs later.

Position	Value	Time to achieve	Effective date
Chair	1 x annual base fees	5 years	1 May 2018
Directors	1 x annual base fees	5 years	1 May 2018
Group CEO	1 x TEC	5 years	1 May 2018
Other KMPs	0.5 x TEC	5 years	1 May 2019

This concludes the Remuneration Report.

Other disclosures

Unissued shares under share options and performance rights

At the date of this report, there were 6,532,863 performance rights (6,493,599 at the reporting date). There were no share options on issue at the reporting date or at the date of this report. Refer to note 18 of the financial statements for further details regarding performance rights.

Shares issued as a result of options and performance rights

No shares in the Company were issued to employees or executives during or since the end of the financial year in respect of the exercise of options or performance rights.

Officers of the Company who are former partners of Ernst & Young

Non-executive Director, Anne Brennan, is a former partner of Ernst & Young. There are no other officers of the Company who are former partners of Ernst & Young.

Non-audit services

The following non-audit services were provided by the entity's auditor, EY Australia. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

The auditor's independence declaration for the year ended 30 April 2019 has been received and is included on page 102.

EY received or are due to receive \$318,000 for the provision of non-audit services relating to tax compliance and advisory.

Subsequent events

Other than matters disclosed in this report, there were no events that have occurred after the end of the financial 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.

A handwritten signature in black ink, appearing to read 'Jeff Adams', with a stylized, flowing script.

Jeff Adams

Director

Sydney, 24 June 2019

Statement of comprehensive income

For the year ended 30 April 2019

	Notes	FY19 \$m	FY18 \$m
Sales revenue		12,660.3	12,442.2
Cost of sales		(11,382.6)	(11,155.3)
Gross profit		1,277.7	1,286.9
Other income	3	96.0	101.2
Distribution costs		(493.9)	(495.1)
Administrative costs		(550.9)	(554.4)
Share of profit of equity-accounted investments	7	4.7	0.6
Significant items	3	(25.0)	(380.1)
Finance costs	3	(32.5)	(31.0)
Profit/(loss) before income tax		276.1	(71.9)
Income tax expense	4	(81.0)	(73.5)
Net profit/(loss) for the year		195.1	(145.4)
Net profit/(loss) for the year is attributable to:			
Equity holders of the parent		192.8	(148.2)
Non-controlling interests		2.3	2.8
		195.1	(145.4)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss		(1.3)	0.9
Other comprehensive income for the year, net of tax		(1.3)	0.9
Total comprehensive income/(loss) for the year		193.8	(144.5)
Total comprehensive income/(loss) for the year is attributable to:			
Equity holders of the parent		191.5	(147.3)
Non-controlling interests		2.3	2.8
		193.8	(144.5)
Earnings/(loss) per share attributable to the ordinary equity holders of the Company:			
Basic earnings/(loss) per share (cents)	21	20.8	(15.2)
Diluted earnings/(loss) per share (cents)	21	20.7	(15.2)

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

The financial results for FY18 were retrospectively restated upon the initial adoption of AASB 15 Revenue from Contracts with Customers. Refer Appendix A for a further description of the restatement.

Statement of financial position

As at 30 April 2019

	Notes	FY19 \$m	FY18 \$m
ASSETS			
Current assets			
Cash and cash equivalents		142.6	161.2
Trade receivables and loans	6	1,493.2	1,478.1
Inventories		779.3	754.1
Assets held for sale		11.4	11.3
Other financial assets		0.4	0.6
Total current assets		2,426.9	2,405.3
Non-current assets			
Trade receivables and loans	6	16.1	20.1
Equity-accounted investments	7	87.7	88.3
Property, plant and equipment	8	225.8	215.5
Net deferred tax assets	4	116.6	123.6
Intangible assets and goodwill	9	793.5	792.3
Other financial assets		-	10.1
Total non-current assets		1,239.7	1,249.9
TOTAL ASSETS		3,666.6	3,655.2
LIABILITIES			
Current liabilities			
Trade and other payables		1,967.7	1,903.6
Interest bearing borrowings	10	1.9	1.9
Provisions	11	123.9	126.4
Income tax payable		13.6	15.5
Other financial liabilities		6.7	7.4
Total current liabilities		2,113.8	2,054.8
Non-current liabilities			
Interest bearing borrowings	10	183.6	127.1
Provisions	11	115.9	137.6
Other financial liabilities		3.2	1.5
Total non-current liabilities		302.7	266.2
TOTAL LIABILITIES		2,416.5	2,321.0
NET ASSETS		1,250.1	1,334.2
EQUITY			
Contributed equity	12	559.2	600.0
Retained earnings		682.1	726.2
Other reserves	12	(0.8)	(0.7)
Parent interest		1,240.5	1,325.5
Non-controlling interests		9.6	8.7
TOTAL EQUITY		1,250.1	1,334.2

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

The financial position as at FY18 was retrospectively restated upon the initial adoption of AASB 15 Revenue from Contracts with Customers. The financial position as at FY18 was not retrospectively restated for AASB 9 Financial Instruments which was adopted in FY19.

Refer Appendix A for a further description of the restatement.

Statement of changes in equity

For the year ended 30 April 2019

	Contributed equity \$m	Retained earnings \$m	Other reserves \$m	Owners of the parent \$m	Non- controlling interests \$m	Total equity \$m
Balance at 30 April 2018, as previously reported	600.0	780.6	(0.7)	1,379.9	8.7	1,388.6
Adjustment arising from adoption of AASB 15						
Revenue from Contracts with Customers	-	(54.4)	-	(54.4)	-	(54.4)
Balance at 1 May 2018, restated	600.0	726.2	(0.7)	1,325.5	8.7	1,334.2
Total comprehensive income/(loss)	-	192.8	(1.3)	191.5	2.3	193.8
Transactions with owners						
Dividends paid (Note 5)	-	(127.4)	-	(127.4)	(1.4)	(128.8)
Share buyback and related costs (Note 12)	(40.8)	(109.5)	-	(150.3)	-	(150.3)
Share-based payments	-	-	1.2	1.2	-	1.2
Balance at 30 April 2019	559.2	682.1	(0.8)	1,240.5	9.6	1,250.1
Balance at 1 May 2017, as previously reported	1,719.3	(87.7)	(3.0)	1,628.6	8.8	1,637.4
Adjustment arising from initial adoption of AASB 15						
Revenue from Contracts with Customers	-	(54.2)	-	(54.2)	-	(54.2)
Balance at 1 May 2017, restated	1,719.3	(141.9)	(3.0)	1,574.4	8.8	1,583.2
Total comprehensive income/(loss), net of tax, restated	-	(148.2)	0.9	(147.3)	2.8	(144.5)
Transactions with owners						
Dividends paid (Note 5)	-	(102.4)	-	(102.4)	(2.9)	(105.3)
Capital reduction	(1,119.3)	1,119.3	-	-	-	-
Share-based payments	-	-	2.3	2.3	-	2.3
Transfers	-	0.9	(0.9)	-	-	-
Balance at 30 April 2018, restated	600.0	727.7	(0.7)	1,327.0	8.7	1,335.7
Adjustment arising from initial adoption of AASB 9						
Financial Instruments	-	(1.5)	-	(1.5)	-	(1.5)
Balance at 1 May 2018, restated	600.0	726.2	(0.7)	1,325.5	8.7	1,334.2

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

The Statement of Changes in Equity for FY18 was retrospectively restated upon the initial adoption of AASB 15 Revenue from Contracts with Customers while AASB 9 Financial Instruments was adopted without restating comparatives. Refer Appendix A for a further description of the restatement.

During FY18, Metcash Limited, the Parent Company of the Group, undertook a capital reduction to reduce its share capital by \$2,551.1 million to \$600.0 million, in accordance with section 258F of the Corporations Act 2001. The reduction was allocated in full to the accumulated losses account in the Parent Company with no impact on the net assets of either the Parent Company or the Group. On consolidation, the share capital of the Group has been adjusted by \$1,119.3 million to reflect the revised share capital of the Parent Company. Refer note 19 for further information on the standalone financial statements of the Parent Company.

Statement of cash flows

For the year ended 30 April 2019

	Notes	FY19 \$m	FY18 \$m
Cash flows from operating activities			
Receipts from customers		15,852.4	15,671.4
Payments to suppliers and employees		(15,513.1)	(15,310.3)
Interest and dividends, net		(21.2)	(19.2)
Income tax paid, net of tax refunds		(73.2)	(65.6)
Net cash generated from operating activities	13	244.9	276.3
Cash flows from investing activities			
Proceeds from sale of businesses and assets		7.0	10.5
Payments for acquisition of business assets		(54.2)	(34.7)
Payments for acquisition of businesses		(11.8)	(15.9)
Proceeds from loans repaid by other entities		16.1	13.0
Loans provided to other entities		(5.0)	(16.7)
Net cash used in investing activities		(47.9)	(43.8)
Cash flows from financing activities			
Proceeds from/(repayments of) borrowings, net		63.5	(62.5)
Payment for off-market buyback of shares, including costs	12	(150.3)	-
Payment of dividends to owners of the parent		(127.4)	(102.4)
Payment of dividends to non-controlling interests		(1.4)	(2.9)
Net cash used in financing activities		(215.6)	(167.8)
Net increase/(decrease) in cash and cash equivalents		(18.6)	64.7
Add opening cash and cash equivalents		161.2	96.5
Cash and cash equivalents at the end of the year		142.6	161.2

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

The Statement of Cash Flows for FY18 was retrospectively restated upon the initial adoption of AASB 15 Revenue from Contracts with Customers. Refer Appendix A for a further description of the restatement.

Notes to the financial statements

For the year ended 30 April 2019

1. Corporate information

The financial statements of Metcash Limited (the 'Company') and its controlled entities (together the 'Group') for the year ended 30 April 2019 were authorised for issue in accordance with a resolution of the Directors on 24 June 2019.

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 nature of the operations and principal activities of the Group are described in the Directors' Report. The registered office of the Company is 1 Thomas Holt Drive, Macquarie Park NSW 2113.

The financial position and results of the Group for FY18 were retrospectively restated upon the initial adoption of AASB 15 *Revenue from Contracts with Customers* while AASB 9 *Financial Instruments* was adopted without restating comparatives. Refer Appendix A for a further description of the restatement.

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

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** 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 independent retail outlets and hotels.
- **Hardware** activities comprise the distribution of hardware products to independent retail outlets and the operation of company owned retail stores.

The Group operates predominantly in Australia. The Group has operations in New Zealand that represent 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	
	FY19 \$m	FY18 \$m	FY19 \$m	FY18 \$m
Food	7,836.4	7,831.8	182.7	188.3
Liquor	3,658.8	3,467.1	71.2	70.3
Hardware	1,165.1	1,143.3	81.2	69.3
Segment results	12,660.3	12,442.2	335.1	327.9
Corporate (a)			(5.1)	6.7
Group earnings before interest and tax ('EBIT')			330.0	334.6
Net finance costs			(28.9)	(26.4)
Significant items (note 3)			(25.0)	(380.1)
Net profit/(loss) before tax			276.1	(71.9)

- (a) The positive Corporate result of \$6.7 million in the prior year is due to the reversal of a provision against the Huntingwood, NSW DC hail insurance claim which was settled in FY18.

Notes to the financial statements continued

For the year ended 30 April 2019

3. Revenue and expenses

	FY19 \$m	FY18 \$m
(i) Other income		
Lease income - rent	70.7	72.0
Lease income - outgoing recoveries	18.8	20.2
Interest income	3.6	4.6
Net gain from disposal of business and plant and equipment	2.9	1.6
Net gain from disposal of property	-	2.8
	96.0	101.2
(ii) Operating lease expenses		
Property rent – stores	84.7	89.5
Property rent - warehouse and other properties	81.5	81.7
Property outgoing	59.5	60.0
Equipment and other leases	21.3	22.7
	247.0	253.9
(iii) Employee benefit expenses		
Salaries and wages	552.9	559.0
Superannuation expense	41.4	40.0
Share-based payments	1.2	2.3
Other employee benefit expenses	44.2	45.6
	639.7	646.9
(iv) Depreciation and amortisation		
Depreciation of property, plant and equipment	29.3	29.7
Amortisation of software	22.4	20.5
Amortisation of other intangible assets	4.7	6.4
	56.4	56.6
(v) Provisions for impairment, net of reversals		
Trade receivables and loans	5.4	6.7
Inventories	13.0	15.1
Assets held for sale	0.1	1.7
Equity-accounted investments	1.7	-
Property, plant and equipment	(0.5)	3.4
Intangible assets	0.9	0.1
Property lease and onerous contracts provisions	(13.3)	(8.0)
	7.3	19.0
(vi) Finance costs		
Interest expense	17.4	14.8
Transaction fees in relation to customer charge cards (note 6)	7.4	8.4
Deferred borrowing costs	1.2	0.9
Finance costs from discounting of provisions	6.5	6.9
	32.5	31.0

Notes to the financial statements continued

For the year ended 30 April 2019

3. Revenue and expenses (continued)

	FY19 \$m	FY18 \$m
(vii) Significant items		
South Australia distribution centre (SADC) costs	5.6	-
Working Smarter restructuring costs	19.4	11.0
HTH acquisition and integration costs	-	17.0
Impairment of assets	-	352.1
Total significant items	25.0	380.1
Income tax benefit attributable to significant items	(7.5)	(15.0)
Total significant items after tax	17.5	365.1

South Australia distribution centre (SADC) costs

During the year, the Group entered into an agreement for the construction of a new distribution centre in South Australia, which is expected to be completed in the second half of 2020. The Group incurred \$5.6 million (FY18: nil) of transition costs during the year, which are associated with the program and are non-routine in nature, such as lease tail and make good provisions, redundancies and project management costs. These costs are separately disclosed within significant items to enable a better understanding of the Group's results.

Working Smarter restructuring costs

FY19 was the final year of the Working Smarter Program. During the current year, the Group incurred \$19.4 million (FY18: \$11.0 million) of implementation costs in relation to the program. These costs are separately disclosed within significant items to enable a better understanding of the Group's results. Implementation costs are directly associated with the program and are non-routine in nature, such as redundancies, restructuring costs, DC closure costs and advisor fees. Working Smarter costs in FY19 include \$8.5 million of costs incurred by the Hardware pillar, principally related to the closure of DCs.

HTH acquisition and integration costs

During FY18, the Group incurred \$17.0 million of costs related to the integration of Home Timber and Hardware (HTH) business into the existing Hardware business. As noted above, the Hardware pillar continues to deliver integration-related savings and the costs associated with implementing these have been included in Working Smarter restructuring costs in FY19.

Impairment of assets

In FY18, the loss of a long-term commitment with Drakes Supermarkets group in South Australia and the intensifying economic and competitive environment, particularly in Western Australia, resulted in the recognition of an impairment expense of \$352.1 million against the carrying value of assets in the Food segment. The impairment expense predominantly related to goodwill and other intangible assets, but also included certain residual tangible assets and lease exposures.

Notes to the financial statements continued

For the year ended 30 April 2019

4. Income tax

	FY19 \$m	FY18 \$m
Major components of income tax expense		
Current income tax charge	73.0	87.6
Adjustments in respect of income tax of previous years	(1.0)	(3.1)
Deferred income tax relating to origination and reversal of temporary differences	9.0	(11.0)
Total income tax expense	81.0	73.5
Reconciliation of income tax expense from continuing operations		
Accounting profit/(loss) before income tax	276.1	(71.9)
At the Group's statutory income tax rate of 30% (FY18: 30%)	82.8	(21.5)
Impairment of goodwill and other assets	-	99.1
Other assessable income	1.1	-
Other amounts not assessable/allowable for income tax purposes	(1.9)	(1.0)
Adjustments in respect of income tax of previous years	(1.0)	(3.1)
Income tax expense	81.0	73.5
Components of deferred tax assets		
Provisions	126.7	150.0
Unutilised tax losses	1.1	1.6
Accelerated depreciation for accounting purposes	6.1	6.0
Other	9.5	1.8
Intangible assets	(26.8)	(35.8)
	116.6	123.6
Movements in deferred tax assets		
Opening balance	123.6	118.3
(Charged)/credited to net profit for the year	(9.0)	11.0
Credited/(charged) to other comprehensive income for the year	0.3	(0.3)
Tax benefit associated with share issue costs	0.2	-
Adjustments related to business combinations	1.5	(5.4)
Closing balance	116.6	123.6

The Group has unrecognised gross capital losses of \$13.4 million (FY18: \$14.0 million) that are available indefinitely for offset against future capital gains.

Tax consolidation

Metcash Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2005. Metcash Limited is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a modified standalone basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group in accordance with a group allocation method using modified standalone tax calculations as the basis for allocation. Deferred taxes of members of the tax consolidated group are measured and recognised in accordance with the principles of AASB 112 *Income Taxes*.

Under the tax funding agreement, funding is based upon the amounts allocated and recognised by the member entities. Accordingly, funding results in an increase/decrease in the subsidiaries' intercompany accounts with the tax consolidated group head company, Metcash Limited.

Notes to the financial statements continued

For the year ended 30 April 2019

5. Dividends

	FY19 \$m	FY18 \$m
Dividends paid on ordinary shares during the year		
Final fully franked dividend for FY18: 7.0c (FY17: 4.5c)	68.3	43.9
Interim fully franked dividend for FY19: 6.5c (FY18: 6.0c)	59.1	58.5
	127.4	102.4
Dividends determined (not recognised as a liability as at 30 April)		
Final fully franked dividend for FY19: 7.0c (FY18: 7.0c)	63.7	68.3

On 24 June 2019, the Board determined to pay a fully franked FY19 final dividend of 7.0 cents per share, sourced from the profit reserve established by Metcash Limited (Parent Company), with a record date of 10 July 2019 and payable in cash on 7 August 2019. The Dividend Reinvestment Plan remains suspended with effect from 26 June 2017.

Franking credit balance of Metcash Limited

	FY19 \$m	FY18 \$m
Franking account balance as at the end of the financial year at 30% (FY18: 30%)	174.1	211.2
Franking credits that will arise from the payment of income tax payable at the reporting date	11.3	24.1
Franking credits on dividends determined but not distributed to shareholders during the year	(27.2)	(29.3)
	158.2	206.0

6. Trade receivables and loans

	FY19 \$m	FY18 \$m
Current		
Trade receivables - non-securitised	1,169.5	354.1
Trade receivables - securitised	-	769.4
Allowance for impairment loss	(63.4)	(52.5)
Trade receivables	1,106.1	1,071.0
Customer charge cards agreement (a)	223.7	274.0
Other receivables and prepayments	142.7	113.5
Trade and other receivables	1,472.5	1,458.5
Customer loans	26.3	27.1
Allowance for impairment loss	(5.6)	(7.5)
Customer loans	20.7	19.6
Total trade receivables and loans – current	1,493.2	1,478.1
Non-current		
Customer loans	16.1	28.1
Allowance for impairment loss	-	(8.1)
Customer loans	16.1	20.0
Other receivables	-	0.1
Total trade receivables and loans – non-current	16.1	20.1

(a) Amounts receivable under the customer charge card agreements are fully offset by a corresponding amount included in trade and other payables and are described below.

Notes to the financial statements continued

For the year ended 30 April 2019

6. Trade receivables and loans (continued)

Movements in allowance for impairment loss

	FY19 \$m	FY18 \$m
Opening balance	68.1	74.7
Charged as an expense during the year	5.4	9.4
Accounts written off as non-recoverable	(3.8)	(16.0)
Related to acquisitions and disposals of businesses and other movements	(0.7)	(2.2)
Closing balance	69.0	65.9
Adjustment arising from initial adoption of AASB 9 (Appendix A)	-	2.2
Adjusted closing balance	69.0	68.1

Weighted average interest

Trade and other receivables are non-interest bearing and repayment terms vary by business unit. As at 30 April 2019, \$3.1 million (FY18: \$4.4 million) of customer loans are non-interest bearing and \$39.3 million (FY18: \$50.8 million) of customer loans have a weighted average annual interest rate of 8.6% (FY18: 8.2%).

Maturity of trade receivables

At 30 April 2019, 92.3% of trade receivables are either due or required to be settled within 30 days (FY18: 86.2%), 7.4% have terms extending from 30 to 60 days (FY18: 13.1%) and 0.3% have terms greater than 60 days (FY18: 0.7%).

Trade receivables securitisation facility

At the FY18 balance sheet date, the Group had a \$100.0 million debt securitisation facility in place, which granted an equitable interest in certain trade receivables to a special purpose trust managed by a major Australian bank. The facility was discontinued during the current financial year. Accordingly, the carrying value of trade receivables securitised under this arrangement at FY19 is nil (FY18: \$769.4 million).

Customer charge cards agreement

Under an agreement between Metcash and American Express (Amex), eligible retail customers make trade purchases from Metcash using their Amex customer charge cards. Metcash's trade receivable is settled in full by Amex. Amex subsequently collects the amounts outstanding on the customer charge cards directly from the retailers.

Under the agreement, in the event a customer defaults on their payment obligation to Amex, Metcash must reacquire the trade receivable from Amex. The maximum amount payable by Metcash to Amex is limited to the actual face value of the outstanding trade receivable and does not include any interest or any other costs incurred by Amex. Once reacquired, Metcash will seek to collect the trade receivable from the retail customer through its normal credit processes.

The agreement operates on an evergreen basis until either Metcash or Amex provides a 12 month notice of cancellation. The earliest date on which the agreement could be cancelled is 6 October 2021.

The customer charge cards agreement is presented as part of current trade receivables and a matching current liability of \$223.7 million (FY18: \$274.0 million) is included within trade and other payables, with no impact to the Group's net assets.

Customer loan security

The Group has access to security against most customer loans in the event of default. Security held may include bank and personal guarantees, fixed and floating charges and security over property and other assets. Due to the large number and the varied nature of security held, their fair value cannot be practicably estimated. The fair value of the security against a loan is determined when the loan is not deemed to be recoverable and a provision for impairment is raised to cover any deficit in recoverability.

Notes to the financial statements continued

For the year ended 30 April 2019

6. Trade receivables and loans (continued)

Ageing of unimpaired trade receivables and loans

Days overdue	Trade receivables (a)		Customer loans		Other receivables and prepayments	
	\$m	%	\$m	%	\$m	%
At 30 April 2019						
Neither past due nor impaired	1,228.2	92.4%	23.1	62.8%	142.7	100.0%
Less than 30 days	73.7	5.4%	0.4	1.1%	-	-
Between 30 and 60 days	12.0	0.9%	-	-	-	-
Between 60 and 90 days	7.4	0.6%	0.2	0.5%	-	-
Between 90 and 120 days	4.7	0.4%	0.2	0.5%	-	-
More than 120 days	3.8	0.3%	12.9	35.1%	-	-
Total	1,329.8	100.0%	36.8	100.0%	142.7	100.0%
At 1 May 2018 (restated)						
Neither past due nor impaired	1,256.2	93.4%	28.9	73.0%	113.3	99.7%
Less than 30 days	77.4	5.8%	-	-	0.3	0.3%
Between 30 and 60 days	4.7	0.3%	-	-	-	-
Between 60 and 90 days	2.6	0.2%	0.4	1.0%	-	-
Between 90 and 120 days	2.0	0.1%	0.2	0.5%	-	-
More than 120 days	2.1	0.2%	10.1	25.5%	-	-
Total	1,345.0	100.0%	39.6	100.0%	113.6	100.0%

(a) The ageing profile of trade receivables includes amounts receivable under the customer charge cards agreement.

The Group expects that the unimpaired trade receivables and loans presented above are fully recoverable.

7. Equity-accounted investments

Nature and extent

Appendix D contains key information about the nature and extent of the Group's equity-accounted investments.

Contingent liabilities and commitments

Refer note 14 for details of the Group's contingent liabilities in relation to equity-accounted investments.

Share of investees' profit

In aggregate, the Group's share of income from equity-accounted investments during the year was \$4.7 million (FY18: \$0.6 million), which includes a \$1.4 million (FY18: \$0.2 million) share of income tax expense incurred by the investees.

At the reporting date, the Group's share of unrecognised gains or losses is not material.

Share of investees' net assets

	FY19 \$m	FY18 \$m
Current assets	70.1	78.5
Non-current assets	130.2	118.9
Total assets	200.3	197.4
Current liabilities	(123.7)	(94.9)
Non-current liabilities	(14.0)	(36.6)
Total liabilities	(137.7)	(131.5)
Net assets	62.6	65.9

Notes to the financial statements continued

For the year ended 30 April 2019

8. Property, plant and equipment

	Land & buildings \$m	Plant & equipment \$m	Total \$m
Year ended 30 April 2019			
Opening balance, restated	37.9	177.6	215.5
Additions	-	46.6	46.6
Additions through business combinations	-	3.2	3.2
Disposals	-	(3.5)	(3.5)
Reversals of impairment, net	-	0.5	0.5
Reclassifications	-	(6.9)	(6.9)
Depreciation	(0.3)	(29.3)	(29.6)
Closing balance	37.6	188.2	225.8
At 30 April 2019			
Cost	44.3	403.7	448.0
Accumulated depreciation and impairment	(6.7)	(215.5)	(222.2)
Net carrying amount	37.6	188.2	225.8
Year ended 30 April 2018			
Opening balance, as previously reported	37.9	204.2	242.1
Changes arising from the application of AASB 15	-	(20.1)	(20.1)
Opening balance, restated	37.9	184.1	222.0
Additions	0.1	33.5	33.6
Adjustments from business combinations	-	4.1	4.1
Disposals	-	(0.5)	(0.5)
Impairment	-	(3.4)	(3.4)
Reclassifications	-	(10.6)	(10.6)
Depreciation	(0.1)	(29.6)	(29.7)
Closing balance, restated	37.9	177.6	215.5
At 30 April 2018			
Cost, restated	44.3	376.9	421.2
Accumulated depreciation and impairment, restated	(6.4)	(199.3)	(205.7)
Net carrying amount, restated	37.9	177.6	215.5

Additions to plant and equipment include \$23.8 million (FY18: \$16.0 million) of assets under construction. The closing balance of plant and equipment includes \$33.9 million (FY18: \$19.6 million) of assets under construction.

The carrying value of assets held under finance leases and hire purchase contracts at 30 April 2019 is \$7.8 million (FY18: \$6.0 million).

Notes to the financial statements continued

For the year ended 30 April 2019

9. Intangible assets and goodwill

	Software development costs \$m	Customer contracts \$m	Trade names and other \$m	Goodwill \$m	Total \$m
Year ended 30 April 2019					
Opening balance, restated	59.5	53.7	40.3	638.8	792.3
Additions	11.9	-	-	-	11.9
Additions through business combinations	-	-	-	8.4	8.4
Adjustments to business combinations	-	-	-	2.0	2.0
Impairment	(0.9)	-	-	-	(0.9)
Reclassifications	6.9	-	-	-	6.9
Amortisation	(22.4)	(4.7)	-	-	(27.1)
Closing balance	55.0	49.0	40.3	649.2	793.5
At 30 April 2019					
Cost	278.9	176.1	43.4	1,406.0	1,904.4
Accumulated amortisation and impairment	(223.9)	(127.1)	(3.1)	(756.8)	(1,110.9)
Net carrying amount	55.0	49.0	40.3	649.2	793.5
Year ended 30 April 2018					
Opening balance, as previously reported	65.9	89.1	40.8	956.9	1,152.7
Changes arising from the application of AASB 15	-	(26.3)	-	-	(26.3)
Opening balance, restated	65.9	62.8	40.8	956.9	1,126.4
Additions	7.9	-	-	-	7.9
Additions through business combinations	-	-	-	4.9	4.9
Adjustments to business combinations	(0.7)	-	-	(7.8)	(8.5)
Impairment	(1.6)	(3.0)	(0.2)	(315.2)	(320.0)
Disposals	(0.4)	-	-	-	(0.4)
Reclassifications	8.9	-	-	-	8.9
Amortisation	(20.5)	(6.1)	(0.3)	-	(26.9)
Closing balance, restated	59.5	53.7	40.3	638.8	792.3
At 30 April 2018					
Cost, restated	261.0	176.1	43.4	1,395.6	1,876.1
Accumulated amortisation and impairment, restated	(201.5)	(122.4)	(3.1)	(756.8)	(1,083.8)
Net carrying amount, restated	59.5	53.7	40.3	638.8	792.3

Notes to the financial statements *continued*

For the year ended 30 April 2019

9. Intangible assets and goodwill (continued)

Impairment tests for goodwill and intangibles with indefinite useful lives

Description of cash generating units

Goodwill acquired through business combinations is allocated to the lowest level within the entity at which the goodwill is monitored, being the three cash-generating units (or 'CGU's) - Food, Liquor and Hardware. Indefinite life intangibles primarily comprise trade names and licences.

Allocation to CGUs

The carrying amounts of goodwill and indefinite life intangibles are allocated to the Group's CGUs as follows:

	Allocated goodwill		Trade names and other intangibles		Post-tax discount rates	
	FY19	FY18	FY19	FY18	FY19	FY18
Cash-generating units	\$m	\$m	\$m	\$m	%	%
Food	443.7	440.9	0.2	0.2	11.3%	11.3%
Liquor	119.7	117.4	12.9	12.9	10.1%	10.1%
Hardware	85.8	80.5	27.2	27.2	10.1%	10.1%
	649.2	638.8	40.3	40.3		

Assessment of recoverable amounts

The recoverable amounts were determined based on value-in-use calculations using cash flow projections covering a five year period, which are based on approved strategic plans or forecasts. Estimates beyond the five year period are calculated using terminal growth rates that are applicable to the trading environment in which the CGU operates.

Key assumptions used in assessment

The valuations used to support the carrying amounts of intangible assets are based on forward looking key assumptions that are, by nature, uncertain. The nature and basis of the key assumptions used to estimate future cash flows and the discount rates used in the projections, when determining the recoverable amount of each CGU, are set out below and in the table above:

- Operating cash flows - Operating cash flow projections are extracted from the most recent approved strategic plans or forecasts that relate to the existing asset base. For each CGU, the cash flow projections for a five-year period have been determined based on expectations of future performance. Key assumptions in the cash flows include sales volume growth, costs of sales and costs of doing business. These assumptions are based on expectations of market demand and operational performance.

Cash flow projections are based on risk-adjusted forecasts allowing for estimated changes in the business, the competitive trading environment, legislation and economic growth.

- Discount rates - Discount rates are based on the weighted average cost of capital ('WACC') for the Group adjusted for an asset-specific risk premium assigned to each CGU. The asset-specific risk premium is determined based on risk embedded within the cash flow projections and other factors specific to the industries in which the CGUs operate.

The calculation of WACC is market-driven and key inputs include target capital structure, equity beta, market risk premium, risk-free rate of return and debt risk premium. Pre-tax equivalents of the adopted discount rates are derived iteratively and differ based on the timing and extent of tax cash flows. Pre-tax rates were 16.1% for Food, 14.3% for Liquor and 14.1% for Hardware.

- Terminal growth rates - Cash flows beyond the projection period are extrapolated indefinitely using estimated long-term growth rates applicable to the trading environment in which the CGUs operate. A terminal growth rate of 1.5% was applied to all CGUs.

Results of assessment

Based on the FY19 assessment, no impairment of goodwill was identified in any of the Group's CGUs.

Notes to the financial statements continued

For the year ended 30 April 2019

9. Intangible assets and goodwill (continued)

Sensitivity to changes in key assumptions

The recoverable amount of the Food CGU exceeded its carrying amount by \$81.3 million. The headroom is considered relatively low following an impairment charge of \$315.2 million recorded against the CGU's goodwill in FY18. As a result, while the CGU assessment incorporates adjustments to address cash flow risk, the headroom remains limited and sensitive to reasonably possible changes to key inputs. The following sensitivity changes to the Food CGU are deemed to be reasonably possible and would cause an impairment, assuming all other assumptions are held constant:

- A 9.2% reduction in forecasted EBIT across all projection years, including the terminal year, would reduce headroom to nil.
- An increase in the post-tax discount rate to 12.4% would reduce headroom to nil; or
- A decrease of 160 basis points in the terminal growth rate would reduce the headroom to nil.

Together, any adverse changes in the key inputs would cumulatively result in an impairment. At the assessment date, no reasonably possible change in key assumptions would cause the carrying amounts of the Liquor and Hardware CGUs to exceed their respective recoverable amounts.

10. Interest bearing borrowings

	FY19 \$m	FY18 \$m
Current		
Finance lease obligations	1.9	1.9
	1.9	1.9
Non-current		
Bank loans – syndicated	180.0	90.0
US private placement (USPP)	-	33.9
Finance lease obligations	5.5	3.5
Bilateral loan	1.2	1.2
Deferred borrowing costs	(3.1)	(1.5)
	183.6	127.1

Core borrowing facilities

See note 14 for details of the Group's core borrowing facilities.

Finance lease obligations

Finance leases have an average remaining lease term of 2.5 years with the option to purchase the asset at the completion of the lease term for the asset's market value. The weighted average interest rate implicit in the lease is 4.2% (FY18: 4.2%). Certain lease liabilities are secured by a charge over the leased asset.

Financial covenants

The core borrowings of the Group must comply with two primary covenants which apply to the syndicated bank facilities and the working capital facilities. These covenants are defined in the facility agreements and are summarised as follows: a Fixed Charges Cover Ratio (Underlying Earnings Before Interest, Tax, Depreciation, Amortisation and Net Rent (EBITDAR) divided by Total Net Interest plus Net Rent Expense) and a Senior Leverage Ratio (Total Group Debt divided by Underlying Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)). At the reporting date, there were no defaults or breaches on the Group's core borrowings.

Fair value

The carrying amounts of the Group's borrowings approximate their fair value. The weighted average effective interest rate on the syndicated and working capital loans, including interest rate swaps, at the end of the financial year was 3.4% (FY18: 3.6%). These rates exclude line fees on unutilised facility balances.

Notes to the financial statements continued

For the year ended 30 April 2019

11. Provisions

	Employee entitlements \$m	Property lease and onerous contracts provisions \$m	Total \$m
30 April 2019			
Current	101.9	22.0	123.9
Non-current	11.5	104.4	115.9
	113.4	126.4	239.8
30 April 2018			
Current	107.4	19.0	126.4
Non-current	11.2	126.4	137.6
	118.6	145.4	264.0

Property lease provisions include the value of certain retail store lease obligations recognised as part of the acquisition of Franklins in FY12 and HTH in FY17. The provision is initially recognised at the acquisition date fair value and subsequently utilised to settle lease obligations. The provision related to an individual lease is derecognised when the Group has met or otherwise extinguished its obligations in full under that lease.

Provisions are also recognised for obligations such as onerous retail head lease exposures, guarantees, property make-good, restructuring and other costs. Depending on the nature of these obligations, they are expected to be settled over the term of the lease, at the conclusion of the lease or otherwise when the obligation vests.

Movements in property lease and onerous contracts provisions

	FY19 \$m	FY18 \$m
Opening balance	145.4	163.1
(Reversals)/expensed during the year, net	(5.6)	7.0
Utilised during the year	(21.0)	(18.1)
Resulting from acquisitions of businesses	1.1	(13.5)
Finance cost discount rate adjustment	6.5	6.9
Closing balance	126.4	145.4

12. Contributed equity and reserves

Contributed equity

	FY19		FY18	
	Number of shares	\$m	Number of shares	\$m
At 1 May	975,641,876	600.0	975,641,876	1,719.3
Share buyback and related costs, net of tax	(66,385,128)	(40.8)	-	-
Capital reduction (note 19)	-	-	-	(1,119.3)
At 30 April	909,256,748	559.2	975,641,876	600.0

Fully paid ordinary shares carry one vote per share and carry the right to dividends. Shares have no par value.

Notes to the financial statements continued

For the year ended 30 April 2019

12. Contributed equity and reserves (continued)

Completion of \$150 million off-market buyback

The Group completed an off-market buyback of 66,385,128 ordinary shares (6.8% of total shares on issue) for \$150 million in August 2018. The ordinary shares were bought back at \$2.26 per share, which represented a 14% discount to Metcash's share price at the time. The buyback comprised a fully franked dividend of \$1.65 per share (\$109.5 million) and a capital component of \$0.61 per share (\$40.5 million). These amounts, along with \$0.3 million of transaction costs, were debited to the Company's profit reserve and share capital account, respectively. The shares bought back were subsequently cancelled.

Other reserves

	Share-based payments reserve \$m	Foreign currency translation reserve \$m	Cash flow hedge reserve \$m	Total other reserves \$m
At 1 May 2017	2.2	(4.6)	(0.6)	(3.0)
Total comprehensive income, net of tax	-	0.2	0.7	0.9
Transfers to retained earnings	(0.9)	-	-	(0.9)
Share-based payments expense	2.3	-	-	2.3
At 30 April 2018	3.6	(4.4)	0.1	(0.7)
Movement in fair value of derivatives	-	-	(1.3)	(1.3)
Movement in foreign currency valuations	-	(0.4)	-	(0.4)
Tax impact of above movements	-	-	0.4	0.4
Total comprehensive income, net of tax	-	(0.4)	(0.9)	(1.3)
Share-based payments expense	1.2	-	-	1.2
At 30 April 2019	4.8	(4.8)	(0.8)	(0.8)

Refer Appendix B for further details on the above reserves.

13. Reconciliation of cash flows from operating activities

	FY19 \$m	FY18 \$m
Net profit for the year	195.1	(145.4)
<i>Adjustments for:</i>		
Depreciation and amortisation	56.7	56.6
Impairment losses and net lease provisions (note 3)	7.3	372.6
Net profit on disposal of property, plant and equipment	(2.9)	(4.4)
Share-based payments	1.2	2.3
Other adjustments	0.8	3.8
<i>Changes in assets and liabilities</i>		
Increase in trade and other receivables	(36.0)	(64.7)
Increase in inventories	(39.1)	(45.7)
Decrease in tax balances	7.0	7.9
Increase in payables and provisions	54.8	93.3
Cash from operating activities	244.9	276.3

Notes to the financial statements continued

For the year ended 30 April 2019

14. Financial risk management

Objectives and policies

The Group's principal financial instruments comprise bank loans, bonds and overdrafts, finance and operating leases, cash and short-term deposits and derivatives. The main purpose of these instruments is to finance the Group's operations. The Group also has various other financial assets and liabilities such as trade receivables and payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are detailed below. The objective of the Group's risk management policy is to support delivery of the Group's financial targets while protecting future financial security.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instrument, financial liability and equity instrument are disclosed in Appendix B.

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, the Group manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. The Group's primary source of debt funding is a syndicated facility and working capital loans, of which 21% has been utilised at 30 April 2019. The Group monitors forecasts of liquidity reserves on the basis of expected cash flow.

Available credit facilities

At the reporting date, the Group had unused credit facilities available for its immediate use as follows:

	Total facility \$m	Debt usage \$m	Guarantees & other usage \$m	Facility available \$m
Syndicated facility	675.0	180.0	-	495.0
Working capital, including guarantees	185.0	-	19.5	165.5
Bilateral loan	1.2	1.2	-	-
	861.2	181.2	19.5	660.5
Cash and cash equivalents	-	-	-	142.6
	861.2	181.2	19.5	803.1

- **Syndicated facility**
Syndicated bank loans are senior unsecured revolving facilities. The facilities are due to expire in August 2021 (\$225.0 million), May 2022 (\$150.0 million), May 2023 (\$200.0 million), May 2024 (\$100.0 million). Interest is payable on the facilities based on BBSY plus a margin. The applicable margin is dependent upon an escalation matrix linked to the senior leverage ratio achieved. These bank loans are subject to certain financial undertakings as detailed in note 10.
- **Working capital**
Working capital bank loans are represented by two unsecured revolving facilities totalling \$185.0 million. These facilities will expire in May 2020 (\$85.0 million) and June 2020 (\$100.0 million). Interest payable on any loans drawn under these facilities is based on BBSY or the RBA cash rate plus a margin. These bank loans are subject to certain financial undertakings as detailed in note 10.

Notes to the financial statements continued

For the year ended 30 April 2019

14. Financial risk management (continued)

Maturity analysis of financial liabilities based on contracted date

The following table reflects the gross contracted values of financial liabilities categorised by their contracted dates of settlement.

Net settled derivatives comprise interest rate swap contracts that are used to hedge floating rate interest payable on bank debt. Gross settled derivatives comprise forward exchange contracts that are used to hedge anticipated purchase commitments. Under the terms of these agreements, the settlements at expiry include both a cash payment and receipt.

	1 year or less \$m	1 - 5 years \$m	More than 5 years \$m	Total \$m
As at 30 April 2019				
Trade and other payables	1,967.7	-	-	1,967.7
Finance lease obligations	2.2	5.5	-	7.7
Financial guarantee contracts	0.7	1.1	-	1.8
Put options written over non-controlling interests	5.3	-	-	5.3
Bank and other loans	5.7	187.5	1.5	194.7
Derivative liabilities – net settled	1.0	0.6	-	1.6
Derivative liabilities – gross settled:				
- Inflows	0.7	-	-	0.7
- Outflows	(0.7)	-	-	(0.7)
Net maturity	1,982.6	194.7	1.5	2,178.8

	1 year or less \$m	1 - 5 years \$m	More than 5 years \$m	Total \$m
As at 30 April 2018				
Trade and other payables	1,903.6	-	-	1,903.6
Finance lease obligations	2.6	2.9	-	5.5
Financial guarantee contracts	1.5	-	-	1.5
Put options written over non-controlling interests	5.3	-	-	5.3
Bank and other loans	2.3	98.4	20.4	121.1
Derivative liabilities – net settled	0.7	0.7	-	1.4
Derivative liabilities – gross settled:				
- Inflows	(6.5)	-	-	(6.5)
- Outflows	6.6	-	-	6.6
Net maturity	1,916.1	102.0	20.4	2,038.5

The Group has granted two contingent put options, which are not included in the above maturity analysis table. These options are recognised at a fair value of nil.

- Ritchies Stores Pty Ltd (Ritchies)

Metcash has a 26.0% ownership interest in Ritchies Stores Pty Ltd (Ritchies), which is recognised as an equity-accounted investment in the Group's balance sheet (refer note 7). The remaining shareholders in Ritchies have the right to put their 74.0% ownership interests to Metcash subject to a margin related annual financial hurdle ('hurdle') being achieved.

The 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 achieved the 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.

Notes to the financial statements continued

For the year ended 30 April 2019

14. Financial risk management (continued)

As the hurdle was not achieved for the financial year ended June 2018, 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 2018, Metcash estimates that the consideration payable in respect of the Ritchies 2018 financial year would have been between \$140 million and \$155 million.

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

The put option agreement terminates when Metcash ceases to hold shares in Ritchies or if Ritchies lists on the ASX.

- Other put options

Metcash also issued a put option to co-investors in a hardware joint venture for their ownership interest in the equity-accounted investment. The holders of this option have the right to put this investment back to the Group under certain prescribed circumstances. The put option purchase price is defined within the option deed and is active until April 2022. The put consideration is estimated to be \$12.3 million (FY18: \$9.2 million).

The Group has also recognised a liability of \$5.3 million (FY18: \$5.3 million) in respect of a further two put options written over non-controlling interests in non-wholly owned subsidiaries within the Hardware segment. These put option arrangements allow minority shareholders to sell their equity interests to Metcash, subject to specific terms and conditions. These put options are measured at the present value of the redemption amount under the option as set out in the above maturity table.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank debt obligations with a floating interest rate.

Metcash manages this risk by entering into interest rate swap contracts with various major Australian banks. At 30 April 2019, the principal hedged was \$90.0 million with a weighted average hedge maturity of 1.7 years and a weighted average base interest rate of 2.3%. The Group considers these derivatives to be effective hedges in accordance with AASB 9 *Financial Instruments* and therefore treats them as cash flow hedges. These interest rate swap contracts are exposed to fair value movements based on changes to the interest rate curve.

At the reporting date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that, except as indicated, are not designated in cash flow hedges:

	FY19 \$m	FY18 \$m
Financial assets		
Cash and cash equivalents	142.6	161.2
Financial liabilities		
Bank loans – syndicated	(180.0)	(90.0)
US private placement	-	(23.3)
Bilateral loan	(1.2)	(1.2)
Less: Interest rate swaps notional principal value - designated as cash flow hedges	90.0	90.0
Gross exposure	(91.2)	(24.5)

The Group's treasury policy requires core debt to be hedged between a range over certain maturity periods. Core debt is defined as the minimum level of drawn debt which is expected to occur over the year. As at 30 April 2019, the interest rate swap hedges of \$90.0 million fell within the required range.

Sensitivity analysis

Due to the Group's interest rate derivatives that hedge core debt, reasonable changes in interest rates are not expected to have a material impact on the Group's net profit after tax and other comprehensive income.

Notes to the financial statements continued

For the year ended 30 April 2019

14. Financial risk management (continued)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables and loans

The Group trades with a large number of customers and it is Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, where a loan has been provided, the Group will obtain security over certain assets of the customer wherever possible.

Receivables and loans are monitored on an ongoing basis and a formal review of all balances occurs every six months to measure impairment losses.

As identified in note 6, the current level of impairment provision represents 4.2% (FY18: 4.3%) of the Group's receivables and loans.

Leases

The Group is exposed to credit risk on 'back-to-back' arrangements contained within its property leases where Metcash has subleased properties to retailers. Material lease arrangements are regularly reviewed and appropriate provisions are established when such arrangements are deemed onerous. Refer note 11 for further details.

Other

There are no significant concentrations of credit risk within the Group.

Foreign currency risk

The Group is exposed to foreign exchange fluctuations on transactions and balances in respect of its business unit in New Zealand. This operation represents less than 2% of total sales and total profit after tax.

In addition, the Group undertakes some foreign currency transactions when purchasing goods and services. The Group enters into forward foreign exchange contracts to manage the risk associated with anticipated purchase commitments denominated in foreign currencies.

The amount of foreign exchange cover is based on anticipated future purchases in light of current conditions in foreign markets, commitments from customers and experience.

15. Capital management

For the purpose of the Group's capital management, capital includes all accounts classified as equity on the statement of financial position. The Board's intention is to invest in the business for future growth and otherwise return surplus capital to shareholders.

In August 2018, the Group completed a \$150 million off-market buyback of its shares. Refer note 12 for further detail.

On 24 June 2019, the Board determined to pay a fully franked FY19 final dividend of 7.0 cents per share. Consistent with the Board's communicated target, this represents a full year dividend payout ratio of 60% of Underlying Earnings Per Share.

The Board and management set out to maintain appropriate Statement of Financial Position ratios. Certain Statement of Financial Position ratios are also imposed under the Group's banking facilities (refer to note 10).

Management monitor capital through the gearing ratio (net debt / net debt plus total equity). The gearing ratios at 30 April 2019 and 30 April 2018 were 3.3% and (3.2)% (negative representing a net cash position) respectively.

No changes were made in objectives, policies or processes for managing capital during the year.

Notes to the financial statements continued

For the year ended 30 April 2019

16. Commitments

Operating leases

The Group has a number of back-to-back leases for retail stores, which are contracted at substantially offsetting terms and conditions. The Group also leases distribution centres, offices and warehouse equipment. Contingent rentals are payable to reflect movements in the Consumer Price Index on certain leases and to reflect the turnover of certain stores.

Future minimum rentals payable under operating leases as at 30 April are as follows:

	FY19 \$m	FY18 \$m
Within 1 year	186.0	207.0
After 1 year but not more than 5 years	622.3	602.5
More than 5 years	690.9	563.6
Aggregate lease expenditure contracted for at reporting date	1,499.3	1,373.1

Future lease payments receivable under sub-leases as at 30 April are as follows:

	FY19 \$m	FY18 \$m
Within 1 year	75.3	77.7
After 1 year but not more than 5 years	239.4	249.2
More than 5 years	220.9	252.0
Aggregate lease income contracted for at the reporting date	535.6	578.9

Capital expenditure commitments

The Group had no material commitments for capital expenditure at 30 April 2019.

17. Related party disclosures

A list of the Group's subsidiaries is included in Appendix C and a list of equity-accounted investments is included in Appendix D.

Material transactions and balances with related parties – Group

	FY19 \$m	FY18 \$m
<i>Transactions with related parties – Equity-accounted investments</i>		
Sales revenue	1,068.2	1,094.8
Lease charges	13.6	15.7
Acquisition of shares in joint ventures and associates	3.7	3.4
Dividends received	2.4	1.1
<i>Balances with related parties – Equity-accounted investments</i>		
Trade receivables – gross	111.1	115.5
Provision for impairment loss	(4.4)	(4.8)
	106.7	110.7
Loans receivable – gross	-	6.5
Provision for impairment loss	-	(5.5)
	-	1.0

Notes to the financial statements continued

For the year ended 30 April 2019

17. Related party disclosures (continued)

In addition to the above transactions, the Group recorded a significant items impairment expense in FY18, due primarily to the loss of its supply relationship with Drakes. The impairment expense factored in Metcash's trading relationship with Dramet Holding Pty Ltd, a joint venture between Metcash and Drakes. Refer note 3(vii) for further information.

Transactions and balances with related parties – Parent entity

Details of key related party transactions and balances in the accounts of the parent entity are set out in note 19.

Compensation of key management personnel of the Group

	FY19 \$m	FY18 \$m
Short-term	8.6	9.8
Long-term	0.4	0.8
Post-employment	0.2	0.2
Share-based payments	0.5	0.5
	9.7	11.3

Other transactions with key management personnel

Mr Rob Murray is a director of Southern Cross Media Group Limited, Advisory Chairman of Hawkes Brewing Company and was a former director of Linfox Logistics Pty Ltd. Ms Tonianne Dwyer is a director of Dexus Property Group. Ms Helen Nash is a director of Inghams Group Limited, Blackmores Limited and Southern Cross Media Group Limited; and a former director of Pacific Brands Group Limited. Ms Anne Brennan is a director of Rabobank Australia Limited and Charter Hall Limited. Ms Fiona Balfour was formerly a non-executive director of Salmat Limited.

Metcash has business relationships with the above entities, including supply of trading goods and services, interest bearing borrowings and derivatives, property leases and property management. The Rabobank Group provides a working capital facility, a syndicated bank facility and derivative financial instruments to Metcash. Charter Hall is the landlord of several of the Group's properties, including the Group's new distribution centre being constructed in South Australia.

All transactions with the above entities are conducted on an arm's length basis in the ordinary course of business.

18. Share-based payments

Description of share-based payment arrangements

The Group currently has one active share-based incentive scheme for employees - the Long Term Incentive (LTI) scheme. Grants under the scheme are subject to two performance conditions: Relative Total Shareholder Return ('RTSR') and Underlying Earnings per Share Compound Annual Growth Rate ('UEPS CAGR') over a three-year period specific under each grant. The grants are also subject to service conditions, usually from grant date to the date of the allocation of shares.

At 30 April 2019, there are three outstanding grants under the LTI scheme, the LTI (FY17- FY19), LTI (FY18- FY20) and LTI (FY19-FY21), representing three different three-year performance periods.

Measurement of fair values

The weighted average inputs to the valuation of LTI performance rights valued at grant date using the Black-Scholes option pricing model are as follows:

	LTI FY19 – FY21 (UEPS)	LTI FY18 – FY20 (UEPS)	LTI FY17 – FY19 (UEPS)
Dividend yield	5.2%	3.0%	2.5%
Risk free rate	2.0%	1.9%	1.5%
Expected volatility	37.0%	42.0%	41.0%
Days to vesting	1,121	1,120	1,127
Share price at grant date	\$2.56	\$2.51	\$2.03
Fair value at grant date	\$2.23	\$2.33	\$1.88

Notes to the financial statements continued

For the year ended 30 April 2019

18. Share-based payments (continued)

The weighted average inputs to the valuation of LTI performance rights valued at grant date by an external independent specialist using the Monte Carlo option pricing model are as follows:

	LTI FY19 – FY21 (RTSR)	LTI FY18 – FY20 (RTSR)	LTI FY17 – FY19 (RTSR)
Dividend yield	5.2%	3.0%	2.5%
Risk free rate	2.0%	1.9%	1.5%
Expected volatility	37.0%	42.0%	41.0%
Days to vesting	1,121	1,120	1,127
Share price at grant date	\$2.56	\$2.51	\$2.03
Fair value at grant date	\$0.72	\$1.55	\$1.27

Service and non-market performance conditions attached to the grants were not taken into account in measuring fair value. Market performance conditions associated with the grants have been reflected in the fair value measurement. Expected volatility is based on an evaluation of the historical volatility of Metcash's share price, particularly over the historical period commensurate with the expected term. Performance rights are only exercisable on their vesting date.

Reconciliation of outstanding performance rights

The following table illustrates the movement in the number of performance rights during the year:

	FY19 Number	FY18 Number
Outstanding at the beginning of the year	4,660,076	8,192,019
Granted during the year – LTI	2,519,004	3,410,670
Vested during the year – LTI	-	-
Expired/forfeited during the year – LTI	(646,217)	(6,942,613)
Outstanding at the end of the year	6,532,863	4,660,076

The outstanding balance of performance rights as at 30 April 2019 is represented by:

Scheme name	Vesting date	Total outstanding (number)	Exercisable (number)	Remaining contractual life
LTI FY19 – FY21	15 August 2021	2,247,083	-	2 year 4 months
LTI FY18 – FY20	15 August 2020	2,350,853	-	1 year 4 months
LTI FY17 – FY19 (a)	15 August 2019	1,934,927	-	4 months
Total outstanding at the reporting date		6,532,863	-	

(a) The FY17-FY19 LTI plan is expected to partially vest at 90% subject only to the employees remaining in employment until 15 August 2019. These vested performance rights will be converted to shares and allocated to the participants under the Rights Plan on 15 August 2019.

Notes to the financial statements continued

For the year ended 30 April 2019

18. Share-based payments (continued)

Key terms and conditions

All performance rights associated with the above schemes are equity-settled performance rights and were issued under the Metcash Executives and Senior Managers Performance Rights Plan (Rights Plan). Fully paid ordinary shares issued under this plan rank equally with all other existing fully paid ordinary shares in respect of voting and dividend rights.

The key terms of the Rights Plan include:

- Each performance right is an entitlement to receive a fully paid ordinary share in the Company on terms and conditions determined by the Board, including vesting conditions linked to service and performance over a three-year period;
- Performance rights which do not vest are forfeited;
- Performance rights are offered at no cost to participants;
- Performance rights do not carry voting or dividend rights, however shares allocated upon vesting of performance rights will carry the same rights as other ordinary shares;
- Ordinarily, in the event of cessation of employment, unvested performance rights will lapse; however, this is subject to Board discretion, which may be exercised in circumstances including death and disability, retirement, redundancy or special circumstances;
- When testing performance conditions, the Board has full discretion in relation to its calculation and to include or exclude items if appropriate, including to better reflect shareholder expectations or management performance;
- Some or all of a participant's performance rights may vest even if a performance condition has not been satisfied, if, using its discretion, the Board considers that to do so would be in the interests of the Group; and
- If there is a change in control of the Group, the Board retains full discretion to vest or lapse some or all performance rights.

19. Information relating to Metcash Limited (the Parent Company)

	FY19 \$m	FY18 \$m
Statement of financial position		
Current assets – amounts receivable from subsidiaries	1,259.0	1,535.5
Non-current assets – investments in subsidiaries	-	941.1
Total assets	1,259.0	2,476.6
Current liabilities – loans payable to subsidiaries	-	(2,062.5)
Net assets	1,259.0	414.1
Contributed equity (note 12)	559.2	600.0
Accumulated losses	(1,265.4)	(1,265.4)
Profit reserve	1,960.4	1,075.9
Share-based payments reserve	4.8	3.6
Total equity	1,259.0	414.1
Statement of comprehensive income		
Dividends received from subsidiaries	1,121.4	28.3
Other transactions	-	-
Net profit for the year	1,121.4	28.3
Total comprehensive income for the year, net of tax	1,121.4	28.3

Investment in subsidiary and dividend income

In FY19, the Parent Company received distributions of \$2,062.5 million from its wholly-owned subsidiary, Wickson Corporation Pty Limited (Wickson). The distributions were partially applied to reduce the carrying amount of the investment by \$941.1 million to nil and the residual amount of \$1,121.4 million was recorded as dividend income.

Profit reserve

The Parent Company established a profit reserve in FY17 within its separate financial statements, in accordance with the Company's constitution. During the current financial year, the FY18 final dividend of \$68.3 million and the FY19 interim dividend of \$59.1 million were sourced and paid from the profit reserve. In addition, the \$109.5 million dividend component of the off-market buyback was sourced and paid through the profit reserve. Prior to the end of the current financial year, \$1,121.4 million of the profit generated in FY19 was credited into the profit reserve.

Notes to the financial statements continued

For the year ended 30 April 2019

19. Information relating to Metcash Limited (the Parent Company) (continued)

Capital reduction

In FY18, the Parent Company undertook a capital reduction to reduce its share capital by \$2,551.1 million to \$600.0 million, in accordance with section 258F of the *Corporations Act 2001*. The reduction was allocated in full to the accumulated losses account in the Parent Company with no impact on the net assets of either the Parent Company or the Group. On consolidation, the share capital of the Group was adjusted by \$1,119.3 million to reflect the revised share capital of the Parent Company.

Closed Group

The Parent Company has provided guarantees as part of the Closed Group arrangements as disclosed in Appendix C.

20. Auditors remuneration

	FY19 \$	FY18 \$
Amounts received or due and receivable by EY Australia for:		
- an audit or review of the financial statements of the entity and any other entity in the Group	1,780,000	2,033,000
Other services in relation to the entity and any other entity in the Group		
- tax compliance and advisory services	318,000	472,000
- other advisory services	-	207,000
	318,000	679,000
	2,098,000	2,712,000

21. Earnings per share

The following reflects the income data used in the basic and diluted earnings per share (EPS) computations:

	FY19 \$m	FY18 \$m
Earnings used in calculating basic and diluted EPS		
Net profit/(loss) attributable to ordinary equity holders of Metcash Limited	192.8	(148.2)

The following reflects the share data used in the basic and diluted EPS computations:

	FY19 Number	FY18 Number
Weighted average number of ordinary shares used in calculating basic EPS	928,588,681	975,641,876
Effect of dilutive securities	3,338,690	-
Weighted average number of ordinary shares used in calculating diluted EPS	931,927,371	975,641,876

At the reporting date, 6,532,863 performance rights (FY18: 4,660,076) were outstanding, of which 3,194,173 (FY18: 4,660,076) were not included in the calculation of diluted EPS as they are not dilutive for the periods presented. Refer note 18 for more details about performance rights.

Notes to the financial statements continued

For the year ended 30 April 2019

22. Contingent liabilities

	FY19 \$m	FY18 \$m
Bank guarantees to third parties in respect of property lease obligations	16.8	19.4
Bank guarantees in respect of Work Cover	2.7	2.9

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 \$46.5 million (FY18: \$47.5 million).

Had the guarantee been exercised at 30 April 2019, the amount payable would have been \$43.6 million (FY18: \$43.6 million). The fair value of the financial guarantee contract at the reporting date was \$1.8 million (FY18: \$1.5 million) and is recognised as a financial liability.

Put options

Refer note 14 for details of put options outstanding at balance sheet date.

23. Subsequent events

Other than matters disclosed in this report, there were no events that have occurred after the end of the financial year that would materially affect the reported results or would require disclosure in this report.

Notes to the financial statements continued

For the year ended 30 April 2019

Appendix A - Financial reporting changes from the adoption of new accounting standards

(1) Initial application of AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*

During the current period, the Group initially applied AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*. The financial position and results for FY18 were retrospectively restated upon the initial adoption of AASB 15 whilst the financial position as at FY18 was not retrospectively restated for AASB 9 which was adopted in FY19. The following tables show the adjustments recognised for each individual line item. The adjustments are explained in more detail below.

The impact on the FY18 statement of financial position was as follows:

	FY18 as reported \$m	AASB 9 adjustments (Note (a)) \$m	AASB 15 adjustments (Note (b)) \$m	FY18 restated \$m
ASSETS				
Trade receivables and loans	1,203.7	(2.2)	2.6	1,204.1
Inventories	784.4	-	(30.3)	754.1
Assets held for sale	11.8	-	(0.5)	11.3
Other current assets	435.8	-	-	435.8
Current assets	2,435.7	(2.2)	(28.2)	2,405.3
Net deferred tax assets	109.7	0.7	13.2	123.6
Property, plant and equipment	236.7	-	(21.2)	215.5
Intangible assets and goodwill	818.4	-	(26.1)	792.3
Other non-current assets	118.5	-	-	118.5
Non-current assets	1,283.3	0.7	(34.1)	1,249.9
TOTAL ASSETS	3,719.0	(1.5)	(62.3)	3,655.2
Income tax payable	24.9	-	(9.4)	15.5
Other liabilities	2,305.5	-	-	2,305.5
TOTAL LIABILITIES	2,330.4	-	(9.4)	2,321.0
NET ASSETS	1,388.6	(1.5)	(52.9)	1,334.2
EQUITY				
Contributed and other equity	600.0	-	-	600.0
Retained earnings	780.6	(1.5)	(52.9)	726.2
Other reserves	(0.7)	-	-	(0.7)
Parent interest	1,379.9	(1.5)	(52.9)	1,325.5
Non-controlling interests	8.7	-	-	8.7
TOTAL EQUITY	1,388.6	(1.5)	(52.9)	1,334.2

Notes to the financial statements continued

For the year ended 30 April 2019

Appendix A - Financial reporting changes from the adoption of new accounting standards

The impact on the statement of comprehensive income for FY18 was as follows:

	FY18 as reported \$m	AASB 15 adjustments (Note (b)) \$m	FY18 restated \$m
Sales revenue	14,463.7	(2,021.5)	12,442.2
Cost of sales	(13,175.6)	2,020.3	(11,155.3)
Gross profit	1,288.1	(1.2)	1,286.9
Other income	101.2	-	101.2
Distribution costs	(486.5)	(8.6)	(495.1)
Administrative costs	(566.1)	11.7	(554.4)
Share of profit of equity-accounted investments	0.6	-	0.6
Significant items	(380.1)	-	(380.1)
Finance costs	(31.0)	-	(31.0)
Profit before income tax	(73.8)	1.9	(71.9)
Income tax expense	(72.9)	(0.6)	(73.5)
Profit for the period	(146.7)	1.3	(145.4)
Net profit for the period is attributable to:			
Equity holders of the parent	(149.5)	1.3	(148.2)
Non-controlling interests	2.8	-	2.8
	(146.7)	1.3	(145.4)
Total comprehensive income for the period is attributable to:			
Equity holders of the parent	(148.6)	1.3	(147.3)
Non-controlling interests	2.8	-	2.8
	(145.8)	1.3	(144.5)
Earnings per share attributable to the ordinary equity holders of the Company			
From net profit for the period			
- basic earnings per share (cents)	(15.3)	0.1	(15.2)
- diluted earnings per share (cents)	(15.3)	0.1	(15.2)

The impact on the Group's retained earnings as at 30 April 2017, 30 April 2018 and 1 May 2018 was as follows:

	2018 \$m	2017 \$m
Retained earnings, 30 April (as previously reported)	780.6	(87.7)
Changes arising from the application of AASB 15 (Note (b))	(75.5)	(77.4)
Tax impact of the above	22.6	23.2
Retained earnings, 30 April (restated)	727.7	(141.9)
Changes arising from the application of AASB 9 (Note (a))	(2.2)	-
Tax impact of the above	0.7	-
Retained earnings, 1 May (restated)	726.2	(141.9)

Notes to the financial statements continued

For the year ended 30 April 2019

Appendix A - Financial reporting changes from the adoption of new accounting standards

The adoption of AASB 15 resulted in the reclassification of \$12.3 million of cash used in investing activities to operating activities. Accordingly, the FY18 statement of cash flows was restated to reflect these classification changes.

The adoption of AASB 9 did not have any impact on the statement of cash flows.

(a) AASB 9 Financial Instruments

AASB 9 replaced the provisions of AASB 139 in relation to financial instruments and hedge accounting.

The key change to the Group's financial report arising from this standard is in relation to the impairment of financial assets (mainly loans and receivables). AASB 9 effectively moved from an 'incurred losses' model to an 'expected losses' model, which requires a forward-looking assessment of potential default events and losses over the life of these assets.

The adoption of AASB 9 resulted in an increase of \$2.2 million in the impairment allowance against the Group's trade receivables and loans. The increase in allowance was debited to closing FY18 retained earnings, net of tax. Comparative figures have not been restated.

(b) AASB 15 Revenue from Contracts with Customers

AASB 15 established a five-step model to account for revenue arising from contracts with customers. Under AASB 15, entities are required to exercise more judgment in developing revenue recognition policies, taking into consideration all the relevant facts and circumstances when applying each step of the model.

The Group revised its accounting policy in line with the requirements of AASB 15. The key changes arising from this revision are as follows. Refer Appendix B.17 for a summary of the revised policy.

(b.1) Classification of charge-through and other transactions

In addition to warehouse purchases, customers purchase goods through the Group's charge-through platform and have these goods delivered directly to them from suppliers. The Group earns a margin on these sales for providing procurement, cross-docking and settlement services. The Group also bears credit risk on the receivables from these sales with limited recourse to suppliers.

Under the previous accounting standard, Metcash assessed itself as a principal in these transactions, due mainly to the retention of credit risk. AASB 15 introduced revised guidance in relation to the 'principal vs. agent' assessment criteria, placing more emphasis on substantive control over the goods before transfer to the customer, and no consideration is given to the retention of credit risk.

The Group reviewed its accounting policy in light of the new guidance and determined that it does not bear a material level of inventory risk in charge-through transactions, as the supplier is primarily responsible for fulfilling the order. In addition, the Group generally has limited involvement or discretion in establishing prices for the goods.

Accordingly, the Group revised its accounting policy and assessed itself as an agent in charge-through transactions. As a result, charge-through sales will be reported on a net margin basis, rather than on a gross basis. This change resulted in a decrease of \$1,920.5 million in revenue and a corresponding decrease in cost of sales during FY18. In addition, application of AASB 15 resulted in a decrease of \$101.0 million in revenue and a corresponding decrease in cost of sales and other expenses during FY18, relating to certain other income items. These presentation changes had no impact on net income.

(b.2) Accounting for customer rebates and incentives

The Group provides volumetric and non-volumetric rebates and incentives to customers in order to support the supply relationship. Certain upfront incentives were previously capitalised where they met the recognition criteria of AASB 136 *Property, Plant and Equipment* and AASB 138 *Intangible Assets*. The capitalised incentives were then amortised over the estimated life of the supply relationship.

AASB 15 introduced a revised guidance which places a stronger emphasis on 'control' and 'enforceability' over performance obligations within contracts with customers. The Group reviewed its accounting policy in light of this guidance and determined that certain non-volumetric customer incentives were not capitalisable under the new standard, as the underlying supply contracts did not contain sufficiently enforceable performance obligations.

Accordingly, the Group revised its accounting policy for customer incentives to align the income statement recognition with the enforceable obligations within the contracts. Where customer incentives are provided without sufficient enforceability, ordinarily through clawback clauses, these are recognised as expenses when payable.

The revision to the accounting policy resulted in an adjustment of \$48.3 million (before tax) to retained earnings at 30 April 2017 and an increase of \$3.1 million to FY18 net profit before tax.

Appendix A - Financial reporting changes from the adoption of new accounting standards

(b.3) Non-volumetric supplier income

The Group also reviewed its accounting policy for certain promotional and other categories of supplier income to determine whether these represent distinct and separable services that would fall within the scope of AASB 15. While the underlying contracts are variable and complex, the Group determined that materially all supplier income is linked economically to the purchase price of inventory.

As a result, the Group revised its accounting policy to align all supplier income with the purchase of inventory, rather than the performance of promotional or other activities. The measurement of some components of supplier income require significant management judgement and estimation. This change has impacted the timing of recognition of supplier income and resulted in an adjustment of \$29.1 million (before tax) to opening retained earnings as at 30 April 2017 and a decrease of \$1.2 million to FY18 net profit before tax.

(2) Estimated impact of initial adoption of AASB 16 *Leases* in FY20

AASB 16 *Leases* is applicable to the Group effective FY20 and will supersede current accounting requirements in relation to leases. Whilst the Group has substantially completed its preliminary implementation assessment of the new standard, certain technical and judgmental aspects of the revised accounting policy remain open which could have a material impact on the estimates disclosed below once finalised. Subject to any adjustments that may arise from these outstanding matters, the key financial effects of the Group's adoption of the new standard are expected to be as follows:

(a) Transition method

The Group has elected to adopt the 'modified retrospective' option of applying the new standard, which will result in comparative financial information not being available for FY19. However, the Group expects to be able to provide supplementary information in the analysts' presentation during the transition period to bridge the financial statements between both standards.

(b) Metcash-occupied properties

Leasehold properties occupied by the Group primarily include distribution centres, warehouses, corporate stores and offices. For these properties, the balance sheet will be adjusted to recognise a depreciating right-of-use asset and an associated lease liability. The lease liability will be measured at the net present value of future payables under the lease, including optional renewal periods, where the Group assesses that the probability of exercising the renewal is reasonably certain. On transition, the asset will be measured, on a case by case basis, at either (a) the value of the financial liability; or (b) the depreciated value of the asset as if AASB 16 had always been applied.

The Group expects the value of the lease liability to be between \$500 million and \$600 million upon transition, subject to concluding on the items noted above.

In the income statement, net rental expense will be replaced by a net interest expense and a straight-lined depreciation expense. This is expected to significantly rebase the Group's earnings before interest and tax ('EBIT') and returns on funds employed ('ROFE'), both of which are key financial measures used by the business. The Group's net profit after tax, subject to concluding on the items noted above, is expected to be reduced by approximately \$8 million to \$15 million in FY20.

(c) Back-to-back leases

In addition, Metcash has a portfolio of long-term 'back-to-back' property leases which secure competitive retail sites on behalf of the independent retail network. Cash flows under these arrangements substantially offset each other.

For back-to-back leases, the adoption of AASB 16 will result in the recognition of an additional financial asset and lease liability, representing the present value of future cash flows on the sublease and the head lease, respectively. The Group expects the value of the financial asset and the lease liability to be broadly equivalent and each be between \$300 and \$400 million, subject to concluding on the items noted above.

Both categories of financial instruments are expected to generate interest (income and expense, respectively) resulting from the unwinding of the discount over the lease term. The impact of interest income and expense is expected to materially offset within the income statement.

The recoverability of the financial asset will be assessed at least at each reporting date in accordance with AASB 9 *Financial Instruments*.

Notes to the financial statements continued

For the year ended 30 April 2019

Appendix B – Summary of significant accounting policies

1. BASIS OF ACCOUNTING

The financial statements are a general purpose financial report that has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial statements have been prepared using the historical cost basis except for derivative financial instruments and share-based payments which are measured at fair value.

The financial statements are presented in Australian dollars and all values are rounded to the nearest \$100,000 unless otherwise stated under the option available to the Company under ASIC Corporations Instrument 2016/191. The Company is an entity to which the legislative instrument applies.

The current financial year comprises the 52-week period that commenced on 30 April 2018 and ended on 28 April 2019. The prior financial year comprised the 52-week period that commenced on 1 May 2017 and ended on 29 April 2018.

2. STATEMENT OF COMPLIANCE

The financial statements comply with Australian Accounting Standards. The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(a) Changes in accounting policy

In FY19, the Group initially applied AASB 9 Financial Instruments and AASB 15 Revenue from Contracts with Customers which resulted in a retrospective restatement of the prior period financial statements. The nature and effect of this restatement are outlined in Appendix A.

Several other amendments and interpretations apply for the first time in FY19, but do not have an impact on the financial report of the Group. These are as follows:

- AASB Interpretation 22 *Foreign Currency Transactions and Advance Considerations*
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property
- AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions
- Annual Improvements 2014-2016 Cycle and Other Amendments

(b) Australian Accounting Standards issued but not yet effective

A number of new accounting standards (including amendments and interpretations) have been issued but were not effective as at 30 April 2019. The Group has elected not to early adopt any of these new standards in these financial statements.

Appendix A outlines the expected impact of AASB 16 *Leases* on the Group's financial statements upon initial application in FY20. Other standards in issue that are applicable to the Group in future financial periods as follows:

- AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures
- AASB Interpretation 23 *Uncertainty over Income Tax Treatments*
- AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.
- Annual Improvements 2015-2017 Cycle and Other Amendments

The above standards are not expected to have a significant impact on the Group's financial statements in the year of their initial application.

3. BASIS OF CONSOLIDATION

Controlled entities

The financial statements comprise the consolidated financial statements of Metcash Limited and its controlled entities for the year ended 30 April 2019. Refer Appendix C for a list of significant controlled entities.

Controlled entities are all those entities over which the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Business combinations

The acquisition of controlled entities is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the costs of the business combination to the acquisition date fair value of net assets acquired, including intangible assets, contingent liabilities and contingent consideration.

Arrangements within certain business combinations entitle the non-controlling interests to require the Group to acquire their shareholding via exercise of a put option, subject to specific terms and conditions. Where such an arrangement is deemed to be part of the business combination, a financial liability is recognised on the acquisition date measured at the present value of the redemption amount under the arrangement.

Consolidation procedures

Controlled entities are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

In preparing the consolidated financial statements, all intercompany balances and transactions have been eliminated in full.

Non-controlling interests are allocated their share of total comprehensive income and are presented as a separate category within equity.

The financial statements of controlled entities are prepared for the same reporting period as the parent entity, using consistent accounting policies. For those controlled entities with non-coterminous year ends, management accounts for the relevant period to the Group's reporting date have been consolidated. In the opinion of the Directors, the expense of providing additional coterminous statutory accounts, together with consequential delay in producing the Group's financial statements, would outweigh any benefit to shareholders.

Separate financial statements

Investments in entities controlled by Metcash Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from controlled entities are recorded as income in the separate financial statements of the parent entity, and do not impact the recorded cost of the investment unless the dividends effectively represent a return of capital.

Notes to the financial statements continued

For the year ended 30 April 2019

Appendix B – Summary of significant accounting policies

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operations.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

(a) Significant accounting judgements

In the process of applying the Group's accounting policies, the following judgements were made, apart from those involving estimations, which have a significant effect on the amounts recognised in the financial statements.

Charge-through sales

In addition to warehouse purchases, customers purchase goods through the Group's charge-through platform and have these goods delivered directly to them from suppliers. The Group earns a margin on these sales for providing procurement, cross-docking and settlement services. The Group also bears credit risk on the receivables from these sales with limited recourse to suppliers.

The Group determined that it is an agent in these contracts as it does not control the goods before they are being transferred to customers.

Assessment of control and joint control

Determining the existence of control, joint control or significant influence over the Group's acquisitions. Where the Group exercises significant influence or joint control, the acquisitions are accounted for as joint arrangements (refer Appendix B.7); and where the Group exercises control, the acquisitions are accounted for as business combinations (refer Appendix B.3).

Supplier income

The recognition and measurement of supplier income requires the use of judgement, due to a high degree of variability and complexity in arrangements with suppliers, and due to timing differences between stock purchases and the provision of promotional services.

Purchase price allocation

Determining the acquisition date fair value of assets acquired and liabilities assumed on acquisition of controlled entities.

(b) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill is allocated. The assumptions used in this estimation of the recoverable amount and the carrying amount of goodwill are discussed in note 9.

Provision for rental subsidy, onerous contracts and restructuring

The Group recognises provisions for rental agreements on acquisition (refer note 11 for further discussion). In measuring these provisions, assumptions are made about future retail sales, rental costs and in determining the appropriate discount rate to be used in the cash flow calculations.

The Group has recognised a provision in accordance with the accounting policy described in Appendix B.15. The Group assesses obligations for onerous contracts on retail and other head lease exposures, property make-good, restructuring and other costs. These estimates are determined using assumptions on retail and warehouse profitability, property related costs, customer support requirements, redundancy and other closure or restructure costs.

Impairment of equity-accounted investments

The Group assesses the recoverable amount of its equity-accounted investments when objective evidence of impairment is identified. In assessing the recoverable amount, assumptions are made about the growth prospects of the investment and in determining the discount rate used to calculate the net present value of future cash flows when a discounted cash flow model is used.

Provision for expected credit losses of trade and other receivables

The Group uses a provision rate matrix to calculate ECLs for trade and other receivables.

The provision rates are initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information (e.g., any known changes in market conditions with reference to the most recent gross domestic product data). At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

5. TRADE AND OTHER RECEIVABLES

Trade receivables are measured at the transaction price determined under Appendix B.17.

The Group recognises an allowance for expected credit losses (ECL) for its trade and other receivables. The Group has established a provision matrix, under the simplified approach in calculating ECL, that is based on its historical credit loss experience, adjusted for forward-looking factors specific to a group of debtors and the economic environment.

Notes to the financial statements continued

For the year ended 30 April 2019

Appendix B – Summary of significant accounting policies

6. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are initially recognised at fair value on the date at which a derivative contract is entered into and are subsequently remeasured to fair value.

The fair value of derivative contracts is determined by reference to market values for similar instruments. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to profit or loss for the year.

Instruments that meet the strict criteria for hedge accounting are classified as:

- fair value hedges, when they hedge the exposure to changes in the fair value of a recognised asset or liability; or
- cash flow hedges, when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction.

Fair value hedges

The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the income statement as finance costs. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the profit and loss.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and carried forward to the cash flow hedge reserve, while any ineffective portion is recognised immediately in the income statement as finance costs.

Amounts recognised as other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Cash flow hedge reserve

The cash flow hedge reserve records the portion of the unrealised gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

Current versus non-current classification

Derivative instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances including the underlying contracted cash flows.

7. EQUITY-ACCOUNTED INVESTMENTS

The Group's investments in joint ventures and associates are accounted for using the equity method. Associates are those entities over which the Group exercises significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Equity-accounted investments are carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the investee, less any impairment in value.

For those associates and joint ventures with non-coterminous year ends, management accounts for the relevant period to the Group's reporting date have been equity-accounted. In the opinion of the Directors, the expense of providing additional coterminous statutory accounts, together with consequential delay in producing the Group's financial statements, would outweigh any benefit to shareholders.

8. INVENTORIES

Inventory cost is measured at purchase price, net of trade rebates and discounts received, and including costs incurred in bringing the inventory to its present location and condition. Trade rebates include non-volumetric supplier income, which is systematically allocated against inventory cost using estimates based on expected purchase patterns and earn rates.

Inventories are valued at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, net of estimated costs necessary to make the sale.

9. PROPERTY, PLANT AND EQUIPMENT

Recognition and measurement

All classes of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than freehold land and assets under construction. Major depreciation periods are:

	FY19	FY18
Freehold buildings	25-40 years	25-40 years
Plant and equipment	2-20 years	2-20 years

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying

Notes to the financial statements continued

For the year ended 30 April 2019

Appendix B – Summary of significant accounting policies

amount of the item) is included in the statement of comprehensive income in the period the item is derecognised.

10. INTANGIBLE ASSETS

Recognition and measurement

Intangible assets acquired separately or in a business combination are initially measured at cost. Following initial recognition, the cost model is applied to the class of intangible assets.

Intangible assets (excluding software development costs) created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

Goodwill acquired in a business combination is initially measured at cost; being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Trade names are acquired either through business combinations or through direct acquisition. Trade names are recognised as intangible assets where a registered trade mark is acquired with attributable value. Trade names are valued on a relief from royalty method. Trade names are considered to be indefinite life intangibles and are not amortised, unless there is an intention to discontinue use of the name in which case it is amortised over its estimated remaining useful life.

Customer contracts are acquired through business combinations. Customer contracts are recognised as intangible assets when the criteria specified in AASB 138 *Intangible Assets* have been met. Customer contracts are valued by applying a discounted cash flow valuation methodology with consideration given to customer retention and projected future cash flows to the end of the contract period. The amortisation has been recognised in the statement of comprehensive income in the line item 'administrative costs'.

Software development costs incurred on an individual project are capitalised at cost when future recoverability can reasonably be assured and where the Group has an intention and ability to use the asset. Following the initial recognition of software development costs, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Any costs carried forward are amortised over the assets' useful economic lives.

Derecognition

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

When goodwill forms part of a group of cash generating units and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the groups of cash-generating units retained.

Useful lives

The useful lives of these intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on assets with finite lives, this expense is taken to the profit or loss on a straight-line basis.

The estimated useful lives of existing finite life intangible assets are as follows:

	FY19	FY18
Customer contracts	15 years	15 years
Software development costs	5-10 years	5-10 years
Other	10 years	10 years

Useful lives are reassessed on an annual basis and adjustments, where applicable, are made on a prospective basis.

11. IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the Group assesses whether there is any indication that the value of a non-financial asset may be impaired. Goodwill and indefinite life intangible assets are tested for impairment at least annually and more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of a non-financial asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets. In this case, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated pre-tax future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the statement of comprehensive income.

Notes to the financial statements continued

For the year ended 30 April 2019

Appendix B – Summary of significant accounting policies

12. EMPLOYEE LEAVE BENEFITS

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave, are recognised in provisions in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities due to be settled within 12 months of the reporting date are classified as current liabilities. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments at the reporting date are discounted using market yields on high-quality corporate bonds with terms to maturity that match as closely as possible, the estimated future cash outflows.

13. INTEREST-BEARING BORROWINGS

All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

14. LEASES

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases - Group as a lessee

Operating leases are those leases where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item. Operating lease payments are recognised as an expense on a straight-line basis.

Operating leases - Group as a lessor

Leases in which the Group retains substantially all the risks and benefits of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income.

15. PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are measured at the net present value of the expected future cash outflows using a current pre-tax rate that reflects the risks specific to the liability. During each period the provision is increased by an amount that is equal to the provision multiplied by the discount rate. This increment, including any change in the value of the provision as a result of a change in discount rate, is treated as a finance cost.

The Group assesses obligations for onerous contracts on retail and other head lease exposures, property make-good, restructuring and other costs. These estimates are determined using assumptions on retail and warehouse profitability, property related costs, customer support requirements, redundancy and other closure or restructure costs.

Provisions for property lease and remediation costs are raised where the economic entity is committed by the requirements of the lease agreement. The future lease costs, net of any income from sub-leasing, are discounted to their net present value in determining the provision.

16. SHARE-BASED PAYMENT TRANSACTIONS

The Group provides a portion of senior executive and key employee remuneration as equity-settled share-based payments, in the form of performance rights.

The value of the performance rights issued is determined on the date which both the employee and the Group understand and agree to the share-based payment terms and conditions (grant date). The value at grant date is based upon the fair value of a similar arrangement between the Group and an independent third party and is determined using an appropriate valuation model. The fair value does not consider the impact of service or performance conditions, other than conditions linked to the share price of Metcash Limited (market conditions). Details of the valuation models used and fair values for each tranche of performance rights issued are outlined in note 18.

The fair value of performance rights is recognised as an expense, together with a corresponding increase in the share-based payments reserve within equity, over the period between grant date and the date on which employee becomes fully entitled to the award (vesting date). This expense is recognised cumulatively by estimating the number of performance rights expected to vest. This opinion is formed based on the best available information at the reporting date. No adjustment is made for the likelihood of market conditions being met as the effect of these conditions is included in the determination of fair value at grant date. Where the performance rights are cancelled, any expense not yet recognised for the award is recognised immediately.

The dilutive effect, if any, of outstanding performance rights are reflected as additional share dilution in the computation of earnings per share.

Share-based payments reserve

The share-based payments reserve is used to record the value of equity benefits provided to executives as part of their remuneration. Refer to note 18 for further details of these plans. Once a performance right has lapsed the Group no longer has any obligation to convert these performance rights into share capital. The amount transferred to retained earnings represents the value of share-based payments previously recognised as an expense that have subsequently lapsed.

Notes to the financial statements continued

For the year ended 30 April 2019

Appendix B – Summary of significant accounting policies

17. REVENUE RECOGNITION

Sale of goods

The Group's revenue principally arises from the sale of goods within its wholesale distribution and retail operations, as outlined in note 2. Sales revenue is recognised when the Group has delivered goods to its customers, and it is probable that consideration will be collected in exchange. Revenue is measured based on the consideration expected to be received, net of volumetric and other trade rebates.

Charge-through sales

The Group operates a charge-through platform whereby goods are delivered directly to the Group's customers by suppliers. The Group retains the credit risk associated with these transactions; however, the Group does not bear any material inventory risk or exercise any material discretion in establishing prices. Charge-through transactions are therefore reported on an agency or net 'commission' basis.

Rental income

Rental income is accounted for on a straight-line basis over the lease term and is classified within 'other income'. Contingent rental income is recognised as income in the periods in which it is earned.

18. FINANCE COSTS

Finance costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other finance costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Certain provisions are measured at their discounted value. During each period the provision is increased by an amount that is equal to the provision multiplied by the discount rate. This increment, including any change in the value of the provision as a result of a change in discount rate, is treated as a finance cost.

19. INCOME TAX

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the relevant reporting date.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

- The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

20. EARNINGS PER SHARE

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share are calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends);
- the after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

21. COMPARATIVE INFORMATION

Certain comparative information was amended in these financial statements to conform to the current year presentation. These amendments do not impact the Group's financial results and do not have any significant impact on the Group's balance sheet.

Notes to the financial statements continued

For the year ended 30 April 2019

Appendix C – Information on subsidiaries

Metcash Limited is the ultimate parent entity of the Group. The consolidated financial statements include the financial statements of Metcash Limited and the subsidiaries listed in the following table. All entities are incorporated in Australia except where specifically identified.

	FY19 %	FY18 %
Entities within the Closed Group¹		
Action Holdings Pty Ltd	100	100
Action Supermarkets Pty Ltd	100	100
Anzam (Aust.) Pty Ltd	100	100
Australian Asia Pacific Wholesalers Pty Ltd	100	100
Australian Hardware Distributors Pty. Limited	100	100
Australian Hardware Support Services Pty Ltd	100	100
Australian Liquor Marketers (QLD) Pty Ltd	100	100
Australian Liquor Marketers (WA) Pty Ltd	100	100
Australian Liquor Marketers Pty. Limited	100	100
Banner 10 Pty Ltd (a)	100	-
Big Bargain Bottleshops Australia Pty Ltd	100	100
Capeview Hardware Pty Ltd	100	100
City Ice & Cold Storage Company Proprietary Limited	100	100
Clancy's Food Stores Pty Limited	100	100
Composite Buyers Finance Pty Ltd	100	100
Composite Buyers Pty Limited	100	100
Danks Holdings Pty Limited	100	100
Davids Foodservices Pty Ltd	100	100
Davids Group Staff Superannuation Fund Pty. Ltd.	100	100
DIY Superannuation Pty Ltd	100	100
Echuca Hardware Pty Ltd	100	100
Foodland Properties Pty Ltd	100	100
Foodland Property Holdings Pty. Ltd.	100	-
Franklins Pty Ltd	100	100
Franklins Supermarkets Pty Ltd	100	100
Fresco Supermarket Holdings Pty Ltd	100	100
Garden Fresh Produce Pty Ltd	100	100
Global Liquor Wholesalers Pty Limited	100	100
Hammer Hardware Stores Pty Ltd	100	100
Handyman Stores Pty Ltd	100	100
Hardings Hardware Pty Ltd	100	100
Himaco Pty Ltd	100	100
Home Hardware Australasia Pty Ltd	100	100
Home Timber & Hardware Group Pty Ltd	100	100
Homestead Hardware Australasia Pty Ltd	100	100
HTH Events Pty Ltd	100	100
HTH Stores Pty Limited	100	100
Hudson Building Supplies Pty Limited	100	100
IGA Community Chest Limited	100	100
IGA Distribution (SA) Pty Limited	100	100
IGA Distribution (Vic) Pty Limited	100	100
IGA Distribution (WA) Pty Limited	100	100
IGA Fresh (Northern Queensland) Pty Limited	100	100
IGA Fresh (NSW) Pty Limited	100	100
IGA Retail Services Pty Limited	100	100
Independent Brands Australia Pty Limited	100	100
Independent Hardware Group Pty Ltd	100	100
Independent Solutions Pty Ltd	100	100
Interfrank Group Holdings Pty Ltd	100	100
Jewel Food Stores Pty Ltd	100	100

	FY19 %	FY18 %
JV Pub Group Pty Ltd	100	100
Keithara Pty Ltd	100	100
Liquor Traders Pty Ltd	100	100
Liquorsmart Pty Ltd	100	100
M-C International Australia Pty Limited	100	100
Mega Property Management Pty Ltd	100	100
Mermaid Tavern (Trading) Pty Ltd	100	100
Metcash Export Services Pty Ltd	-	100
Metcash Food & Grocery Convenience Division Pty Limited	100	100
Metcash Food & Grocery Pty Ltd	100	100
Metcash Holdings Pty Ltd	100	100
Metcash Management Pty Limited	100	100
Metcash Services Proprietary Limited	100	100
Metcash Storage Pty Limited	100	100
Metcash Trading Limited	100	100
Metro Cash & Carry Pty Limited	100	100
Mirren (Australia) Pty Ltd	100	100
Mitre 10 Australia Pty Ltd	100	100
Mitre 10 Mega Pty Ltd	100	100
Mitre 10 Pty Ltd	100	100
Narellan Hardware Pty Ltd	100	100
National Retail Support Services Pty Ltd	100	100
Payless Superbarn (N S W) Pty Ltd	100	100
QIW Pty Limited	100	100
Queensland Independent Wholesalers Pty Limited	100	100
Roma Hardware Pty Ltd	100	100
Scanning Systems (Fuel) Pty Ltd	100	100
Smart IP Co Pty Ltd	100	100
South Coast Operations Pty Ltd	100	100
South West Operations Pty Ltd	100	100
SSA Holding Pty Ltd	100	100
Thrifty-Link Hardware Pty Ltd	100	100
Timberten Pty Ltd	100	100
UIAL NSW/ACT Pty Ltd	100	100
UIAL Tasmania Pty Ltd	100	100
Vawn No 3 Pty Ltd	100	100
W.A. Hardware Services Pty. Ltd	100	100
Wickson Corporation Pty Limited	100	100
Entities outside of the Closed Group		
Community Co Australia Pty Ltd	100	100
Faggs Geelong Pty Ltd	90	90
Foodland Property Unit Trust	100	100
Gympie Property Investment Pty Ltd	84.7	84.7
Hardware Property Trust	100	100
IGA Pacific Pty Ltd	100	100
IGA Retail Network Limited	100	100
Metcash Asia Limited (incorporated in China)	-	100
Metoz Holding Limited (incorporated in South Africa)	100	100
Mitre 10 Mega Property Trust	100	100
NFRF Developments Pty Ltd	51	51
Northern Hardware Group Pty Ltd	84.7	84.7
Nu Fruit Pty. Ltd.	51	51
Produce Traders Trust	100	100
Quickstop Pty Ltd	-	100

Notes to the financial statements continued

For the year ended 30 April 2019

Appendix C – Information on subsidiaries

	FY19 %	FY18 %
Rainbow Unit Trust	100	100
Rainfresh Vic Pty Ltd	51	51
Retail Merchandise Services Pty Limited	100	100
Soetensteeg 2 61 Exploitiemaatschappij BV (incorporated in Netherlands)	-	100
Sunshine Hardware Pty Ltd	84.7	84.7
Tasman Liquor Company Limited (incorporated in New Zealand)	100	100
Tasmania Hardware Pty Ltd	80	80
Timber and Hardware Exchange Pty Ltd	68.42	68.42
Wimbledon Property Trust	100	100

- (a) During the year, Banner 10 Pty Ltd became a wholly-owned subsidiary following the Group's acquisition of its remaining 51% equity interest.
- (b) During the year, Metcash sold 85% of its equity interest in Metcash Export Services Pty Ltd to eCargo Holdings Limited whilst retaining a 15% equity interest in the company.

1. Entities within the closed group as at 30 April 2019

Certain controlled entities of Metcash Limited, collectively referred to as the 'Closed Group', are party to a Deed of Cross Guarantee which meets the requirements of *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785* (Instrument). Pursuant to the Instrument, entities within the Closed Group that have lodged an opt-in notice with ASIC within the requisite time limits are granted relief from standalone financial reporting and audit requirements of the Corporations Act 2001. Under the Deed of Cross Guarantee, the entities within the Closed Group, including Metcash Limited, have guaranteed to pay any outstanding debts or claims in the event of a winding up of any other entity within the Closed Group.

Notes to the financial statements continued

For the year ended 30 April 2019

Appendix C – Information on subsidiaries

Summary Statement of Comprehensive Income of the Closed Group

	FY19 \$m	FY18 \$m
Distributions from subsidiaries outside the Closed Group	1,302.4	28.3
Other transactions with subsidiaries outside the Closed Group	(33.0)	(190.0)
Other net income/(expense)	256.8	(89.7)
Profit/(loss) before income tax	1,526.2	(251.4)
Income tax expense	(78.0)	(69.7)
Net profit/(loss) for the year	1,448.2	(321.1)

Summary Statement of Financial Position of the Closed Group

	FY19 \$m	FY18 \$m
Assets		
Cash and cash equivalents	130.3	137.8
Trade receivables and loans	1,435.6	1,424.8
Inventories	721.0	697.2
Other current assets	11.0	10.6
Total current assets	2,297.9	2,270.4
Investments	177.1	1,132.4
Property, plant and equipment	199.1	190.7
Net deferred tax assets	111.6	112.4
Intangible assets and goodwill	741.0	738.4
Other non-current assets	16.1	30.2
Total non-current assets	1,244.9	2,204.1
Total assets	3,542.8	4,474.5
Liabilities		
Trade and other payables	1,885.6	1,823.3
Interest-bearing borrowings	1.9	1.9
Income tax payable	11.6	14.7
Provisions and other current liabilities	123.6	127.5
Total current liabilities	2,022.7	1,967.4
Interest-bearing borrowings	183.6	127.1
Amounts due to related parties	18.7	2,212.6
Provisions and other non-current liabilities	117.4	137.4
Total non-current liabilities	319.7	2,477.1
Total liabilities	2,342.4	4,444.5
Net assets	1,200.4	30.0
Equity		
Contributed and other equity	559.2	600.0
Other reserves	(0.8)	(0.7)
Retained profits/(accumulated losses)		
Opening balance, 30 April (as previously stated)	(514.9)	(1,210.3)
Changes from the initial adoption of the new accounting standards	(54.4)	(55.7)
Opening balance, 1 May (restated)	(569.3)	(1,266.0)
Capital reduction	-	1,119.3
Net profit/(loss) for the year	1,448.2	(321.1)
Share buyback	(109.5)	-
Dividends paid	(127.4)	(102.4)
Other movements	-	0.9
Closing balance	642.0	(569.3)
Total equity	1,200.4	30.0

Notes to the financial statements continued

For the year ended 30 April 2019

Appendix D – Equity-accounted investments

Equity-accounted investments of the Group represent both associates and joint ventures and are structured through equity participation in separate legal entities. Metcash invests capital to support the independent retail network, strengthen relationships and fund growth. Relationships with co-investors are governed by contractual agreements which allow the Group to exercise either significant influence or joint control over these entities. Where the Group exercises joint control, all key operating decisions are agreed unanimously, regardless of ownership interest.

The principal place of business for all of the Group's equity-accounted investments is Australia, with the exception of Metcash Export Services Pty Ltd, which primarily deals with customers in China.

The following table presents key information about the Group's interests in joint ventures and associates.

Investee	Principal activities	Reporting date	FY19 %	FY18 %
Associates				
Ritchies Stores Pty Ltd	Grocery retailing	30 June	26.0	26.0
Dramet Holdings Pty Ltd	Grocery retailing	30 June	26.0	26.0
Metcash Export Services Pty Ltd (a)	Grocery retailing	30 April	15.0	-
Joint ventures				
Adcome Pty Ltd	Grocery retailing	30 April	45.0	45.0
Lecome Pty Ltd	Grocery retailing	30 April	50.0	50.0
BMS Retail Group Holdings Pty Ltd	Grocery retailing	30 June	49.0	49.0
Progressive Trading Pty Ltd (b)	Grocery retailing	30 April	58.8	58.8
Waltock Pty Limited	Hardware retailing	30 June	49.0	49.0
Banner 10 Pty Ltd (c)	Hardware retailing	30 June	-	49.0
G Gay Hardware Pty Ltd	Hardware retailing	30 June	49.0	49.0
LA United Pty Ltd (d)	Liquor wholesaling	30 June	75.3	75.3
Liquor Alliance Pty Ltd (d)	Liquor wholesaling	30 June	66.7	66.7

- (a) During the year, Metcash sold 85% of its equity interest in Metcash Export Services Pty Ltd to eCargo Holdings Limited whilst retaining a 15% equity interest in the company.
- (b) Whilst the Group has beneficial ownership of more than 50.0% in Progressive Trading Pty Ltd (Progressive), key operating and financial decisions require the unanimous consent of all shareholders. Accordingly, Progressive is accounted for as a joint arrangement.
- (c) During the year, Banner 10 Pty Ltd became a wholly-owned subsidiary following the Group's acquisition of its remaining 51% equity interest.
- (d) The Group has a direct ownership of 26.0% in LA United Pty Ltd, an indirect ownership of 49.3% 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 year ended 30 April 2019

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

1. In the opinion of the directors:
 - a. The financial statements, notes and the additional disclosures included in the directors' report designated as audited, of Metcash Limited are in accordance with the *Corporations Act 2001*, including:
 - i. Giving a true and fair view of its financial position as at 30 April 2019 and of its performance for the year ended on that date; and
 - ii. Complying with Accounting Standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001*;
 - b. The financial statements and notes also comply with *International Financial Reporting Standards* as disclosed in Appendix B.2; and
 - c. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 April 2019.
3. In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Appendix C will be able to meet any obligation or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'Jeff Adams', with a large, stylized initial 'J' and 'A'.

Jeff Adams

Director

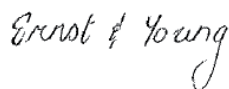
Sydney, 24 June 2019

Auditor's Independence Declaration to the Directors of Metcash Limited

As lead auditor for the audit of Metcash Limited for the financial year ended 30 April 2019, 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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



Ernst & Young



Renay Robinson
Partner
24 June 2019

Independent Auditor's Report to the Members of Metcash Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Metcash Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 April 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is 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 30 April 2019 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Impairment assessment for goodwill and other intangible assets

Why significant	How our audit addressed the key audit matter
At 30 April 2019 the Group's consolidated statement of financial position includes goodwill and other intangible assets amounting to \$793.5 million, representing 22% of total assets. The directors have assessed goodwill and other intangible assets for impairment at 30 April 2019. As disclosed within Note 9 to the financial statements, the assessment of the impairment of the Group's goodwill and other intangible assets incorporated significant judgments and estimates, specifically concerning factors such as forecast cashflows, discounts rates and terminal growth rates. These estimates and assumptions are impacted by future performance, market and economic conditions. Minor changes in certain assumptions can lead to significant changes in the recoverable amount of these assets. Accordingly, we considered this to be a key audit matter.	Our audit procedures included the following: - Assessed the Group's determination of the cash generating units (CGUs) used in the impairment model, based on our understanding of the nature of the Group's business and the economic environment in which the segments operate. We also considered internal reporting of the Group's results to assess how earnings and goodwill are monitored and reported; - Assessed the cash flow forecasts, assumptions and estimates used by the Group, as outlined in Note 9 to the financial statements, by considering the reliability of the Group's historical cash flow forecasts, our knowledge of the business and corroborating data with external information where possible; - Evaluated the appropriateness of discount and terminal growth rates applied with involvement from our valuation specialists; - Tested the mathematical accuracy of the impairment testing models including the consistency of relevant data with latest Board approved forecasts; - Performed sensitivity analysis on key assumptions including discount rates, terminal growth rates and EBIT forecasts for each of the Group's CGUs; and - Assessed the adequacy of the financial report disclosures contained in Note 9.

2. Accounting for supplier rebates

Why significant	How our audit addressed the key audit matter
Appendix B.8 of the financial report outlines the Group's accounting policy relating to supplier rebates, or supplier income as they are referred to in the Financial report. The Group receives rebates and other similar incentives from suppliers which are determined based upon a number of measures which can include volumes of inventory purchased, sold, and the performance of promotional activities. We considered this to be a key audit matter as supplier rebates contributed significantly to the Group's results, there are a large number of specific agreements in place and some of the arrangements require judgment to be applied in determining the timing of rebate recognition	Our audit procedures included the following: - Evaluated the Group's processes and controls relating to the recognition and valuation of amounts recognised and classified within the consolidated statement of comprehensive income; - Assessed the operating effectiveness of relevant controls in place relating to the recognition and measurement of volumetric, purchase value and sales value related supplier rebates;

and the appropriate classification within the consolidated statement of comprehensive income based upon the terms of the agreement.

- Selected a sample of supplier rebates, including non-volumetric supplier rebates, received and accrued for during the year and tested whether the supplier rebates were correctly calculated and recognised in the correct period;
- Considered the impact of supplier claims during and subsequent to year end on amounts recognised; and
- Inquired of management and the Directors, as to the existence of any non-standard agreements or side arrangements.

3. Onerous contracts

Why significant	How our audit addressed the key audit matter
As set out in Note 11 to the financial statements, various controlled entities within the Group are the head lessee in relation to a number of retail stores the Group sub-leases to independent retailers. As disclosed within Appendix B.15 to the financial statements, the assessment of when these arrangements are onerous contracts which require provisions to be recognised involves making significant judgments and estimates concerning factors such as retail profitability. A key audit matter was whether the Group's assessment included appropriate consideration of these factors.	Our audit procedures included the following: ▪ Evaluated the Group's processes to identify onerous contracts requiring provision recognition. ▪ Tested the valuation of the onerous contract provisions by evaluating whether appropriate judgments and assumptions had been applied in determining the unavoidable costs of meeting the obligation and the estimate of the expected benefits to be received under the contract.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's 2019 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

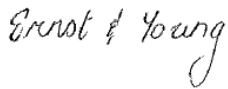
Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 46 to 58 of the directors' report for the year ended 30 April 2019.

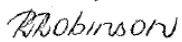
In our opinion, the Remuneration Report of Metcash Limited for the year ended 30 April 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Ernst & Young



Renay Robinson
Partner
Sydney
24 June 2019

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 30 June 2019:

Distribution of Equity Securities

The number of shareholders, by size of holding, in each class of share is:

Size of holding	Number of shareholders
1 - 1,000	5,387
1001 - 5,000	8,938
5,001 - 10,000	3,148
10,001 - 100,000	2,537
100,001 - 9,999,999,999	108
Total	20,118

There were 1,147 shareholders holding less than a marketable parcel of Metcash ordinary shares.

Twenty largest holders of quoted shares

The names of the 20 largest holders of quoted shares are:

Name	Number of shares	Percentage of shares
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	371,222,157	40.83%
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	173,748,601	19.11%
CITICORP NOMINEES PTY LIMITED	125,460,837	13.80%
NATIONAL NOMINEES LIMITED	42,259,242	4.65%
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	24,150,591	2.66%
BNP PARIBAS NOMS PTY LTD <DRP>	13,148,536	1.45%
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	7,867,261	0.87%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	5,148,255	0.57%
AMP LIFE LIMITED	3,644,013	0.40%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	2,992,757	0.33%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	1,815,391	0.20%
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING COLLATERAL >	1,754,000	0.19%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,703,775	0.19%
NATIONAL NOMINEES LIMITED <N A/C>	1,200,000	0.13%
CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	969,454	0.11%
POWERWRAP LIMITED <SCHEME - IML TRADES A/C>	952,664	0.10%
BNP PARIBAS NOMS PTY LTD <ARBITAGE SNC DRP>	884,953	0.10%
NATIONAL NOMINEES LIMITED <DB A/C>	808,250	0.09%
SANDERS TC PTY LTD	700,000	0.08%
RAY SANDERS SUPERANNUATION FUND PTY LTD <RAY SANDERS S/F A/C>	600,000	0.07%
Total	781,030,737	85.90%

Substantial Shareholders

The following is extracted from the Company's register of substantial shareholders:

Name	Number of Shares
Pendal Group Ltd	117,225,491
Allan Gray Australia Pty Ltd	95,261,951

Voting Rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

Corporate Information

Directors

Robert Murray (Chair)
Jeff Adams (Group CEO)
Fiona Balfour
Anne Brennan
Tonianne Dwyer
Murray Jordan
Helen Nash

Company Secretary

Julie Hutton

Share Register

Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001
Freecall: 1800 655 325
Telephone: 61 2 9290 9600

Auditor

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
Telephone: 61 2 9248 5555

Metcash Limited

ABN 32 112 073 480
1 Thomas Holt Drive
Macquarie Park NSW 2113
PO Box 557
Macquarie Park NSW 1670
Telephone: 61 2 9741 3000

Metcash Supermarkets & Convenience (Head Office)

1 Thomas Holt Drive
Macquarie Park NSW 2113
PO Box 557
Macquarie Park NSW 1670
Telephone: 61 2 9741 3000

Australian Liquor Marketers (Head Office)

1 Thomas Holt Drive
Macquarie Park NSW 2113
PO Box 557
Macquarie Park NSW 1670
Telephone: 61 2 9741 3000

Independent Hardware Group (Head Office)

19 Corporate Drive
Heatherton VIC 3202
Telephone: 1300 880 440

Corporate Governance

A copy of the Corporate Governance Statement can be found on our website.
Visit www.metcash.com/corporateinformation/corporate-governance