



Metcash Limited

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25 July 2014

ASX Limited
Company Announcements Office
Level 4, Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

Metcash Limited Annual Report 2014

Please find enclosed a copy of the Metcash Limited Annual Report 2014.

Copies have been issued today to those members who have requested a copy.

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

Yours faithfully

A handwritten signature in black ink, appearing to read "G. Watson", is written over a large, stylized circular flourish.

Greg Watson
Company Secretary

2014

Metcash
Limited

Annual
Report

SUCCESSFUL INDEPENDENTS



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WHO WE ARE

OUR PURPOSE

**SUCCESSFUL
INDEPENDENTS**

OUR VALUES

**INTEGRITY IS THE FOUNDATION
OF OUR VALUES:**

**SUPPORTING OUR CUSTOMERS
AND SUPPLIERS**

**OUR PEOPLE ARE EMPOWERED
AND ACCOUNTABLE**

ADDING VALUE IN OUR COMMUNITY

OUR VISION

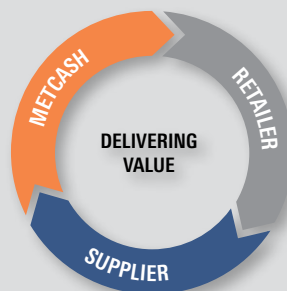
**GROWING OUR MARKETS
AND DELIVERING VALUE TO
OUR STAKEHOLDERS**

**DISTRIBUTION AND
MERCHANDISING EXCELLENCE**

**RETAILER AND CONSUMER
CHAMPIONS**

**SUCCESSFUL AND PASSIONATE
INDEPENDENTS**

OUR MODEL



OUR MARKETS

FOOD & GROCERY

LIQUOR

HARDWARE

AUTOMOTIVE

Metcash is Australia's leading marketing and distribution company, operating in the wholesale grocery, liquor, hardware and automotive industries.

Our business divisions – Metcash Food & Grocery, Australian Liquor Marketers (ALM), Hardware and Automotive – employ over 5,500 people, and support more than one million people via our independent retailer network.

We believe Australian shoppers – trade and retail – want a local, convenient offer.

We support independents in creating that offer and to be highly successful by:

- **Focusing on the customer** – ours and those of our customers;
- **Providing merchandising and distribution excellence** – our investment in automation and robotics is allowing us to set new standards in supply chain efficiency; and
- **Leveraging the buying power of our network** – to negotiate better prices for our customers.

Metcash has the capabilities, the drive, and enthusiasm to ensure independent retailers have a bright and sustainable future. Right now, we are investing in this future with a transformation plan that will secure sustainable growth for Metcash, our independents and our shareholders.

CHAIRMAN'S REPORT

The year was characterised by significant changes in the Company's leadership and the development of the strategic transformation plan announced to the market in March 2014. The Board was heavily involved in the strategic review and is confident that Metcash has a strong, renewed management team, with the capability to deliver the disciplined execution the transformation plan will require.

In Financial Year (FY) 2014, sales revenues grew by 3.2%, to \$13.4 billion. However, other metrics were depressed by challenging market conditions in the group's core Food & Grocery business and the cost of the group's transformation initiatives. Reported profit after tax fell 17.9% to \$169.2 million. Underlying profit after tax fell 10.9% to \$250 million. Underlying earnings per share (EPS) was 28.3 cents per share, a decline of 13.2%.

Although ongoing price deflation hampered performance in Metcash Food & Grocery, transformation in this business is now well underway and initial results from pilots are encouraging. The non-food pillars delivered solid results, with good sales growth playing through into strong earnings before interest, tax and amortisation (EBITA) performances. These businesses are also executing their own strategic plans, driving network growth and consolidation within their respective markets.

The capital cost of the transformation initiatives across the Metcash business is forecast to be up to \$675 million, spent over the coming five years. Part of the required funding will be met by Metcash targeting working capital improvements from the Food & Grocery transformation initiatives. However, to fund the remainder of this game-changing investment the Board has had to make some difficult capital management decisions. As advised in March, the dividend payout ratio has been set to 60% of Underlying EPS.

In past years, the Board has authorised higher payout ratios, reflecting its desire to return funds to shareholders if the business had no alternative use for it. Currently, it is important that management has access to the appropriate levels of capital required to return Metcash to earnings growth.

In this transitional year, the Board has set the full year dividend at 18.5 cents per share and reintroduced the Dividend Reinvestment Plan (DRP). The DRP will provide balance sheet support and enable Metcash to continue to invest in the business and implement its transformation initiatives, while maintaining a prudent capital structure.

The capital cost of the transformation initiatives across the Metcash business is forecast to be up to \$675 million, spent over the coming five years.

During the year, Metcash delivered operating cash flows of \$388.7 million, a growth of 29.7%. This growth reflected, underlying earnings, tight working capital controls and a timing benefit of approximately \$80 million, due to the proximity of Easter public holidays to the group's year end. In March 2014, Metcash refinanced its \$400 million core debt facility, which would have matured in December 2014. The new facility has two tranches: \$200 million maturing June 2018; and \$225m maturing in June 2019. The company's relationship banks have been supportive in this refinancing and no debt refinancing will be required until FY2016.

Board renewal continued during FY2014, with two new appointments and one retirement. As a result of these changes, the majority of the Board will have tenure of less than four years' service.

In November 2013, the Board appointed Mick McMahon, CEO of ASX listed Skilled Group, an experienced CEO with extensive retailing and supply chain management experience in supermarkets and convenience, food, grocery and liquor. In June 2014, the Board appointed Tonianne Dwyer. With a background as a lawyer and investment banker, Tonianne brings significant experience, including multiple directorships of ASX100 and international companies. She currently holds independent directorships on the boards of: Dexus Funds Management Limited, Dexus Wholesale Property Limited, Cardno Limited and Queensland Treasury Corporation.

After 16 years of service, Dudley Rubin will retire as a Non-executive Director at the forthcoming Annual General Meeting. A former Chairman of the Audit, Risk and Compliance Committee, Dudley has provided the Board with consistently strong independent advice. On behalf of the Board, I thank him for his insightful contributions to strategic decisions and his dedicated service.

To the dedicated Metcash staff, independent retailers and suppliers, the Board acknowledges and thanks them for their support and hard work throughout FY2014.

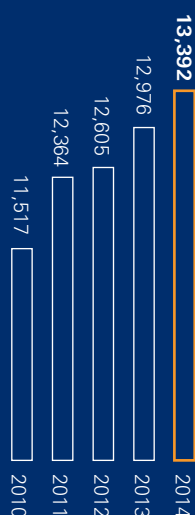
In a year of significant change and challenge, shareholder support to the company has, and continues to be, greatly appreciated.



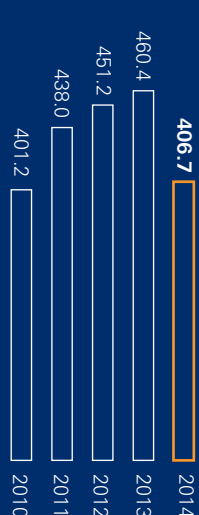
Peter Barnes Chairman

FINANCIAL HIGHLIGHTS

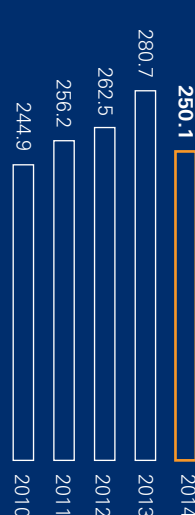
Sales up 3.2%
to \$13.4bn



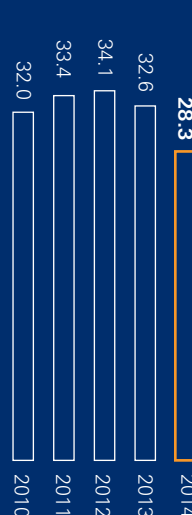
EBITA (Underlying)
\$406.7m



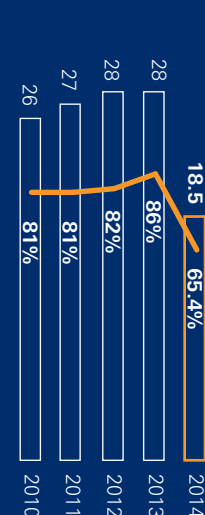
PAT (Underlying)
down 10.9%
to \$250.1m



EPS (Underlying)
down 13.2%
to 28.3 cents per share



DPS – 18.5 cents
Payout ratio
of 65.4%



Five Year Review	2014	2013	2012	2011	2010
Financial Performance					
Sales (\$m)	13,392.7	12,976.6	12,501.1	12,364.0	11,517.4
Underlying EBITA (\$m)	406.7	460.4	451.2	438.0	401.2
Finance costs, net (\$m)	57.2	61.6	67.6	66.3	49.3
Underlying profit after tax (\$m)	250.1	280.7	262.5	256.2	244.9
Reported profit after tax (\$m)	169.2	206.0	90.0	241.4	227.6
Operating cash flows (\$m)	388.7	299.8	284.3	142.5	294.7
Cash realisation ratio (%)	162.6%	112.9%	196.9%	48.4%	107.4%

Financial Position					
Shareholder equity (\$m)	1,594.0	1,624.2	1,335.1	1,442.8	1,377.6
Gearing ratio (net hedged) (%)	32.5%	30.7%	40.5%	32.1%	28.4%
Return on funds employed (%)	16.7%	20.0%	20.6%	21.1%	21.4%

Share Statistics					
Fully paid ordinary shares	888,338,048	880,704,786	771,345,864	768,853,644	765,644,031
Weighted average ordinary shares	882,676,013	859,742,607	770,441,432	767,676,470	765,178,865
Underlying earnings per share (cents)	28.3	32.6	34.1	33.4	32.0
Reported earnings per share (cents)	19.2	24.0	11.7	31.5	29.7
Dividends declared per share (cents)	18.5	28.0	28.0	27.0	26.0
Dividend payout ratio (%)	65.4%	85.9%	82.1%	80.8%	81.3%

Other Statistics					
Number of employees (full-time equivalents)	5,412.0	5,794.0	5,166.0	5,638.0	5,773.0

CEO's REPORT

The Financial Year (FY) 2014 was an important transition year, as Metcash undertook a strategic review and developed a transformation plan to address the structural challenges within the business. Evidence of these challenges was apparent in the underperformance of our core Food & Grocery pillar, which led to a disappointing outcome for shareholders.

In contrast, our other businesses returned highly creditable results in very tough market conditions, gaining market share despite falling consumer demand and fierce competition. Once again, our Liquor pillar achieved strong growth in a flat liquor market, with sales growth of 8.3% and EBITA of \$53.8 million, an increase of 14.2%. At the same time, our Hardware & Automotive pillar grew sales by 23.6%, and increased EBITA by 47.8% to \$53.5 million. In each case, the success of these businesses came from their strong consumer focus.

During the year, we integrated the wholesale car and truck parts business Australian Truck and Auto Parts Group (ATAP) into the group, with its national franchise network of 53 brake and steering and auto repairs specialists. In May 2014, we added significant additional scale and another quality brand to our automotive network, with the acquisition of the auto service expert, Midas. The addition of ATAP, Partco and Midas gives Metcash a formidable presence in the \$5.6 billion Australian automotive aftermarket.

Metcash is now focused on our overarching strategy of supporting successful independents. We have the experience, network buying power and the distribution and merchandising excellence to be a champion for both independents and consumers. Our shopper focus is already yielding solid results in our Liquor and Hardware

& Automotive pillars. Once this discipline is replicated across our Food & Grocery business, we are confident Metcash will return to its previous levels of performance.

TRANSFORMATION PLAN

The last 12 months provided evidence to support the case for change at Metcash. Return on funds employed reduced by 3.3% year-on-year, as Food & Grocery's growth continued to decline. Between 2008 and 2011, Food & Grocery's underlying earnings grew at a compound annual rate of 8.8%. However, between 2011 and 2014, annual growth has fallen at a rate of -8.2%, as the independent retailers that Metcash Food & Grocery supports lost market share to the major supermarket chains and a number of stores were either closed or sold.

This market share loss was due to several factors, including significant price deflation and the rising importance of private label products. However, their effect was not universal. The independent Food & Grocery network contains many superb, highly successful and profitable retailers, who gained ground against the supermarket chains. These successful independents are 'tuned in' to their customers, stock localised ranges and have a very compelling fresh offer. If we replicate their approach across our network, there is significant potential for a resurgence in independent grocery retailing in Australia – and for Metcash to return to earnings growth.

This imperative forms the basis of our four-part transformation plan to make all the independent businesses we serve more competitive:

1. TRANSFORMING METCASH FOOD & GROCERY

Our first priority is to return Metcash Food & Grocery to revenue growth by transforming its traditional model away from a supply-led wholesale business to a consumer-led, retail-oriented operation. Metcash Food & Grocery has bought based on supply – not demand – which has impacted consumer appeal and increasingly led to some retailers buying more products outside the Metcash system. Given our success is tied to the success of independent retailers, we need to invert our approach and focus on the needs of retailers and their customers.

The expertise required to drive this major change resulted in a new senior management team being put in place in Food & Grocery, with strong consumer and retail experience. This team is focused on improving retail outcomes – not simply wholesale metrics, making decisions based on extensive data analysis.

In order to develop a transformation plan for Food & Grocery, the leadership team spent much of FY2014 working closely with our most successful retailers and suppliers – at an unprecedented level – to identify levers of growth. Together, we have developed and tested ideas that will enable independents to be competitive on price and differentiated in their offer – and support them in tailoring their ranges to the needs of local shoppers.

Early initiatives involve using analytics and local retailer insights to develop a local shopper-led range for each store and a tiered range of own-brands – all arranged 'how the locals like it' in that catchment. In future, our network will have increasing numbers of stores with optimum space allocation and format design, an improved delicatessen and meat offer and a wide range of quality produce at consistent prices. We intend

to support retailers in refurbishing up to 400 stores over the next three to four years.

We also began introducing competitive everyday pricing that will deliver more than \$100 million of value to customers on an annualised basis. This initiative is being piloted in a 'Price Match' campaign in 34 IGA stores across the country, which will be rolled out in phases across the network in FY2015.

The results of the initial pilot programs and other initiatives, have all been very positive. Importantly, all the retailers working with Metcash are strongly supportive of the plan – and I thank them for their insights, collaboration and continued hard work. We will continue to use these pilots to test our assumptions and fine-tune tactics to leverage excellence and drive competitiveness across the network.

The final element of our Food & Grocery transformation will be in the convenience segment where we have distinct advantages that make Metcash the single best distributor to this sector. We intend to press home this advantage with a strategy that takes a customer sector approach to growth and provides a total store solution to convenience customers across Australia. In our Campbells Cash & Carry business, we are pursuing a clear customer focus, particularly around the needs of the broader food service sector.

2. DRIVING CONSOLIDATION AND SUSTAINABLE NETWORK GROWTH

In FY2015, across all our business pillars, Metcash will continue to focus on attracting more independent retailers to join our organised retail banners. With continued levels of competitive intensity across all our market sectors, Metcash's retail banner groups provide a compelling proposition for independent retailers, offering them proven solutions that improve returns and the advantages of scale.

For ALM, growth initiatives will include: customising each store's offer to meet local demand; developing different licensed retail formats; improving efficiency for suppliers; and using multiple channels to reach new customers.

Mitre 10's consumer-driven strategy will include a private label refresh, improved in-store execution and giving customers

the option of buying online or on smart phones. The Mitre 10 business will also continue to develop the strong customer and supplier relationships necessary to be successful in the trade market.

Metcash Automotive will seek to increase customer value across the retail, wholesale and service sectors. This will include: each business unit revisiting their approach to make sure it is focused on the consumer; improving training and development in retail stores to improve customer service; and introducing heritage brands and direct sourcing.

3. ENHANCING OUR SUPPLY CHAIN

Metcash is already well known for its logistics capabilities – but our benchmark is world's best practice. We will continue to drive efficiencies through further infrastructure investment that better aligns our supply chains to the needs of retail customers and suppliers. Supply chain projects include the already commissioned 'single pick' KNAPP system and the first of our fully automated 'case pick' warehouses, which will go live in September 2014 at our Huntingwood distribution facility. This automated warehouse, known as Project Mustang, represents a \$75 million investment that takes Metcash to the leading edge of best practice distribution.

4. ENABLING SUCCESSFUL INDEPENDENTS

To help our existing network members achieve best practice, and attract new retailers to the independent network, we are building a Retail Academy across each of our business pillars. The Academy will draw on industry best practice and will help to develop existing retailers' skills and capabilities and provide new services to members.

We will also expand our digital strategy, with scale solutions for digital channels – such as web page management, digital marketing and online retailing functionality – that can be tailored for retailers' local needs. Social media will continue to be an important channel. Already in February this year, Twitter named IGA's Valentine's Day campaign as the best in Australia.

In addition, to help our retailers put consumer insights at the heart of decision-making, we are partnering with Teradata, Gartner's Magic Quadrant provider. This partnership will provide the analytic capability for independent retailers to benchmark and improve their

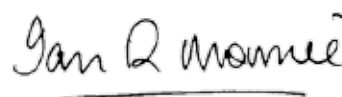
performance in a way that has never previously been possible.

By investing now in a reshaped model for Metcash Food & Grocery and driving even stronger growth in our other business pillars, we are building a company that can, once again, deliver shareholder returns. I thank shareholders for their patience and encourage them to participate in our dividend reinvestment plan – helping to fund a stronger and sustainable future.

In FY2014, the results of our Liquor and Hardware & Automotive Divisions – and our pilot programs in Food & Grocery – proved the power of independents who are attuned to their customers. We know what needs to be done to drive this focus across the Metcash network. In FY2015, we will focus on executing these plans.

Finally, I want to thank everyone across the Metcash network – our staff, suppliers and independent businesses – for their dedication and professionalism in a very challenging year. We are united in a belief that, prices being equal, Australians will support independent businesses, because they are local, convenient and know their needs better than anyone else.

I look forward to working with all the stakeholders in the Metcash network to secure both a strong, vibrant future of independent retailing in Australia – and long-term sustainable value for our shareholders.



Ian Morrice CEO

15-40%

Shopper led
ranging sales/m2
outperformance by
stores with range
tailored to their
catchment.

CONSUMER INSIGHTS

**METCASH HELPS
INDEPENDENTS BY FOCUSING
ON WHAT SHOPPERS WANT**

**BRANDS,
CONVENIENCE
AND A LOCAL OFFER.**

The most commonly upgraded areas (in the home) are kitchens, bathrooms and outdoor areas



of Australian supermarket shoppers say they are passionate about sourcing the best produce

An average of

\$6,151

is spent on renovation and maintenance work per Aussie household

85%

of people buy their liquor 10 minutes from home – and consume it within 24 hours

On average, consumers will only travel 3-5km from their home or workplace to have their vehicle serviced

3 TO 5 KM



In the Automotive Aftermarket

76%



of customers want a 'one stop shop'

71%



of retail liquor customers say 'good value' is one of the most important purchasing factors, followed by 'good range' at 47%.

Australians are keeping their cars longer with the average age of vehicles rising to 10.7 years supporting an increased reliance on the Aftermarket and Service sectors

Shoppers are making more frequent supermarket trips, 2.7 trips per week on average

These more frequent, smaller shops account for

50%

of supermarket spend

62%

of shoppers prefer to support locally owned and managed stores

Competitive pricing will deliver value to consumers of

A\$100m



REVIEW OF OPERATIONS

Metcash
Food &
Grocery

Sales for the year were \$9.1 billion, slightly down by 0.5% on the previous year. EBITA fell from \$377.9 million to \$304.3 million. These results were impacted by increased competition and Transformation Plan costs as well as grocery deflation of 1.4% and elevated fuel discounting that resulted in some loss of market share.

Despite these challenges, the year saw some fundamental positives. Supplier support remained strong and the Food & Grocery network continued to grow with 53 new stores – including conversions – and 63 extension and refurbishments across the Group. Over the year, 38 stores were transitioned into the hands of new owners as part of the buy-back strategy that delivered a retail sales uplift of >10 %. We continue to invest in the network for future sustainable growth.

GROCERY

The Transformation Plan outlined in the CEO's Report is progressing well, with an excellent early response to our 'Price Match' campaign that aligns with IGA's great value Black & Gold range. To ensure we have the right resources and capabilities to support all the retailers in the network in adopting best practice, we are currently recruiting 30 additional field roles.

During the year, we have been developing retail excellence standards that are now being rolled-out across the network. This is being done through a number of initiatives, including our 'Diamond Standard' program that will optimise productivity in pilot stores in FY2015. The Diamond Store Accelerator pilot has been highly successful in re-setting space and range to improve productivity and better align with shopper needs. Increasingly, consumers are buying, especially fresh food, as they

need it. A convenient local offer, that allows customers to pick up the evening meal on the way home - distinguishes us from the chains. To help them capitalise on this differentiator, Diamond participants receive support with store refurbishment, also a shelf-productivity toolkit that helps retailers to identify over-spaced, low-performing categories that, can be reduced to free up space for more attractive categories. Retailers also receive Diamond guidelines for in-store execution, including business check lists, best practice manuals and processes, training guidelines, and HR policies.

The year also saw Grocery formulating shopper-led strategies based on consumer insights and research.

The findings are now changing our consumer facing marketing strategies in both the store and in the local area. In FY2014, Grocery received a positive consumer response to merchandise initiatives, such as our Coke-Taylor Swift promotion and marketing campaigns that included Anh Do in his role as the face of the IGA brand.

CONVENIENCE

In February 2014, Convenience appointed Peter Struck as its new CEO. Drawing on his extensive experience in the sector, Peter led a customer centric review to fully understand future opportunities for Convenience. The review identified opportunities to develop a sustainable and differentiated offer to drive both sales and margins while leveraging existing logistics capabilities within the wider Metcash group.

The review has led Metcash to develop a Total Wholesale Solution to support the \$7.3billion Petrol and Convenience channel and the \$4.3billion Food Service market. This solution will include: introducing range improvements, supported by competitive pricing and

new merchandising support. Solution initiatives also include increasing speed to market with new product developments, consolidating supply and delivery into a single source and improving availability through multiple deliveries as well as shorter order-to-delivery times.

In the coming year, Convenience will develop a digital platform to support the Total Wholesale Solution model, with launch anticipated in last quarter FY2015.

SUPPLY CHAIN

During the year, we completed the planned expansion of the successful KNAPP split case pick system. For the last 18 months, KNAPP has operated as a 'pick to zero' system, servicing our convenience customers. Testing is well underway and the 'stocked' solution went live in June 2014.

Further supporting our automation strategy, the Project Mustang full case picking solution is on track to go live in September 2014. During the year, building construction was completed, with 4,000 tonnes of racking erected, 5.5km of conveyors laid and all de-palletising and palletising robots on site. This is reducing our cost to serve, supporting our transformation initiatives.



AT A GLANCE

We service an additional **2,500+** independent retailers

We support **1,450+** IGA branded supermarkets (including Foodland)

Metcash Food and Grocery also service FoodWorks, Supabarn and Friendly Grocer in addition to the IGA network

190+ Lucky 7 convenience stores

FIVE major distribution centres for:

1. Dry 2. Chilled 3. Frozen 4. General merchandise 5. Deli 6. Bakery

SIX fresh produce distribution centres

A convenience network of **16** Campbells warehouses and distribution centres including two in the Northern Territory

SEVEN Marketing, merchandising, buying and retail operations support



REVIEW OF OPERATIONS

Australian
Liquor
Marketers

Despite operating in a tough market with declining volumes, in FY2014 Australian Liquor Marketers (ALM) grew sales by 8.3% to \$3.2 billion, assisted by the five month contribution of our new distribution contract with Liquor Marketing Group Limited and Hotel & Tourism Management Pty Limited (LMG). These contracts increased sales volumes, combined with sustained cost reductions from warehouse efficiencies, allowing the Liquor division to deliver another excellent EBITA result, rising by 14.2% to \$53.8 million.

ALM's growing and well-placed network is highly effective as 85% of people buy their liquor 10 minutes from home – and consume it within 24 hours. This local advantage will continue to drive sales growth as our retail footprint expands.

INDEPENDENT BRANDS AUSTRALIA (IBA)

During the year, our IBA retail brands remained strong. IBA delivered more than 3% sales growth on the back of an increasingly competitive retail offer. In particular, the Everyday Value Program continued to be popular with customers, creating strong growth for suppliers and retailers alike. Store traffic drivers were also highly effective.

IBA grew its store numbers by 101 sites, while also demonstrating good like-for-like growth with the existing network. External customer groups also performed well, with an increasing trend of consumers shopping in the smaller format retail stores.

In FY2015, we expect IBA to continue with current strategies to grow its retail footprint and sales. It will also build greater consumer brand awareness through a new approach to digital engagement.

ALLIANCES AND JOINT VENTURES

Our strategic partnership with the Liquor Alliance – trading under the Thirsty Camel banner – continued to show good growth year-on-year. We also expanded our joint ventures with Queensland hoteliers, adding two more hotels in Brightwater and Bellvista. These additional hotels give the IBA retail brand a footprint on the Sunshine Coast.

SUPPLY CHAIN

ALM and IBA are committed to providing retailers with the most efficient and cost effective supply chain model possible. In FY2014, we continued to grow and evolve our distribution capabilities, making excellent progress in continuing to reduce our supply chain cost of doing business. This included relocating our South Australian distribution centre to accommodate the increased volume from the LMG contract.

In the coming year, we will take more costs out of the supply chain and improve the order to delivery lifecycle for our retailers.

Independent Brands Australia is a Metcash subsidiary, established in December 2003 to create strong national brands. IBA creates an effective framework for independent liquor retailers to compete equally with the chains and secure long-term sustainability. IBA provides strong marketing support and a wide variety of retail services to its independent retailer network, ensuring high standards of execution and access to joint buying power.



AT A GLANCE

Supplies **12,000+** hotels, liquor stores, restaurants and other licensed premises in Australia

15 distribution centres across Australia and New Zealand

High quality logistics, buying, merchandising, marketing and retail support

Owns Tasman Liquor Company, with a similar operation in New Zealand

140 stores

ALM acquired the shares of Liquor Traders Pty Ltd. Liquor Traders controls the Thirsty Camel brand in Queensland and operates 140 stores under that banner



REVIEW OF OPERATIONS

Hardware & Automotive

In FY2014, Hardware & Automotive grew sales by 23.6% to \$1.16 billion, with EBITA increasing 47.8% to \$53.5 million. This strong performance was driven by additional trade sales in both existing and new businesses, ongoing conversions and continued improvements in supply chain and store execution.

HARDWARE

During the year, Mitre 10 successfully implemented core elements of its strategy in: growing the network; developing omni-channel retailing and delivering consumer-driven initiatives focused on range, price and retail excellence. The strength of the Mitre 10 network, in both trade and retail, lies in our local store owners and managers understanding their customers.

In FY2014, an additional 23 independent stores were converted to Mitre 10 – a total of 80 since 2010. The most recent groups welcomed to the network include the recently announced G Gay & Co in Ballarat Victoria. Growth also came through our non-branded groups, with excellent performances from Banner Hardware in South Australia and Dahlsens in Queensland and Victoria.

During the year, we fine-tuned the hardware range, bringing in more quality brands and improving value via an aggressive catalogue program and competitively priced leading seasonal products. Our private label, Buy Right, was also refreshed. Both the catalogue and Buy Right ranges are now available online, with sales growing steadily over the year. We anticipate increased growth in online sales as our digital campaigns ramp up.

By year end, the network was 83% brand compliant. Programs have been introduced to improve in-store execution

and customer service building on the 'Mighty Helpful' brand positioning. In addition, Mitre 10 enjoyed high brand awareness as a major sponsor of Channel 9's The Block 'Skyhigh' and 'Fans V Faves' series. The program attracts average audiences of more than 1.2 million. The last series launched Mitre 10's new campaign to address price perception, featuring a selection of store owners. Host, Scott Cam, is proving to be a successful brand ambassador, who relates well to all consumers. The next series is currently in production.

Our trade business also grew, supported by the Natbuild buying group alliance. Our joint venture network covers all states and the trade segment now comprises 51% of the Hardware business.

Finally, we created new efficiencies in the supply chain, through further automation in our distribution centres and improved third party logistics facilities in China, reducing the Cost-to-Serve. Additional benefits will come from the recently introduced Dallas Warehouse Management System in Victoria, that will be rolled out to the other three distribution centres over the next two years.

AUTOMOTIVE

Automotive had another strong year, defined by new acquisitions, aggressive integration targets, supplemented by underlying sales growth, and increased outlet numbers. We now service more than 400 outlets in the retail, trade and service sectors.

The automotive retail and trade business continued to grow, with nine new Autobarn stores, and three new or converted Autopro stores. Growth was supported by corporate store investment, locking in some important real estate, and the acquisition of Malz

Automotive and Leisure Zone, which added four stores to the network in Western Australia. Retail grew 1.6 % on a like-for-like basis in a sometimes mixed market. We continue to see strong confidence in the retail network, and an improving interest from potential new franchise operators with a solid pipeline of committed new outlets.

Metcash's position in the automotive service sector was strengthened by the recent strategic acquisition of Midas Australia. This franchise network of 89 stores adds to our 53-store ABS network already operating in this sector. Our greater scale increases the opportunity for growth and leverage through the supply chain.

Our acquisition of Australian Automotive Distributions in May 2013 has proceeded in line with expectations. In December 2013, the Group also acquired Partco to supplement our water pump and steering and suspension programs. With operations in Queensland and New South Wales, this product will now be distributed nationally.

During the year, Automotive embarked on a significant distribution consolidation project – impacting operations in four states. In Brisbane, a 10,000m² distribution centre was successfully commissioned, relocating four Queensland-based businesses under a single roof. In both Victoria and South Australia, consolidation will see the closure of each warehouse. In Western Australia, a 5,000m² distribution centre has been leased and is currently being commissioned, when completed in June 2014, this will house three businesses, allowing further closures. The entire consolidation project had a one-off book cost of \$2.8 million, largely relating to surplus leases.

We created new efficiencies in the supply chain, through further automation in our distribution centres and improved third party logistics facilities in China, reducing the Cost-to-Serve.

AT A GLANCE

HARDWARE	400+ Mitre 10 and True Value hardware stores	Supplies 400+ independent hardware stores
Supplies trade customers through the Natbuild trade alliance		
AUTOMOTIVE	255+ Automotive Brands Group stores (ABG): Autobarn, Autopro, CarParts	53 ABS stores
Australian Truck & Auto Parts (ATAP), IBS Auto Solutions (IBS), Melbourne Clutch and Brake (MCB), Garmaxx, Partco		89 Midas stores



CORPORATE RESPONSIBILITY

ENVIRONMENTAL

Our environmental reporting period is aligned with the calendar year. In 2013 waste and recycling costs were \$1,746,587 – 0.2% of operational expenditure. Environmental management costs amount to \$605,000 – 0.06% of operational expenditure.

MATERIALS

Metcash is a signatory to the Australian Packaging Covenant, which covers Metcash branded product packaging, as well as waste and recycling from all Metcash worksites. In 2012/2013, 73% of Metcash's corporate brand products reviewed for packaging had recycled content tertiary packaging. In addition, 29% of products reviewed had recycled content consumer unit packaging.

ENERGY AND EMISSIONS

Metcash tracks its energy consumption and emissions in accordance with the National Greenhouse and Energy Reporting Act 2007 and reports its energy profile annually via the NGER Act, as well as in the Dow Jones Sustainability Index and Carbon Disclosure Project Climate Change responses.

During the calendar year, our energy efficiency was 91.05 mWh with 0.065% of our fuel consumption and 0.02% of our electricity consumption coming from renewable resources. We also set a target to reduce electricity consumption at our five distribution centres by 10%, based on 2012/2013 levels to be achieved by the end of April 2015.

Metcash is working towards improved energy efficiency through a variety of projects, including voltage optimisation, lighting initiatives, and operational efficiencies.

WATER

In 2012/2013, just over 1.3% of our water consumption was from harvested rainwater. According to Carbon Disclosure Project water reporting measures, local water sources were not significantly affected by our water use.

BIODIVERSITY

Risk assessments during the year identified no material impacts on biodiversity as a result of Metcash's direct operations. We are mindful that Metcash's supply chain could result in indirect impacts on biodiversity. This will be risk assessed again in calendar year 2015. In July 2012, Metcash undertook habitat restoration at our newest greenfield development of a distribution centre at Huntingwood in NSW.

EFFLUENTS AND WASTE

Metcash manages its waste to landfill and recycling via our compliance with the Australian Packaging Covenant. In 2013, we met our target of keeping recycling rates over 9%. Our waste to landfill in 2012/2013 was 4.39% less than 2011/2012.

Additionally, Metcash donates usable, but no longer saleable, packaged food products to Foodbank, which distributes them to charities that support Australians in need. In FY 2012/2013, Metcash donated 410,027 kg of usable but not saleable food, providing 546,700 meals.

PRODUCTS AND SERVICES

Environmental impacts of our products and services were mitigated in the reporting period via:

- Formulating all laundry and dishwashing products with no phosphate, minimising the possibility of algal blooms in receiving waterways;
- Sourcing the majority of our tuna products using sustainable fishing

methods. By September 2015 all canned tuna products will be 100% Fish Aggravating Device (FAD) free'; and

- Eden facial tissues, Allure toilet tissue, and IGA Signature toilet tissue products are made in Australia and hold PEFC certification; 'Black & Gold' and 'No Frills' paper towels and toilet tissue are made in Australia and hold Forest Stewardship Council certification.

COMPLIANCE

Metcash has not identified any non-compliance with environmental laws or regulations during the reporting period.

TRANSPORT

During the year, Metcash mitigated the impact of our tool of trade fleet by transitioning to fuel efficient diesel vehicles and by disseminating information about efficient driving techniques to all drivers. The impacts of our third party contractor are external to Metcash's operational control.

LABOUR PRACTICES & DECENT WORK

SAFETY

In FY2014, Metcash continued to improve its overall safety performance, reducing the number of Lost Time Injuries by 15% to 126 down from 148, and reducing the LTIFR (Lost Time Injury Frequency Rate) by 15 to 13.88 per million hours worked. Total hours lost and number of new claims over the period also reduced significantly, by 23% and 31% respectively.

During the year, we established a single overarching Occupational Health & Safety (OHS) Management System across the business with automated data capture and reporting systems and tools. Metcash also continued to strengthen its OHS professional team and rolled out extensive OHS Leadership training

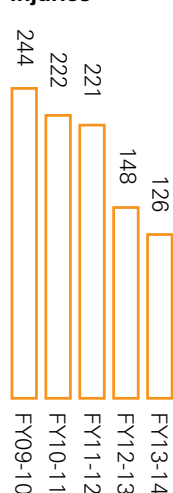
	Metric Tonnes	% of total
Waste to Landfill	44,477	90.5%
Recycling	4,660	9.5%
Cardboard	2,453	5.0%
Paper	1,658	3.4%
Plastic	427	0.9%
Co-mingled	122	0.2%
TOTAL	49,137	100.0%

and coaching programs to all managers. Auditing and review programs at all levels of management were bolstered and formalised, identifying areas for improvement and assisting management in deciding on OHS priorities.

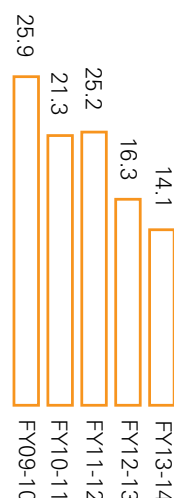
In the year ahead, we will continue with process improvement projects, as well as driving cultural change through safety leadership activities, and workforce engagement and empowerment programs. We will also undertake a national injury management and insurance review to identify further opportunities for improvement in these already strong areas.

Also in FY2015, Metcash's dedication to reducing manual handling injuries in the workplace will come to fruition with the go-live of the 'Mustang' automated order picking system at the Huntingwood site. We expect the automated system to significantly reduce musculoskeletal injuries, personal interactions with mobile plant and the risk of falling materials.

No. Lost Time Injuries



LTIFR



SOCIAL

WELLBEING

Metcash has a Wellbeing policy offering range of employee benefits:

- **Flexible working hours** including: a compressed Working Week, purchased leave and work from home arrangements;
- **Wellbeing initiatives**, including: two "wellbeing days" a year, free counselling service;
- **Health initiatives**, including: free flu vaccinations, gym memberships and onsite gyms, MBF Corporate Health Plan, quit smoking programs and subsidised canteens with healthy choices; and
- **Family support**, including: paid parental leave and subsidised school holiday camps and programs.

DIVERSITY AND EQUAL OPPORTUNITY

Women make up almost a third of the Metcash workforce. Through our Diversity Policy, in FY2014 management continued the focus on improving gender balance within leadership roles in the workplace. As a result women in management increased from 25% to 28%. In the application of the Diversity Policy there has also been an increase in the number of female candidates through the recruitment and selection process which resulted in several women appointed to roles within Metcash which traditionally have been held by men.

As part of the annual remuneration review process, Metcash analyses pay levels by gender, identifies any differences and takes appropriate steps to address them. As a result, we continued to decrease the female-to-male pay gap within the business.

Metcash is committed to a sustainable future for our portfolio of businesses. Our business practices are governed by economic, environmental, social and ethical considerations.

Other diversity initiatives during the year included:

- Continuing to raise awareness of the advantages of diversity through training of senior executives, managers and employees;
- Piloting an indigenous internship program that provides opportunities to attract and develop Aboriginal and Torres Strait Islander employees; and
- Developing relationships with disability employment providers to increase the representation of employees with a disability.

COMMUNITY

In FY2014, we continued to operate the IGA Community Chest program, through which IGA stores raise funds and distribute them to local schools, clubs or charities. Since it began in the 1990s, IGA Community Chest and associated programs have raised over \$70 million to support local community organisations.

During the year, these efforts were supplemented by Metcash's direct corporate philanthropy, including in kind / staff time donation, to support Westmead Children's Hospital, the NSW Drought Appeal, and the Rural Fire Service's Blue Mountains bushfire appeal.

ETHICAL

In FY2014, we communicated Metcash's anti-corruption policies to 100% of our:

- Executive and Board members
- Employees
- Business partners who are suppliers of Metcash branded products

In FY2015 Metcash will measure its sustainability practices guided by the adoption of the sustainability reporting framework of the Global Reporting Initiative (GRI).

OUR BOARD

Ian Morrice



Fiona Balfour



Peter Barnes



Patrick Allaway



Michael Butler



PETER BARNES

B COMMERCE (HONS)
MBA

Non executive Chairman

Chairman of the
Nomination Committee
Member of the
Remuneration Committee

Date of Appointment to
Metcash Limited:
18 April 2005

Peter Barnes is a Director of News Corporation and Chairman of Samuel Smith & Sons Pty Ltd. He also serves as Chairman of the Melbourne Business School. Mr Barnes was formerly the Chairman of Ansell Limited and an executive with Phillip Morris International Inc. and held several senior management positions both here in Australia and overseas. Peter was appointed Chairman of Metcash Limited on 2 September 2010 and has been involved with the Metcash business as a director since November 1999.

IAN MORRICE

MBA

Executive Director CEO Metcash Group of Companies

Date of Appointment to
Metcash Limited Board:
12 June 2012

Date of Appointment as
CEO Metcash Group of
Companies:
1 March 2013

Ian Morrice has over three decades of retail experience as Managing Director, Trading Director and Retail Director for some of the UK's leading retailers, including Dixons and The Kingfisher Group. Ian was Group CEO and Managing Director of New Zealand's Warehouse Group from 2004 to 2011.

Ian's key areas of expertise include strategy, brand and category development, multi-channel and new store format roll-out, product sourcing and supply chain innovation.

PATRICK ALLAWAY

BA/LLB

Non executive Director

Member of the Audit Risk
& Compliance Committee
Member of the Nomination
Committee

Date of Appointment to
Metcash Limited:
7 November 2012

Patrick Allaway is a broad based business person with extensive experience in financial services, and senior executive and non

executive director roles in large multi-national companies. His 30 year career in investment banking has seen him hold positions with Swiss Bank Corporation in Chicago, Zurich and London, and also with Citibank in New York, Sydney and London. Patrick was Managing Director Swiss Bank Capital Markets and Treasury with direct global responsibility for over 1,000 people in 16 countries.

Over the past 12 years Patrick has been the Chairman and co-founder of a privately owned boutique corporate advisory business, Saltbush Capital Markets, advising select ASX listed companies. Patrick was also a Non executive Director of Macquarie Goodman Ltd until 2006 and the Interim Chairman of its Audit Committee. Patrick's key areas of expertise include commercial experience, capital markets, business acquisitions and divestments, business review and strategic development. Patrick has a Bachelor of Arts/Law from Sydney University and is Chairman of Giant Steps Endowment Fund, and a Director of the Sydney University Football Club Foundation Ltd.

MICHAEL BUTLER

B SC, MBA, FAICD

Non executive Director

Chairman of the Audit Risk
& Compliance Committee
Member of the Nomination
Committee

Date of Appointment to
Metcash Limited:
8 February 2007

Following a lengthy executive career in investment banking and private equity at Bankers Trust, Michael Butler has been a professional non-executive company director since 1999. He is currently chairman of AMP Superannuation Limited and N.M. Superannuation Pty Ltd and a director of Utility Services Group Limited. He has previously been a director and chairman of various listed public companies.

FIONA BALFOUR

BA (Hons), MBA, GRAD
DIP INFORMATION
MANAGEMENT, FAICD

Non executive Director

Member of the
Remuneration Committee
Member of the Nomination
Committee

Date of Appointment to
Metcash Limited:
16 November 2010

Fiona Balfour is an independent non-executive director of Salmat Limited, TAL (Dai-ichi Life) Australia Limited and Airservices Australia and Treasurer and Councillor of Knox Grammar School; a Fellow

of the AICD and a Fellow of Monash University since 2010. She was awarded the National Pearcey Medal in 2006. Fiona has more than thirty years executive experience in the aviation, telecommunications, financial services, education and not-for-profit sectors. Her professional expertise is in information and communications technology. She has extensive experience in global customer-facing business solutions across a variety of technologies including digital channel management. She is a Member and former Councillor of Chief Executive Women, a former Director of SITA SC (Geneva) from 2001 to 2006 and a former Trustee of the National Breast Cancer Foundation from 2007 to 2011.

TONIANNE DWYER

BJuris (Hons)/LLB (Hons)

Non executive Director

Member of the Audit Risk
& Compliance Committee
Member of the Nomination
Committee

Date of Appointment to
Metcash Limited:
24 June 2014

Having completed a law degree in Western Australia, Tonia Dwyer spent 23 years in London where she had a successful executive career in investment banking and real estate.

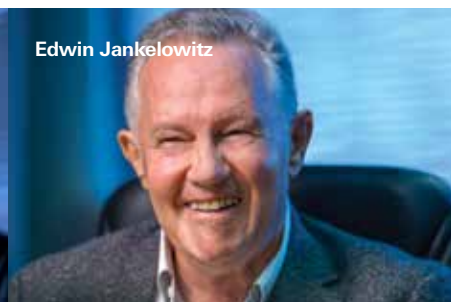
Tonianne Dwyer



Mick McMahon



Edwin Jankelowitz



Neil Hamilton



Dudley Rubin



Greg Watson



Whilst at Hambros Bank /Societie Generale she provided financial advice to large listed and private companies from a variety of sectors on corporate actions including listings, mergers and acquisitions, divestments and restructurings, in the UK and Europe.

In 2003 she joined, LSE listed, Quintain Estates & Development plc where she was appointed Head of Fund Management and in 2006 she was appointed to the Board. Quintain was the developer of the two largest mixed use urban renewal projects in London – at Wembley and on the Greenwich Peninsular. Tonianne led the creation and development of a successful specialist property fund management business in Health, Student Housing and Science Parks with over £1.25bn in Funds under management.

Returning to Australia in 2010, Ms Dwyer currently holds independent directorships on ASX listed DEXUS Property Group, DEXUS Wholesale Property Fund, Cardno Limited and Queensland Treasury Corporation. She is a member of the Senate of the University of Queensland, a Graduate of Australian Institute of Directors and a member of Chief Executive Women.

NEIL HAMILTON

LLB

Non executive Director

Chairman of the Remuneration Committee
Member of the Nomination Committee

Date of Appointment to Metcash Limited:
7 February 2008

Neil Hamilton has over 30 years' experience in senior management positions and on boards of public companies across law, funds management, investment, insurance and resources.

Neil is Chairman of OZ Minerals Ltd and is a senior advisor to UBS Australia. He is the former Chairman of Challenge Bank Ltd, Western Power Corporation, Mount Gibson Iron Ltd and Iress Market Technology Ltd and was a director of Insurance Australia Group Ltd.

He was appointed Chairman of the Remuneration & Nomination Committee on 1 September 2010.

MICK MCMAHON

BEcon, Harvard Business School Advanced Management Program

Non executive Director

Member of the Remuneration Committee
Member of the Nomination Committee

Date of Appointment to Metcash Limited:
27 November 2013

Mick McMahon is an internationally experienced business leader with a broad retail and commercial background. He commenced his career with Shell in Australia and transferred to the UK in 1999 where he held several senior positions in retail, marketing and strategy.

In 2005 he returned to Australia as the Managing Director, Coles Express and in 2007 he was appointed the Chief Operating Officer Coles (Supermarkets, Liquor, Express).

Mick is an experienced CEO with extensive retailing and supply chain management experience in supermarkets and convenience, food, grocery and liquor.

Mick is the CEO of ASX listed SKILLED Group and Chairman of Red Rock Leisure. He has a Bachelor of Economics from the University of Tasmania and has completed the Harvard Business School Advanced Management Program.

Mick is a Member of the Business Council of

Australia and a Councillor of the Australian Industry Group

EDWIN JANKELOWITZ

B COMM, CA (SA)

Non executive Director

Member of the Audit Risk & Compliance Committee
Member of the Nomination Committee

Date of Appointment to Metcash Limited:
18 April 2005

Edwin Jankelowitz was previously CFO of Metcash and was appointed a Non-executive Director in 2011.

After qualifying as a Chartered Accountant he spent 12 years with Adcock Ingram Ltd eventually being promoted to Group Company Secretary and Finance Director. He then consulted in business management and tax before taking a position with Caxton Ltd where he progressed to Finance Director, Managing Director and Chairman. Edwin has spent over 40 years in corporate offices of listed companies and was a member of the Income Tax Special Court in South Africa for 20 years.

Edwin is currently Chairman of Kervale Investments Pty Ltd and a Non-executive Director of Chester Capital Pty Ltd.

DUDLEY RUBIN

CA (SA), H DIP BDP, MBA

Non executive Director

Member of the Audit Risk & Compliance Committee
Member of the Nomination Committee

Date of Appointment to Metcash Limited:
18 April 2005

Dudley Rubin is a chartered accountant and is a director of various companies trading in Africa. He has over 30 years' industry experience and has been involved with the Metcash business as a director since May 1998.

GREG WATSON

LLM, Dip Law

General Counsel and Company Secretary

Greg Watson joined Metcash in 2005 as Legal Counsel and was promoted to General Counsel in 2008. He was appointed Company Secretary in 2010. Greg has over 23 years professional and industry experience initially in private legal practice, followed by corporate legal counsel roles with multinational FMCG organisations. Greg is a graduate of the Metcash Executive Leadership Program.

KEY MANAGEMENT

Adrian Gratwicke



Scott Marshall



Ian Morrice



Fergus Collins



Mark Laidlaw



IAN R MORRICE

MBA

Executive Director

CEO Metcash Group of Companies

Date of Appointment to Metcash Limited Board:
12 June 2012

Date of Appointment as CEO Metcash Group of
Companies:
1 March 2013

Ian Morrice has over three decades of retail experience as Managing Director, Trading Director and Retail Director for some of the UK's leading retailers, including Dixons and The Kingfisher Group. Ian was Group CEO and Managing Director of New Zealand's Warehouse Group from 2004 to 2011.

Ian's key areas of expertise include strategy, brand and category development, multi-channel and new store format roll-out, product sourcing and supply chain innovation.

ADRIAN GRATWICKE

BA (HONS), ACA, MBA

Chief Financial Officer

An experienced finance professional, Mr Gratwicke brings over 25 years' commercial and industry experience to his position as Chief Financial Officer. Since joining Metcash in April 1998, he has held several senior roles including National Accounting Manager, National Commercial Manager IGA Distribution, General Manager Mergers & Acquisitions, Risk and Investor Relations and General Manager Finance.

FERGUS COLLINS

B COMM (HONS) (DUBLIN), B SC MGMT
(IRELAND), MBA

**CEO Supermarkets, Metcash Food
& Grocery**

Fergus Collins joined ALM in December 2001 as Commercial Manager Queensland and was promoted to General Manager Queensland in May 2004. He became General Manager, Independent Brands Australia in July 2006. In February 2007, he was appointed Chief Executive Officer and under his leadership, ALM positioned themselves as a true force in the liquor market providing a strong retail offer to consumers which has cemented ALM as the number two player.

Fergus was appointed CEO Supermarkets in December 2013, he is a graduate of the Metcash Executive Leadership Program.

MARK LAIDLAW

B Ec, CPA

CEO Mitre 10 Australia

Mark Laidlaw joined IGA Distribution in April 2001 as Commercial Manager, Victoria and was promoted to General Manager, Victoria in July 2004. He was appointed CEO of Mitre 10 Australia in May 2010 and has extensive experience in general management, sales, operations and commercial management.

Prior to joining Metcash Mark worked for Mobil Oil for 18 years in a range of senior position including National Commercial Manager, National Property Manager and Marketing Manager including 4 years in Mobil's international division in London, France and Germany.

SCOTT MARSHALL

BA Bus

CEO Australian Liquor Marketers

Scott's Metcash career in the ALM business spans 21 years from his start in the Queensland warehouse, building knowledge and capability through warehousing operations and management to sales, retail operations and State general management. Scott's achievement in building strong relationships with retailers, suppliers as well as internal stakeholders has been key in his accomplishments to date. Scott played an integral role in the restructure of ALM in 2007 and was responsible for implementing the Everyday Discount strategy to increase foot traffic ultimately delivering significant sales growth for the business. Scott was appointed CEO ALM in December 2013 from his previous role as General Manager Merchandise and Marketing at ALM.

CORPORATE GOVERNANCE

The Directors of Metcash Limited (**Metcash** or **Company**) support and adhere to the principles of corporate governance set out in the Metcash Corporate Governance Statement. In supporting these principles, the Directors acknowledge the need for the highest standards of behaviour and accountability.

The Directors believe that Company's policies and practices have complied in all substantial respects with corporate governance best practice in Australia, including the ASX Corporate Governance Council Corporate Governance Principles and Recommendations (**Principles**).

Summary of compliance with Principles and Recommendations

The table below summarises Company's compliance with the Corporate Governance Council's recommendations.

RECOMMENDATION		COMPLY YES/ NO	REFERENCE/ EXPLANATION
PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT			
1.1	Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	Yes	Website www.metcash.com
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Page 21
1.3	Companies should provide the information indicated in the guide to reporting on Principle 1.	Yes	Page 21
PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE			
2.1	A majority of the Board should be Independent Directors.	Yes	Page 21
2.2	The Chair should be an Independent Director.	Yes	Page 22
2.3	The roles of Chair and Chief Executive Officer should not be exercised by the same individual.	Yes	Page 22
2.4	The Board should establish a Nomination Committee.	Yes	Page 22
2.5	Companies should disclose the process for evaluating the performance of the Board, its Committees and individual Directors.	Yes	Page 23
2.6	Companies should provide the information indicated in the guide to reporting on Principle 2.	Yes	Page 23
PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING			
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: the practices necessary to maintain confidence in Company's integrity; the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Yes	Website www.metcash.com
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.	Yes	Website www.metcash.com
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board and in accordance with the diversity policy and progress towards achieving them.	Yes	Page 24
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and on the Board.	Yes	Page 25
3.5	Companies should provide the information indicated in the guide to reporting on Principle 3.	Yes	Page 25

CORPORATE GOVERNANCE (CONT.)

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING			
4.1	The Board should establish an Audit Committee.	Yes	Page 24
4.2	The Audit Committee should be structured so that it: consists only of Non-executive Directors; consists of a majority of Independent Directors; is chaired by an Independent Chair, who is not Chair of the Board; has at least three members.	Yes	Page 24
4.3	The Audit Committee should have a formal charter.	Yes	Page 25
4.4	Companies should provide the information indicated in the guide to reporting on Principle 4.	Yes	Website www.metcash.com Page 25
PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE			
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes	Website www.metcash.com
5.2	Companies should provide the information indicated in the guide to reporting on Principle 5.	Yes	Page 26
PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS			
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	Website www.metcash.com Page 26
6.2	Companies should provide the information indicated in the guide to reporting on Principle 6.	Yes	Page 26
PRINCIPLE 7 – RECOGNISE AND MANAGE RISK			
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Page 27
7.2	The Board should require management to design and implement the risk management and internal control system to manage Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of Company's management of its material business risks.	Yes	Page 27
7.3	The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	Page 28
7.4	Companies should provide the information indicated in the guide to reporting on Principle 7.	Yes	Page 27
PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY			
8.1	The Board should establish a Remuneration Committee.	Yes	Page 28
8.2	The Remuneration Committee should be structured so that it: consists of a majority of Independent Directors; is chaired by an Independent Chair has at least three members.		Page 28
8.3	Companies should clearly distinguish the structure of Non-executive Directors' remuneration from that of Executive Directors and senior executives.	Yes	Page 28
8.4	Companies should provide the information indicated in the guide to reporting on Principle 8.	Yes	Page 28

The Company's policies and practices and their relationship to the Council's recommendations are set out in more detail as follows.

PRINCIPLE 1: LAY SOLID FOUNDATION FOR MANAGEMENT AND OVERSIGHT RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

The Board of Directors is responsible for setting the strategic direction of the Company and for overseeing and monitoring its businesses and affairs.

The Board reviews and approves the Company's strategic and business plans and guiding policies. Day-to-day management of the Company's affairs and implementation of its strategy and policy initiatives are delegated to the Chief Executive Officer and senior executives, who operate in accordance with Board-approved policies and delegated limits of authority.

The principal functions of the Board include:

- charting the direction, strategies and financial objectives of Company;
- monitoring implementation of those strategies and the operational and financial performance and risk of each of Company's activities;
- reviewing major capital expenditure, acquisitions, divestments and funding;
- reviewing performance, remuneration and succession of senior management;
- monitoring compliance with legal and regulatory requirements, including occupational health and safety laws, product safety and the protection of the environment;
- monitoring the Company's relationships with its stakeholders and compliance with ethical standards and the Company's Code of Conduct; and
- corporate governance generally.

The Board's Charter can be found on the Company's website www.metcash.com under the heading 'Corporate Governance'.

Evaluating the Performance of Senior Executives

On an annual basis, the Remuneration Committee reviews the performance of the Chief Executive Officer against qualitative and quantitative criteria, which include profit performance, other financial measures and achievement of the Company's strategic objectives. During the 2014 financial year, the Chief Executive Officer's performance was reviewed in accordance with the process specified above.

The Company maintains a performance evaluation process which measures other senior executives against previously agreed Key Performance Indicators and Key Behavioural Indicators. This process is performed formally twice a year and took place for each senior executive during the 2014 financial year.

Senior executives have access to continuing education to update and enhance their skills and knowledge.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

A MAJORITY OF THE BOARD SHOULD BE INDEPENDENT DIRECTORS

Appointment to the Board

The Board's policy for the selection, appointment and re-appointment of Directors is to ensure that the Board possesses an appropriate range of skills, experience and expertise to enable the Board to most effectively carry out its responsibilities. As part of this appointment process, the Directors consider Board renewal and succession plans and whether the Board is of a size and composition that is conducive to making appropriate decisions.

Prior to Directors standing for re-election, the Nomination Committee reviews the skills and contribution of the Directors concerned and decides whether the Committee supports their re-election. The Committee then recommends its decision to the Board.

When a vacancy exists, or when it is considered that the Board would benefit from the services of a new Director with particular skills, the Nomination Committee selects a panel of candidates with appropriate expertise and experience. This may be

supplemented with advice from external consultants if necessary. The Board, on the Committee's recommendation, then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders. To that end, on 27 November 2013, the Board appointed Mick McMahon as a Non-executive Director and; on 24 June, 2014 appointed Tonia Dwyer, as a Non-executive Director.

Directors are not appointed for a fixed term but, under the Company's Constitution, must be re-elected each three years by rotation and are subject to Australian Securities Exchange (ASX) Listing Rules and Corporations Act provisions.

Board Composition

Maintaining a balance of experience and skills is an important factor in Board composition. For details of the skills, experience and expertise of the individual Directors, and the period of office held by each Director, please refer to page 16, headed 'Our Board', of this report.

The Board of Metcash is currently constituted as follows:

Independent Non-executive Directors

Independent Directors hold key positions that include chairing the Board and the Board Committees of Audit Risk & Compliance, Remuneration and Nomination. They provide an external perspective and checks and balances for the interests of all shareholders.

As at the date of this report, the Board consisted of ten Directors, nine of whom are considered to be Non-Executive, and eight of whom are considered to be Independent Directors.

The Board has adopted a definition of independence which is derived from the definition set out in the Principles. Directors are considered independent if they are not a member of management and are free of any business or other relationship that would materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement.

CORPORATE GOVERNANCE (CONT.)

When assessing the independence of a Director, the Board will consider whether the Director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- is employed or has previously been employed in an executive capacity by the Company or another group member and there has not been a period of at least three years between ceasing to hold any such employment and serving on the Board;
- has within the last three years been a principal of a material professional adviser or a material consultant to the Company or another group member, or an employee materially associated with the service provided;
- is a material supplier or customer of the Company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; and
- has a material contractual relationship with the Company or another group member other than as a Director of Company.

The Board regularly assesses whether each Non-executive Director is independent, based on this definition, and in light of information disclosed by those Directors that may be relevant to this assessment.

Those Non-executive Directors are considered to be independent for the reasons set out as follows.

- None of the Directors referred to above is substantial shareholders of the Company or associated with a substantial shareholder of the Company (holding 5% or more of the Company's issued shares);
- Messrs Allaway, Barnes, Butler, Hamilton and Mrs Balfour are not employed by, nor have they previously been employed by, the Company or another group member. Mr Rubin was employed in executive positions by Metoz, the former group holding company and now a wholly owned Metcash subsidiary. As reported in the 2013 Annual Report, the Board

prior to the 2013 Annual General Meeting considered all relevant factors and concluded Mr Rubin to be an Independent Director;

- None of the Non-executive Directors referred to above has a contractual relationship with the group nor have they been a professional adviser or consultant to the Company or an employee associated with the service provided;
- None of the Non-executive Directors referred to above is a material supplier or customer of the Company or an officer of, or otherwise associated directly or indirectly with, a material supplier or customer. Materiality is assessed as supplying 2.5% or more of the Company's annual purchases or a customer representing 2.5% or more of the Company's annual sales;
- Peter Barnes is a Director of News Corporation and Chairman of Samuel Smith & Sons Pty Ltd. He also serves as Chairman of the Melbourne Business School. Peter was formerly the Chairman of Ansell Limited and an executive with Phillip Morris International Inc. and held several senior management positions both here in Australia and overseas. Peter was appointed Chairman of Metcash Limited on 2 September 2010 and has been involved with the Metcash business as a director since November 1999; and
- None of the Non-executive Directors referred to above has a contractual relationship with the Company or another group member, other than as a Director of the Company.

Non-executive Director

Mr Edwin Jankelowitz retired as an executive of the Company on 14 January 2011. Mr Jankelowitz remained a director of the Company from that date. The Board considers Mr Jankelowitz to be a Non-executive Director and not an Independent Director.

Executive Directors

The Board has one Executive Director, Mr Ian Morrice, who was appointed as the Company's Chief Executive Officer on 30 June 2013.

All Directors, whether independent or not, bring an independent judgement to bear on Board decisions.

Independent Professional Advice

The Board has a policy of enabling Directors to seek independent professional advice at the Company's expense. The Board will review in advance the estimated costs for reasonableness, but will not impede Directors from seeking advice.

Company Secretary

All Directors have access to the Company Secretary who is accountable to the Board, through the Chairman, on all governance matters.

THE CHAIR SHOULD BE AN INDEPENDENT DIRECTOR

The Chair, Mr Peter Barnes is considered by the Board to be an Independent Director.

THE ROLES OF CHAIR AND CHIEF EXECUTIVE OFFICER SHOULD NOT BE EXERCISED BY THE SAME INDIVIDUAL

The roles of Chief Executive Officer and Chair are not exercised by the same individual.

The Board Should Establish a Nomination Committee

The Board has a Nomination Committee.

The membership of the Nomination Committee consists of the Non-executive Independent Directors who are listed below, together with details of their qualifications and attendance at meetings during the past financial year.

Nomination Committee

Member	Qualifications	Meetings held during 2014 financial year	Meetings attended during 2014 financial year
P Allaway	BA, LLB	3	3
P Barnes (C)	B Comm (Hons), MBA	3	3
F Balfour	BA (Hons), MBA, Grad Dip Information Management, FAICD	3	3
M Butler	B SC, MBA, FAICD	3	3
N Hamilton	LLB	3	3
E Jankelowitz	B COMM, CA (SA)	3	3
M McMahon*	BEcon, Harvard Business School Advanced Management Program	3	1
V Rubin	CA (SA), H DIP BDP, MBA	3	3

* Mr McMahon was appointed as a Non-executive Director on 27 November 2013, and as such was only eligible to attend one meeting.

(C) Chairman

Responsibilities of the Committee include to:

- review and advise the Board with respect to Board membership, including appointment and re-election of Directors and where necessary propose candidates for consideration by the Board;
- assist in evaluating the performance of the Board including as outlined in the Section 8 of the Metcash Board Charter;
- ensure that an effective Board induction process is in place and regularly review its effectiveness; and
- the Nomination Committee has the authority to:
 - (a) obtain independent professional or other advice in the fulfilment of its duties at the cost of the Company; and
 - (b) obtain such resources and information from the Company in the fulfilment of its duties as it may reasonably require.

The Committee shall be comprised of the Non-executive Directors and shall be chaired by the Chair of the Board.

The Charter of the Committee can be found on Company's website www.metcash.com under the heading 'Corporate Governance'.

Process for evaluating the performance of the Board, its Committees and Individual Directors

Annual reviews of the Board, its committees and directors are performed using a self-evaluation questionnaire, with an independent review to be conducted each third year using a recognised external Board Performance Consultant. This process was first adopted in 2008.

In addressing the progress towards key recommendations of the 2011 Cameron Ralph Review, all Board members have been interviewed and completed a questionnaire. The review of the Board evaluates areas including: Board structure and role; Committees; Board composition and succession; meeting processes; strategy and planning; performance monitoring; and communication.

A recognised Board Performance Consultant is currently conducting the 2014 financial year review.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Establish a Code of Conduct

The Company has a Code of Conduct that applies to Directors and all employees. Subjects covered by the Code include:

- equal employment opportunity, discrimination and harassment;
- security of Company records and assets and confidentiality guidelines;
- conflict of interest, acceptance of gifts, entertainment and services;
- fraud, corruption and irregular transactions;
- legal compliance;
- honest ethical behaviour; and
- environmental protection and safe working environment.

The Code can be found on Company's website www.metcash.com under the heading 'Corporate Governance'.

Compliance with the Code is checked through Company's functions and related processes including internal audit, security, human resources and occupational health and safety. New staff members are required to attend an induction program that includes behaviour guidelines. Additionally, the Company's

CORPORATE GOVERNANCE (CONT.)

staff appraisal process includes employees' performance against 'Key Behavioural Indicators' as well as 'Key Performance Indicators'.

The Company also has a Serious Complaints Policy which endeavours to protect those who report, in good faith, violations of the Code of Conduct. This policy can be found on the Company's website www.metcash.com under the heading 'Corporate Governance'.

DIVERSITY POLICY

The Metcash Diversity Policy was approved by the Board of Metcash in May 2011 and was introduced across the business supported by an educational programme detailing our aspirational goals, changes to processes and procedures and giving practical advice and guidance on how the Policy is to be implemented.

The Policy is located on the Company's website.

The Company has continued the focus on addressing the need for gender balance particularly across leadership levels however there has also been attention given to increasing the workplace profile for workers with disability, creating a pipeline of indigenous talent through the introduction of the indigenous internship program; and supporting our mature workforce with financial advice and flexibility pertaining to retirement planning.

Metcash's measurable objectives for achieving gender diversity are set by the Board and include:

- Increasing female representation across leadership roles; and
- Decreasing the female to male "pay gap" within the business.

The current workplace profile indicates continued progress has been made towards increasing female representation in leadership roles at Metcash.

- Women make up 31% of Metcash's workforce with 28% representation in leadership roles. An increase of 3% YOY;
- Western Australia has seen an increase in female representation of award employees in distribution centres taking it to the highest level in the history of Metcash;
- 2013 saw the appointment of the first female mega centre DC Manager in Huntingwood;
- The Logistics senior leadership team increased female population by 29%;
- Talent management processes have seen a significant increase in the identification of high potential women and as a result the participation rates of women in senior development programs has doubled in the past year; and
- Female representation on the Board for FY2014 is 13%.

Progress towards decreasing the female to male "pay gap" within the business has continued with the average pay for women at both BUL and for all levels (excluding Executive) continuing to be above 2011 levels.

As part of its annual remuneration review process, Metcash undertakes an analysis of pay levels by gender, identifies any differentials, and takes appropriate steps to address them.

Current proportion of women at each level across the Metcash group as reported in the most recent Workplace Gender Equality Governance Report:

Metcash is now embedding the diversity initiatives as reported and continues to focus on the following key aspects:

- Building a culture which encourages flexible working arrangements, including a full review of parental policies and practices and supporting our mature workforce as they transition into retirement;
- Continuing the relationship with Job Support to increase disability employment opportunities; and
- Doubling placements since the NSW pilot within the indigenous internship program and providing interns with permanent opportunities across the group nationally on completion of their internship.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

THE BOARD SHOULD ESTABLISH AN AUDIT COMMITTEE

The Board has an Audit, Risk & Compliance Committee which reports regularly to the Board.

The membership of the Audit Risk & Compliance Committee consists of the Non-executive Independent Directors who are listed below, together with details of their qualifications and attendance at meetings during the past financial year.

The function of the Audit Risk & Compliance Committee is to advise on the establishment and maintenance of a framework of internal control, effective management of financial and other risks, compliance with laws and regulations and appropriate ethical standards for the management of the Company. It also gives the Board additional assurance regarding the quality and reliability of financial

Audit, Risk and Compliance Committee

Member	Qualifications	Meetings held during 2014 financial year	Meetings attended during 2014 financial year
Patrick N J Allaway	BA, LLB	7	7
Michael R Butler (C)	B Sc, MBA	7	7
Edwin M Jankelowitz	B COMM, CA (SA)	7	2
V Dudley Rubin*	CA (SA), HDip BDP, MBA	7	7

* Mr Edwin M Jankelowitz was only eligible to attend two meetings during the year. (C) Chairman

Workplace Gender Profile

Categories	Females Full time	Females Part Time	Females Casual	Females	Males Full Time	Males Part Time	Males Casuals	Males	Total	Females	Males
Non Exec Director	1			1	7			7	8	13%	88%
CEO					1			1	1	0%	100%
Senior Executives	1			1	11			11	12	8%	92%
Other Executives / General Managers	7			7	43			43	50	14%	86%
Senior Manager	47	2		49	157	1		158	207	24%	76%
Other Managers	141	10	2	153	364	3		367	520	29%	71%
Non Manager Categories											
Professionals	41	15		56	93			93	149	38%	62%
Trade & Technicians	2		2	4	13	1	3	17	21	19%	81%
Clerical & Admin	533	124	54	711	341	1	21	363	1074	66%	34%
Sales	104	36	117	257	275	6	122	403	660	39%	61%
Warehouse	320	122	204	646	2282	95	355	2732	3378	19%	81%
	1,197	309	379	1,885	3,587	107	501	4,195	6,080	31%	69%

information prepared for use by the Board in determining policies or for inclusion in the financial statements. In accordance with the Principles, the Committee consists only of Independent Directors and is chaired by an Independent Director who is not the Chairman of the Board.

COMMITTEE CHARTER

The Committee's Charter, which is summarised below, sets out the specific responsibilities delegated to it by the Board and details the manner in which the Committee will operate. The Charter can be found on Company's website www.metcash.com under the heading 'Corporate Governance'.

The principal terms of reference of the Audit Risk & Compliance Committee are the effective management of financial and other risks through ensuring that systems and management processes are in place to identify and manage operational, financial and compliance risks.

Specific areas of review include:

- overseeing the establishment of a framework within which risks to the Company are identified and mitigated and risk avoidance processes are established and the effectiveness of the risk management process monitored;
- financial risk and exposure;
- occupational health and safety;
- environmental issues;
- Hazard Analysis and Critical Control Points (HACCP) based food safety program; and
- integrity of information technology systems.

The Committee reviews the effectiveness of risk management policies and procedures by:

- reviewing monthly financial performance against budget and updated forecasts at least quarterly;
- reviewing the internal audit of the Group's financial controls, taxation compliance and adherence to policies and regulations;

- reviewing annually the effectiveness and adequacy of the Group's insurance program;
- the provision of reliable management and financial reporting - this is done by reviewing and assessing the:
 - quality and timing of management reporting to the Board to enable internal and external reporting of Company's risks, operations and financial condition;
 - accounting policies and practices against generally accepted accounting principles and the requirements of the Corporations Law, Australian Accounting Standards and Australian Securities Exchange requirements; and
 - half-yearly and annual financial statements;
- assessing compliance with laws and regulations by monitoring developments and changes in the various rules, laws and regulations relating to the Company's business operations and the responsibilities of Directors and reviewing the extent to which the Board and the

CORPORATE GOVERNANCE (CONT.)

Company are meeting their obligations to ensure that all requirements are met; and

- the maintenance of an effective and efficient audit function – this is achieved by:
 - recommending to the Board the appointment of external and internal auditors;
 - reviewing the effectiveness of the external and internal audit functions;
 - ensuring audit scopes are adequate and cover areas of anticipated risk;
 - reviewing audit findings and management response;
 - reviewing the independence of the external auditor;
 - ensuring auditors have the necessary access to the Company information and staff to fulfil their obligations.

The Audit Risk & Compliance Committee acts to ensure that operational, financial and compliance risks are managed in accordance with the Board's risk tolerance. The Company has implemented a Risk Management Framework which is supported by specialised risk management teams (refer Principle 7 – Recognise and Manage Risk). The Committee has obtained assurance regarding the effectiveness of the overall system of risk management through various means. These means have included direct enquiry of management, internal and external audit reports and the monitoring of financial and operational results. The Committee meets regularly, in private, with the Lead External Audit Partner and the Chief Audit Executive.

A 'Charter of Audit Independence' is in place that details the circumstances in which the Company's external auditor may perform non-audit related services and the procedures to be followed to obtain approval for those services where they are permitted. The Charter also contains the Company's policies on the hiring of former partners and senior managers of the external auditor and the rotation of lead and review external audit engagement partners. The Charter can be found on the Company's website www.metcash.com under the heading 'Corporate Governance'.

In principle, the appointment of an external auditor would be based on a tender process

conducted by the Audit Risk & Compliance Committee. The Committee would select suitable candidates for the role, issue and evaluate tenders, interview the candidates and then make a recommendation to the Board.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

Compliance with ASX Listing Rule Disclosure Requirements

The Metcash Market Disclosure Policy is designed to ensure that:

- there is full and timely disclosure of the Company's activities to shareholders and the market, in accordance with the Company's legal and regulatory obligations; and
- all stakeholders (including shareholders, the market and other interested parties) have an equal opportunity to receive and obtain externally available information issued by the Company.

The policy reflects the Company's obligation to comply with the disclosure requirements of the Listing Rules of the Australian Securities Exchange (ASX), as well as relevant corporations and securities legislation.

The policy is reviewed regularly to ensure that the policy reflects any legislative or regulatory requirements or 'best practice' developments.

Disclosure responsibilities and procedures

The Company has designated the Chairman, Chief Executive Officer and Company Secretary as 'Disclosure Officers'. The Chairman's approval, or that of his delegate, is required for disclosures. The Company Secretary has responsibility for liaising with the ASX in relation to all announcement and disclosure issues.

Disclosure Officers have responsibility for reviewing proposed disclosures and making decisions in relation to what information can or should be disclosed to the market.

All Company staff are required to inform a Disclosure Officer of any potential 'price sensitive' information concerning the Company as soon as they become aware of it. Staff may speak to their Business Pillar CEO or a Disclosure Officer if they are in doubt as to whether information is potentially 'price sensitive'.

The Market Disclosure Policy can be found on the Company's website www.metcash.com under the heading 'Corporate Governance'.

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

The Company believes that shareholder and market confidence in all its dealings is paramount and is committed to ensuring it complies with continuous disclosure obligations so that its investors have timely and equal access to important company information.

Information provided to the ASX is made available on the Company's website so that all shareholders and other key stakeholders have timely access to it.

In addition to meeting its continuous disclosure obligations, Metcash ensures shareholders and the broader investment community have timely access to important company information through a series of regular disclosure events during the financial year. The calendar for these events is posted on the Company's website.

The Shareholder Communication Policy can be found on the Company's website www.metcash.com under the heading 'Corporate Governance'.

The Company continues to encourage electronic communication with shareholders to facilitate the speedy and inexpensive dissemination of information. This is being done through a program to obtain and update shareholder email addresses, to alert them to new information on the Metcash website and to distribute information, including the Annual Report, to them directly. The Company's website contains more than five years of ASX and media announcements and Annual Reports. This information is shown under the heading 'Investor Centre'. Provision has also been made for electronic proxy voting.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and discussion of the Company's strategy and goals. The external auditor attends the Annual General Meeting to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

Policies for the Oversight and Management of Material Business Risks

The Board is responsible for designing and reviewing Metcash's Risk Management Policy and for determining the Company's appetite for risk, taking into account the Company's strategic objectives and other factors including stakeholder expectations. The level of tolerance for risk varies according to the risk area.

The Risk and Assurance department with oversight from the Audit Risk & Compliance Committee (AR&CC), a Committee of the Board, implement a continuous process of communication with internal stakeholders at each stage of the risk management process. They also conduct annual examinations of Metcash's external and internal environments, so as to establish the parameters within which risks must be managed.

Policies on risk oversight and management of material business risks are summarised in a document entitled 'Risk Management Policy – Summary' which can be found on the Metcash website www.metcash.com under the heading 'Corporate Governance'.

The Company's risk management philosophy and practices are documented more fully in the Metcash Risk Management Framework and Guidelines (Risk Management Framework).

The Company has adopted the ISO 31000:2009 as the basis for its Risk Management Framework. Metcash has implemented its Risk Management Framework through, amongst other things, the identification of material business risk categories and the development of risk profiles for all the major segments and functions of the business.

Material business risks that have been identified and included in the Risk Management Framework are grouped under the following categories:

- Asset Management;
- Business Continuity;
- Health, Safety, Environment, Community (HSEC);
- Compliance and Legal (Non-HSEC);
- Employee;
- Financial Reporting;
- Criminal Activity;
- Information Technology;
- Reputational;
- Solvency;
- Operations/Warehouse;
- Merchandising, Customer and Supplier (i.e. Supply chain); and
- Strategic/Sustainability.

The risk management process includes the following elements:

- Risk assessment;
 - risk identification;
 - risk analysis;
 - risk treatment;
- Monitoring and review; and
- Recording the risk management process.

Roles and responsibilities

In addition to the specific responsibilities and reporting roles of the Group Risk and Assurance Department, the Metcash Executive Team is regularly required to report to the Board as to the emergence of any significant risk issues and the management of previously reported material risk issues.

The Audit Risk & Compliance Committee (AR&CC) is responsible for monitoring management's risk processes other than corporate strategy, the oversight of which is a Board responsibility. On behalf of the Board, the AR&CC monitors those risk events that could prevent the achievement of the Company's corporate strategies.

All Metcash employees are responsible for the management of risk within their areas. Management is responsible for assessing and monitoring risk and designing cost-effective

mitigation to facilitate the achievement of goals and objectives. Non-management employees are always responsible for ensuring that risk controls within their scope of responsibility operate effectively. These employees are also required to advise management of increasing or new risk exposures and significant operational incidents as they become aware of them.

This 'front line' of risk management is supported by specialised risk management teams covering specific areas of risk within Metcash and by independent reviews conducted by the Metcash Assurance Department to verify the adequacy and effectiveness of risk management.

Risk management and internal control systems

Metcash implements a risk oversight and risk management process that is based on Risk Management Standard ISO 31000:2009. This system is used to profile all potential risks by identifying, prioritising and managing such risks across the Company.

Management has reported to the Board as to the effectiveness of Company's management of its material business risks using this internal system.

The Risk Management Policy and Risk Management Framework utilised at Metcash cover a wide range of activities and are used to identify, analyse, evaluate, manage and monitor risks across all areas of the business. Risk profiles are in place for existing and newly acquired sites. These are prepared in consultation with senior management, agreed with site business management and are periodically reviewed and updated by risk team members. Ongoing risk management activities include:

- confirmation of key controls;
- reporting of incidents;
- recording and monitoring of key risk indicators (monitoring of residual risk levels);
- follow-up on risk treatment/action plans;
- escalation of issues; and
- regular reporting processes to all levels of management.

CORPORATE GOVERNANCE (CONT.)

Member	Qualifications	Meetings held during 2014 financial year	Meetings attended during 2014 financial year
P Barnes	B Comm (Hons), MBA	5	5
F Balfour	BA (Hons), MBA, Grad Dip Information Management, FAICD	5	5
N Hamilton	LLB	5	5
M McMahon*	BEcon, Harvard Business School Advanced Management Program	5	2

* Mr McMahon was only eligible to attend two meetings during the 2014 financial year.

The ongoing process of communication, consultation, monitoring and review enables management to demonstrate continuous improvement whilst encouraging greater ownership by individuals across the business.

The risk management and internal control system provides regular feedback to management on their effectiveness in managing business risks. This is supported by the Risk Management platform database (software) which holds the risk controls library, all risk categories and events, risk profiles for each pillar/business, business/functional objectives, critical success factors, processes, compliance data, incidents and corrective actions.

The Risk Management Policy and Risk Management Framework documents form an integral part of the Company's risk management. The Board continues to review these and provide support in defining clear accountabilities, responsibilities and embedding Enterprise Risk Management in planning, strategy and company culture. The Board and the AR&CC remain responsible for the oversight of the risk management process.

Management has reported to the Board as to the effectiveness of the Company's management of its material risks.

Chief Executive Officer and Chief Financial Officer Declaration

The Chief Executive Officer and the Chief Financial Officer provided a declaration in writing to the Board in accordance with section 295A of the Corporations Act that, among other things, Company's financial reports present a true and fair view, in all material respects, of Company's financial condition and operational results and are in accordance with relevant accounting standards (refer to the Directors' Report).

The Board has received written assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration provided by them in accordance with section 295A of the Corporations Act (refer to the Directors' Report) is founded on a sound system of risk management and internal compliance and control and that the system is operating effectively in all material respects in relation to financial reporting risks.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

The Board Should Establish a Remuneration Committee

The Board has established a Remuneration Committee.

The Company's Remuneration Policy can be found on the Metcash website www.metcash.com under the heading of 'Corporate Governance'. It is summarised in the 'Remuneration Report' contained within the Directors' Report. Details of the compensation of senior executives are also contained in the Directors' Report.

The Company's policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes is set out in the Company Code for Directors and Executives in Respect of Share Transactions which can be found on the Company's website www.metcash.com.

Non-executive Directors' compensation and retirement benefits

Refer to the 'Remuneration Report' contained within the Directors' Report.

Termination entitlements of CEO and senior executives

Refer to the 'Remuneration Report' contained within the Directors' Report.

FINANCIAL REPORT

for the Year Ended
30 April 2014

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METCASH FINANCIAL REPORT 2014

DIRECTORS' REPORT

Year ended 30 April 2014

Your Directors submit their report of Metcash Limited (the Company) and its controlled entities (the Group) for the year ended 30 April 2014.

DIRECTORS

The names and details of the Company's Directors in office during the financial year and up to the date of this report are as follows:

Peter L Barnes (Chairman)
Ian R Morrice (CEO)
Andrew Reitzer (retired 30 June 2013)*
Patrick N J Allaway
Fiona E Balfour
Michael R Butler
Neil D Hamilton
Edwin M Jankelowitz
Michael P McMahon (appointed 27 November 2013)
V Dudley Rubin

* Mr Reitzer retired as CEO on 30 June 2013 and ceased employment with Metcash on 30 September 2013. Mr Morrice was appointed as CEO to replace Mr Reitzer with effect from 30 June 2013.

Directors were in office for this entire period unless otherwise stated.

OPERATING AND FINANCIAL REVIEW

The *Operating and Financial Review 2014* is designed to provide shareholders with a clear and concise overview of Metcash's operations, financial position, business strategies and prospects. The review also outlines the impact of key events during 2014 and material business risks. The review complements the financial report and has been prepared in accordance with the guidance set out in ASIC Regulatory Guide 247.

1. METCASH'S OPERATIONS

Our Business Model (*Incorporating Corporate Information*)

Metcash's purpose is 'Successful Independents' – supporting independent retailers. As a dedicated wholesale distribution, merchandising and marketing company, Metcash provides retailers with the means to compete effectively and ultimately present a compelling proposition for the consumer. Our key strengths include our purchasing power, world class logistics systems and extensive merchandising, marketing, retail development and retail operational support capabilities.

Metcash deploys these key competencies across our three business 'pillars', which span the food & grocery, liquor and hardware & automotive sectors across Australia with a smaller liquor business in New Zealand. These divisions supply goods worth over \$13 billion to a number of leading retail brands annually. The brands include IGA, Cellarbrations, Bottle-O, Mitre 10, Autobarn and Autopro. Metcash competes against the vertically integrated retail chains and operates as the 'third force' in a number of sectors. Food & Grocery is the largest division, representing approximately 70% of total sales, 75% of EBITA. It services more than 2,500 grocery stores and more than 1,450 of these are branded IGA. In addition, this pillar services approximately 50,000 convenience customers, whilst the Liquor division services over 12,000 pubs, clubs and bottle shops. The Mitre 10 network supplies around 825 outlets and the Automotive services network supplies over 300 stores and service centres.

Metcash operates major distribution centres in all the mainland States of Australia. These are complemented by a number of smaller warehouses and our Campbell's branch network. Metcash employs approximately 5,500 staff across the Group.

METCASH FINANCIAL REPORT 2014

DIRECTORS' REPORT

Year ended 30 April 2014

Our Strategic Priorities – Transformation Plan

In March 2014, the Group announced details of its Transformation Plan following a strategic review that began in June 2013. The Transformation Plan is focussed on four strategic priorities that, when implemented over three phases, are directed towards underpinning long-term sustainable growth for Metcash and independent retailers. These priorities are:

- Transforming the Food & Grocery division, known as Project Diamond;
- Driving consolidation and sustainable network growth;
- Further enhancing the Group's world class supply chain; and
- Enabling *Successful Independents*.

Project Diamond is a key initiative for Food & Grocery. Following extensive research and consultation, the Group plans to reignite growth by implementing six growth levers (detailed in Section 3 below).

The 'consolidation and sustainable network' growth initiative will result in Metcash focussing on converting more independent retailers to the Group's liquor, hardware and automotive banners; extending the Group's retail support team; reinvigorating the Group's retail execution; and enhancing category growth opportunities.

While Metcash is known for its logistics capabilities, the Group's benchmark is world best practice. Consequently the Group will drive efficiencies through further infrastructure investment; continuing to invest in technology; increasing flexibility to better serve customer needs; and reducing the Group's cost of service.

The final initiative in the Transformation Plan will see Metcash provide better support to independent retailers - including an expansion of the Group's digital platform by introducing competitive omni-channel solutions. These will be tailored for retailers and will provide enhanced analytics and insight capabilities. In addition, the Group will provide programs through a Retail Academy, part of attracting and training new retailers to the independent network; developing existing retailers' skills and capabilities and providing greater value-adding services to members.

Key measures of success

Wholesale sales are the key driver of Metcash's profitability. The Group targets sustained growth in its sales volume by building and supporting a strong network of successful retailers. The Group engages with its retailers assisting in-store refurbishment and overall in-store execution. In addition, sales growth is achieved by supporting retailers growing their businesses - either through expansion of existing store footprint or building new stores.

Metcash also aims to increase its 'teamwork score' - being the proportion of total products purchased by an independent retailer that are sourced from Metcash. This will be achieved by working with retailers to supply products that better fulfil consumer needs. A higher teamwork score delivers scale benefits to both retailers and suppliers. Over the last few years, the Group has also achieved growth through acquisition and expansion into new sectors, including the hardware and automotive sectors.

Wholesale margins are driven by consumer product appeal, competitive pricing, promotional activities and the level of supplier support through volumetric and other rebates. Profitability is highly dependent on minimising our 'cost of doing business' (CODB), which comprises the variable and fixed costs of operating the distribution centres and the administrative support functions. As some of these costs are fixed, Metcash can 'leverage' its profitability through sales volume growth. Profitability is also driven by minimising the working capital deployed in the business to reduce funding costs and by ensuring that growth is achieved through solid returns from invested capital.

Whilst Metcash operates in a highly competitive environment and wholesale profit margins are thin, the Group generates significant operating cash flows which are reinvested in the business to fuel future growth and returned to shareholders through fully franked dividends.

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DIRECTORS' REPORT

Year ended 30 April 2014

2014 Operating Result Summary

Summary Results & Underlying Earnings Reconciliation (Unaudited)	2014 \$'m	2013 \$'m	Earnings per share (EPS) equivalent	
			2014 cps	2013 cps
Sales revenue	13,392.7	12,976.6		
Underlying EBITDA	460.1	507.3		
Depreciation and amortisation of software (Note 4(iv))	(53.4)	(46.9)		
Underlying EBITA	406.7	460.4		
Net finance costs (Note 4(vii))	(57.2)	(61.6)		
Underlying profit before tax	349.5	398.8		
Tax expense on underlying profit (Note 5)	(97.9)	(115.0)		
Non controlling interests	(1.5)	(3.1)		
Underlying earnings (i)	250.1	280.7	28.3	32.6
Amortisation of customer relationships (Note 4(iv))	(16.4)	(12.6)		
Significant items expense (Note 4(vi))	(56.1)	(1.1)		
Tax benefit/(expense) on significant items (Note 4(vi))	2.1	(1.1)		
Net profit for the year from continuing operations attributable to equity holders of the parent	179.7	265.9	20.4	30.9
Net loss after tax from discontinued operations attributable to equity holders of the parent (Note 26)	(10.5)	(59.9)		
Net profit for the year	169.2	206.0	19.2	24.0

- (i) Underlying earnings represents reported profit after tax from continuing operations attributable to equity holders of the parent, excluding amortisation of customer relationships and licence agreements, and significant items after tax, as reconciled in the table above. Underlying earnings per share (EPS) is calculated by dividing underlying earnings by the weighted average shares outstanding during the period.

The Directors have provided underlying earnings information after careful consideration of the requirements and guidelines contained in ASIC Regulatory Guide 230 (Disclosing non-IFRS financial information). Underlying earnings information, including this reconciliation to net profit, has been provided in order to meet the demands from users of the financial reports for information to better understand aspects of the Group's performance. The Directors believe that underlying earnings is the most appropriate measure of the maintainable earnings of the Group and thereby best reflects the core drivers and ongoing influences upon those earnings. For this reason, the impact of significant items is excluded from the measurement of underlying earnings and specific information on these items is provided in Note 4 of these financial statements. Underlying earnings and underlying EPS are used for the purposes of providing guidance to shareholders and the market and are calculated on a consistent basis each year. Underlying earnings and underlying EPS are also used as the basis for short and long term incentive scheme rewards as detailed in the remuneration report.

The Group generated \$13.4 billion of sales revenue which was up 3.2% against the prior year. Underlying profit for the 2014 financial year was \$250.1 million, down 10.9% on the 2013 result; and underlying earnings per share was 28.3 cps, down 13.2% from the 2013 result. This result is in line with the revised guidance announced on 20 March 2014.

The Food & Grocery segment, in particular, was impacted by the effects of on-going price deflation (estimated to be 1.4% for grocery), rising utility costs, a highly value-driven consumer and excessive fuel discounting by the two large grocery chains. These factors had an adverse impact on operating leverage in that business. In addition, Food & Grocery incurred costs associated with implementing the Transformation Plan, announced in March 2014. The segment was also impacted by the closure of 25 Franklins stores and a reduced 'teamwork' score on converted stores. The difficult trading conditions for the Food & Grocery segment were partially offset by growth in the Liquor and Hardware & Automotive segments as well as by incremental growth from acquisitions. The cost base of the Group increased in line with the volume growth in these segments.

During 2014, the Group incurred \$56.1 million of significant items expenses, which were related mainly to the Project Diamond strategic review, impairment, acquisition and restructure costs incurred during the year. The Franklins corporate stores recorded a retail loss of \$10.5 million (2013: \$59.9 million) after tax for the year and this result has been recorded within discontinued operations. Metcash has now completed the disposal of all 80 Franklins corporate stores, either by way of sale or closure.

The reported net profit for the year was down by 17.9% to \$169.2 million. Again this result is due to the difficult trading conditions for the Food & Grocery segment, the performance of discontinued operations and an increase in significant items expenses for the year. Importantly, cash generated from operating activities was strong, at \$388.7 million, up 29.7% on prior year, assisted by approximately \$80 million of timing benefits, expected to unwind in FY2015. These cash flows were applied towards funding business activities and returning a fully franked dividend to our shareholders. The Board is pleased to announce a final fully franked dividend of 9.0 cents per share (dividends declared for 2014 totalled 18.5 cents).

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DIRECTORS' REPORT

Year ended 30 April 2014

Key Developments *(Incorporating Significant Changes in the State of Affairs)*

Acquisitions

During the year, the Automotive division acquired 100% of the Australian Truck and Auto Parts Group ('ATAP') for \$79.4 million. The acquisition was fully funded by Metcash and did not involve any funding from the non-controlling interests in the division. The acquisition resulted in an increase in the Group's interest in the Automotive division from 75.1% to 83.2%. Additionally, the Automotive division invested a further \$17.2 million to acquire various businesses to broaden its network.

During the year, Mitre 10 invested \$24.6 million to acquire various businesses in order to broaden its footprint as one of the leading hardware and home improvement groups. In total, Metcash invested \$123.8 million in acquisitions and joint ventures during the year, primarily in the Hardware & Automotive segment.

Dividend Reinvestment Plan

With effect from 2 December 2013, the Group reopened the Dividend Reinvestment Plan (or 'DRP') under which eligible shareholders may elect to reinvest all or part of their dividends in additional Metcash shares. In January 2014, 7.6 million shares were issued to participating shareholders under the DRP, which raised \$23.4 million in equity.

Change of Key Staff

In June 2013, Metcash announced the departure of Andrew Reitzer as Metcash Group CEO. Andrew served as CEO of the Group for 15 years and was replaced by Ian Morrice. Mr Morrice has over three decades of retail experience in both the United Kingdom and New Zealand and has initiated the Transformation Plan referred to above in order to better support and enable *Successful Independents* and thereby deliver sustainable growth for Metcash.

A key aspect of the Transformation Plan is a more focussed attention to customer and market groups within the Food & Grocery segment – while retaining the ability to leverage common infrastructure, systems and support functions. Accordingly, on 20 December 2013, the role of Food & Grocery Chief Operating Officer, previously held by Silvestro Morabito, was disestablished and replaced by two divisional CEO roles for the Food & Grocery segment. Fergus Collins, the new CEO – Supermarkets MFG, commenced on 21 December 2013, while Peter Struck, the new CEO – Convenience MFG, commenced on 1 February 2014. Scott Marshall was appointed CEO of the Liquor division effective 21 December 2013 replacing Mr Collins.

Segment Results

Food & Grocery

Food & Grocery sales were impacted by increased competition, grocery price deflation of 1.4% and elevated fuel discounting which has resulted in some loss of market share. Despite these challenges, the network continued to grow, with 53 new stores - including conversions - and 63 extensions and refurbishments across the Group. Over the year, 38 stores were transitioned into the hands of new owners as part of the buy-back strategy. As a result, the segment's sales of \$9.1 billion were largely in line with the previous year.

Segment EBITA, however, fell from \$377.9 million to \$304.3 million - a decline of 19.5%. The segment experienced significant negative leverage due to the competitive pressures mentioned above - and incremental costs associated with the Transformation Plan. In addition, certain components of the segment's fixed costs are less flexible to counter short-term changes in volume.

The Transformation Plan is pivotal to the segment's long-term success. The plan is discussed in detail in Section 3 below.

Liquor

The Liquor division performed strongly during FY2014, with an increase in revenue of 8.3% to \$3.2 billion and segment profit increasing by 14.2% to \$53.8 million. The increased revenue was driven by strong organic sales volume increases of more than 3% for IBA retail brands. This was the result of the continual improvement of consumer in-store retail offers as well as a full year of sales contribution under the Liquor Marketing Group supply agreement (2013: 7 months). In addition, the trend of consumers favouring smaller format retail stores has increased sales to external customer groups.

The Liquor segment profit of \$53.8 million was driven by a combination of increased sales volume and warehousing efficiencies. These efficiencies have resulted in improved operating leverage through a reduction in the CODB as a proportion of segment profit.

Hardware & Automotive

In FY2014, Hardware & Automotive grew sales by 23.6% to \$1.2 billion, with EBITA increasing 47.8% to \$53.5 million. Business acquisitions, particularly ATAP, were a significant contributor to this result. However, the 'like-for-like' underlying business has also seen strong performance driven mainly by additional volumes in the existing businesses, ongoing store conversions and continued improvements in supply chain and in-store execution.

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The Mitre 10 strategy continued to be successful, growing the network, developing omni-channel retailing and delivering consumer-driven initiatives focussed on range, price and retail excellence. During the year, an additional 23 independent stores were converted to Mitre 10, a total of 80 since 2010. The most recent groups welcomed to the network included the recently announced G Gay & Co in Ballarat, Victoria. Growth also came through the non-branded groups, with excellent performances from Banner Hardware in South Australia and Dahlsens in Queensland and Western Australia.

Automotive had another strong year, defined by new acquisitions, aggressive integration targets supplemented by underlying sales growth and increased outlet numbers. The division now services more than 400 outlets in the retail, trade and service sectors, which includes the recently acquired Midas Australia network of 89 franchise stores (May 2014). The automotive retail and trade business continued to grow, with nine new Autobarn stores (including acquisition of four Malz Automotive and Leisure Zone stores in WA), and three new or converted Autopro stores. Retail sales grew 1.6% on a like-for-like basis.

Group Results – Other Key Expenses

Net finance costs have decreased by 7.1% to \$57.2 million. Interest savings from lower interest rates and improved working capital management were partially offset by non-cash expenses associated with the additional unwinding of net present value discounts of long-term rental subsidies and other provisions.

Tax expense on underlying profit of \$97.9 million represented an effective tax rate of 28.0%, marginally lower due to the application of capital tax losses and research & development deductions.

On 5 May 2014, Metcash and the ATO settled an income tax audit dispute, which resulted in a partial refund of the \$24.4 million originally paid in June/July 2011. The settlement resulted in an income tax expense of \$10.8 million which was recorded as a 'significant item'. The ATO has advised that it views Metcash as a lower risk taxpayer for income tax purposes under the Risk Differentiation Framework, the lowest possible risk rating. Refer Note 4(d) for further details.

In addition, the Group incurred \$56.1 million of significant items expenses during the year, due mainly to costs related to the Group's strategic review, impairment charges resulting from a change in strategic focus and acquisition costs. Refer Note 4(vi) for further details.

As noted above in the summary, the 2014 Franklins retail store discontinued loss was \$10.5 million after tax. The store sale program was finalised during the current year. At the end of the program, a total of 55 stores were either sold or converted to IGA stores and 25 stores were closed.

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2. FINANCIAL POSITION AND CASH FLOWS

Summary Financial Position (Unaudited)	Note	2014 \$'m	2013 \$'m
Net working capital	1	55.6	91.6
Capital investments	2	2,307.6	2,219.0
Total funds employed		2,363.2	2,310.6
Net debt	3	(766.9)	(719.8)
Net derivative liabilities	4	(2.2)	(3.7)
Net tax balances	5	46.5	68.1
Put options over non-controlling interests	6	(46.6)	(31.0)
Net assets/equity		1,594.0	1,624.2

1. Net working capital broadly comprises the 'trading' components of the balance sheet. Working capital includes trade and other receivables, inventories, prepayments, trade and other payables, provisions and other financial liabilities, including the current & non-current components of these items.
2. These non-current assets broadly represent the income earning components of the balance sheet and include property, plant & equipment, intangible assets and goodwill, equity-accounted investments, disposal groups and assets held for sale and other financial assets.
3. Net debt reflects the net borrowings position and includes cash, interest bearing loans and borrowings (with USPP borrowings measured at hedged level of \$210.1 million).
4. Net derivative liabilities represent the mark-to-market valuations of derivative financial instruments (current & non-current) excluding USPP hedge derivatives.
5. Net tax balances include income tax receivable or payable and net deferred tax assets.
6. Put options over non-controlling interests reflect the present value of the redemption amount of put options granted to certain minority shareholders who have the right to put their shareholding to Metcash, subject to specific terms and conditions (Note 15).

Net working capital

The reduction in the net working capital position was achieved through tight stock control and debtor management despite the expansion of the Group through acquisitions. The Group received a timing benefit of approximately \$80 million relating to trade payables at the end of the financial year, which resulted in a lower working capital position. This timing benefit is expected to reverse in the 2015 financial year.

Capital investments

Metcash continued to invest for growth during the year - key capital investments include (a) \$79.4 million in ATAP and \$31.8 million in other Automotive and Hardware businesses; (b) \$15.2 million in retail joint ventures; and (c) an additional \$35.6 million towards Project Mustang and Knapp at Huntingwood.

These acquisitions were partially offset by the impact of depreciation, amortisation and non-cash impairment write-downs resulting in a net increase of \$88.6 million in the Group's portfolio of income generating assets.

Net debt

The Group continued to generate strong operating cash flows during the year. These funds were deployed to invest for growth and return \$205.6 million in dividends to shareholders. The Group's net gearing level of 32.5% (FY2013: 30.7%) remained within the target range.

Metcash had \$682.9 million in available debt facilities at the reporting date with an appropriate tenure and diversification of funding sources.

Net tax balances

The reduction in net tax balances is primarily due to the resolution of the ATO audit issues which resulted in a significant item expense of \$10.8 million. Refer Note 4(d) for further details.

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Put options written over non-controlling interests

The majority of the 'NCI Put' option value relates to a 16.8% non-controlling interest held by co-investors in the Automotive division. Other NCI Puts relate to similar interests held by co-investors in the Hardware division. The increase in the value of NCI Puts is largely reflective of growth in the related underlying businesses. The measurement of these instruments aligns closely to the 'non-controlling interest' value in these businesses and an increase in the option value implies proportional returns accrued to Metcash.

Net Assets/Equity

The decrease in the Group's net assets position reflects declared dividends of \$229.0 million being in excess of reported profit of \$169.2 million. This difference is primarily attributable to significant items totalling \$54.0 million (after tax) being excluded from the calculation of underlying earnings which is used as the basis of the dividend declaration. The Group has reduced the level of payout ratio seen in recent years to fall into line with its base policy of paying out at least 60% of underlying earnings per share (UEPS). This reflects an increased requirement to reinvest internally generated funds on the Group's Transformation Plan. The Board's preference is to continue to pay out at least 60% of UEPS and will decide the appropriate payout at each dividend date according to the capital requirements prevailing at that time.

Other Financial Exposures

The Group is exposed to a contingent liability in relation to an agreement with American Express to offer credit facilities to the Group's retail network. Further details on this agreement and other contingent liabilities are presented in Note 27 of the financial statements.

Metcash's operating lease commitments, which predominantly relate to warehouse and retail stores, are detailed in Note 18 of the financial statements. The decrease in commitments is primarily due to early lease exits negotiated for ex-Franklins stores that were closed during the period. In addition, lease commitments have declined in line with expectations with the passage of time. In certain situations, Metcash will take the head lease on a retail property and sublet the store to the independent retailer. If the head lease rental expense exceeds the sublease rental income and the position is considered onerous, a provision is raised for the difference as set out in Note 14(b).

Metcash has a relatively low exposure to interest rate risk and minimal foreign exchange risk. Variable interest rate exposures on core debt are hedged in accordance with the Treasury Policy between a minimum and maximum range. The fixed interest and foreign exchange exposure on the US\$225.0 million USPP debt facility is effectively converted via hedges into \$210.1 million of variable rate funding. Further details are set out in Note 17.

Cash flows

Total operating cash flows for the year were \$388.7 million. Excluding the impact of the \$80 million timing benefit (as described above), the cash flow result is largely in line with the 2013 result which was the highest ever recorded by the Group. This result was achieved in spite of reduced underlying earnings, largely due to improved working capital management.

These cash flows supported the Group's investment activity described above, without a significant increase in borrowings.

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3. BUSINESS STRATEGIES AND PROSPECTS *(Incorporating Likely Developments and Expected Results)*

Metcash's core strategy is to support independent retailers to drive mutually profitable growth. Significant strategies and considerations in order to achieve this are outlined below.

Long-term Transformation Plan

As announced on 21 March 2014, the Group is implementing a significant long-term Transformation Plan. The Transformation Plan is focussed on four strategic priorities which are directed towards underpinning long-term sustainable growth for the Group and the independent retailers it supports. These priorities are:

(a) Transforming the Food & Grocery segment (Project Diamond)

The key focus for Project Diamond, the transformation of the Food & Grocery segment, is reigniting sales growth. Sales growth will in turn improve operating leverage and have a multiplier effect on segment profitability.

Project Diamond strategies include the following six growth levers:

- shopper-led refinement of product ranging through tailored product ranging and tiered own brand offering;
- competitive in-store product pricing using pricing match initiatives;
- compelling fresh offering with quality fresh allocation and design, consistent high quality and a wide product range;
- retail excellence through improved execution, empowered business owners and people development;
- investment in the independent store network by improving existing stores for refurbishment and investment in new store openings; and
- refinement of convenience wholesale, distribution, retail format offerings and sector consolidation.

The implementation of Project Diamond will be completed over three phases and multiple financial periods with an initial focus on fixing the basics, followed by investing in sales growth and finally sustaining sales growth over the long-term. Sales growth is expected in the 2015 financial year, with a return to segment profit growth forecast for the 2016 financial year.

(b) Consolidation and sustainable network growth

Consolidation and network growth is a two pronged approach encapsulating:

- consolidation of significant market sectors with the conversion of independent retailers in the liquor, hardware and automotive sectors to the Group's retail banners; and
- a focus upon growth through extending our retail footprint, improved retail execution and enhanced growth opportunities.

All three market sectors have a large number of independent retailers competing under disparate banners. Utilising the right banner for the right catchment will provide an opportunity for a consistent, high quality in-store execution and reduced CODB through improved operating leverage. In addition, further growth through organic and acquisition led expansion will encourage sales volume and segment profitability growth.

(c) Further enhancing the Group's world class supply chain

The Group already is known as a market leader in supply chain and logistics management. Strategic priorities for supply chain and logistics management in future periods result from striving for global best practice as the Group's benchmark.

The strategic priorities include:

- better alignment of the Group's supply chains to meet supplier and customer needs by implementing a three channel supply chain approach; and
- investment in automation, allowing the Group to reduce the CODB, improving productivity and regulatory compliance and increasing customer service levels.

The Group has six primary supply chains, through the use of automation and aligning the supply chain to customer needs these will be rationalised to three; Food & Liquor, Hardware & Automotive and Fresh & Daily. This will ensure distribution synergies and technologies are better leveraged across the business and will provide an improved supply chain experience for both suppliers and customers.

(d) Enabling successful independents

The performance of the Group hinges upon the success of its retailers. The Group's approach for enabling successful independents is to provide better support through:

- the creation of a training academy to assess, train and develop retailers skills over various segment specific operational matters;
- introducing competitive omni-channel solutions locally tailored for retailers; and
- providing enhanced analytics and insights capabilities.

Through the evolution of retailer assessment, training and development, digital support, and better analytics and insights, retailers will have an expanded toolkit to help their businesses.

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Group capital structure and acquisitions

In order to enable the abovementioned strategic priorities careful management of the Group's capital structure and acquisition based growth is also required.

Capital expenditure

Significant capital expenditure is required in order to support both the long-term Transformation Plan and day-to-day Group activities. Total capital expenditure is expected to be between \$575 million and \$675 million over the next five years. Capital expenditure is expected to peak at \$170 million to \$200 million in the 2015 financial year and decrease over the following four years as Project Diamond initiatives give way to supply chain changes.

Acquisitions

The Group will continue seek opportunities for bolt-on acquisitions and retail network growth. Acquisitions will be assessed to ensure they are consistent with the Group's strategy and will provide opportunities for revenue, profit and synergistic growth above the costs associated with the acquisitions. The Group's capital expenditure over the next five years, as outlined above, includes between \$85 million and \$130 million of forecast capital expenditure on acquisitions and retail network growth.

Capital structure

A strategic approach to the Group's capital structure is required in order to fund the initiatives in the Transformation Plan. This approach includes:

- continuously targeting working capital improvements and divestment of surplus assets;
- returning earnings to shareholders while retaining adequate funds within the business to reinvest in future growth opportunities; and
- continuing to offer the dividend reinvestment plan (DRP) to shareholders and complementing this by underwriting the DRP when appropriate.

End of the Operating and Financial Review.

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SHAREHOLDER RETURNS

	YEAR ENDED 30 APRIL				
	2014	2013	2012	2011	2010
Basic earnings per share (cents)	19.2	24.0	11.7	31.5	29.7
Underlying earnings per share (cents)	28.3	32.6	34.1	33.4	32.0
Dividend declared per share (cents)	18.5	28.0	28.0	27.0	26.0
Dividend payout ratio on earnings per share (%) (i)	65.4	85.9	82.1	80.8	81.3
Weighted average number of shares outstanding (basic; millions)	882.7	859.7	770.4	767.7	765.2
Return on equity (%) (ii)	15.5	19.0	18.9	18.2	18.4
Average equity (\$'m)	1,609.1	1,479.7	1,389.0	1,410.2	1,328.5
Share price at the reporting date (\$)	2.78	4.10	3.98	4.08	4.15
Dividend yield (%) (i)	6.7	6.8	7.0	6.6	5.8

(i) Calculated using underlying earnings per share as detailed in the operating and financial review

(ii) Calculated using underlying earnings as detailed in the operating and financial review.

EARNINGS PER SHARE

	2014 CENTS
Basic earnings per share	19.2
Diluted earnings per share	19.2

DIVIDENDS ON ORDINARY SHARES

	CENTS	\$'m
Final dividend for the 2014 year - payable in July 2014	9.0	80.0
Dividends paid during the year:		
Interim dividend for the 2014 year - settled in January 2014	9.5	83.7
Final dividend for the 2013 year - paid in July 2013	16.5	145.3
Gross total dividends paid during the 2014 financial year	26.0	229.0
Shares issued under the dividend reinvestment plan		(23.4)
Net dividends paid during the 2014 financial year	26.0	205.6
Total dividends declared in respect of the 2014 financial year	18.5	163.7

SUBSEQUENT EVENTS

On 5 May 2014, Metcash and the ATO settled the income tax audit disputes and a partial refund of the \$24.4 million was agreed. The settlement resulted in an income tax expense of \$10.8 million which was recorded as a 'significant item'. Refer Note 4(d) for further details.

Subsequent to the end of the financial year, the Group invested in new business acquisitions – which mainly included the Midas Group. The acquisitions were not material individually or in aggregate to the Group.

Except as noted above, 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.

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DIRECTORS QUALIFICATIONS AND EXPERIENCE

The qualifications and experience of Directors is set out below.

Peter L Barnes

B COMMERCE (HONS), MBA

Non executive Chairman

Chairman of the Nomination Committee

Member of the Remuneration Committee

Date of Appointment to Metcash Limited: 18 April 2005

Peter Barnes is a Director of News Corporation and Chairman of Samuel Smith & Sons Pty Ltd. He also serves as Chairman of the Melbourne Business School. Mr Barnes was formerly the Chairman of Ansell Limited and an executive with Phillip Morris International Inc. and held several senior management positions both here in Australia and overseas. Peter was appointed Chairman of Metcash Limited on 2 September 2010 and has been involved with the Metcash business as a director since November 1999.

Ian R Morrice

MBA

CEO Metcash Group of Companies with effect from 30 June 2013

Date of Appointment to Metcash Limited: 12 June 2012

Ian Morrice has over three decades of retail experience as Managing Director, Trading Director and Retail Director for some of the UK's leading retailers, including Dixons and The Kingfisher Group. Ian was Group CEO and Managing Director of New Zealand's Warehouse Group from 2004 to 2011.

Andrew Reitzer

B COMM, MBL

CEO Metcash Group of Companies until 30 June 2013

Date of Appointment to Metcash Limited: 18 April 2005

Andrew Reitzer retired from his position as CEO of Metcash on 30 June 2013 and ceased employment with Metcash on 30 September 2013.

Andrew has 36 years' experience in the retail/wholesale industry. Before Metcash, Andrew held positions at Metro Cash and Carry Limited including Group Operations Director, heading operations in Russia and Israel, Marketing Director, IT Director and managing various operating divisions.

Patrick N J Allaway

BA/LLB

Non executive Director

Member of the Audit, Risk & Compliance Committee

Member of the Nomination Committee

Date of Appointment to Metcash Limited: 7 November 2012

Patrick Allaway is a broad based business person with extensive experience in financial services, and senior executive and non executive director roles in large multi-national companies. His 30 year career in investment banking has seen him hold positions with Swiss Bank Corporation in Chicago, Zurich and London; and also with Citibank in New York, Sydney and London. Patrick was Managing Director Swiss Bank Capital Markets and Treasury with direct global responsibility for over 1,000 people in 16 countries.

Over the past 12 years Patrick has been the Chairman and co-founder of a privately owned boutique corporate advisory business, Saltbush Capital Markets, advising select ASX listed companies. Patrick was also a Non executive Director of Macquarie Goodman Ltd until 2006 and the Interim Chairman of its Audit Committee. Patrick's key areas of expertise include commercial experience, capital markets, business acquisitions and divestments, business review and strategic development. Patrick has a Bachelor of Arts/Law from Sydney University and is Chairman of Giant Steps Endowment Fund, and a Director of the Sydney University Football Club Foundation Ltd.

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Fiona E Balfour

BA (Hons), MBA, GRAD DIP INFORMATION MANAGEMENT, FAICD

Non executive Director

Member of the Remuneration Committee

Member of the Nomination Committee

Date of Appointment to Metcash Limited: 16 November 2010

Fiona Balfour is an independent non-executive director of Salmat Limited, TAL (Dai-ichi Life) Australia Limited and Airservices Australia and Treasurer and Councillor of Knox Grammar School; a Fellow of the AICD and a Fellow of Monash University since 2010. She was awarded the National Pearcey Medal in 2006. Fiona has more than thirty years executive experience in the aviation, telecommunications, financial services, education and not-for-profit sectors. Her professional expertise is in information and communications technology. She has extensive experience in global customer-facing business solutions across a variety of technologies including digital channel management. She is a Member and former Councillor of Chief Executive Women, a former Director of SITA SC (Geneva) from 2001 to 2006 and a former Trustee of the National Breast Cancer Foundation from 2007 to 2011.

Michael R Butler

B SC, MBA, FAICD

Non executive Director

Chairman of the Audit, Risk & Compliance Committee

Member of the Nomination Committee

Date of Appointment to Metcash Limited: 8 February 2007

Following a lengthy executive career in investment banking and private equity at Bankers Trust, Michael Butler has been a professional non-executive company director since 1999. He is currently chairman of AMP Superannuation Limited and N.M. Superannuation Pty Ltd and a director of Utility Services Group Limited. He has previously been a director and chairman of various listed public companies.

Neil D Hamilton

LLB

Non executive Director

Chairman of the Remuneration Committee

Member of the Nomination Committee

Date of Appointment to Metcash Limited: 7 February 2008

Neil Hamilton has over 30 years' experience in senior management positions and on boards of public companies across law, funds management, investment, insurance and resources.

Neil is Chairman of OZ Minerals Ltd and is a senior advisor to UBS Australia. He is the former Chairman of Challenge Bank Ltd, Western Power Corporation, Mount Gibson Iron Ltd and Iress Market Technology Ltd and was a director of Insurance Australia Group Ltd.

He was appointed Chairman of the Remuneration Committee on 1 September 2010.

Edwin M Jankelowitz

B COMM, CA (SA)

Non executive Director

Member of the Audit, Risk & Compliance Committee

Member of the Nomination Committee

Date of Appointment to Metcash Limited: 18 April 2005

Edwin Jankelowitz was previously CFO of Metcash and was appointed a Non-executive Director in 2011.

After qualifying as a Chartered Accountant he spent 12 years with Adcock Ingram Ltd eventually being promoted to Group Company Secretary and Finance Director. He then consulted in business management and tax before taking a position with Caxton Ltd where he progressed to Finance Director, Managing Director and Chairman. Edwin has spent over 40 years in corporate offices of listed companies and was a member of the Income Tax Special Court in South Africa for 20 years.

Edwin is currently Chairman of Kervale Investments Pty Ltd and a Non-executive Director of Chester Capital Pty Ltd.

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Michael P McMahon

BEcon; Harvard Business School Advanced Management Program

Non executive Director

Member of the Remuneration Committee

Member of the Nomination Committee

Date of Appointment to Metcash Limited 27 November 2013

Michael McMahon is an internationally experienced business leader with a broad retail and commercial background. Mick commenced his career with Shell in Australia and transferred to the UK in 1999 where he held several senior positions in retail, marketing and strategy. In 2005, he returned to Australia as the Managing Director, Coles Express and in 2007 he was appointed the Chief Operating Officer, Coles (Supermarkets, Liquor, Express). Mick is an experienced CEO with extensive retailing and supply chain management experience in supermarkets and convenience, food, grocery and liquor.

Mick is the CEO of ASX listed SKILLED Group and Chairman of Red Rock Leisure. Mick is a Member of the Business Council of Australia and a Councillor of the Australian Industry Group.

V Dudley Rubin

CA (SA), H DIP BDP, MBA

Non executive Director

Member of the Audit, Risk & Compliance Committee

Member of the Nomination Committee

Date of Appointment to Metcash Limited: 18 April 2005

Dudley Rubin is a chartered accountant and is a director of various companies trading in Africa. He has over 30 years' industry experience and has been involved with the Metcash business as a director since May 1998.

COMPANY SECRETARY

Greg Watson

LLM, Dip Law

General Counsel and Company Secretary

Greg Watson joined Metcash in 2005 as Legal Counsel and was promoted to General Counsel in 2008. He was appointed Company Secretary in 2010. Greg has over 23 years professional and industry experience initially in private legal practice, followed by corporate legal counsel roles with multinational FMCG organisations. Greg is a graduate of the Metcash Executive Leadership Program.

COMMITTEE MEMBERSHIP

At the date of this report, the Company had an Audit, Risk & Compliance Committee, a Remuneration Committee and a Nomination Committee. Members acting on these Board committees for the full year unless otherwise stated were:

AUDIT, RISK & COMPLIANCE	REMUNERATION	NOMINATION
Michael R Butler (Chairman)	Neil D Hamilton (Chairman)	Peter L Barnes (Chairman) ⁽ⁱⁱⁱ⁾
Patrick N J Allaway	Fiona E Balfour	Patrick N J Allaway ⁽ⁱⁱⁱ⁾
Edwin M Jankelowitz ⁽ⁱ⁾	Peter L Barnes	Fiona E Balfour ⁽ⁱⁱⁱ⁾
V Dudley Rubin	Michael P McMahon ⁽ⁱⁱ⁾	Michael R Butler ⁽ⁱⁱⁱ⁾
		Neil D Hamilton ⁽ⁱⁱⁱ⁾
		Edwin M Jankelowitz ⁽ⁱⁱⁱ⁾
		Michael P McMahon ⁽ⁱⁱⁱ⁾
		V Dudley Rubin ⁽ⁱⁱⁱ⁾

(i) Mr Jankelowitz was appointed to the committee on 26 February 2014.

(ii) Mr McMahon was appointed to the committee on 27 November 2013.

(iii) The Nomination Committee was established on 27 February 2013. The Chairman and all Non executive Directors were appointed to the Committee on that date – with the exception of Mr McMahon who was appointed to the Committee on 27 November 2013.

METCASH FINANCIAL REPORT 2014

DIRECTORS' REPORT

Year ended 30 April 2014

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended is as follows:

	Directors meetings		Remuneration Committee meetings		Audit, Risk & Compliance Committee meetings		Nomination Committee meetings	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Peter L Barnes	9	9	5	5	-	-	3	3
Ian R Morrice ⁽ⁱ⁾	9	9	-	-	-	-	-	-
Andrew Reitzer ⁽ⁱⁱ⁾	2	2	-	-	-	-	-	-
Patrick N J Allaway	9	9	-	-	7	7	3	3
Fiona E Balfour	9	9	5	5	-	-	3	3
Michael R Butler	9	8	-	-	7	7	3	3
Neil D Hamilton	9	8	5	5	-	-	3	3
Edwin M Jankelowitz	9	9	-	-	2	2	3	3
Michael P McMahon ⁽ⁱⁱⁱ⁾	4	4	2	2	-	-	1	1
V Dudley Rubin	9	9	-	-	7	7	3	3

(i) Mr Morrice was appointed as CEO of the Group on 30 June 2013.

(ii) Mr Reitzer retired as CEO on 30 June 2013 and ceased employment with Metcash on 30 September 2013.

(iii) Mr McMahon was appointed as a Non-executive Director on 27 November 2013.

INTERESTS IN SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

As at the date of this report, the Directors held the following shares and options in Metcash Limited:

	NUMBER OF ORDINARY SHARES
Peter L Barnes	187,685
Ian R Morrice ⁽ⁱ⁾	21,000
Patrick N J Allaway	54,000
Fiona E Balfour	30,594
Michael R Butler	56,656
Neil D Hamilton	20,620
Edwin M Jankelowitz	320,000
Michael P McMahon ⁽ⁱⁱ⁾	30,000
V Dudley Rubin	17,500

(i) Mr Morrice was appointed as CEO of the Group on 30 June 2013.

(ii) Mr McMahon was appointed as a Non-executive Director on 27 November 2013.

SHARE OPTIONS & PERFORMANCE RIGHTS

Unissued shares

At the date of this report, there were 2,596,662 unissued ordinary shares under performance rights (2,940,325 at the reporting date). There were no unissued ordinary shares under option at the reporting date or at the date of this report. Refer to Note 20 of the financial statements for further details of the performance rights and options.

Shares issued as a result of options and performance rights

On 15 April 2014, 368,909 shares were issued to executives, which represented the 25% deferred component of the FY2013 STI reward (see Note 20 for further details). No other shares in the Company were issued to employees and executives during or since the end of the financial year in respect of the exercise of options or performance rights.

METCASH FINANCIAL REPORT 2014

DIRECTORS' REPORT

Year ended 30 April 2014

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

- (i) The Constitution of the Company permits the grant of an indemnity (to the maximum extent permitted by law) in favour of each Director, the Company Secretary, past Directors and Secretaries, and all past and present Executive Officers. The Company has entered into Deeds of Indemnity and Access with R A Longes, F J Conroy, C P Curran, T A Haggai, R A Allan, J J David, Sir Leo Hielscher, B A Hogan, M Wesslink, J L Jardim (Lou Jardin), C dos Santos, M Jablonski and A Reitzer together with all of the current Directors and certain other officers of the Company. This indemnity is against any liability to third parties (other than related Metcash companies), by such officers unless the liability arises out of conduct involving a lack of good faith. The indemnity also includes costs or expenses incurred by an officer in unsuccessfully defending proceedings relating to that person's position.
- (ii) 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.

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 Australian Securities and Investments Commission (ASIC) Class Order 98/0100. The Company is an entity to which the Class Order applies.

METCASH FINANCIAL REPORT 2014

DIRECTORS' REPORT

Year ended 30 April 2014

REMUNERATION REPORT

1. MESSAGE FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE (UNAUDITED)

The Metcash Limited Remuneration Committee presents the Remuneration Report for the year ended 30 April 2014. The remuneration report outlines the remuneration arrangements for Key Management Personnel ('KMP') comprising the Group Executives and the Non-Executive Directors.

Metcash is a marketing and distribution specialist operating in the competitive grocery, liquor, hardware and automotive industries. Through its focus on supporting 'Successful Independents', Metcash provides the scale necessary to create competitive buying power, together with marketing, distribution, financial expertise and support. Metcash's collective relationships with the independent retailers and suppliers compete as the 'Third Force' in Australia's consumer staples market competing against the vertically integrated chains. Metcash generates wholesale revenue through its distribution and marketing activities, leaving the independent retailer to earn the retail revenue from sales to the end consumer. The nature of these operations therefore requires expertise across distribution and retail, competition for high calibre staff in these areas is intense.

Metcash's Board is committed to a remuneration framework which ensures that Metcash attracts and retains a high quality Executive team, who are appropriately rewarded for achieving financial outcomes for the Company and provide shareholders with reasonable returns. In order to achieve this, a significant portion of executive remuneration is 'at risk' and subject to Company performance. The Company's remuneration policy and structure for its Group Executives comprises a combination of the following two main components:

- a fixed component which is the total base salary and includes capped compulsory employer superannuation contributions; and
- a variable 'at risk' component which is performance based and comprises a short-term incentive ('STI') plan that is linked to both the performance of the Company and individual performance and a long-term incentive ('LTI') plan. The LTI program involves the granting of Performance Rights which vest if the Company achieves certain hurdles over a three year period.

Events and Board Decisions Affecting Remuneration

Transformation Plan

As announced on 21 March 2014, the Company is implementing a significant Transformation Plan. This plan is focussed on strategic priorities that are directed towards underpinning long-term sustainable growth for the Company and the independent retailers it supports.

To ensure that the Company's remuneration offering is aligned with the Transformation Plan and is benchmarked to appropriate market standards and expectations, the Committee has commissioned PricewaterhouseCoopers to assist with a full review of the Company's total rewards framework including the fixed and 'at risk' infrastructure.

In light of the review, the Board has approved bespoke strategic incentive arrangements for implementation in FY2015 that will drive the achievement of the Transformation Plan. The special arrangements directly address the Company's revised strategic priorities and accordingly the Company has suspended the existing Long-Term Incentive scheme for FY2014, FY2015 and FY2016, as the scheme is not considered suited to the current circumstances.

The transformation arrangements will motivate performance outcomes that are essential to the successful achievement of the Transformation Plan through specifically designed long term and short term performance measures.

Long Term Strategic Incentives

The Board has approved the introduction of a new 'transformation incentive' for senior executives that will include specially tailored performance conditions. The performance conditions will drive balanced earnings and sales performance and returns on funds employed (ROFE) over the next three years. A portion of the incentive will be deferred for a further fourth year.

The performance conditions will relate to underlying earnings per share (UEPS) and Group sales revenue growth at the end of the three year performance period, subject to meeting a return on funds employed (ROFE) threshold. If the threshold is met and the conditions are achieved, a portion of the incentive will be deferred for a further fourth year.

The Board has set the target UEPS and target group sales revenue growth hurdles based on the Transformation Plan, which was announced to the market on 21 March. Achievement of target will result in potential vesting of up to 67% of the incentive. The levels of UEPS and Group sales revenue growth required to achieve partial or full vesting are commercially sensitive, but the ROFE threshold will be disclosed and the Company will provide a narrative update annually in the remuneration report of the likely vesting outcome.

DIRECTORS' REPORT

Year ended 30 April 2014

1. MESSAGE FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE (UNAUDITED) (continued)

An additional longer term incentive with performance conditions linked to relative total shareholder return and ROFE that are tested after four and five years will be extended to the Chief Executive Officer, Mr Ian Morrice. A more fulsome description of the incentives will be detailed in the Explanatory Memorandum accompanying the Notice of Meeting for the 2014 Annual General Meeting in connection with the resolution to approve Mr Morrice's participation in both plans.

The Board has decided to offer the transformation incentives to Mr Morrice after concluding that an increase to his total remuneration package is warranted, having regard to the remuneration levels of his peers and the size, scale and challenges of his role leading a complex and multi-faceted business. In the circumstances, the Board concluded that it was more appropriate to deliver the increase through strategically appropriate 'at risk' long term incentives that will be submitted for shareholder approval, rather than to increase his fixed remuneration or short term incentive opportunity.

Strategic Changes to Short Term Incentives

The Board has resolved that the Company's short term incentive scorecard for FY2015 will include an individual performance factor, which will be linked to key milestones under the Transformation Plan. Group and divisional financial metrics will determine the pool of funds available to be awarded, and the individual performance factor will link individual short term incentive outcomes directly to the Transformation Plan, without growing the pool.

Fixed Remuneration

KMP fixed annual remuneration was revised effective 1 July 2013, based on business performance and aligned to market remuneration levels. The 'at target' remuneration levels for KMP were set with regard to market data for the ASX 51-100. The present positioning is at the 62.5 percentile of that range after having considered the need for remuneration levels to be competitive with those of Metcash's competitors (which include much larger businesses) to enable the Company to attract and retain quality people. The weighted average fixed remuneration for continuing KMP decreased by 5% compared to FY2013, reflecting lower remuneration levels for new executives.

Senior Management Changes

On 27 September 2012, the Company confirmed the previously announced intention of Mr Reitzer to retire as CEO in 2013. Mr Reitzer stepped down as CEO effective from 30 June 2013 and ceased employment with Metcash on 30 September 2013. Mr Reitzer's services have been retained as a consultant to the Board for strategic advice and assistance in relation to key customer, supplier and joint venture relationships for three years following Mr Reitzer's cessation of employment. During the consultancy period, Mr Reitzer is subject to appropriate non-compete restrictions. Details of Mr Reitzer's remuneration are set out in section 10.

On 27 February 2013, the Company announced the appointment of Mr Morrice as Chief Executive Officer, effective 30 June 2013, to replace Mr Reitzer. Mr Morrice was appointed as an Executive Director, effective 1 March 2013. Mr Morrice's remuneration package was determined at that time by the Board, taking into consideration advice from PricewaterhouseCoopers, which included reference against ASX 51-100 peer group CEO remuneration levels and structures. As outlined above, a review of Mr Morrice's remuneration package was undertaken towards the end of his first year in the role.

On 9 December 2013, the Company announced a more focussed approach to managing the Group's Food & Grocery pillar. As part of this, the position of Chief Operating Officer, Food & Grocery, held by Mr Morabito was disestablished, with effect from 20 December 2013. This position was replaced by a CEO - Supermarkets MFG and a CEO - Convenience MFG. Mr Collins, who previously was CEO of the ALM pillar, was appointed as CEO - Supermarkets MFG, effective from 21 December 2013 (refer to section 10). On 1 February 2014, Mr Struck was appointed as CEO - Convenience MFG.

Mr Marshall, previously General Manager of Merchandise & Marketing at ALM, was appointed as CEO of ALM, effective from 21 December 2013 (refer to section 10).

On behalf of the Committee, I commend the guide and this year's remuneration report to you.



Neil Hamilton

Chairman, Remuneration Committee

METCASH FINANCIAL REPORT 2014

DIRECTORS' REPORT

Year ended 30 April 2014

2. EXECUTIVE REMUNERATION GUIDE (UNAUDITED)

Overview

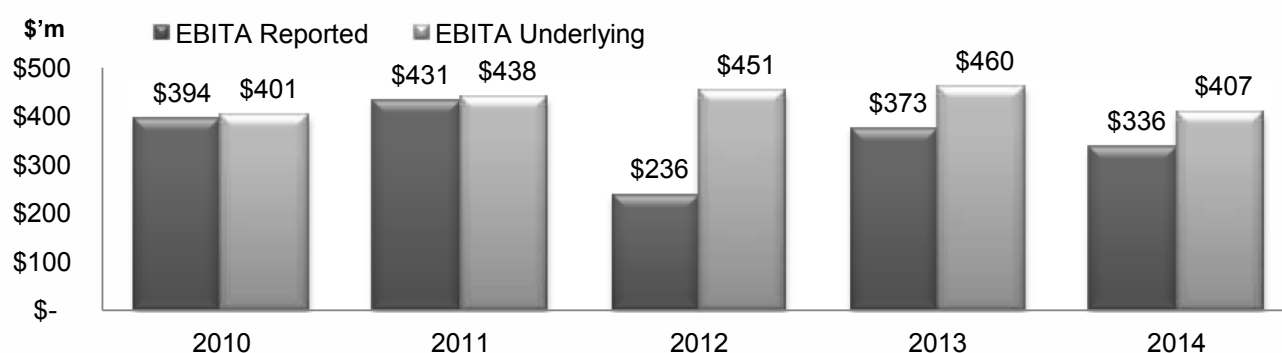
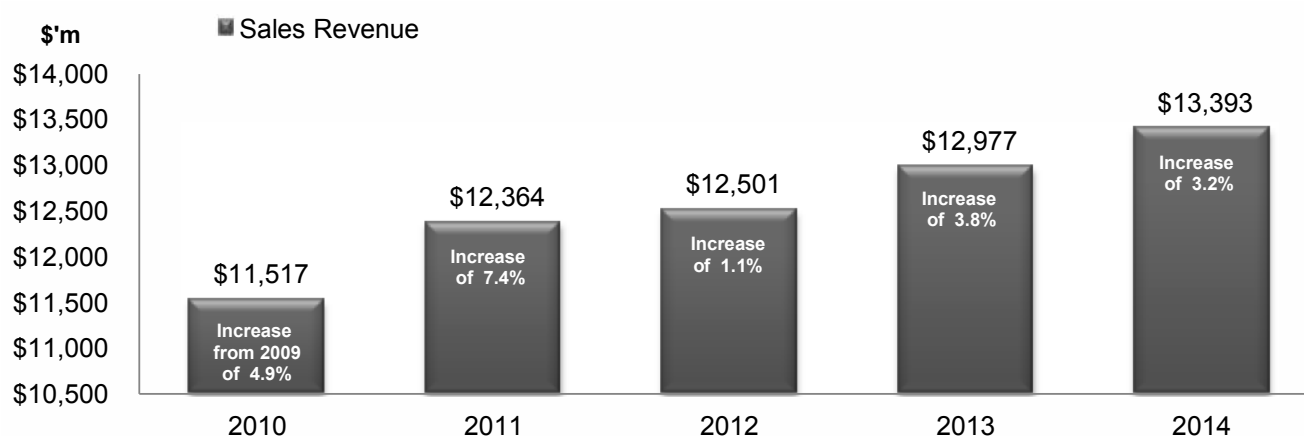
This short guide is intended to provide shareholders with an overview of KMP remuneration outcomes for FY2014 having regard to the Company's FY2014 performance. This guide is not audited and the information provided is in addition to the audited information set out in sections 3 to 11 of the formal remuneration report.

Company Performance

The 2014 financial year was challenging. Deflation evident since 2010, fuelled by the high Australian dollar and elevated promotional intensity, continued to impact Metcash's core food and grocery business and the industry in general. The Board and Executives have remained focussed on achieving sustainable performance, in spite of these constraints.

Sales revenue for the year increased by 3.2% to \$13,392.7 million. Underlying EBITA declined by 11.7% to \$406.7 million, with underlying profit after non-controlling interests and tax for the year decreasing by 10.9% to \$250.1 million and underlying EPS declining by 13.2%. Net profit for the year attributable to equity holders of the parent decreased by 17.9% to \$169.2 million (2013: \$206.0 million).

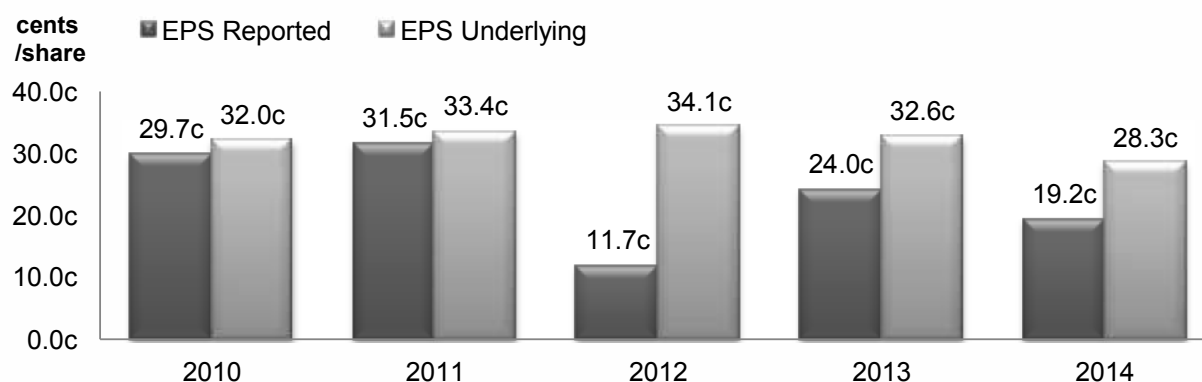
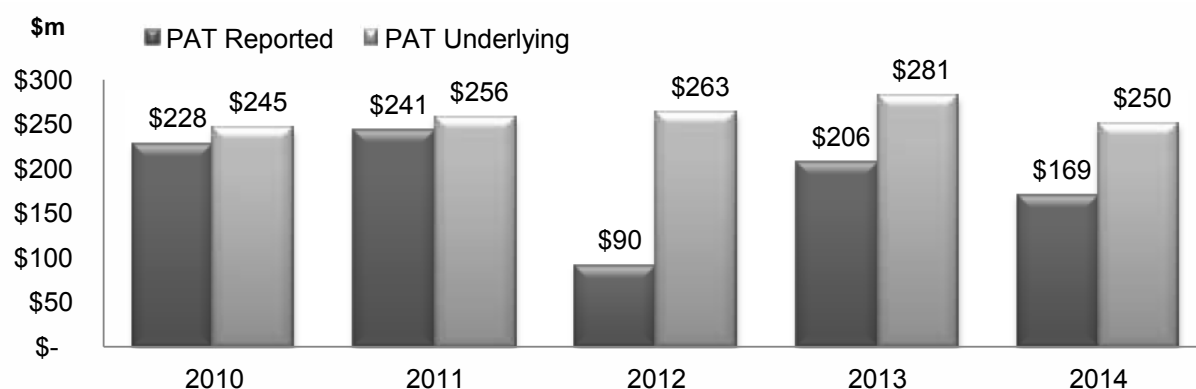
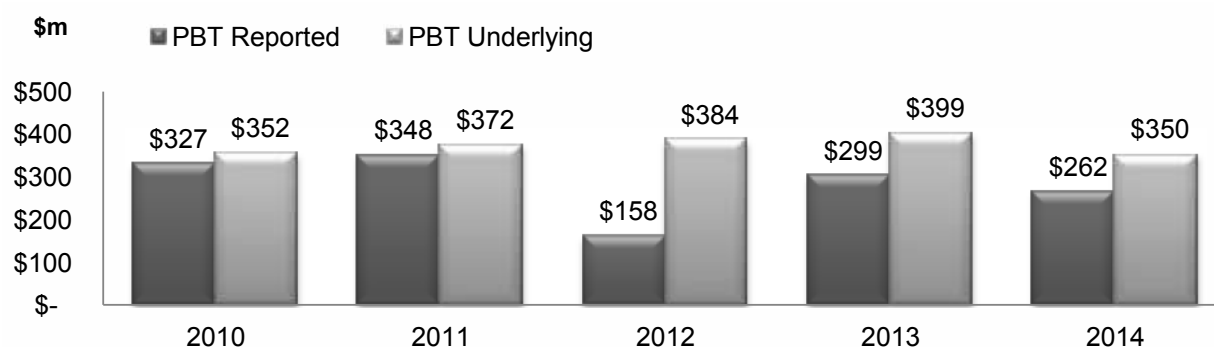
Further details, together with a full reconciliation between underlying earnings and reported profit, is included in the Operating and Financial Review section of the Directors' Report. The effect of these items is shown in the reported amounts below.



DIRECTORS' REPORT

Year ended 30 April 2014

2. EXECUTIVE REMUNERATION GUIDE (UNAUDITED) (continued)



METCASH FINANCIAL REPORT 2014

DIRECTORS' REPORT

Year ended 30 April 2014

2. EXECUTIVE REMUNERATION GUIDE (UNAUDITED) (continued)

2014 Remuneration Outcomes

Short-term incentive

As outlined below, Company performance was reflected in executive remuneration outcomes for FY2014. The key metrics used in determining the quantum of STI payable are sales revenue which was \$13,392.7 million (2013: \$12,976.6 million), underlying earnings before interest, tax and amortisation of \$406.7 million (2013: \$460.4 million) and underlying profit before tax which was \$349.5 million (2013: \$398.8 million).

Within the Group, each Business Pillar and the Corporate Head Office have separate STI schemes designed to align each executive's incentives to the financial objectives of the pillar or team concerned and which aggregate to overall Group objectives.

Two key KPIs are utilised – sales revenue and underlying profit before tax. The Board constructs a matrix to measure performance starting at a base level that the Board considers to be the minimum level of acceptable performance to qualify for an STI payment (including the cost of the STI payments as the scheme is self funding), moving to a target at which approximately 73% of the STI is achieved with provision to earn up to 100% of the STI at a stretch performance level. The targets vary from business to business depending on the circumstances and objectives of each pillar however, they are constructed to provide a stretch to exceed revenue and profit targets.

STI payments for KMP for the year were paid at an average of approximately 19% of the maximum entitlement, with the remainder being forfeited. This reflected a failure to reach Group revenue and profit targets, whilst business pillar achievement levels ranged from 0% to 87% of maximum. In accordance with the STI Scheme rules for KMP, 75% of the STI reward earned will be paid in July 2014. The remaining 25% of the STI reward will be deferred and released through the issue of Metcash ordinary shares conditional upon the Executive remaining employed by the Company on 15 April 2015. The number of shares to be issued will be calculated by dividing the 25% STI reward dollar value by the Metcash (MTS) VWAP for the five days ending on 15 August 2014. The shares will be issued by 30 April 2015, but will be restricted from trading until 15 August 2015. The actual results by KMP are presented in Table 6.1.

Long-term incentive

The Metcash LTI scheme is designed to incentivise and reward the Company's executives for implementing strategies to achieve specific growth targets which are aligned to the Company's overall strategy of increasing returns to shareholders.

Prior period LTI plans

These prior period LTI plans are measured against various underlying EPS growth targets over a three to five year period. The current year underlying EPS decreased by 13.2% to 28.3 cents per share. As a result, the KMP did not receive any reward under the 2009 Cash LTI, Tranche 1 or Tranche 2 Performance Rights LTI plans. Present forecasts also indicate that the KMP are unlikely to receive any reward from the Tranche 3 Performance Rights. Full details of these plans are outlined in sections 7 and 8 of this report.

2008 Options (FY2009-FY2013)	The 2008 options had an exercise price of \$4.27 per option. These options had vested by the end of FY2013 and expired on 7 February 2014.
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2009 Cash LTI (FY2010-FY2014)	The 2009 cash LTI did not achieve the minimum performance hurdle and was forfeited on 30 April 2014.
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Tranche 1 (FY2011-FY2013)	Tranche 1 Performance Rights, granted in December 2010 did not achieve the minimum performance hurdle and were forfeited on 30 June 2013.
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Tranche 2 (FY2012-FY2014)	Tranche 2 Performance Rights, granted in December 2011 did not achieve the minimum performance hurdle and will be forfeited on 30 June 2014.
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Tranche 3 (FY2013-FY2015)	Tranche 3 Performance Rights, granted in December 2012 will be subject to performance tests in FY2015. Present forecasts indicate that they are unlikely to meet the minimum performance hurdles.
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As outlined in section 1, the Company is implementing a significant Transformation Plan. The structure of the existing Long-Term Incentive scheme does not currently suit these strategic priorities. As a result, the Company has not issued a Tranche 4 (FY2014-FY2016) long-term incentive.

METCASH FINANCIAL REPORT 2014

DIRECTORS' REPORT

Year ended 30 April 2014

2. EXECUTIVE REMUNERATION GUIDE (UNAUDITED) (continued)

Remuneration received

The accounting standards require the calculation of remuneration on an accrual basis including the use of sophisticated valuation models for long-term share based incentives. The accounting standards require the recognition of long-term incentives over the associated vesting period based on assumptions that may or may not eventuate and without regard to the actual economic benefit ultimately derived by the executive from the incentive. Because of potential confusion in interpreting remuneration table values the Board has provided details of actual remuneration received by executives during the reporting period in the unaudited table below. These figures represent the fixed remuneration actually paid over FY2014, as well as the value of STI benefits that will be received as a result of performance in FY2014, the value of LTI's that vested in FY2014 and the value of discretionary bonus payments. The audited accounting value of remuneration received during the 2014 financial year, reported in accordance with statutory obligations and the accounting standards, has been presented in Table 10.1 of the Remuneration Report.

Table 2.1 Remuneration received (unaudited)

Name	Fixed ⁽¹⁾ \$	STI ⁽²⁾ \$	LTI ⁽³⁾ \$	Termination \$	Other ⁽⁴⁾ \$	Total \$
I Morrice ⁽⁵⁾	1,540,602	-	-	-	643,610	2,184,212
A Reitzer ⁽⁶⁾	384,301	-	-	2,029,801	(6,398)	2,407,704
A Gratwicke	822,807	161,368	-	-	24,958	1,009,133
F Collins ⁽⁷⁾	785,979	349,630	-	-	57,282	1,192,891
M Laidlaw	656,719	323,817	-	-	13,681	994,217
S Marshall ⁽⁸⁾	193,161	67,021	-	-	-	260,182
S Morabito ⁽⁹⁾	702,783	162,225	-	540,750	17,966	1,423,724
Total	5,086,352	1,064,061	-	2,570,551	751,099	9,472,063

(1) Fixed remuneration includes superannuation and accrued annual leave.

(2) The STI amount represents the 75% 2014 financial year incentive payable to the KMP in cash in July 2014 and the 25% 2013 financial year incentive deferred equity component that vested in April 2014. The 25% 2014 financial year incentive deferred equity component is not included in the table because the reward is conditional upon employment of the KMP until 15 April 2015.

(3) The value of share based long-term incentives calculated in accordance with the accounting standards is reported in Table 10.1 of the Remuneration Report. The above LTI column is unaudited and records the actual economic value realised by the executive as a result of exercising options or performance rights vesting. The economic value of performance rights reflects the market value of shares issued to the executive when the performance rights vest and are converted into shares. The economic value of options represents the difference between the exercise price of the options and the value of the relevant shares on exercise date.

(4) Other amounts include the value of other benefits that have been determined in accordance with the accounting standards, and are consistent with the amounts disclosed in the 'other benefits' in Table 10.1 of the Remuneration Report, plus accrued long service leave and reductions in such leave entitlements and discretionary bonus payments.

(5) Mr Morrice was appointed as an Executive Director on 1 March 2013 and became the CEO on 30 June 2013.

(6) Mr Reitzer was CEO from 1 May 2013 to 30 June 2013 and ceased employment on 30 September 2013. The amounts disclosed above reflect Mr Reitzer's remuneration from 1 May 2013 to 30 June 2013 as KMP. In addition, Mr Reitzer received fixed remuneration of \$467,061 between 1 July 2013 and his cessation of employment on 30 September 2013.

(7) Mr Collins was CEO of ALM from 1 May 2013 to 20 December 2013 and CEO - Supermarkets MFG from 21 December 2013 to 30 April 2014.

(8) Mr Marshall became CEO of ALM on 21 December 2013, with his fixed remuneration set at \$550,000 per annum. The amounts disclosed above reflect Mr Marshall's pro-rata remuneration from 21 December 2013 to 30 April 2014 as KMP.

(9) Mr Morabito was Chief Operating Officer (COO) of Food & Grocery from 1 May 2013 to 20 December 2013 and will cease employment on 31 October 2014. The amounts disclosed above reflect Mr Morabito's remuneration from 1 May 2013 to 20 December 2013 as KMP. In addition, Mr Morabito will receive fixed remuneration of \$930,323 between 21 December 2013 and his cessation of employment on 31 October 2014. The STI amount represents the 25% 2013 financial year incentive deferred equity component that vested in April 2014.

METCASH FINANCIAL REPORT 2014

DIRECTORS' REPORT

Year ended 30 April 2014

3. WHO DOES THIS REPORT COVER? (AUDITED)

This Remuneration Report, which comprises sections 3 to 11 inclusive, is prepared in accordance with the statutory requirements (section 300A) of the *Corporations Act 2001*. The information set out in sections 3 to 11 of this remuneration report has been audited in accordance with section 308(3C) of the *Corporations Act 2001* and accounting standards.

The report sets out the remuneration details for the Non-Executive Directors, the CEO and the group executives of Metcash, who together have the authority and responsibility for planning, directing and controlling the activities of the Group. For the purposes of this report, the CEO and the group executives are referred to as the KMP.

Non-Executive Directors⁽¹⁾

Name	Position
Peter Barnes	Chairman;
Patrick Allaway	Director;
Fiona Balfour	Director;
Michael Butler	Director;
Neil Hamilton	Director;
Edwin Jankelowitz	Director;
Mick McMahon	Director – appointed 27 November 2013; and
Dudley Rubin	Director.

(1) All Non-Executive directors held their current positions for the entire 2014 financial year unless otherwise stated.

KMP

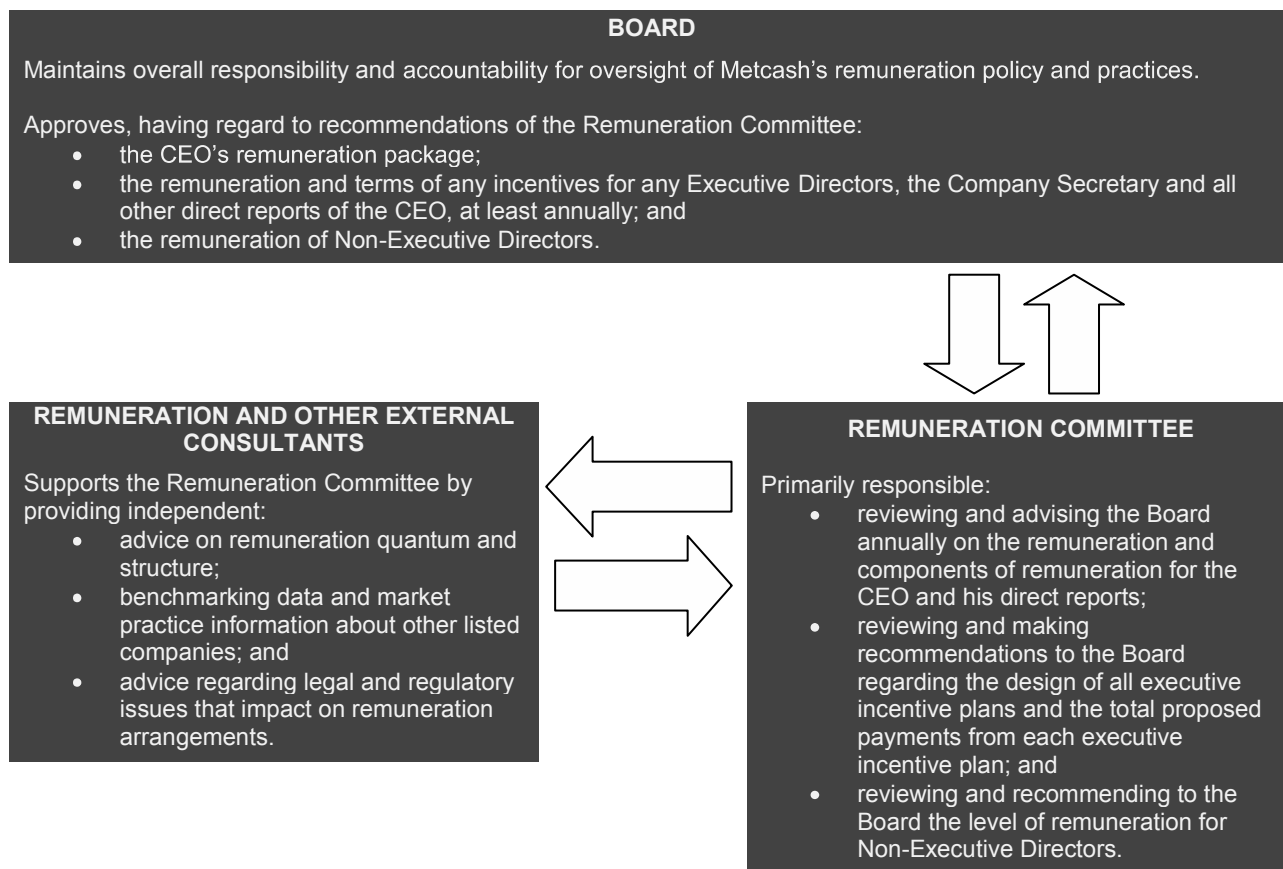
Name	Position	Period KMP
Ian Morrice	Chief Executive Officer & Director	Executive Director from 1 May 2013 to 29 June 2013, CEO and Director from 30 June 2013 to 30 April 2014.
Andrew Reitzer	Chief Executive Officer & Director	CEO and Director from 1 May 2013 to 30 June 2013.
Adrian Gratwicke	Chief Financial Officer (CFO)	The whole year.
Fergus Collins	Chief Executive Officer, ALM & Chief Executive Officer - Supermarkets MFG	CEO ALM 1 May 2013 to 20 December 2013, CEO - Supermarkets MFG from 21 December 2013 to 30 April 2014.
Mark Laidlaw	Chief Executive Officer, Hardware	The whole year.
Scott Marshall	Chief Executive Officer, ALM	21 December 2013 to 30 April 2014.
Silvestro Morabito	Chief Operating Officer, Food & Grocery	1 May 2013 to 20 December 2013.

DIRECTORS' REPORT

Year ended 30 April 2014

4. HOW REMUNERATION DECISIONS ARE MADE (AUDITED)

The diagram below illustrates how decisions are made with respect to remuneration of KMP and Non-Executive directors.



In performing its role, the Board and Remuneration Committee directly commission and receive information, advice and recommendations from independent external advisers. In 2012, the Board reviewed the process for engaging and seeking advice from external advisers and adopted a protocol setting out the process for receiving remuneration recommendations in relation to KMP which, among other things, is designed to ensure that the recommendations made are free from undue influence by management. One of the key outcomes of this review was that the Chairman of the Remuneration Committee appoints and engages directly with remuneration consultants in relation to KMP remuneration matters.

During the 2014 financial year, the Remuneration Committee employed the services of PricewaterhouseCoopers to assist in the review of the Company's total rewards framework under the Board approved protocol. As outlined in section 1, the review will reflect the revised strategic goals for the Company and outcomes from the review are expected to be implemented in the 2015 financial year.

Amounts paid to remuneration consultants during FY2014 are detailed below:

Remuneration consultant	Appointed by	Nature of work	Fees paid
Pricewaterhouse Coopers	Remuneration Committee	Remuneration recommendations - Review of the Company's total rewards framework.	\$38,500

In addition, PricewaterhouseCoopers also provided taxation advice, consulting services and advisory services to management of the Group. A total of \$504,342 was paid to PricewaterhouseCoopers for these services.

DIRECTORS' REPORT

Year ended 30 April 2014

4. HOW REMUNERATION DECISIONS ARE MADE (AUDITED) (continued)

The Board is satisfied that the remuneration recommendations made by all consultants noted were made free from any undue influence. In addition to the internal protocols referred to above, PricewaterhouseCoopers provided a formal declaration confirming that their recommendation was made free from 'undue influence' by the members of the KMP to whom the recommendation related. The Remuneration Committee engaged Herbert Smith Freehills to provide independent governance and legal advice in relation to senior executive remuneration matters.

5. KMP REMUNERATION (AUDITED)

Policy and Approach

The Board is committed to developing and maintaining a remuneration framework that attracts and retains quality executives and aligns the interests of the members of the KMP with shareholder interests by rewarding high performance that results in increased shareholder value. The particular principles that guide the Remuneration Committee when they set KMP remuneration are listed below:

- **Attract and retain talent** - Metcash operates in the highly competitive food, liquor, hardware and automotive industries. Remuneration packages are structured to ensure that they remain market competitive and take into account the individual's role and performance. Fixed salaries are determined by reference to benchmarking data relating to companies in the ASX Top 51-100. In addition, business specific criteria are considered. The 'at risk' components of remuneration (featuring short and long term elements) are designed to motivate individual and group performance. The fixed and variable 'at risk' remuneration in aggregate is designed to be competitive in the market place and align with shareholder outcomes.
- **Link remuneration to performance** - A proportion of KMP remuneration is 'at risk', which means that it is only delivered if certain performance conditions are met. KMP are prohibited by law from hedging their 'at risk' remuneration. 'At risk' includes both short and long term outcomes to meet market best practice.
- **Align remuneration to creation of shareholder value** - KMP receive fixed remuneration and short and long term 'at risk' incentives designed to motivate and help achieve superior business and financial performance, benefitting shareholders. Both short and long term KPI's are designed to provide appropriate alignment between management and shareholders.
- **Metcash's current Key Performance Indicators (KPI's):**

Short-term incentive

Metcash's short-term incentive plan is designed to reward executives for delivering on pre-determined revenue and underlying profit before tax targets. The performance conditions are set at the beginning of each financial year and are designed to drive successful and sustainable financial and business outcomes which are set with reference to Board approved objectives, plans and budgets. The CEO and CFO short-term incentives are determined with reference to Group revenue and underlying profit before tax and business pillar CEO's with reference to Group and pillar revenue and underlying profit before tax. If the targets are met, 75% of the reward is payable immediately in cash and the remaining 25% is deferred and released as equity, conditional upon subsequent employment. Performance criteria are disclosed in section 6 of the remuneration report.

If the minimum growth targets are not met, no STI is payable.

The CEO, subject to Remuneration Committee approval, may award discretionary bonus payments to Executives outside the STI scheme where circumstances warrant such a payment.

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5. KMP REMUNERATION (AUDITED) (continued)

Long-term incentive

The Company's LTI plan is the Metcash Performance Rights Plan ('Rights Plan'). All Performance Rights granted by the Company are subject to performance hurdles. These hurdles have attached objectives that must be satisfied on a prolonged basis (usually three years) and which directly improve Company value.

Historically the Board has used underlying earnings per share (EPS) as the measure to determine the long-term underlying ongoing profitability of the Company. The Board sets and reviews the Rights Plan EPS hurdle rates for each new issue of long-term incentive performance rights. The underlying earnings per share targets for each new grant are based on factors including the Company's strategic objectives and business plans, financial performance, state of the industry/market and other operational measures.

The Tranche 3 (FY2013-FY2015) plan hurdles were set at between 4% ('lower bound hurdle rate') and 7% ('upper bound hurdle rate') compound underlying EPS growth, both adjusted up or down for the effects of actual year-on-year inflation/deflation, over a three year vesting period as follows:

- Achieving an underlying EPS growth rate equivalent to the lower bound hurdle rate results in 0% vesting; and
- Achieving an underlying EPS growth rate equivalent to the upper bound hurdle rate results in 100% vesting.

Pro-rata vesting occurs for EPS growth between the lower and upper bound hurdle rates. Any LTIs that do not vest are forfeited.

As outlined in section 1, the Company is implementing a significant Transformation Plan. The structure of the existing Long-Term Incentive scheme does not currently suit these revised strategic priorities. As a result, the Company has not issued a Tranche 4 (FY2014-FY2016) long-term incentive.

Determination of underlying earnings

Company value improvement is expressed as an increase in revenue, underlying profit before tax and underlying earnings per share. To provide an accurate and consistent basis of measuring this growth in value, a calculation is used to determine underlying earnings per share. This reflects reported earnings per share from continuing operations excluding significant items (whether positive or negative). In determining underlying earnings, the Board takes into account material impacts on earnings arising from significant items. Having regard to STI, the impacts from these items are taken into account when determining the STI grids. Having regard to LTI, adjustments, as considered appropriate, are made to the calculation to account for these impacts. A reconciliation of underlying earnings to net profit is presented in the Operating and Financial Review in the Directors' Report.

In addition to these core principles, the Board is committed to promoting transparency around its remuneration arrangements and to providing shareholders and other stakeholders with clear, complete and concise information about Metcash's remuneration structures.

Remuneration Framework - key aspects of KMP Remuneration

Fixed Remuneration	
What is included in fixed remuneration?	Fixed remuneration comprises fixed salary, statutory superannuation benefits and any additional benefits that form part of the arrangement including motor vehicle lease and salary sacrifice superannuation contributions.
How is fixed remuneration set?	Fixed remuneration is determined based on the scope and nature of an individual's role, qualifications, performance and experience. Metcash's policy is to set fixed remuneration with regard to market data for the ASX 51-100. The present positioning is at the 62.5 percentile of that range after having considered the need for remuneration levels to be competitive with those of Metcash's competitors (which include much larger businesses) to enable the Company to attract and retain quality people.
How and when is fixed remuneration reviewed?	The Remuneration Committee reviews KMP remuneration each year, based on market trends and individual performance, and recommends any adjustments to the Board. All adjustments must be approved by the Board.

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5. KMP REMUNERATION (AUDITED) (continued)

Short-Term Incentive (STI)	
What is the STI program?	STI is an 'at risk' component of KMP remuneration which gives KMP the opportunity to receive a reward, dependent on performance against set key performance indicators (KPIs). If these KPIs are met, 75% of the STI reward amount is payable immediately in cash and the remaining 25% is deferred for 15 months and released through the issue of Metcash shares conditional upon the KMP being employed by the Company on 15 April of the year subsequent to the performance year. The STI program and the KPIs set under it are intended to motivate and reward high performance and link performance and reward. All STIs are structured to encourage the relevant individual to exceed annual revenue and profit targets.
What are the KPIs?	KPIs are tailored for individual members of the KMP depending on their role and sphere of influence, but are all financial in nature and based on a combination of group and/or divisional measures (primarily revenue and underlying profit measures).
What is the maximum potential STI level?	KMPs are eligible to receive an STI reward of up to a maximum of 100% of fixed remuneration, depending on their performance against KPIs.
Long-Term Incentive (LTI)	
LTI program status	The Company has not issued a long-term incentive in the 2014 financial year. The plan aspects set out below relate to performance rights issued as part of long-term incentives in prior years.
What is the LTI program?	LTI is an equity-based 'at risk' component of KMP remuneration tied to the Company's longer-term performance. Metcash operates a Performance Rights Plan, which gives members of the KMP an opportunity to acquire shares in the Company if they achieve outcomes linked to the creation of long-term sustainable growth for shareholders over a performance period of at least three years. Full details are provided in sections 7 and 8.
Why was the LTI program adopted?	The LTI program encourages members of the KMP to focus on long-term Company performance and the achievement of sustainable growth. It provides KMPs with the opportunity to receive equity based rewards and thereby aligns their interests with shareholder's interests and encourages them to take a shareholder's perspective.
What are the performance hurdles?	The Board believes earnings per share growth is the most appropriate measure of value creation and considers "underlying" earnings per share to be the most accurate and consistent basis of measuring this growth in value. "Underlying" EPS represents reported earnings per share from continuing operations excluding significant items which best reflects the underlying ongoing profitability of the Company. In determining underlying EPS, both positive and negative significant items are excluded. A reconciliation of underlying earnings to net profit is presented in the review and results of operations in the Directors' Report.
What happens to LTIs when an executive ceases employment?	When a KMP ceases to be an employee of Metcash their unvested LTIs will lapse, except in instances of death and disability or special circumstances as determined by the Board.

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5. KMP REMUNERATION (AUDITED) (continued)

Proportion of fixed and 'at risk' remuneration

The relative proportions of KMP's total remuneration granted during FY2014 are set below:

Table 5.1 Proportion of fixed and 'at risk' remuneration

Name	% of Total Maximum Remuneration (annualised)		
	Fixed Remuneration	'At risk' – performance-based ⁽¹⁾	
	FAR	STI	LTI
I Morrice	50%	50%	0%
Other KMP ⁽²⁾	50%	50%	0%

(1) These amounts are based on the KMP's maximum STI and LTI opportunities. The LTI does not include any value for grants made in prior financial years.

(2) Other KMP excludes Mr Reitzer and Mr Morabito. Details of their remuneration can be found in table 10.1.

The Company has not issued a long-term incentive in the 2014 financial year. This has resulted in a reduction in maximum remuneration opportunities for KMPs. The Committee has commissioned a full review of the Company's total rewards framework including the fixed and 'at risk' infrastructure to ensure the Company's remuneration offering is benchmarked to market standards and expectations. The review will reflect the revised strategic goals for the Company and may result in the creation of new long-term incentive schemes to be determined and implemented in FY2015.

Company performance and remuneration

A snapshot of Metcash's performance as measured by a range of financial and other indicators is outlined in the table below.

Table 5.2 – 5 year performance against key annual performance metrics

Financial Year	Share Performance				Earnings Performance		Liquidity	
	Closing share price (\$)	Dividend p/share (c/share)	Underlying EPS (c/share)	Reported EPS (c/share)	Underlying EBITA (\$'m)	Reported NPAT (\$'m)	Cash flow from Operations (\$'m)	Gearing (Debt/(Debt + Equity))
2013/14	2.78	18.5	28.3	19.2	406.7	169.2	388.7	32.5%
2012/13	4.10	28.0	32.6	24.0	460.4	206.0	299.8	30.7%
2011/12	3.98	28.0	34.1	11.7	451.2	90.0	284.3	40.5%
2010/11	4.08	27.0	33.4	31.5	438.0	241.4	142.5	32.1%
2009/10 ⁽¹⁾	4.15	26.0	32.0	29.7	401.2	227.6	294.7	28.4%

(1) Opening share price for 2009/10 was \$4.12

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6. DETERMINING STI OUTCOMES (AUDITED)

The STI program focuses behaviour towards achieving superior Company and business unit performance, which deliver better results to shareholders. Key Performance Indicators (KPI) are established and measured at different levels throughout the business:

- Group level - applies to most KMP
- Business level - applies to the KMP from each business pillar

After the end of each financial year, KMP performance is assessed against their individual KPIs to determine the amount of STI to be awarded. If these KPI are met, 75% of the STI reward amount is paid in July of each year after the release of the audited accounts. The remaining 25% is deferred for 15 months and released through the issue of Metcash ordinary shares, conditional upon the KMP being employed by the Company on 15 April of the year subsequent to the performance year. Any STI not achieved is forfeited. The tables below set out the outcome of the assessment process for the CEO and other members of the KMP for FY2014.

Table 6.1 STI vesting

Name	Maximum STI (\$)	Vested (%)	Achieved		Forfeited (\$)
			75% Cash Payable ⁽¹⁾ (\$)	25% Deferred Equity ⁽²⁾ (\$)	
I Morrice (Executive Director & CEO)⁽³⁾					
Group revenue and underlying PBT	1,500,000	0%	-	-	1,500,000
A Reitzer (CEO)⁽⁴⁾					
Group revenue and underlying PBT	-	0%	-	-	-
A Gratwicke (CFO)					
Group revenue and underlying PBT	850,000	0%	-	-	850,000
F Collins (CEO, ALM & CEO - Supermarkets MFG)⁽⁵⁾					
Group revenue and underlying PBT	425,000	0%	-	-	425,000
Sales and EBIT for ALM	425,000	60%	192,130	64,043	168,827
M Laidlaw (CEO, Hardware)					
Group revenue and underlying PBT	331,500	0%	-	-	331,500
Sales and EBIT for Mitre 10	331,500	87%	215,483	71,828	44,189
S Marshall (CEO, ALM)⁽⁶⁾					
Group revenue and underlying PBT	100,481	0%	-	-	100,481
Sales and EBIT for ALM	100,481	67%	67,021	-	33,460
S Morabito (COO, Food & Grocery)⁽⁷⁾					
Group revenue and underlying PBT	540,750	0%	-	-	540,750
Sales and EBIT for Food & Grocery	540,750	0%	-	-	540,750

(1) 75% of STI reward amount payable in cash in July 2014.

(2) 25% of STI reward amount deferred and released through the issue of Metcash ordinary shares, conditional upon the Executive being employed by the Company on 15 April 2015. The number of shares to be issued will be calculated by dividing the 25% STI reward dollar value by the Metcash VWAP for the five days ending on 15 August 2014. The shares will be issued by 30 April 2015, but will be restricted from trading until 15 August 2015.

(3) Mr Morrice was appointed as an Executive Director on 1 March 2013 and became the CEO on 30 June 2013.

(4) Mr Reitzer was CEO from 1 May 2013 to 30 June 2013 and ceased employment on 30 September 2013.

(5) Mr Collins was CEO of ALM from 1 May 2013 to 20 December 2013 and CEO - Supermarkets MFG from 21 December 2013 to 30 April 2014.

(6) Mr Marshall became CEO of ALM on 21 December 2013. The amounts disclosed above reflect Mr Marshall's pro-rata STI remuneration for services from 21 December 2013 to 30 April 2014 as KMP.

(7) Mr Morabito was COO of Food & Grocery from 1 May 2013 to 20 December 2013 and will cease employment on 31 October 2014. The amounts disclosed above reflect all short-term incentives for Mr Morabito, including those related to service subsequent to 20 December 2013.

The following two financial KPIs are used to assess performance for most members of the KMP:

- Group underlying profit before tax (PBT); and
- Group revenue from continuing operations - as disclosed in the Statement of Comprehensive Income.

These two KPIs are used because they are clear, objective and regularly reported indicators of the performance of Metcash and its different businesses, warehouses and stores. The KPIs for the KMP from each business pillar also include targets linked to the financial performance of their particular business unit, to drive them to strive towards achieving better than target performance in their areas of direct responsibility.

For FY2014, the potential (or maximum) STI payable was set at a stretch above target revenue and earnings levels. Target revenue and earnings were set at a level above guidance provided to the market for FY2014. The minimum targets were not achieved for the Group or Food & Grocery during FY2014 and this resulted in the payment of no STI rewards. The Mitre 10 and ALM business pillar results were reflected in actual STI rewards closer to their individual stretch targets.

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7. LONG-TERM INCENTIVE (AUDITED)

Objective

As outlined in section 1, the Company has not issued a LTI in FY2014. The plan aspects set out below relate to performance rights issued as part of prior year LTI tranches.

The objective of the LTI program is to ensure the Company is able to attract and retain its key group executives, whilst incentivising these executives to achieve challenging financial performance hurdles which will increase shareholder value.

Since 2010, the Board has operated the Metcash Performance Rights Plan ('Rights Plan').

Summary of Performance Rights

The table below sets out the Performance Rights granted to members of the KMP under the Rights Plan.

Table 7.1 Performance Rights granted to KMP

Participants	Tranche	Grant Date	Vesting date	Number of rights granted	Fair value per right	Vested in FY2014	Forfeited in FY2014
A Reitzer ⁽¹⁾	Tranche 3 (FY2013-FY2015)	Dec-2012	7-Sep-2015	-	N/A	N/A	N/A
	Tranche 2 (FY2012-FY2014)	Dec-2011	30-Jun-2014	-	N/A	N/A	N/A
A Gratwicke	Tranche 3 (FY2013-FY2015)	Dec-2012	7-Sep-2015	100,841	\$2.30	0%	0%
	Tranche 2 (FY2012-FY2014)	Dec-2011	30-Jun-2014	73,204	\$3.62	0%	100% ⁽⁵⁾
F Collins ⁽²⁾	Tranche 3 (FY2013-FY2015)	Dec-2012	7-Sep-2015	87,488	\$2.30	0%	0%
	Tranche 2 (FY2012-FY2014)	Dec-2011	30-Jun-2014	55,725	\$3.62	0%	100% ⁽⁵⁾
M Laidlaw	Tranche 3 (FY2013-FY2015)	Dec-2012	7-Sep-2015	81,239	\$2.30	0%	0%
	Tranche 2 (FY2012-FY2014)	Dec-2011	30-Jun-2014	46,201	\$3.62	0%	100% ⁽⁵⁾
S Marshall ⁽³⁾	Tranche 3 (FY2013-FY2015)	Dec-2012	7-Sep-2015	25,150	\$2.30	0%	0%
	Tranche 2 (FY2012-FY2014)	Dec-2011	30-Jun-2014	21,317	\$3.62	0%	100% ⁽⁵⁾
S Morabito ⁽⁴⁾	Tranche 3 (FY2013-FY2015)	Dec-2012	7-Sep-2015	135,169	\$2.30	0%	0%
	Tranche 2 (FY2012-FY2014)	Dec-2011	30-Jun-2014	72,516	\$3.62	0%	100% ⁽⁵⁾

(1) Mr Reitzer was CEO from 1 May 2013 to 30 June 2013 and ceased employment on 30 September 2013.

(2) Mr Collins was CEO of ALM from 1 May 2013 to 20 December 2013 and CEO - Supermarkets MFG from 21 December 2013 to 30 April 2014.

(3) Mr Marshall became CEO of ALM on 21 December 2013. The Performance Rights amounts disclosed above reflect all rights held by Mr Marshall, including those provided to him prior to 21 December 2013.

(4) Mr Morabito was COO of Food & Grocery from 1 May 2013 to 20 December 2013 and will cease employment on 31 October 2014.

(5) The Tranche 2 Performance Rights did not achieve the minimum underlying EPS performance hurdle. Accordingly, these Performance Rights will be forfeited on 30 June 2014.

The Rights Plan

Performance Rights (granted under the Rights Plan) replaced share options as the Company's long-term incentive vehicle from 30 June 2010. Further details of Performance Rights are provided in Note 20 to the financial statements.

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 are offered at no cost to participants; and
- 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.

8. LONG-TERM INCENTIVE – LEGACY PLANS (AUDITED)

May 2009 Cash LTI

A long-term retention incentive of \$1.0 million was granted in May 2009 to Mr Gratwicke (then GM Finance, now CFO). The vesting of the long-term incentive grant was subject to achievement of the performance hurdles over a five year period (a compounding 8% increase in underlying earnings per share based on FY2009 underlying earnings per share adjusted for material changes to the number of shares issued) and only payable:

- on successful achievement of the performance hurdles described above in FY2014 and;
- if the KMP is still employed by the Company at that time and a member of the Metcash Executive Team.

In FY2014, the minimum performance hurdle for this grant was not achieved and accordingly the plan has now concluded with nil payable.

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8. LONG-TERM INCENTIVE – LEGACY PLANS (AUDITED) (continued)

February 2008 Options

Options were issued in February 2008 to Mr Gratwicke, Mr Laidlaw, Mr Marshall and Mr Morabito. All options issued under the plan had vested by the end of FY2013 with an exercise price of \$4.27. These options lapsed on 7 February 2014.

Table 8.1 Legacy LTI Table

Name	Grant Date	Type	Vesting dates	Number of Options granted	Fair value per Option	Maximum Cash Payment	Vested in FY2014	Forfeited in FY2014
A Gratwicke	May-09	LTI - Cash	1 May 2009 to 30 April 2014	N/A	N/A	\$1,000,000	0%	100%
	Feb-08	LTI - Options	7 Feb 2008 to 7 Feb 2013	500,000	\$0.88	N/A	0%	100%
M Laidlaw	Feb-08	LTI - Options	7 Feb 2008 to 7 Feb 2013	350,000	\$0.88	N/A	0%	100%
S Marshall ⁽¹⁾	Feb-08	LTI - Options	7 Feb 2008 to 7 Feb 2013	350,000	\$0.88	N/A	0%	100%
S Morabito	Feb-08	LTI - Options	7 Feb 2008 to 7 Feb 2013	350,000	\$0.88	N/A	0%	100%

(1) Mr Marshall became CEO of ALM on 21 December 2013. The LTI Option amounts disclosed above reflect all LTI Options held by Mr Marshall, including those provided to him prior to 21 December 2013.

As at 30 April 2014 and at the date of this report, Mr Morrice, Mr Collins and Mr Reitzer do not hold any outstanding LTI Options and do not participate in any LTI Cash schemes.

9. SUMMARY OF SERVICE AGREEMENTS (AUDITED)

The remuneration and other terms of employment for KMP are formalised in service agreements. The material terms of the KMP's service agreements are set out below.

Table 9.1 Service Agreements

Name	Agreement Term	Executive Notice	Metcash Notice	Redundancy
I Morrice ⁽¹⁾	Ongoing unless notice given	6 months	12 months	12 months
A Reitzer ⁽²⁾	Ongoing unless notice given ⁽²⁾	3 months	15 months	Metcash Notice + 9 months
A Gratwicke	Ongoing unless notice given	3 months	9 months	Metcash Notice + 6 months
F Collins	Ongoing unless notice given	3 months	9 months	Metcash Notice + 6 months
M Laidlaw	Ongoing unless notice given	3 months	9 months	Metcash Notice + 6 months
S Marshall ⁽³⁾	Ongoing unless notice given	3 months	6 months	Metcash Notice + 6 months
S Morabito ⁽⁴⁾	Ongoing unless notice given ⁽⁴⁾	3 months	9 months	Metcash Notice + 6 months

New service contracts entered into post the introduction of the new termination benefits legislation in 2009 contain similar elements to other executives' service contracts and any termination benefits provided under contracts that are subject to the new law will comply with the new twelve months of base salary cap.

(1) Mr Morrice was appointed as an Executive Director on 1 March 2013 and became the CEO on 30 June 2013.

(2) Mr Reitzer was CEO from 1 May 2013 to 30 June 2013 and ceased employment on 30 September 2013.

(3) Mr Marshall became CEO of ALM on 21 December 2013.

(4) Mr Morabito was COO of Food & Grocery from 1 May 2013 to 20 December 2013 and will cease employment on 31 October 2014. Mr Morabito's notice period operates between 21 December 2013 and his cessation of employment on 31 October 2014.

Executives who resign or whose employment is terminated for cause, and whose short-term or long-term incentives are unvested at the time, forfeit their entitlements to those unvested incentives. Executives who are retrenched, who retire from full time work before vesting of short or long term incentives or who die whilst employed by the Company, may be allowed (or their Estate may be allowed) to keep all or part of those unvested incentives, at the discretion of the Board.

In some circumstances surrounding termination of employment, the Company may require individuals to enter into non-compete arrangements with the Company, to protect the Company's rights. These non-compete arrangements may require a payment to the individual in consideration of these arrangements.

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10. REMUNERATION TABLES (AUDITED)

Table 10.1 Fixed and 'At Risk' Remuneration

2014	Fixed Remuneration \$	STI(Cash) ⁽¹⁾ \$	Other benefits \$	Post Employment benefits – superannuation \$	Termination benefits \$	LTI and Leave ⁽²⁾ \$	LTI (Share based payments) \$	STI (Share based payments) ⁽¹⁾ \$	Total \$	Performance Related
CEO										
I Morrice ⁽³⁾	1,523,045	-	643,610	17,558	-	-	-	-	2,184,213	0.0%
A Reitzer ⁽⁴⁾	381,267	-	-	3,035	2,029,801	(6,398)	-	-	2,407,705	0.0%
Executives										
A Gratwicke	805,249	-	-	17,558	-	(412,348)	-	80,684	491,143	(72.6)%
F Collins	768,421	192,130	14,000	17,558	-	43,282	-	110,772	1,146,163	26.4%
M Laidlaw	639,161	215,483	-	17,558	-	13,681	-	90,081	975,964	31.3%
S Marshall ⁽⁵⁾	186,735	67,021	-	6,426	-	-	-	-	260,182	25.8%
S Morabito ⁽⁶⁾	691,846	-	-	10,937	540,750	17,966	-	81,113	1,342,612	6.0%
Total	4,995,724	474,634	657,610	90,630	2,570,551	(343,817)	-	362,650	8,807,982	4.5%

(1) The STI (Cash) reward amount included in the table represents 75% of the total reward amount under the FY2014 plan, which is payable in cash in July 2014. The STI (Share Based Payments) reward amount represents the current year expense in relation to the 25% component of the FY2014 plan and FY2013 plan total reward amounts that are deferred and released through equity. These components are recognised in the financial results over the performance and forfeiture periods, which together are referred to as the 'service period'. The service period for the FY2014 plan commenced on 1 May 2013 and concludes on 15 April 2015 and the service period for the FY2013 plan commenced on 1 May 2012 and concluded on 15 April 2014.

(2) This includes the movement in long service leave entitlement. Negative amounts represent long service leave utilised in excess of current year entitlement accrued, or represent negative revaluation of LTIs.

(3) Mr Morrice was appointed as an Executive Director on 1 March 2013 and became the CEO on 30 June 2013. The Company has agreed to provide Mr Morrice with reasonable relocation and rental assistance as per company policy. Other benefits represent payments made during FY2014 for relocation expenses amounting to \$643,610. The total relocation sum accounts for removal costs from New Zealand, rental accommodation, stamp duty, agent and legal fees as well as associated FBT charges.

(4) Mr Reitzer was CEO from 1 May 2013 to 30 June 2013 and ceased employment on 30 September 2013. In recognition of the Company's significant growth under his leadership and in accordance with his employment contract, Mr Reitzer received a cash payment of \$2,029,801, equivalent to 12 months average base salary upon termination of employment on 30 September 2013. The amounts disclosed above reflect Mr Reitzer's remuneration from 1 May 2013 to 30 June 2013 as KMP and related termination benefits. In addition, Mr Reitzer received fixed remuneration of \$467,061 between 1 July 2013 and his cessation of employment on 30 September 2013. All amounts paid to Mr Reitzer are in accordance with his contractual entitlements.

(5) Mr Marshall became CEO of ALM on 21 December 2013, with his fixed remuneration set at \$550,000 per annum. The amounts disclosed above reflect Mr Marshall's pro-rata remuneration from 21 December 2013 to 30 April 2014 as KMP.

(6) Mr Morabito was COO of Food & Grocery from 1 May 2013 to 20 December 2013 and will cease employment on 31 October 2014. The amounts disclosed above reflect Mr Morabito's remuneration from 1 May 2013 to 20 December 2013 as KMP. In addition, Mr Morabito will receive fixed remuneration of \$930,323 between 21 December 2013 and his cessation of employment on 31 October 2014. All amounts paid to Mr Morabito are in accordance with his contractual entitlements.

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10. REMUNERATION TABLES (AUDITED) (continued)

Table 10.1 Fixed and 'At Risk' Remuneration (continued)

2013 CEO	Fixed Remuneration \$	STI(Cash) (1) \$	Other benefits \$	Post Employment benefits – superannuation \$	Termination benefits \$	LTI and Leave (2) \$	LTI (Share based payments) \$	STI (Share based payments) (1) \$	Total \$	Performance Related
A Reitzer	1,771,377	1,648,000	9,050	16,354	-	(367,660)	-	-	3,077,121	53.6%
Executives										
I Morrice (3)	249,152	-	30,807	2,745	-	-	-	-	282,704	0.0%
A Gratwicke	779,605	484,104	-	16,354	-	79,471	17,600	80,684	1,457,818	43.7%
F Collins	668,514	472,500	110,020 (4)	16,354	-	33,708	-	78,750	1,379,846	40.0%
M Laidlaw	615,791	325,000	-	16,354	-	30,488	12,320	54,167	1,054,120	37.1%
S Morabito	1,079,676	486,675	124,470 (5)	16,354	-	21,641	12,320	81,113	1,822,249	31.8%
Total	5,164,115	3,416,279	274,347	84,515	-	(202,352)	42,240	294,714	9,073,858	42.0%

(1) The STI (Cash) reward amount included in the table represents 75% of the total reward amount under the FY2013 plan, which is payable in cash in July 2013. The STI (Share Based Payments) reward amount represents the current year expense in relation to the 25% component of the total reward amount that is deferred and released through equity. This component is recognised in the financial results over the performance and forfeiture periods, which together are referred to as the 'service period'. The service period commenced on 1 May 2012 and concluded on 15 April 2014.

(2) This includes the movement in long service leave entitlement. Negative amounts represent long service leave utilised in excess of current year entitlement accrued.

(3) Mr Morrice was appointed as an Executive Director on 1 March 2013 and became the CEO effective 30 June 2013. The amounts disclosed above reflect Mr Morrice's remuneration from 1 March 2013 to 30 April 2013. The Company has agreed to provide Mr Morrice with reasonable relocation and rental assistance as per company policy. Included in Other benefits are payments made during FY2013 for relocation expenses amounting to \$30,807.

(4) Includes a discretionary bonus payment of \$96,020 awarded in relation to the achievement of specific objectives by Mr Collins in FY2012 and represents a payment approved in July 2012.

(5) Discretionary payment awarded in relation to the achievement of specific objectives by Mr Morabito in FY2012 and represents a payment approved in July 2012.

METCASH FINANCIAL REPORT 2014

DIRECTORS' REPORT

Year ended 30 April 2014

10. REMUNERATION TABLES (AUDITED) (continued)

Table 10.2 Options

Name	Value of Options exercised during the year		Value of Options lapsed during the year	
	2014 \$	2013 \$	2014 \$	2013 \$
A Gratwicke	-	-	440,000	-
M Laidlaw	-	-	308,000	-
S Marshall ⁽¹⁾	-	-	308,000	-
S Morabito	-	-	308,000	-

(1) Mr Marshall became CEO of ALM on 21 December 2013. The amounts disclosed above reflect all options transactions by Mr Marshall, including those prior to 21 December 2013.

11. NON-EXECUTIVE DIRECTORS (AUDITED)

Policy

The objectives of Metcash's policy regarding fees for Non-Executive Directors are to:

- **Safeguard independence** - to preserve the independence of Non-Executive Directors, fees do not include any performance-related element; and
- **Be market competitive** - fees are set at a level competitive with Non-Executive Directors in the ASX 100 and take into account the time commitment of overseeing the large and diverse business of the Metcash Group.

To align individual interests with shareholders' interests, Non-Executive Directors are encouraged to hold Metcash shares.

Non-Executive Directors fund their own share purchases. All Non-Executive Directors must comply with Metcash's share trading policy.

Review of levels of remuneration

Non-Executive Directors' remuneration is within an aggregate limit determined, from time to time, by members at a general meeting. The current limit of \$1,600,000 was agreed by members at the Annual General Meeting held on 30 August 2012.

The Remuneration Committee has responsibility for reviewing and recommending the level of remuneration for Non-Executive Directors. External professional advice is sought before any changes are made to the amount paid to Non-Executive Directors within the overall maximum amount approved by shareholders.

Structure

Non-Executive Director remuneration, except for certain legacy entitlements as detailed below, is structured as follows:

- All Non-Executive Directors are paid an annual fixed fee;
- Non-Executive Directors also performing chairperson or committee duties are paid an additional fixed fee for each role;
- Non-Executive Directors are not entitled to participate in any of the Group's short or long term incentive schemes; and
- No additional benefits are paid to Non-Executive Directors upon retirement from office.

METCASH FINANCIAL REPORT 2014

DIRECTORS' REPORT

Year ended 30 April 2014

11. NON-EXECUTIVE DIRECTORS (AUDITED) (continued)

Current per annum fixed fee structure

The current per annum fee structure is set out in the following table. These fee levels are within the aggregate limit approved by members and took effect from the 30 August 2012 Annual General Meeting.

Table 11.1 Non-Executive Director Fee Structure

Name	Base Fee \$	Chair Fee \$	Committee Fee \$	Super- annuation \$	Total \$
P Barnes	118,450	172,500	11,845	17,775	320,570
N Hamilton	118,450	28,840	-	13,624	160,914
M Butler	118,450	28,840	-	13,624	160,914
P Allaway	118,450	-	11,845	12,052	142,347
F Balfour	118,450	-	11,845	12,052	142,347
E Jankelowitz	118,450	-	11,845	12,052	142,347
M McMahon ⁽¹⁾	118,450	-	11,845	12,052	142,347
D Rubin	118,450	-	11,845	12,052	142,347

(1) Mr McMahon was appointed as a Non-Executive Director on 27 November 2013.

Non-Executive Directors' Remuneration for 2014

The fees paid or payable to Non-Executive Directors in relation to the 2014 financial year are set out in the following table. The amounts paid reflect changes made following the aggregate fee limit increase approved at the 30 August 2012 Annual General Meeting and, for certain Directors, changes in roles.

Table 11.2 Non-Executive Director Remuneration

Name	Financial Year	Fixed Fees ⁽¹⁾ \$	Post Employment (Superannuation) ⁽²⁾ \$	Total \$	Other \$
P Barnes	2014	302,795	17,449	320,244	-
	2013	301,070	16,872	317,942	-
N Hamilton	2014	147,290	13,532	160,822	-
	2013	145,017	13,052	158,069	-
M Butler	2014	147,290	13,532	160,822	-
	2013	142,175	12,796	154,971	-
P Allaway ⁽³⁾	2014	130,295	11,971	142,266	-
	2013	52,315	4,708	57,023	-
F Balfour	2014	130,295	11,971	142,266	-
	2013	129,346	11,641	140,987	-
E Jankelowitz	2014	119,585	10,988	130,573	-
	2013	117,587	10,583	128,170	-
R Longes ⁽⁴⁾	2013	35,750	3,218	38,968	211,619
M McMahon ⁽⁵⁾	2014	44,983	4,161	49,144	-
I Morrice ⁽⁶⁾	2013	91,465	8,232	99,697	-
D Rubin	2014	130,295	11,971	142,266	-
	2013	129,346	11,641	140,987	-
Total	2014	1,152,828	95,575	1,248,403	-
	2013	1,144,071	92,743	1,236,814	211,619

(1) Fixed fees represent base director fees, chairperson and committee fees. Directors fees that are salary sacrificed are included in this amount.

(2) Post employment benefits comprise statutory superannuation obligations.

(3) Mr Allaway was appointed as a Non-Executive Director on 7 November 2012.

(4) Mr Longes retired from the Board of Directors on 30 August 2012 and was entitled to a retirement benefit of \$211,619 at that time.

(5) Mr McMahon was appointed as a Non-Executive Director on 27 November 2013.

(6) Mr Morrice was appointed as an Executive Director on 1 March 2013 and therefore ceased to be a Non-Executive Director on this date.

METCASH FINANCIAL REPORT 2014

DIRECTORS' REPORT

Year ended 30 April 2014

11. NON-EXECUTIVE DIRECTORS (AUDITED) (continued)

Legacy entitlements

Metcash previously operated a retirement benefit scheme for Non-Executive Directors, which was discontinued at the 2005 Annual General Meeting. The benefits were in accordance with Section 8.3(g) and (h) of the Company's Constitution and Section 200 of the Corporations Law.

The accrued retirement benefits were frozen as at the date of the 2005 Annual General Meeting. These benefits, which are inclusive of superannuation, are payable to the following director in cash upon ceasing to be a director of Metcash Limited.

Retirement benefit (fixed)	\$
P Barnes	<u>211,619</u>

This concludes the remuneration report.

METCASH FINANCIAL REPORT 2014

DIRECTORS' REPORT

Year ended 30 April 2014

CEO AND CFO DECLARATION

The Chief Executive Officer and Chief Financial Officer declare:

- (a) With regard to the integrity of the financial statements of Metcash Limited (the Company) for the financial year ended 30 April 2014, after having made appropriate inquiries, in our opinion:
- (i) The financial statements and associated notes for the consolidated entity comply with the accounting standards and regulations as required by Section 296 of the *Corporations Act 2001* and International Financial Reporting Standards;
 - (ii) The financial statements and associated notes for the consolidated entity give a true and fair view of the financial position as at 30 April 2014 and performance of the consolidated entity for the twelve months then ended as required by Section 297 of the *Corporations Act 2001*;
 - (iii) As at the date of this declaration, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
 - (iv) As at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group (as that term is defined in the Metcash Deed of Cross Guarantee, dated 18 April 2012), will be able to meet any obligations or liabilities to which they are, or may become subject by virtue of the Deed of Cross Guarantee.
- (b) With regard to the financial records and systems of risk management and internal compliance and control of the Company for the financial year ended 30 April 2014:
- (i) The financial records of the Company and each entity in the consolidated group have been properly maintained in accordance with Section 286 of the *Corporations Act 2001*;
 - (ii) The statements made in (a) and (b)(i) above are founded on a sound system of risk management and internal compliance and control which is operating effectively, in all material respects, in relation to financial reporting risks;
 - (iii) The risk management and internal compliance and control systems of the Company relating to financial reporting, compliance and operations objectives including material business risks are operating efficiently and effectively, in all material respects. Management has reported to the Board as to the effectiveness of the Company's management of its material business risks.
 - (iv) Subsequent to 30 April 2014, no changes or other matters have arisen that would have a material effect on the operation of risk management and internal control and control systems of the Company.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 April 2014 has been received and is included on page 134

NON-AUDIT SERVICES

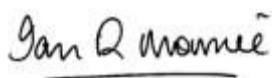
The following non-audit services were provided by the entity's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of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

The amount payable to Ernst & Young should be seen in the context of the tax audit which the Company has undergone and the significant work which has been required in responding to the Australian Taxation Office queries.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Tax compliance and advisory	\$ 457,877
ATO income tax audit advice	\$ 696,483
Assurance-related	\$ 81,000
Tax acquisitions/other	\$ 4,700

Signed in accordance with a resolution of the Directors.



Ian Morrice
Director

Sydney, 23 June 2014

METCASH FINANCIAL REPORT 2014

STATEMENT OF *COMPREHENSIVE INCOME*

Year ended 30 April 2014

	NOTES	2014 \$'m	2013 \$'m
Sales revenue		13,392.7	12,976.6
Cost of sales		(12,144.5)	(11,758.7)
Gross profit		1,248.2	1,217.9
Other income	4(i)	140.7	121.1
Distribution costs		(479.5)	(430.9)
Administrative costs		(516.0)	(456.0)
Share of profit of equity-accounted investments	10	4.8	3.4
Significant items	4(vi)	(56.1)	(1.1)
Finance costs	4(vii)	(65.1)	(69.3)
Profit from continuing operations before income tax		277.0	385.1
Income tax expense	5	(95.8)	(116.1)
Net profit for the year from continuing operations		181.2	269.0
Net loss after tax for the year from discontinued operations	26	(10.5)	(59.9)
Net profit for the year		170.7	209.1
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation adjustments		1.1	0.3
Cash flow hedge adjustment		5.0	3.6
Income tax expense on items of other comprehensive income		(1.7)	(0.9)
Other comprehensive income for the year, net of tax		4.4	3.0
Total comprehensive income for the year		175.1	212.1
Net profit for the year is attributable to:			
Equity holders of the parent		169.2	206.0
Non controlling interests		1.5	3.1
		170.7	209.1
Total comprehensive income for the year is attributable to:			
Equity holders of the parent		173.6	209.0
Non controlling interests		1.5	3.1
		175.1	212.1
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:			
- basic earnings per share (cents)	25	20.4	30.9
- diluted earnings per share (cents)	25	20.4	30.9
Earnings per share for profit/(loss) from discontinued operations attributable to the ordinary equity holders of the Company:			
- basic earnings per share (cents)	25	(1.2)	(6.9)
- diluted earnings per share (cents)	25	(1.2)	(6.9)
Earnings per share attributable to ordinary equity holders of the Company:			
- basic earnings per share (cents)	25	19.2	24.0
- diluted earnings per share (cents)	25	19.2	24.0

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

METCASH FINANCIAL REPORT 2014

STATEMENT OF *FINANCIAL POSITION*

As at 30 April 2014

	NOTES	2014 \$'m	2013 \$'m
ASSETS			
Current assets			
Cash and cash equivalents	7	24.7	50.3
Trade and other receivables	8	1,037.8	1,012.9
Inventories		743.8	753.8
Disposal groups and assets held for sale	26	41.1	47.6
Income tax receivable		-	24.4
Prepayments and other assets		13.9	5.7
Derivative financial instruments	9	1.8	0.6
Total current assets		1,863.1	1,895.3
Non-current assets			
Derivative financial instruments	9	46.3	37.7
Trade and other receivables	8	50.3	60.4
Equity-accounted investments	10	99.2	91.3
Other financial assets		0.3	0.3
Property, plant and equipment	11	308.4	278.5
Net deferred tax assets	5	70.4	61.8
Intangible assets and goodwill	12	1,765.7	1,708.0
Total non-current assets		2,340.6	2,238.0
TOTAL ASSETS		4,203.7	4,133.3
LIABILITIES			
Current liabilities			
Trade and other payables		1,457.1	1,335.6
Interest bearing loans and borrowings	13	15.3	57.5
Derivative financial instruments	9	1.6	0.5
Provisions	14	127.2	137.8
Income tax payable		23.9	18.1
Other financial liabilities	15	13.0	1.7
Total current liabilities		1,638.1	1,551.2
Non-current liabilities			
Interest bearing loans and borrowings	13	824.9	751.4
Provisions	14	106.0	166.6
Derivative financial instruments	9	0.1	2.7
Other financial liabilities	15	40.6	37.2
Total non-current liabilities		971.6	957.9
TOTAL LIABILITIES		2,609.7	2,509.1
NET ASSETS		1,594.0	1,624.2
EQUITY			
Contributed equity	16	2,308.1	2,284.9
Other equity	16	(765.9)	(765.9)
Other reserves	16	(2.9)	(6.8)
Retained earnings		47.1	106.7
Parent interest		1,586.4	1,618.9
Non controlling interests		7.6	5.3
TOTAL EQUITY		1,594.0	1,624.2

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

METCASH FINANCIAL REPORT 2014

STATEMENT OF CHANGES IN EQUITY

Year ended 30 April 2014

	Contributed equity \$'m	Other equity \$'m	Share-based payments reserve \$'m	Retained earnings \$'m	Capital reserve \$'m	Foreign currency translation reserve \$'m	Cash flow hedge reserve \$'m	Owners of the parent \$'m	Non controlling interest \$'m	Total equity \$'m
At 1 May 2013	2,284.9	(765.9)	0.6	106.7	-	(5.6)	(1.8)	1,618.9	5.3	1,624.2
Total comprehensive income, net of tax	-	-	-	169.2	-	1.1	3.3	173.6	1.5	175.1
Transactions with owners in their capacity as owners:										
Dividends paid including DRP (Note 6(a))	23.4	-	-	(229.0)	-	-	-	(205.6)	(1.5)	(207.1)
Shares based payments exercised (Note 16(b))	-	-	(1.0)	-	-	-	-	(1.0)	-	(1.0)
Share issue costs net of tax (Note 16(a))	(0.2)	-	-	-	-	-	-	(0.2)	-	(0.2)
Share-based payments	-	-	0.7	-	-	-	-	0.7	-	0.7
Business combinations (Note 24)	-	-	-	-	-	-	-	-	2.3	2.3
Transfers	-	-	(0.2)	0.2	-	-	-	-	-	-
At 30 April 2014	2,308.1	(765.9)	0.1	47.1	-	(4.5)	1.5	1,586.4	7.6	1,594.0
At 1 May 2012	1,914.7	(765.9)	23.6	86.3	12.8	(5.9)	(4.5)	1,261.1	74.0	1,335.1
Total comprehensive income, net of tax	-	-	-	206.0	-	0.3	2.7	209.0	3.1	212.1
Transactions with owners in their capacity as owners:										
Proceeds from equity raising	375.0	-	-	-	-	-	-	375.0	-	375.0
Share issue costs net of tax	(4.8)	-	-	-	-	-	-	(4.8)	-	(4.8)
Acquisition of 49.9% equity interest in Mitre 10 Group	-	-	-	-	22.1	-	-	22.1	(70.0)	(47.9)
Share-based payments	-	-	0.4	-	-	-	-	0.4	-	0.4
Dividends paid	-	-	-	(243.9)	-	-	-	(243.9)	(1.8)	(245.7)
Transfers	-	-	(23.4)	58.3	(34.9)	-	-	-	-	-
At 30 April 2013	2,284.9	(765.9)	0.6	106.7	-	(5.6)	(1.8)	1,618.9	5.3	1,624.2
Note	16	16	16	16	16	16	16	16	16	16

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

METCASH FINANCIAL REPORT 2014

STATEMENT OF **CASH FLOWS**

Year ended 30 April 2014

	NOTES	2014 \$'m	2013 \$'m
Cash flows from operating activities			
Receipts from customers		14,652.7	14,180.6
Payments to suppliers and employees		(13,846.0)	(13,510.7)
Dividends received		1.6	0.6
Interest received		7.9	7.7
Finance costs		(51.5)	(58.5)
Income tax paid, net of tax refunds		(68.2)	(51.3)
Indirect taxes paid		(307.8)	(268.6)
Net cash generated by operating activities	7	388.7	299.8
Cash flows from investing activities			
Proceeds from sale of business assets		15.0	46.2
Payments for acquisition of business assets		(81.1)	(83.7)
Payments for intangibles		(23.0)	(49.1)
Proceeds from sale of discontinued operations		4.7	58.3
Payment on acquisition of businesses net of cash acquired	24(c)	(108.6)	(107.4)
Costs paid on acquisition of businesses		(3.2)	(2.6)
Recovery of acquisition costs from ACCC		-	3.5
Payment on acquisition of equity-accounted investments		(15.2)	(16.6)
Proceeds from loans repaid by other entities		36.5	29.7
Loans to other entities		(36.9)	(57.2)
Net cash used in investing activities		(211.8)	(178.9)
Cash flows from financing activities:			
Share based payments exercised	16	(1.0)	-
Proceeds from the issue of ordinary shares	16	-	375.0
Share issue costs	16	(0.2)	(6.8)
Payment on acquisition of non controlling interest	16(b)	-	(47.9)
Proceeds from borrowings		5,896.3	4,804.8
Repayments of borrowings		(5,882.3)	(4,994.5)
Payment of dividends on ordinary shares	6	(205.6)	(243.9)
Payment of dividends to non controlling interests		(3.5)	(1.8)
Repayment of finance lease principal		(6.2)	(7.0)
Net cash used in financing activities		(202.5)	(122.1)
Net decrease in cash and cash equivalents		(25.6)	(1.2)
Add opening cash brought forward		50.3	51.5
Cash and cash equivalents at the end of the year	7	24.7	50.3

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

METCASH FINANCIAL REPORT 2014

NOTES TO THE **FINANCIAL STATEMENTS**

Year ended 30 April 2014

1. CORPORATE INFORMATION

The financial statements of Metcash Limited (the Company) and its controlled entities (the Group) for the year ended 30 April 2014 were authorised for issue in accordance with a resolution of the Directors on 23 June 2014.

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 at 50 Waterloo Road, Macquarie Park NSW 2113.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(i) 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 which have been measured at fair value and share rights which have been valued using options pricing models.

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 Class Order 98/100. The Company is an entity to which the Class Order applies.

The financial statements present the results of the current year, which comprised the 52 week period that commenced on 29 April 2013 and ended on 27 April 2014. The prior year results comprise a 52 week period that commenced on 30 April 2012 and ended on 28 April 2013.

(ii) STATEMENT OF COMPLIANCE

The financial statements comply with Australian Accounting Standards. The financial statements also comply with International Financial Reporting Standards (IFRS).

(a) Changes in accounting policy

The Group adopted all new and amended Australian Accounting Standards and Interpretations that became applicable during the current financial year – including the following key Standards and Interpretations.

- AASB 10 *Consolidated Financial Statements*;
- AASB 11 *Joint Arrangements*;
- AASB 12 *Disclosure of Interests in Other Entities*; and
- AASB 13 *Fair Value Measurements*

The adoption of these Standards and Interpretations did not have a significant impact on the Group's financial results or statement of financial position. All other accounting policies are consistent with those of the previous financial year.

METCASH FINANCIAL REPORT 2014

NOTES TO THE **FINANCIAL STATEMENTS**

Year ended 30 April 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Australian Accounting Standards issued but not yet effective/Early adoption of Australian Accounting Standards

A number of new accounting standards have been issued but were not effective during the year ended 30 April 2014. The Group has elected not to early adopt any of these new standards or amendments in these financial statements other than AASB 2013-3: *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*. The Group has yet to fully assess the impact the following accounting standards and amendments to accounting standards will have on the financial statements, when applied in future periods:

- AASB 2011-4: *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* [AASB 124];
- AASB 2012-3: *Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities*;
- AASB 9: *Financial Instruments*;
- Annual Improvements 2010–2012 Cycle;
- Annual Improvements 2011–2013 Cycle;
- AASB 1031: *Materiality*; and
- AASB 2013-9: *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part B and Part C)*.

In addition, the Group has yet to fully assess the impact of IFRS 15 *Revenue from Contracts with Customers* issued in May 2014 and effective for the year ending 30 April 2018.

Other standards and interpretations that have been issued but are not yet effective are not expected to have any significant impact on the Group's financial statements in the year of their initial application.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) BASIS OF CONSOLIDATION

The financial statements comprise the consolidated financial statements of Metcash Limited and its controlled entities for the year ended 30 April 2014.

The financial statements of controlled entities are prepared for the same reporting period as the parent entity, using consistent accounting policies. 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. 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.

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 a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment.

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 fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition. The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment or relationship with the acquiree) is goodwill or a discount on acquisition.

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.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* either in profit or loss or as a change to other comprehensive income.

Non-controlling interests are allocated their share of net profit after tax in the Statement of Comprehensive Income and are presented within equity in the Statement of Financial Position, separately from the parent shareholders' equity.

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.

(iv) REVERSE ACQUISITION

In accordance with AASB 3 *Business Combinations*, in 2005 when Metcash Limited (the legal parent) acquired the Metoz group (being Metoz Holdings Limited and its controlled entities including Metcash Trading Limited (the legal subsidiary)), the acquisition was deemed to be a reverse acquisition. The consolidated financial statements are issued under the name of the legal parent (Metcash Limited) but are a continuation of the financial statements of the deemed acquirer under the reverse acquisition rules (Metcash Trading Limited).

(v) 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:

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 Note 2(x)); and where the Group exercises control, the acquisitions are accounted for as business combinations (refer Note 2(iii)).

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(b) Significant accounting judgements (continued)

Purchase price allocation

Determining the acquisition date fair value of assets acquired and liabilities assumed on acquisition of controlled entities. The basis for determining the purchase price allocation is discussed in Note 24.

Contractual customer relationships

Identifying those acquired relationships with customers that meet the definition of separately identifiable intangibles that have a finite life.

(c) 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:

Provision for restructuring

The Group has recognised a provision in accordance with the accounting policy described in Note 2(xx). The Group has made assumptions in relation to the cost of employee redundancies and the costs associated with the early exit of stores earmarked for closure.

Provision for rental subsidy

The Group recognises provisions for rental agreements where the arrangements are estimated to be 'onerous' to the Group (Refer Note 14(b)(i) for further discussion). In measuring these provisions, assumptions are made about future sales of retail customers, future rental costs and in determining the appropriate discount rate to be used in the cash flow calculations.

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 12(b).

Impairment of equity-accounted investments

The Group assesses the recoverable amount of its equity-accounted investments when an indicator 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.

Contractual customer relationships

The useful life of contractual customer relationships of between 5 to 25 years includes estimates of future attrition rates based on historical rates experienced.

(vi) FOREIGN CURRENCY TRANSLATION

Translation of foreign currency transactions

Both the functional and presentation currency of Metcash Limited and its Australian subsidiaries are Australian dollars (\$). Transactions in foreign currencies are initially recorded in the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All exchange differences, other than those that arise as a result of translating foreign subsidiaries from functional currency to presentation currency are taken to profit or loss in the financial statements.

Translation of financial statements of overseas operations

The functional currency of the overseas subsidiaries is as follows:

- Tasman Liquor Company Limited is New Zealand dollars.
- Metoz Holdings Limited is South African rand.
- Soetensteeg 2-61 Exploitiemaatschappij BV is euros.

As at the reporting date the results of the overseas subsidiaries are translated into the presentation currency of Metcash Limited. Assets and liabilities are translated at the rate of exchange ruling at the reporting date whilst all elements contained within the statement of comprehensive income are translated at the weighted average exchange rate for the year. The exchange differences arising on the translation are taken directly to the foreign currency translation reserve.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(vii) CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of financial position comprise cash on hand, at bank and demand deposits with a maturity of three months or less.

(viii) TRADE AND OTHER RECEIVABLES

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Trade receivables provided as security under the Group's securitisation facility as detailed in Note 8 are only de-recognised when the receivable is settled by the debtor as the Group retains the significant risks and rewards associated with these receivables until settlement is received.

(ix) DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments (including forward currency contracts and interest rate swaps) to hedge its risks associated with foreign currency and interest rate fluctuations. Such 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.

The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair values of interest rate swaps are determined using a valuation technique based on cash flows discounted to present value using current market interest rates.

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.

For the purposes of hedge accounting, hedges 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.

Hedges that meet the strict criteria for hedge accounting are accounted as follows:

- for cash flow hedges the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income, while the ineffective portion is recognised in profit or loss.
- for fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged and the derivative is remeasured to fair value. Gains and losses from both are taken to profit or loss.

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the income statement as finance costs. 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.

METCASH FINANCIAL REPORT 2014

NOTES TO THE **FINANCIAL STATEMENTS**

Year ended 30 April 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ix) DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments. The ineffective portion relating to foreign currency contracts is recognised in finance costs. Refer to Note 9 for more details.

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.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging 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.

Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a non-current portion only if a reliable allocation can be made.

(x) 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. Goodwill relating to an investment is included in the carrying amount of the investment and is not amortised. The statement of comprehensive income reflects the Group's share of the results of operations of the investees.

Where there has been a change recognised directly in the investee's equity, the Group recognises its share of any changes and discloses this in the statement of changes in equity.

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 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.

(xi) INVENTORIES

Inventories are valued at the lower of cost or net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for using the standard cost method. Cost is determined by deducting from the supplier's invoice price any purchase incentives.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(xii) PROPERTY, PLANT AND EQUIPMENT

Cost

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:

	2014	2013
Freehold buildings	50 years	50 years
Plant and equipment	5 – 15 years	5 – 15 years

De-recognition

An item of property, plant and equipment is de-recognised 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 de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the period the item is de-recognised.

(xiii) IMPAIRMENT OF ASSETS

At each reporting date, the Group assesses whether there is any indication that the value of an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an 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.

Goodwill

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses for goodwill are not subsequently reversed.

Trade names

Indefinite life trade names are tested annually for impairment at the same time as goodwill is tested. Finite useful life trade names are tested for impairment when an indicator of impairment is identified.

(xiv) 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.

Year ended 30 April 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(xiv) LEASES (continued)

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.

Finance leases

Leases that transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item are capitalised at the inception of the lease at the lower of fair value of the leased property or the present value of the minimum lease payments.

Capitalised leases are disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Minimum lease payments are apportioned between finance charges and a reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised lease assets are depreciated over the shorter of the assets estimated useful life and the lease term.

The cost of improvements to or on leasehold property are capitalised, disclosed as leasehold improvements, and amortised over the shorter of the unexpired period of the lease or the estimated useful lives of the improvements.

(xv) GOODWILL

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.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised.

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.

(xvi) INTANGIBLE ASSETS

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.

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.

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.

Intangible assets with finite useful lives are tested for impairment where an indicator of impairment exists. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

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.

Contractual customer relationships are recognised as intangible assets when the criteria specified in AASB 138 *Intangible Assets* have been met. Contractual customer relationships are assessed to have a finite life and are amortised over the asset's useful life.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(xvi) INTANGIBLE ASSETS (continued)

Liquor licences and gaming licences are valued at cost. They are considered to have an indefinite useful life. As a consequence, no amortisation is charged. They are tested for impairment annually as part of their respective CGUs (refer note 2(xiii)) and whenever an indication of impairment exists. Any impairment is recognised immediately in profit or loss.

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

The carrying value of software development costs is reviewed for impairment annually as part of their respective CGUs (refer note 2(xiii)) or more frequently when an indicator of impairment exists.

Gains or losses arising from de-recognition 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 de-recognised.

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

	2014	2013
Customer contracts	5-25 years	5-25 years
Software development costs	5-10 years	5-10 years
Other	10 years	10 years

(xvii) TRADE AND OTHER PAYABLES

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

(xviii) 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 are discounted using market yields at the reporting date on national government bonds with terms to maturity that match as closely as possible, the estimated future cash outflows.

(xix) INTEREST-BEARING LOANS AND 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 loans and 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 de-recognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(xx) 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.

Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is probable. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

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 in the Statement of Comprehensive Income.

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.

Dividends payable are recognised when a legal or constructive obligation to pay the dividend arises, typically following approval of the dividend at a meeting of directors.

(xxi) SHARE-BASED PAYMENT TRANSACTIONS

The Group provides benefits to employees of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions). The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using an appropriate valuation model, further details of which are given in Note 20.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Metcash Limited (market conditions).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at the reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options and performance rights are reflected as additional share dilution in the computation of earnings per share.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(xxii) REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on acceptance of delivery of the goods.

Rendering of services

Revenue from promotional activities is recognised when the promotional activities occur.

Interest

Revenue is recognised as the interest is earned and is classified within 'other income'.

Dividends

Revenue is recognised when the right to receive the payment is established.

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.

(xxiii) 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 in the Statement of Comprehensive Income.

(xxiv) 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 is provided on all temporary differences at the reporting date, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability 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 taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(xxiv) INCOME TAX (continued)

- 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.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the relevant reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

(xxv) OTHER TAXES

Revenues, expenses, assets and liabilities are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows related to GST are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as an operating cash flow.

Commitments and contingencies are disclosed net of the amount of GST recoverable or payable.

(xxvi) 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.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(xxvii) CONTRIBUTED EQUITY

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(xxviii) NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. The sale must be committed to and should be expected to qualify for recognition as a completed sale within a reasonable period of time.

In the statement of comprehensive income, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. Once classified as held for sale, property, plant and equipment and intangible assets are not depreciated or amortised.

(xxix) RETAIL DEVELOPMENT ASSETS

Costs incurred in respect of a greenfields development which involves the lease or acquisition of land and subsequent construction of a retail store or shopping centre are capitalised as assets under construction and included in property, plant and equipment. On conclusion of the development the capitalised costs are transferred to non-current assets held for sale provided they meet the criteria detailed in Note 2(xxviii).

Costs incurred in respect of the acquisition of an existing retail store or shopping centre are capitalised as non-current assets held for sale provided they meet the recognition criteria in Note 2(xxviii). Any costs subsequent to acquisition required to refurbish the site are capitalised as assets under construction during the refurbishment phase. Once the refurbishment is completed the acquisition costs and refurbishment costs are transferred either to property, plant and equipment or to assets held for sale.

(xxx) FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

(xxxi) 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. Rental income of \$110.7 million and interest income of \$7.7 million were reclassified from revenue to other income in order to better align the presentation to the Group's core activities. Refer Note 4(i) for further details.

METCASH FINANCIAL REPORT 2014

NOTES TO THE **FINANCIAL STATEMENTS**

Year ended 30 April 2014

3. SEGMENT INFORMATION

Identification of chief operating decision maker

The Group has identified its operating segments based on the internal reports that are reviewed and used by the CEO (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.

Identification of reportable segments

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

- Food & Grocery activities comprise the distribution of dry grocery, perishable and general merchandise supplies to retail outlets.
- Liquor activities comprise the distribution of liquor products to retail outlets and hotels.
- Hardware & Automotive comprises the distribution of hardware supplies and automotive parts and accessories to retail outlets.

The Automotive and Hardware operating segments have been combined as one reportable segment as these segments, separately, do not meet the quantitative thresholds prescribed by AASB 8 *Operating Segments*.

On 30 November 2012, the Group announced Project Mustang, which is a \$75 million warehouse automation project centred on the Group's new distribution facility in Huntingwood, NSW, utilising the latest European technology. Upon completion in mid to late FY2015, the project will significantly automate the goods receipt, order selection, pallet assembly and distribution processes for both the Food & Grocery and Liquor businesses that operate within this distribution centre.

Future plans to further integrate Food & Grocery and Liquor may lead to their aggregation into one reportable segment as these plans are implemented. In anticipating this change, the Group has integrated its supply chain workforce into a centralised function.

Geographical distribution

Geographically the Group operates predominantly in Australia. The New Zealand operation represents less than 5% of revenue, results and assets of the Group.

Segment accounting policies

The selling price between segments is at normal selling prices and is paid under similar terms and conditions as any other customers of the Group. The Food & Grocery segment results include wholesale sales to Franklins retail stores except those stores that have either closed or were expected to close as at prior reporting dates.

Major customers

The Group does not have a single external customer which represents greater than 10% of the Group's revenue.

METCASH FINANCIAL REPORT 2014

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 April 2014

3. SEGMENT INFORMATION (continued)

Business segments	Food & Grocery		Liquor		Hardware & Automotive		Results from continuing operations	
	2014 \$'m	2013 \$'m	2014 \$'m	2013 \$'m	2014 \$'m	2013 \$'m	2014 \$'m	2013 \$'m
Sales to external customers	9,072.4	9,120.6	3,160.8	2,917.6	1,159.5	938.4	13,392.7	12,976.6
Inter-segment revenue	32.3	33.4	33.8	33.2	0.0	0.1	66.1	66.7
Total segment revenue	9,104.7	9,154.0	3,194.6	2,950.8	1,159.5	938.5	13,458.8	13,043.3
Segment profit before tax	304.3	377.9	53.8	47.1	53.5	36.2	411.6	461.2
The above excludes the segment results from discontinued operations (Refer to Note 26) and significant items (Refer to Note 4).								
i) Segment revenue reconciliation to the statement of comprehensive income								
Total segment revenue							2014 \$'m	2013 \$'m
Inter-segment revenue elimination							13,458.8	13,043.3
Total revenue from continuing operations							(66.1)	(66.7)
							13,392.7	12,976.6
ii) Segment profit before tax reconciliation to the statement of comprehensive income								
Segment profit before tax							2014 \$'m	2013 \$'m
Corporate/unallocated costs							411.6	461.2
Share based payments							(4.2)	(0.4)
Net finance costs							(0.7)	(0.4)
Amortisation of customer relationships and licence agreements							(57.2)	(61.6)
Significant items							(16.4)	(12.6)
							(56.1)	(1.1)
Net profit from continuing operations before income tax							277.0	385.1

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

4. REVENUES AND EXPENSES

	2014 \$'m	2013 \$'m
(i) Other income		
Rental income	124.2	110.7
Interest from other persons/corporations	7.9	7.7
Net gain from disposal of property, plant and equipment	8.6	2.7
	140.7	121.1
(ii) Operating lease rental		
Minimum lease payments - warehouse and other	108.1	128.4
Minimum lease payments – stores	124.2	110.7
(iii) Employee benefit expense		
Salaries and wages	454.0	433.2
Defined contribution plan expense	37.5	33.2
Workers compensation costs	8.5	11.8
Share based payments	0.7	0.4
Other employee benefit costs	6.9	7.1
(iv) Depreciation and amortisation		
Depreciation of property, plant and equipment	38.0	34.5
Amortisation of software	15.4	12.4
Amortisation of customer relationships and licence agreements	16.4	12.6
	69.8	59.5
(v) Provisions for impairment, net of reversals		
Trade and other receivables	22.6	19.9
Inventories	15.1	6.2
Retail development assets	2.0	2.2
Customer contracts	1.9	-
Property, plant and equipment	4.4	0.6
	46.0	28.9
(vi) Significant items		
Automotive - Acquisition and restructure costs (a)	6.6	4.6
Franklins acquisition costs recovery	-	(3.5)
Strategic review and restructure costs (b)	14.8	-
Impairment of retail and other assets (c)	34.7	-
Total significant items expense before tax	56.1	1.1
Income tax (benefit)/expense attributable to these items	(12.9)	1.1
ATO audit - Action Stores and FTC (d)	10.8	-
Total significant items expense after tax	54.0	2.2
(vii) Finance costs		
Interest expense	49.8	58.5
Deferred borrowing costs	3.2	1.8
Finance costs attributable to discounting of provisions and liabilities (Refer Note 2(xxiii))	12.1	9.0
	65.1	69.3

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

4. REVENUES AND EXPENSES (continued)

(a) Automotive - Acquisition and restructure costs

Transaction costs of \$3.7 million associated with the acquisition of Automotive Brand Holdings Pty Ltd, Australian Truck & Auto Parts Group and other automotive acquisitions have been disclosed as a significant item as the acquisitions are deemed to be material in aggregate. Refer Note 24 for further details on the acquisitions.

Following the above acquisitions, during the last quarter of the financial year, the Group restructured parts of the Automotive business to realise operational synergies. Restructure costs of \$2.9 million were incurred primarily related to rationalisation of surplus warehousing capabilities. These costs are disclosed as 'significant items'.

(b) Strategic review and restructure costs

During the year, the Group conducted a strategic review of the Food & Grocery segment with the assistance of external advisors. The review was aimed at enhancing the Group's competitiveness amid challenging market conditions. Costs recorded under 'significant items' include advisory fees and redundancy costs that were directly associated with the review.

(c) Impairment of retail and other assets

Following the strategic review, and as part of the Group's Transformation Plan, the Group undertook a critical assessment of the carrying value of retail and other assets within the Food & Grocery segment. This assessment reflected a renewed emphasis on value creation and a change in focus from retail development activity to in-store execution and refurbishment.

The assessment resulted in an impairment charge of \$34.7 million being recorded against the carrying value of these assets within Food & Grocery, which included certain retail stores and store loans, retail development properties held for sale, customer contracts and a meat processing facility in WA.

(d) ATO audit – Action Stores and Foreign Tax Credits ('FTC')

The Group was subject to an income tax audit by the Australian Tax Office (ATO) covering the 2005 – 2008 income years, which resulted in the following two disputed items:

- A disputed tax liability arising from the loss on sale of various ex-Action Supermarket retail businesses acquired as part of the acquisition of Foodland Associated Limited (FAL), which were sold as part of the Group's ongoing business activities to enhance Australia's independent retailer network; and
- A disputed tax liability arising from the denial of foreign tax credits for taxes paid in South Africa by the Group's foreign subsidiaries on intercompany loans during the 2006 and 2007 years.

On 5 May 2014, the dispute was settled and the Group received a partial refund of the \$24.4 million originally paid in FY2012. The settlement resulted in an income tax expense of \$10.8 million which was recorded as a 'significant item'.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

5. INCOME TAX

	2014 \$'m	2013 \$'m
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The major components of income tax expense are:

Current income tax charge	104.0	71.2
Adjustments in respect of income tax of previous years	(2.5)	(3.9)
Deferred income tax relating to origination and reversal of temporary differences	(5.7)	48.8
Income tax expense reported in the statement of comprehensive income	95.8	116.1

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting profit before income tax	277.0	385.1
At the Group's statutory income tax rate of 30% (2013: 30%)	83.1	115.5
Expenditure not allowable for income tax purposes – continuing operations	2.9	3.1
Expenditure not allowable for income tax purposes – significant items (Note 4(vi))	4.1	1.4
Other amounts assessable for income tax purposes	0.2	-
Other amounts not assessable for income tax purposes	(1.9)	-
Other amounts allowable for income tax purposes	(0.9)	-
Adjustments in respect of income tax of previous years	(2.5)	(3.9)
ATO audit settlement (Note 4(d))	10.8	-
Income tax expense reported in the statement of comprehensive income at an effective tax rate of 34.6% (2013: 30.1%)	95.8	116.1

Income tax expense

ATO audit settlement (Note 4(d))	10.8	-
Income tax attributable to significant items in profit from continuing operations before tax	(12.9)	1.1
Income tax attributable to other continuing operations	97.9	115.0
Total income tax expense attributable to continuing operations	95.8	116.1
Income tax benefit attributable to discontinued operations	(4.5)	(26.0)
	91.3	90.1

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

5. INCOME TAX (continued)

	2014 \$'m	2013 \$'m
Deferred income tax of the Group at 30 April relates to the following:		
Deferred tax liabilities		
Intangibles	60.6	66.8
Accelerated depreciation for tax purposes	1.8	1.3
Set off against deferred tax assets	(62.4)	(68.1)
	-	-
Deferred tax assets		
Provisions	116.5	115.6
Other	8.8	0.7
Unutilised tax losses	7.5	13.6
Set off from deferred tax liabilities	(62.4)	(68.1)
	70.4	61.8
Recognised net deferred tax assets		
Opening balance	61.8	95.5
Credited/(charged) to net profit for the year	5.7	(48.8)
Charged to other comprehensive income for the year	(1.7)	(0.9)
Tax benefit associated with share issue costs	-	2.0
Adjustment attributable to finalisation of Franklins acquisition	-	22.8
Adjustment attributable to finalisation of ABG acquisition (Note 24)	1.3	-
Adjustments related to business combinations (Note 24)	3.3	(8.8)
Closing balance	70.4	61.8

At 30 April 2014, there is no recognised or unrecognised deferred income tax liability (2013: nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associates as the Group has no liability for additional taxation should these earnings be remitted.

The Group has unrecognised gross capital losses of \$16.0 million (2013: \$16.0 million) that are available indefinitely for offset against future capital gains.

TAX CONSOLIDATION

Metcash Limited and its 100% owned Australian resident subsidiaries have 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 stand alone tax calculation 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.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

6. DIVIDENDS PAID AND PROPOSED

(a) Dividends paid and declared on ordinary shares during the year

	2014 \$'m	2013 \$'m
Dividends paid on ordinary shares during the year		
Final fully franked dividend for 2013: 16.5c (2012: 16.5c)	145.3	142.6
Interim fully franked dividend for 2014: 9.5c (2013: 11.5c) (i)	83.7	101.3
Dividends declared during the year	229.0	243.9
Shares issued under the dividend reinvestment plan (i)	(23.4)	-
Cash dividends paid on ordinary shares during the year	205.6	243.9
Dividends declared (not recognised as a liability as at 30 April 2014)		
Final fully franked dividend for 2014: 9.0c (2013: 16.5c) (ii)	80.0	145.3

Dividend Reinvestment Plan

On 2 December 2013, the Group reopened the Dividend Reinvestment Plan (DRP) under which eligible shareholders may elect to reinvest all or part of their dividends in acquiring additional Metcash shares. The Directors may determine offers of discounts from time to time. The full terms and conditions of the DRP were announced on 2 December 2013.

- (i) Of the \$83.7 million declared for the interim fully franked dividend, \$60.3 million was paid in cash and \$23.4 million was settled by the issue of 7,633,262 shares under the DRP.
- (ii) On 23 June 2014, the Board announced that it had entered into an agreement whereby a financial institution would underwrite the participation in the DRP for the FY2014 final dividend. Under the agreement, if the total participation in the DRP is less than 50% of shareholders by volume then that financial institution will subscribe for the shortfall in participation.

(b) Franking credit balance of Metcash Limited

	2014 \$'m	2013 \$'m
Franking account balance as at the end of the financial year at 30% (2013: 30%)	58.2	92.4
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	19.7	9.3
Amount of franking credit on dividends declared but not recognised as a distribution to shareholders during the year	(34.3)	(62.3)
	43.6	39.4

(c) Tax rates

Dividends paid and declared have been fully franked at the rate of 30% (2013: 30%).

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

7. CASH AND CASH EQUIVALENTS

	2014 \$'m	2013 \$'m
(a) Reconciliation of net profit after tax to net cash flows from operations		
Net profit for the year	170.7	209.1
<i>Adjustments for:</i>		
Depreciation and amortisation	69.8	61.0
Impairment losses	46.0	2.8
Net profit on disposal of property, plant and equipment	(8.6)	(2.7)
Net (profit)/loss on disposal of discontinued operations	1.1	(2.5)
Share of profit of equity-accounted investments	(4.8)	(3.4)
Dividends received from associates	1.6	0.6
Dividends paid to holders of put options written over non-controlling interests (Note 15(ii))	1.0	-
Deferred borrowing costs	3.2	1.8
Share based payments	0.7	0.4
Credit value adjustments (Note 17)	2.5	-
<i>Significant items not related to operating activities:</i>		
Automotive - Acquisition costs	3.7	4.6
Franklins acquisition costs recovery	-	(3.5)
Impairment charges	34.7	-
<i>Changes in assets and liabilities</i>		
Increase in trade and other receivables	(24.1)	(31.3)
Decrease in assets held for sale	8.1	19.3
(Increase)/decrease in other current assets	(8.4)	1.1
(Increase)/decrease in inventories	(5.1)	89.6
(Increase)/decrease in deferred tax assets	(5.7)	48.8
Increase in property, plant and equipment	(1.7)	-
Increase/(decrease) in payables and provisions	73.8	(89.1)
Increase/(decrease) in tax payable	30.2	(6.8)
Cash from operating activities	388.7	299.8
(b) Non-cash financing and investing activities		
Acquisition of assets by means of finance lease	4.4	3.1

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

8. TRADE AND OTHER RECEIVABLES

	2014 \$'m	2013 \$'m
Current		
Trade receivables - securitised ⁽ⁱ⁾ (Note 17)	788.1	738.8
Trade receivables - non-securitised ⁽ⁱ⁾	182.8	200.7
Allowance for impairment loss	(62.6)	(47.4)
	908.3	892.1
Customer loans ⁽ⁱⁱ⁾	52.1	43.8
Allowance for impairment loss	(6.0)	(6.5)
	954.4	929.4
Marketing and other receivables ⁽ⁱⁱⁱ⁾	83.4	83.5
	1,037.8	1,012.9
Non-current		
Customer loans ⁽ⁱⁱ⁾	46.8	56.0
Other receivables ⁽ⁱⁱⁱ⁾	3.5	4.4
	50.3	60.4

- (i) Trade receivables are non-interest bearing and repayment terms vary by business unit. At 30 April 2014, 82.4% of trade receivables are required to be settled within 30 days (2013: 82.3%), 16.8% have terms extending from 30 to 60 days (2013: 17.0%) and 0.8% have terms greater than 60 days (2013: 0.7%). The amount of the allowance for impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.
- (ii) Customer loans with repayment terms of less than 12 months are classified as current. \$10.6 million (2013: \$5.0 million) of loans are non-interest-bearing. \$88.3 million (2013: \$94.8 million) of loans have a weighted average annual interest rate of 9.41% (2013: 9.16%).
- (iii) Marketing and other receivables are non-interest bearing. Receivables with repayment terms of less than 12 months are classified as current. These receivables are all neither past due nor impaired.

IMPAIRED TRADE RECEIVABLES AND CUSTOMER LOANS

During the year ended 30 April 2014, receivables of the value of \$37.9 million (2013: \$49.2 million) were considered non-recoverable and written off. As at 30 April 2014, trade receivables and customer loans with a carrying value of \$68.6 million (2013: \$53.9 million) were provided for as impaired.

	2014 \$'m	2013 \$'m
Opening balance	53.9	83.2
Accounts written off as non-recoverable	(37.9)	(49.2)
Reclassifications from provisions and disposal groups	10.8	-
Charged as an expense during the year - significant items (Note 4(vi))	18.2	-
Charged as an expense during the year - non-significant items	22.6	19.9
Charged as an expense during the year - discontinued operations	1.0	-
Closing balance	68.6	53.9

METCASH FINANCIAL REPORT 2014

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 April 2014

8. TRADE AND OTHER RECEIVABLES (continued)

TRADE AND OTHER RECEIVABLES AGEING

As at 30 April 2014, the ageing analysis of unimpaired trade and other receivables for the Group is as follows:

Days overdue	Trade receivables		2013		Customer loans		2013		Marketing and other receivables		2013	
	2014	%	\$'m	%	2014	%	\$'m	%	2014	%	\$'m	%
Neither past due nor impaired	801.7	88.3%	745.1	83.5%	83.5	89.9%	86.3	92.3%	86.2	99.2%	85.1	97.0%
Less than 30 days	88.0	9.7%	111.7	12.5%	1.2	1.3%	3.8	4.0%	0.5	0.6%	1.0	1.1%
Between 30 and 60 days	8.8	1.0%	20.8	2.3%	0.6	0.6%	0.4	0.5%	-	0.0%	0.8	0.9%
Between 60 and 90 days	4.1	0.4%	6.8	0.8%	2.4	2.6%	0.2	0.3%	-	0.0%	0.3	0.3%
Between 90 and 120 days	2.3	0.3%	4.1	0.5%	0.3	0.3%	0.1	0.2%	-	0.0%	0.5	0.5%
More than 120 days	3.4	0.3%	3.6	0.4%	4.9	5.3%	2.5	2.7%	0.2	0.2%	0.2	0.2%
Total	908.3	100.0%	892.1	100.0%	92.9	100.0%	93.3	100.0%	86.9	100.0%	87.9	100.0%

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

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

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

9. DERIVATIVE FINANCIAL INSTRUMENTS

	2014 \$'m	2013 \$'m
Current assets		
Foreign currency forward contracts	1.8	0.6
	1.8	0.6
Non-current assets		
Cross currency interest rate swaps – US Private Placement	46.2	37.7
Interest rate swap contracts	0.1	-
	46.3	37.7
Current liabilities		
Interest rate swap contracts	0.6	0.2
Foreign currency forward contracts	1.0	0.3
	1.6	0.5
Non-current liabilities		
Interest rate swap contracts	0.1	2.6
Foreign currency forward contracts	-	0.1
	0.1	2.7

The above derivatives are designated and effective as hedging instruments and are carried at fair value through other comprehensive income.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

10. 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 investees is Australia.

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

Investee	Principal activities	Reporting date	2014 %	2013 %
Associates				
Abacus Independent Retail Property Trust	Retail property investment	30 June	25.0	25.0
Ritchies Stores Pty Ltd	Grocery retailing	30 June	26.0	26.0
BMS Retail Group Pty Ltd	Grocery retailing	30 June	25.1	25.1
Kangaroo Flat Supermarket Pty Ltd	Grocery retailing	30 June	25.1	25.1
Long Gully Supermarket Pty Ltd	Grocery retailing	30 June	25.1	25.1
Dramet Pty Ltd	Grocery retailing	30 June	26.0	26.0
Dart Trading Co Pty Ltd	Grocery retailing	30 June	26.0	26.0
Bamlane Pty Ltd	Grocery retailing	30 June	26.0	26.0
Mundin Pty Ltd	Grocery retailing	30 June	26.0	26.0
G'Butt Pty Ltd	Grocery retailing	30 June	26.0	26.0
Mussen Pty Ltd	Grocery retailing	30 June	26.0	26.0
Ully Pty Ltd	Grocery retailing	30 June	26.0	26.0
Joint ventures				
Adcome Pty Ltd	Grocery retailing	30 April	45.0	45.0
Lecome Pty Ltd	Grocery retailing	30 April	50.0	50.0
Progressive Trading Pty Ltd (Progressive) ⁽¹⁾	Grocery retailing	30 April	52.2	52.2
Metfood Pty Limited	Merchandise services	30 April	50.0	50.0
Plumpton Park Developments Pty Limited	Property development	30 June	50.0	50.0
Northern Hardware Group Pty Ltd	Hardware retailing	30 June	49.9	49.9
Timberten Pty Ltd	Hardware retailing	30 June	40.0	40.0
Waltock Pty Limited	Hardware retailing	30 June	49.0	49.0
Banner 10 Pty Ltd	Hardware retailing	30 June	49.0	49.0
BRJ Pty Ltd	Hardware retailing	30 June	36.0	-
Sunshine Hardware Pty Ltd ⁽²⁾	Hardware retailing	30 June	-	49.0
Mermaid Tavern (Trading) Pty Ltd	Liquor retailing and hospitality	30 April	50.0	50.0
Sunshine Coast Hotels Pty Ltd	Liquor retailing and hospitality	30 June	50.0	-
Queens Arms Hotel New Farm Pty Ltd	Liquor retailing and hospitality	30 April	50.0	50.0
Queens Arms Freehold Pty Ltd	Property investment	30 April	50.0	50.0

1. The Group has a direct ownership of 45.4% in Progressive, and an indirect ownership of 6.8% via the 25.1% interest in BMS Retail Group Pty Ltd. Although the Group's total ownership interest in Progressive is greater than 50%, it is still considered to be a joint venture, as the Group does not have the power to make key operating decisions without the unanimous consent of the joint venture.

2. During the year, the Group acquired additional shares in Sunshine Hardware Pty Ltd increasing its ownership interest from a 49.0% joint venture to a controlling interest of 84.7%. Refer to Note 19 for related party disclosure.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

10. EQUITY-ACCOUNTED INVESTMENTS (continued)

At the reporting date, the equity-accounted investments are not individually material to the Group. The following tables present the summarised financial information in aggregate for all investments.

Share of investees' profit

	2014	2013
	\$'m	\$'m
Profit before income tax from continuing operations	6.9	4.9
Income tax expense	(2.1)	(1.5)
Profit after income tax from continuing operations	4.8	3.4
Profit after income tax from discontinued operations	-	-
Other comprehensive income	-	-
Total comprehensive income	4.8	3.4

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

Share of investees' net assets

	2014	2013
	\$'m	\$'m
Current assets	81.2	74.7
Non-current assets	139.8	126.6
Total assets	221.0	201.3
Current liabilities	(92.9)	(87.5)
Non-current liabilities	(64.4)	(59.5)
Total liabilities	(157.3)	(147.0)
Net assets	63.7	54.3

Contingent liabilities and commitments

The Group has entered into certain put option arrangements with co-investors in two equity-accounted investments which if exercised would result in an increase in Metcash's ownership interest in the investment. The exercise price is calculated based on methods prescribed in the option deed or business sale agreement. At the reporting date, the aggregate exercise price is estimated to be \$2.3 million (2013: \$2.3 million).

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 \$46.0 million (2013: \$52.8 million). Had the guarantee been exercised at 30 April 2014, the amount payable would have been \$44.0 million. The fair value of the financial guarantee contract at the reporting date was \$1.9 million (2013: \$3.6 million) and is recognised as a financial liability (Note 15).

In addition, the Group had granted put options in the prior year relating to the sale of retail store assets to certain equity-accounted investees. At the reporting date, the aggregate exercise price is estimated to be nil (2013: \$5.1 million).

Restrictions

There are no material restrictions on the ability of the investees to transfer funds to the Group.

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NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

11. PROPERTY, PLANT AND EQUIPMENT

	Land & buildings \$'m	Plant & equipment \$'m	Total \$'m
Year ended 30 April 2014			
At 1 May 2013			
Opening balance	85.7	192.8	278.5
Additions	-	83.6	83.6
Assets reclassified from/(to) retail development assets and intangibles	4.0	(14.4)	(10.4)
Acquisition from business combinations (Note 24)	4.3	12.5	16.8
Disposals	(4.5)	(3.3)	(7.8)
Impairment - significant items (Note 4(vi))	-	(9.9)	(9.9)
Impairment - non-significant items (Note 4(v))	(0.7)	(3.7)	(4.4)
Depreciation	(0.8)	(37.2)	(38.0)
Closing balance	88.0	220.4	308.4
At 30 April 2014			
Cost	95.5	464.7	560.2
Accumulated depreciation and impairment	(7.5)	(244.3)	(251.8)
Net carrying amount	88.0	220.4	308.4

	Land & buildings \$'m	Plant & equipment \$'m	Total \$'m
Year ended 30 April 2013			
At 1 May 2012			
Opening balance	69.3	151.4	220.7
Additions	19.8	67.0	86.8
Assets transferred from assets under construction	14.1	(14.1)	-
Assets transferred into property, plant and equipment	-	37.6	37.6
Assets transferred out of property, plant and equipment	-	(20.5)	(20.5)
Acquisition from business combinations (Note 24)	-	8.6	8.6
Disposals	(16.5)	(3.1)	(19.6)
Impairment (Note 4(v))	-	(0.6)	(0.6)
Depreciation	(1.0)	(33.5)	(34.5)
Closing balance	85.7	192.8	278.5
At 30 April 2013			
Cost	91.7	386.3	478.0
Accumulated depreciation and impairment	(6.0)	(193.5)	(199.5)
Net carrying amount	85.7	192.8	278.5

Additions to plant and equipment include additions of \$56.6 million (2013: \$6.3 million) to assets under construction. The closing balance of plant and equipment includes assets under construction with a carrying value of \$83.1 million (2013: \$54.9 million), with the Project Mustang warehouse automation project at Huntingwood representing \$47.4 million (2013: \$17.2 million) of the year-end balance.

During the year, borrowing costs of \$1.6 million (2013: \$0.2 million) were capitalised to the cost of qualifying assets – largely costs expended on Project Mustang. Borrowing costs were capitalised at rates of between 4.1% and 4.9% (2013: between 4.9% and 5.6%).

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 April 2014 is \$10.2 million (2013: \$10.6 million).

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

12. INTANGIBLE ASSETS AND GOODWILL

	Software development costs \$'m	Customer contracts \$'m	Goodwill \$'m	Trade names and other \$'m	Total \$'m
Year ended 30 April 2014					
At 1 May 2013					
Net carrying amount	78.2	215.1	1,367.5	47.2	1,708.0
Additions	18.7	3.3	-	-	22.0
Transfers (to)/from property, plant & equipment	(0.5)	1.3	-	-	0.8
Arising from business combinations (Note 24)	0.3	2.9	50.9	15.4	69.5
Adjustment attributable to finalisation of ABG acquisition (Note 24)	-	-	6.7	-	6.7
Settlement of pre-existing relationships (Note 24)	-	(2.2)	-	-	(2.2)
Reclassified to retail development assets	-	-	(2.4)	-	(2.4)
Impairment					
- significant items	-	(1.7)	-	-	(1.7)
- non-significant items	-	(1.9)	-	-	(1.9)
Disposals	-	(1.3)	-	-	(1.3)
Amortisation	(15.4)	(14.0)	-	(2.4)	(31.8)
At 30 April 2014					
Net carrying amount	81.3	201.5	1,422.7	60.2	1,765.7
At 30 April 2014					
Cost (gross carrying amount)	198.6	272.1	1,422.7	65.5	1,958.9
Accumulated amortisation and impairment	(117.3)	(70.6)	-	(5.3)	(193.2)
Net carrying amount	81.3	201.5	1,422.7	60.2	1,765.7

	Software development costs \$'m	Customer contracts \$'m	Goodwill \$'m	Trade names and other \$'m	Total \$'m
Year ended 30 April 2013					
At 1 May 2012					
Net carrying amount	74.1	161.9	1,283.6	32.3	1,551.9
Additions	17.4	36.4	-	-	53.8
Arising from business combinations (Note 24)	-	30.4	70.0	16.7	117.1
Adjustment attributable to finalisation of Franklins acquisition	-	-	16.2	-	16.2
Disposals	(0.9)	(1.3)	(2.3)	-	(4.5)
Amortisation	(12.4)	(12.3)	-	(1.8)	(26.5)
At 30 April 2013					
Net carrying amount	78.2	215.1	1,367.5	47.2	1,708.0
At 30 April 2013					
Cost (gross carrying amount)	180.2	268.1	1,367.5	50.1	1,865.9
Accumulated amortisation and impairment	(102.0)	(53.0)	-	(2.9)	(157.9)
Net carrying amount	78.2	215.1	1,367.5	47.2	1,708.0

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

12. INTANGIBLE ASSETS AND GOODWILL (continued)

(a) DESCRIPTION OF THE GROUP'S INTANGIBLE ASSETS AND GOODWILL

Software development costs

Development costs have been capitalised at cost and are amortised using the straight-line method over the asset's useful economic life. Useful lives range from five to ten years. Software development costs are tested for impairment where an indicator of impairment exists. Useful lives are also estimated on an annual basis and adjustments, where applicable, are made on a prospective basis.

Customer contracts

Customer contracts are acquired either through business combinations or through direct acquisition of contractual relationships. The carrying amount represents the costs less accumulated amortisation and any impairment losses. Customer contracts are amortised over 5 to 25 years. The amortisation has been recognised in the statement of comprehensive income in the line item 'administrative costs'. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is less than the carrying amount.

Trade names and other

Trade names are acquired either through business combinations or through direct acquisition. The carrying amount represents costs less accumulated amortisation and any impairment losses. These intangible assets have been determined to have either a finite or an indefinite useful life. Trade names with indefinite useful lives are subject to impairment testing on an annual basis or whenever there is an indication of impairment. Impairment testing was carried out in February 2014. Trade names are considered to have a finite useful life when there is an intention to discontinue use of the name in which case it is amortised over its estimated remaining useful life.

The Group entered into an Alliance Agreement with Lenards Pty Ltd in 2009 to offer customers the opportunity to purchase products under Lenards Franchise. The agreement fee is being amortised over 10 years, on a straight line basis. The intangible is carried at cost less accumulated amortisation.

Included in other intangibles are liquor and gaming licences. These are considered to have indefinite useful lives and are subject to impairment testing on an annual basis or whenever there is an indication of impairment.

(b) IMPAIRMENT TESTS FOR GOODWILL AND INTANGIBLES WITH INDEFINITE USEFUL LIVES

Goodwill

(i) 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 four cash-generating units (or 'CGU's) - Food & Grocery, Liquor, Hardware and Automotive.

Indefinite life intangibles primarily comprise trade names allocated to the Hardware and Automotive CGUs.

(ii) Current year assessment

Except when indicators of impairment exist, goodwill and indefinite life intangibles are assessed annually at the same time each year. The assessment for the current year was performed in February 2014. In accordance with AASB 136 *Impairment of Assets*, the current year assessment included restructuring initiatives that were approved as a part of Project Diamond.

The recoverable amounts of the group of CGUs were determined based on value in use calculations using cash flow projections covering a period of approximately five years, which is aligned to strategic plans approved by the Board.

(iii) Allocation of CGU's

At the assessment date, the carrying amounts of goodwill and indefinite life intangibles were allocated to the Group's CGU as follows.

CGUs	Goodwill \$'m	Indefinite life intangibles \$'m	Pre-tax discount rates %
Food & Grocery	1,167.3	1.6	13.4%
Liquor	96.0	-	13.8%
Hardware	71.4	27.2	14.0%
Automotive	66.5	30.0	14.9%

12. INTANGIBLE ASSETS AND GOODWILL (continued)

(b) IMPAIRMENT TESTS FOR GOODWILL AND INTANGIBLES WITH INDEFINITE USEFUL LIVES

(iv) Key assumptions used in assessment

The Group applied the following key assumptions in its cash flow projections.

Operating cash flows

Operating cash flow projections are extracted from approved strategic plans that relate to the existing asset base. Cash flow projections are estimated based on the utilisation of existing assets and on historical EBITA margins increased for expected efficiency improvements.

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.

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 1.4% (2013: 1.4%) was applied to long-term cash flows in the current assessment.

(v) Results of assessment

Based on the current assessment, no impairment of goodwill was identified in any of the CGUs (2013: nil).

(vi) Sensitivity to changes in key assumptions

Hardware CGU

At the assessment date, the recoverable amount of the Hardware CGU exceeded its carrying amount by \$44.3 million. The following reasonably possible changes to key assumptions would individually cause the carrying amount to exceed its recoverable amount.

- Increase in pre-tax discount rate by 2.3 percentage points from 14.0% to 16.3%; or
- Decrease in terminal growth rate by 2.6 percentage points from 1.4% to negative 1.2%.

Other CGUs

At the assessment date, no reasonably possible change in key assumptions would cause the carrying amount of the other CGUs to exceed their respective recoverable amounts. No impairment is triggered in any of the CGUs if cash flows beyond the projection period were extrapolated at a terminal growth rate of 0%.

METCASH FINANCIAL REPORT 2014

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Year ended 30 April 2014

13. INTEREST BEARING LOANS AND BORROWINGS

	2014 \$'m	2013 \$'m
Current		
Bank overdrafts - working capital ⁽ⁱⁱ⁾	-	29.8
Bank loans - working capital ⁽ⁱⁱ⁾	-	22.0
Bilateral loans ⁽ⁱⁱⁱ⁾	9.5	-
Finance lease obligations ⁽ⁱ⁾	5.8	5.7
	15.3	57.5
Non-current		
Finance lease obligations ⁽ⁱ⁾	4.4	6.3
Bank loans - working capital ⁽ⁱⁱ⁾	15.0	-
Bilateral loans ⁽ⁱⁱⁱ⁾	50.0	-
Bank loans - syndicated ^(iv)	500.0	500.0
US private placement ^(v)	258.7	248.9
Deferred borrowing costs	(3.2)	(3.8)
	824.9	751.4

- (i) Finance leases have an average lease term of 4 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 7.42% (2013: 8.52%). Certain lease liabilities are secured by a charge over the leased asset.
- (ii) Working capital bank loans represent two unsecured revolving facilities totalling \$225.0 million, which expire in August 2015 (\$75.0 million) and May 2016 (\$150.0 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 13(vi) below.
- (iii) Bilateral loans are 3 separate facilities – a \$2.5 million fixed rate loan secured against freehold property, a \$7.0 million variable rate loan and a \$50.0 million variable rate term loan. The \$50.0 million facility is based on BBSY plus a margin and is subject to the financial undertakings as detailed in Note 13(vi) below.
- (iv) Syndicated bank loans are senior unsecured loan note subscription facilities, which are due to expire in December 2014 (\$400.0 million) and December 2015 (\$300.0 million). At 30 April, the Group had an unconditional agreement in place to extend the \$400.0 million tranche into two tranches of \$200.0 million and \$225.0 million which expire in June 2018 and June 2019, respectively. Accordingly, both tranches are classified as non-current liabilities. Interest payable on the facility is based on BBSY plus a margin and interest resets are quarterly. 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 13(vi) below.
- (v) US private placement (USPP) comprises three tranches of fixed coupon debt of US\$70.0 million maturing September 2018, US\$35.0 million maturing September 2019, and US\$120.0 million maturing September 2023. The foreign exchange and fixed interest rate risk has been hedged using a series of cross currency interest rate swaps that mitigate these risks. The financial effect of these hedges is to convert the US\$225.0 million of USPP fixed interest rate debt into \$210.1 million of floating rate debt with interest payable at BBSW plus a margin.

The US\$225.0 million USPP debt has been revalued at the reporting date to \$258.7 million (2013: \$248.9 million) and presented as interest bearing debt as disclosed above. The mark-to-market fair value of the associated cross currency interest rate swaps are separately disclosed within derivative financial instruments (\$46.2 million – Note 9), the cash flow hedge reserve (\$0.1 million – Note 16), other payables (negative \$0.3 million), associated deferred tax assets (\$0.1 million – Note 5) and the statement of comprehensive income (\$2.5 million). Together, these six components reflect the \$210.1 million of hedged debt.

The USPP debt is subject to certain financial undertakings as detailed in Note 13(vi) below.

- (vi) The core borrowings of the Group must comply with three primary covenants which apply to the syndicated bank facility, both working capital bank facilities, the \$50.0 million bilateral facility and the USPP debt. These covenants are: a fixed charges cover ratio (Earnings Before Interest, Tax, Depreciation, Amortisation and Net Rent (EBITDAR) divided by Total Net Interest plus Net Rent Expense), a senior leverage ratio (Total Group Debt divided by Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)) and minimum shareholders funds (a fixed figure representing the Group share capital and reserves).

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

13. INTEREST BEARING LOANS AND BORROWINGS (continued)

(a) FAIR VALUE

The carrying amount of the Group's current and non-current borrowings approximates their fair value. The weighted average effective interest rate on the syndicated, working capital and bilateral bank loans and the USPP debt, after taking into account cross currency and interest rate swaps, at the end of the financial year was 4.86% (2013: 5.55%).

(b) DEFAULTS OR BREACHES

At the reporting date, there were no material defaults or breaches on the Group's core borrowings.

(c) INTEREST RATE RISK AND LIQUIDITY RISK

Details regarding interest rate risk and liquidity risk are disclosed in Note 17.

14. PROVISIONS

	2014 \$'m	2013 \$'m
Current		
Employee entitlements	88.4	92.8
Rental subsidy (b)(i)	27.6	29.8
Restructure provision (b)(ii)	10.2	9.5
Other	1.0	5.7
	127.2	137.8
Non-current		
Employee entitlements	5.1	5.6
Rental subsidy (b)(i)	85.1	149.5
Restructure provision (b)(ii)	15.8	10.9
Other	-	0.6
Total	106.0	166.6

(a) Movements in significant provisions (other than employee entitlements)

	Rental subsidy \$'m	Restructure provision \$'m	Total \$'m
1 May 2013	179.3	20.4	199.7
Expense arising/(released) during the year			
- continuing operations	-	8.7	8.7
- significant items	-	0.4	0.4
- discontinued operations	(2.6)	1.6	(1.0)
Attributable to ABG acquisition adjustment	-	1.1	1.1
Reclassified to trade receivables impairment provision	(9.7)	-	(9.7)
Utilised during the year	(64.6)	(7.4)	(72.0)
Finance cost discount rate adjustment			
- continuing operations	8.2	1.2	9.4
- discontinued operations	2.1	-	2.1
30 April 2014	112.7	26.0	138.7

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

14. PROVISIONS (continued)

	Rental subsidy \$'m	Restructure provision \$'m	Total \$'m
1 May 2012	157.7	45.9	203.6
Expense arising during the year	0.9	5.0	5.9
Attributable to Franklins acquisition	34.1	-	34.1
Utilised during the year	(31.2)	(31.9)	(63.1)
Finance cost discount rate adjustment			
- continuing operations	4.4	1.4	5.8
- discontinued operations	13.4	-	13.4
30 April 2013	179.3	20.4	199.7

(b) Nature and timing of provisions

(i) Rental subsidy provision

In certain situations, Metcash will take the head lease on a retail property. When this occurs, the properties are typically sub leased to the retail customers on 'back-to-back' commercial terms and conditions, whereby the lease expense to the landlord matches the lease rental to the retailer.

Atypically, Metcash has assumed leases through acquisitions whereby the lease rental is considered 'onerous'. In these situations, where the head lease rental expense exceeds the expected sub lease rental income, a provision is raised for the difference in rental streams for the period of the actual or expected sub lease.

(ii) Restructure provision

The provision represents obligations recognised by the Group as a result of the various restructuring initiatives announced in April 2012 (including the Campbells branch closures) and the decision to vacate the Silverwater and Blacktown distribution centres. In addition, this provision covers certain other 'onerous' lease arrangements and provisions for closure costs on leased properties.

METCASH FINANCIAL REPORT 2014

NOTES TO THE **FINANCIAL STATEMENTS**

Year ended 30 April 2014

15. OTHER FINANCIAL LIABILITIES

	2014 \$'m	2013 \$'m
Current		
Put options written over non controlling interests (i)	11.7	-
Financial guarantee contracts (ii)	1.2	1.5
Lease incentives	0.1	0.2
	13.0	1.7
Non - current		
Put options written over non controlling interests (i)	34.9	31.0
Financial guarantee contracts (ii)	0.7	2.3
Lease incentives	1.3	1.4
Other payables	3.7	2.5
	40.6	37.2

(i) Certain minority shareholders have the right under put options to require Metcash to acquire their shareholding, 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 option. The liability is subsequently remeasured at each reporting date at the estimated redemption value, with any change in redemption value recorded in Administration costs within profit and loss and the net present value unwind is recorded as a finance cost.

In accordance with the acquisition agreement, Metcash has, under certain circumstances, the right to acquire the remaining 16.8% equity interest in the Metcash Automotive Holdings group (MAH). The minority shareholder also has the right, under certain circumstances, to require Metcash to acquire its shareholding in MAH. The purchase consideration is broadly based on an EBITDA multiple calculation less net debt. The estimated redemption amount of \$34.9 million under the put option has been recognised as a financial liability.

(ii) The Group has granted a financial guarantee relating to the bank loan of its joint venture Adcome Pty Ltd, which has been recorded at a fair value of \$1.9 million. Refer Note 10 for further details.

16. CONTRIBUTED EQUITY AND RESERVES

(a) Ordinary shares:

	2014		2013	
	Number of shares	\$'m	Number of shares	\$'m
<i>Movements in ordinary shares on issue</i>				
At 1 May	880,704,786	2,284.9	771,345,864	1,914.7
Issued during the year:				
- Shares issued under the DRP(i)	7,633,262	23.4	-	-
- Institutional placement – at 350.0 cents per share	-	-	92,857,143	325.0
- Share placement plan – at 303.0 cents per share	-	-	16,501,779	50.0
- Share issue costs net of tax	-	(0.2)	-	(4.8)
At 30 April	888,338,048	2,308.1	880,704,786	2,284.9

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

(i) With effect from 2 December 2013, the Group reopened the Dividend Reinvestment Plan (or 'DRP') under which eligible shareholders may elect to reinvest all or part of their dividends in additional Metcash shares. The Directors may determine offers of discounts from time to time. The full terms and conditions of the DRP were announced on 2 December 2013. Refer Note 6(a) for further details.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

16. CONTRIBUTED EQUITY AND RESERVES (continued)

(b) Reserves:

	Share-based payments reserve \$'m	Capital reserve \$'m	Cash flow hedge reserve \$'m	Foreign currency translation reserve \$'m	Total \$'m
At 1 May 2012	23.6	12.8	(4.5)	(5.9)	26.0
Foreign currency translation adjustments	-	-	-	0.3	0.3
Share-based payments	0.4	-	-	-	0.4
Acquisition of non controlling interests	-	22.1	-	-	22.1
Reclassified to profit or loss during the year	-	-	0.6	-	0.6
Movement in fair value of derivatives	-	-	3.0	-	3.0
Tax expense related to fair value movements	-	-	(0.9)	-	(0.9)
Transfer to retained earnings	(23.4)	(34.9)	-	-	(58.3)
At 30 April 2013	0.6	-	(1.8)	(5.6)	(6.8)
Foreign currency translation adjustments	-	-	-	1.1	1.1
Share-based payments	0.7	-	-	-	0.7
Shares-based payments exercised (i)	(1.0)	-	-	-	(1.0)
Reclassified to profit or loss during the year	-	-	2.7	-	2.7
Movement in fair value of derivatives	-	-	2.3	-	2.3
Tax expense related to fair value movements	-	-	(1.7)	-	(1.7)
Transfer to retained earnings	(0.2)	-	-	-	(0.2)
At 30 April 2014	0.1	-	1.5	(4.5)	(2.9)

(i) These shares were issued under the FY2013 STI scheme (refer Section 6 of the remuneration report) where 25% of the reward amount was deferred for 15 months and released through issue of Metcash ordinary shares. The cost of issuing the shares was charged to the share based payments reserve.

Nature and purpose of reserves

Share-based payments reserve

This reserve is used to record the value of equity benefits provided to employees and executives as part of their remuneration. Refer to Note 20 for further details of these plans. Once a share option or performance right has lapsed the Group no longer has any obligation to convert these options or performance rights into share capital. The amount transferred to retained earnings represents the value of share based payments previously recognised as an expense through the Statement of Comprehensive Income that have now lapsed.

Capital reserve

The capital reserve consisted of a combination of residual retained profits relating to the non-controlling interest of Mittenmet acquired by the Group and other 'legacy' amounts relating to profits on disposals of capital assets. These amounts were transferred to retained earnings in FY2013.

Cash flow hedge reserve

This 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.

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.

(c) Other equity:

The other equity account is used to record the reverse acquisition adjustment on application of AASB 3 *Business Combinations* in 2005. Refer Note 2(b)(iv).

METCASH FINANCIAL REPORT 2014

NOTES TO THE **FINANCIAL STATEMENTS**

Year ended 30 April 2014

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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 raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and payables, which arise directly from its operations.

The Group manages its exposure to key financial risks including interest rate and credit risks in accordance with the Group's financial risk management policies. The objective of the policy is to support delivery of the Group's financial targets while protecting future financial security.

The Group enters into a limited number of derivative transactions from time to time principally to manage interest rate and foreign currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are cash flow 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.

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 Note 2.

RISK EXPOSURES AND LIQUIDITY RISK EXPOSURES

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 2014, the principal hedged was \$400.0 million with a weighted average hedge maturity of 1.4 years and a weighted average interest rate of 3.41%. The Group considers these derivatives to be effective hedges in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* and therefore treats them as cash flow hedges. These interest rate swap contracts, which had a notional principal value of \$400.0 million (2013: \$200.0 million) had a net fair value at the end of the financial year of negative \$0.6 million (2013: negative \$3.4 million). These 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:

	2014 \$'m	2013 \$'m
Financial assets		
Cash and cash equivalents	24.7	50.3
Financial liabilities		
Bank overdrafts - working capital	-	(29.8)
Bank loans - working capital	(15.0)	(22.0)
Bilateral loans	(57.0)	-
Bank loans - syndicated	(500.0)	(500.0)
US private placement ⁽ⁱ⁾	(210.1)	(210.1)
Less: Interest rate swaps notional principal value - designated as cash flow hedges	400.0	200.0
	(382.1)	(561.9)
Net exposure	(357.4)	(511.6)

(i) The US private placement liability is presented inclusive of the associated cross currency interest rate swap hedge contracts which effectively convert the US\$225.0 million facility into \$210.1 million of variable rate funding (Note 13(v)).

Refer to Note 13 for details of bank loans, debt securitisation and US private placement.

METCASH FINANCIAL REPORT 2014

NOTES TO THE **FINANCIAL STATEMENTS**

Year ended 30 April 2014

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Group's treasury policy requires core debt to be hedged between a minimum and maximum 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 2014, the interest rate swap hedges of \$400.0 million fell within the required range.

Subsequent to the balance sheet date, the Group entered into a number of interest rate swaps with various major Australian banks. The additional principal hedged is \$200.0 million with a weighted hedge maturity of 3.1 years and a weighted average interest rate of 3.09%.

Sensitivity analysis

The Group constantly analyses its interest rate exposure. Within this analysis, consideration is given to potential renewal of existing positions, alternative financing, alternative hedging positions and the mix of fixed and floating interest rates.

The table below shows the effect on post tax profit and other comprehensive income at the reporting date if interest rates had moved by either 0.25% higher or 0.25% lower. These movements have been selected as they are considered reasonable, given the current economic climate and the current levels of short and long term Australian interest rates. It is assumed within this calculation that all other variables have been held constant and that the borrowings are in Australian dollars. It also includes the impact of the Group's interest rate derivatives that hedge core debt.

	Profit after tax higher/(lower)		Other comprehensive income higher/(lower)	
	2014 \$'m	2013 \$'m	2014 \$'m	2013 \$'m
If interest rates were to increase by 0.25% (25 basis points)	(0.5)	(0.9)	0.9	0.2
If interest rates were to decrease by 0.25% (25 basis points)	0.5	0.9	(0.9)	(0.2)

The movements in profit are due to higher/lower interest costs from variable rate bank debt and other loans net of interest rate derivatives that hedge core debt. The movement in other comprehensive income is due to cash flow hedge fair value adjustments on interest rate swap contracts.

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 stress 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 has five different sources of primary debt funding, of which 55.0% have been utilised at 30 April 2014. The Group monitors forecasts of liquidity reserves on the basis of expected cash flow.

Remaining contractual maturities

Remaining contractual liabilities consist of non-interest bearing trade and other payables amounting to \$1,457.1 million (2013: \$1,335.6 million) for the Group and are due in one year or less.

Maturity analysis of financial assets and liabilities based on contracted date

The risk implied from the values shown in the table below reflects a balanced view of cash inflows and outflows. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets that are used in ongoing operations such as property, plant, equipment and investments in working capital such as inventories and trade receivables. These assets are considered in the Group's overall liquidity risk.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The following table reflects the contracted dates of settlement of financial assets and liabilities. Except where these exposures are provided for, these are also the expected dates of settlement.

	1 year or less \$'m	1-5 years \$'m	More than 5 years \$'m	Total \$'m
Year ended 30 April 2014				
Financial assets				
Cash and cash equivalents	24.7	-	-	24.7
Trade and other receivables	1,106.4	50.3	-	1,156.7
Derivative financial instruments	1.8	14.0	32.3	48.1
	1,132.9	64.3	32.3	1,229.5
Financial liabilities				
Trade and other payables	1,457.1	-	-	1,457.1
Finance lease liability	5.8	4.4	-	10.2
Financial guarantee contracts	1.2	0.7	-	1.9
Put options written over non controlling interests	11.7	34.9	-	46.6
Bank and other loans	9.5	444.5	379.3	833.3
Derivative financial instruments	1.6	0.1	-	1.7
	1,486.9	484.6	379.3	2,350.8

	1 year or less \$'m	1-5 years \$'m	More than 5 years \$'m	Total \$'m
Year ended 30 April 2013				
Financial assets				
Cash and cash equivalents	50.3	-	-	50.3
Trade and other receivables	1,066.8	60.4	-	1,127.2
Derivative financial instruments	0.6	-	37.7	38.3
	1,117.7	60.4	37.7	1,215.8
Financial liabilities				
Trade and other payables	1,335.6	-	-	1,335.6
Finance lease liability	5.7	6.3	-	12.0
Financial guarantee contracts	1.5	2.3	-	3.8
Put options written over non controlling interests	-	31.0	-	31.0
Bank and other loans	51.8	500.0	248.9	800.7
Derivative financial instruments	0.5	2.7	-	3.2
	1,395.1	542.3	248.9	2,186.3

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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	Cash \$'m	Facility available \$'m
Syndicated facility ⁽ⁱ⁾	700.0	500.0	-	-	200.0
US private placement ⁽ⁱⁱ⁾	210.1	210.1	-	-	-
Securitisation facility ⁽ⁱⁱⁱ⁾	300.0	-	-	-	300.0
Bank guarantee facility	23.3	-	22.8	-	0.5
Bilateral loans	59.5	59.5	-	-	-
Working capital/guarantees	150.0	-	27.6	-	122.4
Working capital	75.0	15.0	-	-	60.0
	1,517.9	784.6	50.4	-	682.9
Cash & cash equivalents	-	-	-	24.7	24.7
	1,517.9	784.6	50.4	24.7	707.6

- (i) At 30 April 2014, the Group had an agreement in place to extend Tranche A of the syndicated facility. As part of this agreement, the total facility was increased from \$700.0 million to \$725.0 million effective 9 June 2014. Refer Note 13(iv) for further details.
- (ii) The US Private Placement liability is presented inclusive of the associated cross currency interest rate swap hedge contracts which effectively convert the US\$225.0 million facility into \$210.1 million of variable rate funding. Refer Note 13(v) for further details.
- (iii) Under the \$300.0 million debt securitisation facility, an equitable interest has been granted in certain trade receivables to a special purpose trust, which is managed by a major Australian bank. The facility is subject to the periodic renewal of the facility agreement and is currently committed until May 2015. Interest payable on the facility is based on BBSY plus a margin.

The terms of the facility require that, at any time, the book value of the securitised receivables must exceed by at least a certain proportional amount, the funds drawn under the facility. At the end of the financial year, trade receivables of \$788.1 million (2013: \$738.8 million) had been securitised, with nil (2013: nil) funds drawn under the facility. Accordingly, the resultant security margin exceeded the minimum required at that time.

The facility may be terminated by the trust manager at short notice in the event of an act of default, which includes the insolvency of any of the individual companies securitising trade receivables, failure of the Group to remit funds when due, or a substantial deterioration in the overdue proportion of certain trade receivables.

The Group considers that it does not control the special purpose trust as it does not have power to determine the operating and financial policies of the trust, nor is the Group exposed to the risks and benefits of the trust. Accordingly, the Group does not consolidate the trust in its financial statements.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial liabilities

The table below details the liquidity risk arising from financial liabilities held by the Group at the reporting date.

	1 year or less \$'m	1-5 years \$'m	More than 5 years \$'m	Total \$'m
Year ended 30 April 2014				
Trade and other payables	1,457.1	-	-	1,457.1
Finance lease liability	5.9	5.7	-	11.6
Financial guarantee contracts	1.2	0.7	-	1.9
Put options written over non-controlling interests	11.7	37.4	-	49.1
Bank and other loans	44.5	549.3	405.5	999.3
Derivative liabilities - net settled	0.9	(0.1)	-	0.8
Derivative liabilities - gross settled				
- Inflows	44.6	-	-	44.6
- Outflows	(45.8)	-	-	(45.8)
Net maturity	1,520.1	593.0	405.5	2,518.6
Year ended 30 April 2013				
Trade and other payables	1,335.6	-	-	1,335.6
Finance lease liability	6.6	7.0	-	13.6
Financial guarantee contracts	1.5	2.3	-	3.8
Put options written over non-controlling interests	-	36.8	-	36.8
Bank and other loans	86.5	562.5	260.4	909.4
Derivative liabilities - net settled	2.8	0.6	-	3.4
Derivative liabilities - gross settled				
- Inflows	39.1	11.8	-	50.9
- Outflows	(39.7)	(12.4)	-	(52.1)
Net maturity	1,432.4	608.6	260.4	2,301.4

Net settled derivatives comprise interest rate swap contracts that are used to hedge floating rate interest payable on bank debts. Gross settled derivatives comprise forward exchange contracts that are used to hedge anticipated purchase commitments.

Credit risk

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.

The management of the receivables balance is the key in the minimisation of the Group's potential bad debt exposure. Receivables balances are monitored on an ongoing basis and a formal review of all balances occurs every 6 months. Where necessary, appropriate provisions are established.

As identified in Note 8 (Trade and Other Receivables), the current level of impairment provision represents 6.4% of the receivables balance.

The Group's derivative financial instruments are with financial institutions with credit ratings of AA- to A+ and at 30 April 2014, the mark-to-market position of derivative financial assets is \$48.1 million. This valuation includes a credit valuation adjustment of \$2.5 million attributable to derivatives counterparty default risk. The changes in counterparty risk had no material effect in the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Group has granted a financial guarantee relating to the bank loan of its associate, Adcome Pty Ltd, refer to Note 10 for details.

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 New Zealand dollars in respect of the Tasman Liquor business unit. These operations represent less than 2% of total sales and total profit after tax, and as such the exposure is minimal.

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.

The Group's exposure to foreign exchange risk on principal and interest payments in relation to the US\$225.0 million USPP facility have been hedged using cross currency interest rate swaps (Note 13(v)).

Price risk

The Group purchases energy in the form of electricity, petrol and oil, LPG and water from various sources. These costs represent less than 5% of combined Distribution and Administrative expenses. The group enters into periodic contracts for supply of these products via third party tender. No derivative price instruments are used to manage price risk associated with these commodities as the Group's exposure to commodity price risk is minimal.

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 return earnings to shareholders while retaining adequate funds within the business to reinvest in future growth opportunities. The Group has reduced the level of payout ratio seen in recent years to fall into line with its base policy of paying out at least 60% of underlying earnings per share (UEPS). This reflects an increased requirement to reinvest internally generated funds on the Group's Transformation Plan. The Board's preference is to continue to pay out at least 60% of UEPS and will decide the appropriate payout at each dividend date according to the capital requirements prevailing at that time.

In December 2013, the Group reopened the Dividend Reinvestment Plan (or 'DRP') under which eligible shareholders may elect to reinvest all or part of their dividends in additional Metcash shares.

The Group provides benefits to employees of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions). The Group provides these benefits in the form of the Metcash Executive and Senior Managers Performance Rights Plan (Rights Plan). Details are disclosed in Note 20.

The Board and management set out to achieve and maintain Statement of Financial Position ratios that would satisfy an investment grade rating. Certain Statement of Financial Position ratios are imposed under the Group's banking facilities, as summarised in Note 13.

Management monitor capital through the gearing ratio (debt / debt plus total equity). The gearing ratios at 30 April 2014 and 2013 were 32.5% and 30.7% respectively. This is within an acceptable target range.

Except for the reopening of the DRP, no changes were made in objectives, policies or processes for managing capital during the reporting periods presented.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value

The Group uses various methods in estimating the fair value of a financial instrument. The different methods have been defined as follows:

- Level 1: the fair value is calculated using quoted prices in active markets
- Level 2: the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3: the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

For financial instruments measured at fair value that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The table below analyses financial instruments carried at fair value, by valuation method:

	Level 1 \$'m	Level 2 \$'m	Level 3 \$'m	Total \$'m
Year ended 30 April 2014				
Derivative financial assets	-	48.1	-	48.1
Derivative financial liabilities	-	(1.7)	-	(1.7)
Financial guarantee contracts	-	(1.9)	-	(1.9)
	-	44.5	-	44.5
Year ended 30 April 2013				
Derivative financial assets	-	38.3	-	38.3
Derivative financial liabilities	-	(3.2)	-	(3.2)
Financial guarantee contracts	-	(3.8)	-	(3.8)
	-	31.3	-	31.3

During the year there were no transfers between Level 1 and Level 2 fair value measurements.

The carrying amount of the financial assets and liabilities recorded in the financial statements approximates their fair value as at the reporting date.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps and foreign exchange forward contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves for various currencies.

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Year ended 30 April 2014

18. COMMITMENTS

(a) Operating lease commitments

The Group has entered into commercial leases on certain forklifts, land and buildings. Contingent rentals are payable to reflect movements in the Consumer Price Index on certain leases and to reflect the turnover of certain stores occupying the land and buildings. Future minimum rentals payable under non-cancellable operating leases as at 30 April are as follows:

	2014 \$'m	2013 \$'m
Within 1 year	206.4	206.1
After 1 year but not more than 5 years	650.9	641.3
More than 5 years	665.7	750.2
Aggregate lease expenditure contracted for at reporting date	1,523.0	1,597.6

(b) Operating lease receivables

Certain properties under operating lease have been sublet to third parties. The future lease payments expected to be received at the reporting date are:

	2014 \$'m	2013 \$'m
Within 1 year	96.2	91.6
After 1 year but not more than 5 years	306.7	279.9
More than 5 years	337.5	390.1
Aggregate lease income contracted for at the reporting date	740.4	761.6

(c) Finance lease commitments

The Group has finance leases for various vehicles and equipment. The weighted average interest rate implicit in the leases is 7.42% (2013: 8.52%). Future minimum lease payments under finance leases together with the present value of the net minimum lease payments for the Group are as follows:

	Future minimum lease payments		Present value of minimum lease payments	
	2014 \$'m	2013 \$'m	2014 \$'m	2013 \$'m
Within 1 year	5.9	6.6	5.8	5.7
After 1 year but not more than 5 years	5.7	7.0	4.4	6.3
More than 5 years	-	-	-	-
	11.6	13.6	10.2	12.0
Less amounts representing finance charges	(1.4)	(1.6)	-	-
Present value of minimum lease payments	10.2	12.0	10.2	12.0

(d) Capital expenditure commitments

At 30 April 2014, the Group has committed \$30.2 million (2013: \$51.0 million) towards significant capital expenditure on the Project Mustang warehouse automation project at Huntingwood, NSW. These commitments are not provided for at the reporting date and are estimated to be due within the next year.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

19. RELATED PARTY DISCLOSURES

(a) Subsidiaries

The consolidated financial statements include the financial statements of Metcash Limited and the subsidiaries listed in the following table.

NAME	COUNTRY OF INCORPORATION	EQUITY INTEREST HELD BY THE GROUP	
		2014 %	2013 %
A.C.N. 131 933 376 Pty Ltd	Australia	100	100
Action Holdco Pty Limited	Australia	100	100
Action Holdings Pty Ltd (i)	Australia	100	100
Action Projects Proprietary Limited	Australia	100	100
Action Supermarkets Pty Ltd (i)	Australia	100	100
Amalgamated Confectionery Wholesalers Pty. Ltd. (i)	Australia	100	100
Arrow Pty Limited	Australia	100	100
Australian Asia Pacific Wholesalers Pty Ltd	Australia	100	100
Australian Liquor Marketers (QLD) Pty Ltd (i)	Australia	100	100
Australian Liquor Marketers (WA) Pty Ltd (i)	Australia	100	100
Australian Liquor Marketers Pty Limited (i)	Australia	100	100
Blue Lake Exporters Pty Ltd	Australia	100	100
Bofeme Pty Ltd	Australia	100	100
Casuarina Village Shopping Centre Pty. Ltd.	Australia	100	100
City Ice and Cold Storage Company Proprietary Limited	Australia	100	100
Clancy's Food Stores Pty Limited	Australia	100	100
Composite Buyers Finance Pty. Ltd.	Australia	100	100
Composite Buyers Pty Limited	Australia	100	100
Composite Pty. Ltd.	Australia	100	100
Cornerstone Retail Pty Ltd	Australia	100	100
Davids Food Services Pty Ltd	Australia	100	100
Davids Group Staff Superannuation Fund Pty. Ltd.	Australia	100	100
Denham Bros. Pty Limited	Australia	100	100
Drumstar V2 Pty Ltd	Australia	100	100
FAL Properties Pty. Ltd.	Australia	100	100
FAL Share Plan Nominees Pty Ltd	Australia	100	100
FAL Superannuation Fund Pty Ltd	Australia	100	100
Five Star Wholesalers Pty. Ltd.	Australia	100	100
Foodchain Holdings Pty Ltd	Australia	100	100
Foodland Properties Pty Ltd	Australia	100	100
Foodland Property Holdings Pty. Ltd.	Australia	100	100
Foodland Property Unit Trust	Australia	100	100
Garden Fresh Produce Pty Ltd	Australia	100	100
Garden Fresh Produce Trust	Australia	100	100
Gawler Supermarkets Pty. Ltd.	Australia	100	100
Global Liquor Wholesalers Pty Limited (i)	Australia	100	100
GP New Co Pty Ltd	Australia	100	100
Green Triangle Meatworks Pty Limited	Australia	100	100
Harvest Liquor Pty. Ltd.	Australia	100	100
IGA Community Chest Limited (ii)	Australia	100	100
IGA Distribution (SA) Pty Limited (i)	Australia	100	100
IGA Distribution (Vic) Pty Limited (i)	Australia	100	100
IGA Distribution (WA) Pty Limited (i)	Australia	100	100
IGA Fresh (Northern Queensland) Pty Limited (i)	Australia	100	100
IGA Fresh (NSW) Pty Limited (i)	Australia	100	100
IGA Pacific Pty Limited	Australia	100	100
IGA Retail Network Limited	Australia	100	100
IGA Retail Services Pty Limited (i)	Australia	100	100
Independent Brands Australia Pty Limited (i)	Australia	100	100
Interfrank Group Holdings Pty Ltd**(i)	Australia	100	100
Jewel Food Stores Pty. Ltd.	Australia	100	100
Jewel Superannuation Fund Pty Ltd	Australia	100	100
Jorgensens Confectionery Pty. Limited	Australia	100	100
JV Pub Group Pty Ltd	Australia	100	100

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

19. RELATED PARTY DISCLOSURES (continued)

NAME	COUNTRY OF INCORPORATION	EQUITY INTEREST HELD BY THE GROUP	
		2014 %	2013 %
Keithara Pty. Ltd.	Australia	100	100
Knoxfield Transport Service Pty. Ltd.	Australia	100	100
M C International Australia Pty Limited	Australia	100	100
Melton New Co Pty Ltd	Australia	100	100
Mermaid Tavern (Freehold) Pty Ltd	Australia	100	100
Metcash Automotive Holdings Pty Ltd***	Australia	83.2	75.1
Metcash Export Services Pty Ltd	Australia	100	100
Metcash Food & Grocery Pty Ltd (i)	Australia	100	100
Metcash Food & Grocery Convenience Division Pty Limited (i)	Australia	100	100
Metcash Holdings Pty Ltd	Australia	100	100
Metcash Management Pty Limited	Australia	100	100
Metcash Services Proprietary Limited	Australia	100	100
Metcash Storage Pty Limited	Australia	100	100
Metcash Trading Limited (i)	Australia	100	100
Metoz Holding Limited	South Africa	100	100
Metro Cash & Carry Pty Limited	Australia	100	100
Mirren (Australia) Pty. Ltd.	Australia	100	100
Mittenmet Pty. Ltd. (i)*	Australia	100	100
Moorebank Transport Pty Ltd	Australia	100	100
Moucharo Pty. Ltd.	Australia	100	100
Newton Cellars Pty Ltd	Australia	100	100
NFRF Developments Pty Ltd	Australia	51	51
Nu Fruit Pty. Ltd.	Australia	51	51
Payless Superbarn (N.S.W.) Pty Ltd	Australia	100	100
Payless Superbarn (VIC.) Pty. Ltd.	Australia	100	100
Pinnacle Holdings Corporation Pty Limited	Australia	100	100
Plympton Properties Pty. Ltd.	Australia	100	100
Property Reference Pty. Limited	Australia	100	100
QIW Pty Limited	Australia	100	100
Queensland Independent Wholesalers Pty Limited	Australia	100	100
Quickstop Pty Ltd (i)	Australia	100	100
Rainbow Supermarkets Pty Ltd	Australia	100	100
Rainbow Unit Trust	Australia	100	100
Rainfresh Vic Pty. Ltd.	Australia	51	51
Regeno Pty Limited	Australia	100	100
Regzem (No 3) Pty. Ltd.	Australia	100	100
Regzem (No 4) Pty. Ltd.	Australia	100	100
Rennet Pty. Ltd.	Australia	100	100
Retail Merchandise Services Pty. Limited	Australia	100	100
Retail Stores Development Finance Pty. Limited	Australia	100	100
Rockblock Pty. Ltd.	Australia	100	100
R.S.D.F. Nominees Pty. Ltd.	Australia	100	100
Soetensteeg 2 61 Exploitiemaatschappij BV	Netherlands	100	100
SSA Holdings Pty Ltd	Australia	100	100
Scanning Systems (Aust) Pty Ltd	Australia	100	100
Scanning Systems (Fuel) Pty Ltd	Australia	100	100
Smart IP Co Pty Ltd	Australia	100	100
SR Brands Pty Ltd	Australia	100	100
Stonemans (Management) Proprietary Limited	Australia	100	100
Stonemans Self Service Pty. Ltd.	Australia	100	100
Tasher No 8 Pty. Ltd.	Australia	100	100
Tasman Liquor Company Limited	New Zealand	100	100
Vawn No 3 Pty. Ltd.	Australia	100	100
Wickson Corporation Pty Limited(i)	Australia	100	100
Wimbledon Unit Trust	Australia	100	100

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NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

19. RELATED PARTY DISCLOSURES (continued)

* Mittenmet Pty Ltd

The consolidated financial statements include the financial statements of Mittenmet Pty Ltd and the subsidiaries listed in the following table.

NAME	COUNTRY OF INCORPORATION	EQUITY INTEREST HELD BY THE GROUP	
		2014 %	2013 %
ACN 008 698 093 (WA) Pty Ltd	Australia	99.44	99.44
Anzam (Aust.) Pty Ltd (i)	Australia	100	100
Australian Hardware Support Services Pty Ltd (i)	Australia	100	100
Capeview Hardware Pty Ltd.	Australia	80	100
Chelsea Heights Operations Pty Limited (i)	Australia	100	100
DIY Superannuation Pty Ltd (i)	Australia	100	100
Echuca Hardware Pty Ltd (i)	Australia	100	100
Faggs Geelong Pty Ltd	Australia	75	75
Handyman Stores Pty Ltd (i)	Australia	100	100
Hardware Property Trust	Australia	100	100
Himaco Pty Ltd (i)	Australia	100	100
Lilydale Operations Pty Limited (i)	Australia	100	100
Mega Property Management Pty Ltd (i)	Australia	100	100
Mitre 10 Pty Ltd (i)	Australia	100	100
Mitre 10 Australia Pty Ltd (i)	Australia	100	100
Mitre 10 Mega Pty Ltd (i)	Australia	100	100
Narellan Hardware Pty Ltd (i)	Australia	100	100
National Retail Support Services Pty Ltd (i)	Australia	100	100
Roma Hardware Pty Ltd	Australia	100	100
South Coast Operations Pty Ltd (i)	Australia	100	100
South West Operations Pty Ltd (i)	Australia	100	100
Sunshine Hardware Pty Ltd (ii)	Australia	84.7	-
Tasmania Hardware Pty Ltd	Australia	80	80
Timber and Hardware Exchange Pty Ltd	Australia	52	52
WA Hardware Services Pty Ltd (i)	Australia	100	100

- (i) These entities entered into a Deed of Assumption with Metcash Limited on 27 February 2013, a copy of which was lodged with ASIC on 5 March 2013. In accordance with the Deed of Assumption each entity identified above joined the Deed of Cross Guarantee (refer Note 19(c)) on 27 February 2013.
- (ii) During the year, the Group acquired additional shares in Sunshine Hardware Pty Ltd increasing its ownership interest from 49.0% joint venture to a controlling interest of 84.7%.

** Interfrank Group Holdings Pty Ltd

The consolidated financial statements include the financial statements of Interfrank Group Holdings Pty Ltd and the subsidiaries listed in the following table:

NAME	COUNTRY OF INCORPORATION	EQUITY INTEREST HELD BY THE GROUP	
		2014 %	2013 %
Franklins Pty Ltd (i)	Australia	100	100
Franklins Supermarkets Pty Ltd (i)	Australia	100	100
Franklins Franchising Pty Ltd (i)	Australia	100	100
Franklins Bankstown Square Pty Ltd (i)	Australia	100	100
Franklins Bass Hill Pty Ltd (i)	Australia	100	100
Franklins Blacktown Pty Ltd (i)	Australia	100	100
Franklins Bonnyrigg Pty Ltd (i)	Australia	100	100
Franklins Ulladulla Pty Ltd (i)	Australia	100	100
Franklins Casula Pty Ltd (i)	Australia	100	100

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NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

19. RELATED PARTY DISCLOSURES (continued)

NAME	COUNTRY OF INCORPORATION	EQUITY INTEREST HELD BY THE GROUP	
		2014 %	2013 %
Franklins Cronulla Pty Ltd (i)	Australia	100	100
Franklins Drummoyne Pty Ltd (i)	Australia	100	100
Franklins Liverpool Pty Ltd (i)	Australia	100	100
Franklins Macquarie Pty Ltd (i)	Australia	100	100
Franklins Maroubra Pty Ltd (i)	Australia	100	100
Franklins Merrylands Pty Limited (i)	Australia	100	100
Franklins Moorebank Pty Limited (i)	Australia	100	100
Franklins North Rocks Pty Ltd (i)	Australia	100	100
Franklins Pennant Hills Pty Ltd (i)	Australia	100	100
Franklins Penrith Nepean Pty Ltd (i)	Australia	100	100
Franklins Penrith Plaza Pty Ltd (i)	Australia	100	100
Franklins Rockdale Plaza Pty Ltd (i)	Australia	100	100
Franklins Singleton Pty Ltd (i)	Australia	100	100
Franklins Spit Junction Pty Ltd (i)	Australia	100	100
Franklins Westleigh Pty Ltd (i)	Australia	100	100
Franklins Wetherill Park Pty Ltd (i)	Australia	100	100
Franklins Wentworthville Pty Ltd (i)	Australia	100	100
Fresco Supermarket Holdings Pty Ltd (i)	Australia	100	100
FW Viva 3 Pty Ltd (i)	Australia	100	100

*** Metcash Automotive Holdings Pty Ltd (previously Automotive Brands Holdings Pty Ltd)

The consolidated financial statements include the financial statements of Metcash Automotive Holdings Pty Ltd (previously Automotive Brands Holdings Pty Ltd) and the subsidiaries listed in the following table.

NAME	COUNTRY OF INCORPORATION	EQUITY INTEREST HELD BY MAH GROUP	
		2014%	2013 %
Australian Automotive Distribution Pty Limited	Australia	100	100
Automotive Brands Group Pty Ltd	Australia	100	100

(b) Ultimate parent

Metcash Limited is the ultimate parent entity.

(c) Entities subject to class order relief

Metcash Limited

Pursuant to an order from ASIC under section 340(1) of the *Corporations Act 2001* dated 23 April 2012 which is based on Class Order 98/1418 (Order), relief has been granted to certain controlled entities of Metcash Limited, being those marked (i), from the Corporations Act requirements for preparation, audit and lodgement of their financial reports. As a condition of the Order, Metcash Limited and the controlled entities, being those marked as (i) (the Closed Group) entered into a Deed of Cross Guarantee on 18 April 2012. The entities marked (ii) are also party to the Deed of Cross Guarantee, but are not eligible for inclusion in the financial reporting relief. The effect of the deed is that Metcash Limited has guaranteed to pay any deficiency in the event of winding up of these controlled entities. These controlled entities have also given similar guarantees in the event that Metcash Limited is wound up.

Mittenmet Pty Limited and Interfrank Group Holdings Pty Ltd were added to the Closed Group during 2013 and 2012, respectively, including their subsidiaries identified in Note 19(a) and marked (i).

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

19. RELATED PARTY DISCLOSURES (continued)

The Statement of Comprehensive Income and Statement of Financial Position of the entities that are members of the 'Closed Group' are as follows:

	CLOSED GROUP	
	2014	2013
	\$'m	\$'m
(i) Statement of Comprehensive Income		
Profit before income tax	237.0	272.1
Income tax expense	(86.8)	(82.2)
Net profit for the year	150.2	189.9
Retained profits at the beginning of the financial year	(556.1)	(536.7)
Dividends provided for or paid	(229.0)	(243.9)
Reserves transferred	0.2	34.6
Retained profits at the end of the financial year	(634.7)	(556.1)
(ii) Statement of Financial Position		
Assets		
Current assets		
Cash and cash equivalents	7.8	29.5
Trade and other receivables	1,067.8	958.8
Inventories	638.5	710.3
Disposal group assets held for sale	41.1	47.6
Derivative financial instruments	1.8	0.6
Other	11.3	28.8
Total current assets	1,768.3	1,775.6
Non-current assets		
Derivative financial instruments	46.3	37.7
Receivables	45.5	36.9
Investments	2,645.5	2,591.5
Property, plant and equipment	273.5	249.8
Net deferred tax assets	71.6	68.1
Intangible assets and goodwill	1,342.2	1,356.9
Total non-current assets	4,424.6	4,340.9
Total assets	6,192.9	6,116.5
Liabilities		
Current liabilities		
Trade and other payables	1,346.3	1,207.1
Derivative financial instruments	1.6	0.5
Interest-bearing loans and borrowings	13.5	57.5
Income tax payable	20.2	12.0
Provisions	116.6	142.8
Other financial liabilities	13.0	-
Total current liabilities	1,511.2	1,419.9
Non-current liabilities		
Interest-bearing loans and borrowings	3,631.1	3,565.1
Derivative financial instruments	0.1	2.7
Provisions	103.6	167.1
Other financial liabilities	40.6	-
Total non-current liabilities	3,775.4	3,734.9
Total liabilities	5,286.6	5,154.8
Net assets	906.3	961.7
Equity		
Contributed equity	2,308.1	2,284.9
Other equity	(765.9)	(765.9)
Reserves	(1.2)	(1.2)
Retained profits	(634.7)	(556.1)
Total equity	906.3	961.7

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

19. RELATED PARTY DISCLOSURES (continued)

(d) Transactions with related parties

RELATED PARTY		Sales to related parties \$'m	Purchases from related parties \$'m	Other transactions with related parties \$'m
Group				
<i>Joint ventures and associates</i>				
Sales to joint ventures and associates	2014	1,275.7	-	-
	2013	1,326.7	-	-
Lease charges to joint ventures and associates	2014	-	-	20.2
	2013	-	-	27.3
Dividends received from joint ventures and associates	2014	-	-	1.6
	2013	-	-	0.6
Sale of businesses to joint ventures and associates	2014	-	-	-
	2013	-	-	22.1
Parent				
<i>Joint ventures and associates</i>				
There were no transactions between the parent and its equity-accounted investments during the year (2013: nil).				
<i>Subsidiaries</i>				
Dividend received	2014	-	-	400.0
	2013	-	-	500.0
Interest expense	2014	-	-	180.0
	2013	-	-	203.4

Terms and conditions of transactions with related parties

All transactions with related parties are made on normal commercial terms and conditions.

Terms and conditions of the tax funding agreement are set out in Note 5.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

19. RELATED PARTY DISCLOSURES (continued)

(d) Transactions with related parties (continued)

Other transactions with Key Management Personnel

(i) Mr Barnes is Chairman of Samuel Smith and Sons Pty Ltd. Mrs Balfour is a director of Salmat Limited. Mr Butler is Chairman of AMP Superannuation Ltd and an Advisory Board Member of Market Eye Pty Ltd. All organisations are suppliers to the Group under normal commercial terms and conditions. The total level of purchases from all companies is less than 0.5% of Metcash's annual purchases and is not considered material.

(ii) Details of key management personnel and their related parties with aggregate of loans above \$100,000 in the reporting period:

Name	Balance 1 May 2013 \$	Interest charged \$	Interest not charged \$	Write-off or allowance for doubtful debt \$	Balance 30 April 2014 \$	Highest balance during period \$
Directors						
E Jankelowitz	478,114	35,888	-	-	200,815	478,114

(iii) Terms and conditions of loans to key management personnel and their related parties:

The balances presented in the table above relate to a loan of \$500,000 provided in respect of two retail stores to Cheswell Capital Pty Ltd. in the prior year. The loan was concluded on an arm's length basis under normal commercial terms and conditions. The loan bears interest at 10.0% and is repayable after 24 months of issue date, being 17 December 2014.

(e) Amounts due from and payable to related parties

Related party	2014 \$'m	2013 \$'m
Group		
<i>Associates</i>		
Trade receivables - gross	104.8	114.0
Provision for impairment	(25.7)	(14.5)
	79.1	99.5
Loans receivable - gross	8.6	15.9
Provision for impairment	-	(6.5)
	8.6	9.4
Parent		
<i>Subsidiaries</i>		
Loans receivable	2,891.3	2,428.6
Loans payable	4,322.5	3,889.5

Terms and conditions of amounts due from and payable to related parties

Loans and trade receivables are due and payable on normal commercial terms and conditions.

Year ended 30 April 2014

20. SHARE-BASED PAYMENTS

(a) Types of share-based payment plans

The Group has two share-based incentive plans for employees and executive directors of the Group: the Metcash Executives and Senior Managers Performance Rights Plan (Rights Plan) and the legacy Metcash Employees Option Plan (MEOP). Fully paid ordinary shares issued under these plans rank equally with all other existing fully paid ordinary shares, in respect of voting and dividends rights.

Metcash Executives and Senior Managers Performance Rights Plan (Rights Plan)

Metcash has two incentive schemes that operate within the Rights Plan structure:

- i. The Short-Term Incentive ('STI') Rights Plan; and
- ii. The Long-Term Incentive ('LTI') Rights Plan.

i. The Short-Term Incentive ('STI') Rights Plan

The STI program focuses behaviour towards achieving superior Company and business unit performance, which deliver better results to shareholders. Key Performance Indicators are established and measured at different levels throughout the business:

- Corporate level - applies to most KMP and executives
- Business level - applies to the KMP and executives from each business pillar

After the end of each financial year, Executive performance is assessed against their individual KPIs to determine the amount of STI to be awarded. If these KPI are met, 75% of the STI reward amount is paid in July of each year after the release of the audited accounts. The remaining 25% is deferred for 15 months and released through the issue of Metcash ordinary shares, conditional upon the Executive being employed by the Company on 15 April of the year subsequent to the performance year. Any STI not paid is forfeited.

20. SHARE-BASED PAYMENTS (continued)

(a) Types of share-based payment plans (continued)

ii. The Long-Term Incentive ('LTI') Rights Plan

As outlined in the Remuneration Report, Metcash is implementing a significant Transformation Plan. The structure of the existing Long-Term Incentive scheme does not currently suit these revised strategic priorities. As a result, Metcash has not issued a FY2014 long-term incentive.

The Rights Plan provides selected employees with the opportunity to be rewarded with fully paid ordinary shares as an incentive to create long-term growth in value for Metcash shareholders. The plan is administered by a trustee who may acquire (and hold in trust) shares for the benefit of participants. These shares are purchased on market or issued to the trustee once the performance rights vest.

The essential elements of the Rights Plan are as follows:

- 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 3 year period;
- Performance Rights are offered at no cost to the employee and as such, significantly fewer Performance Rights are offered than was the case with options;
- persons offered Performance Rights will not be offered options under the MEOP or any other form of long-term incentive;
- Performance Rights do not carry voting or dividend rights, however shares issued upon vesting of Performance Rights will carry the same rights as other ordinary shares;
- the number of Performance Rights granted is determined by dividing the value of an employee's long-term incentive entitlement by the Company's share price at the time of issue;
- the FY2013 plan hurdles were set at between 4% ('lower bound hurdle rate') and 7% ('upper bound hurdle rate') compound underlying EPS growth, both adjusted up or down for the effects of actual year-on-year inflation/deflation, over a three year vesting period as follows:
 - Achieving an underlying EPS growth rate equivalent to the lower bound hurdle rate results in 0% vesting.
 - Achieving an underlying EPS growth rate equivalent to the upper bound hurdle rate results in 100% vesting.

Pro-rata vesting occurs for EPS growth between the lower and upper bound hurdle rates. Any LTIs that do not vest are forfeited;

- the FY2012 and FY2011 plan hurdles, which are not adjusted for the effects of inflation/deflation, were set at between 5% and 10% compound underlying EPS growth over a three year vesting period as follows:
 - Achieving 5% underlying EPS growth results in 50% vesting.
 - Achieving 10% underlying EPS growth results in 100% vesting.

Pro-rata vesting occurs for EPS growth over 5% and under 10%. Any LTIs that do not vest are forfeited; and

- underlying earnings per share is calculated on the Group's underlying profit, adjusted for non-recurring and significant items.

Metcash Employee Option Plan (MEOP) (Legacy Plan)

Metcash previously issued invitations to eligible employees and executive directors to participate in the Employee Share Option Plan. The last tranche of options was issued in 2008 and vested on 7 February 2013. The plan ceased in February 2014 when the last options expired.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

20. SHARE-BASED PAYMENTS (continued)

(b) Summary of rights and options granted

Rights Plan

The following table illustrates the movement in the number of Performance Rights during the year:

	2014 number	2013 number
Outstanding at the beginning of the year	4,489,265	2,785,319
Granted during the year – LTI	-	1,806,964
Granted during the year – STI	368,909	-
Exercised during the year – STI	(368,909)	-
Reinstated/(expired/forfeited) during the year	(1,548,940)	(103,018)
Outstanding at the end of the year	2,940,325	4,489,265

The outstanding balance as at 30 April 2014 is represented by:

Vesting date	Total outstanding (number)	Exercisable (number)	Remaining contractual life
30 June 2014 – LTI	1,231,786	-	2 months
7 September 2015 – LTI	1,708,539	-	1 year 4 months
Total	2,940,325	-	

Weighted average fair value

As outlined in the Remuneration Report, Metcash has not issued a 2014 long-term incentive. The weighted average fair value of LTI Performance Rights granted during 2014 was nil per Performance Right (2013: \$2.30).

METCASH FINANCIAL REPORT 2014

NOTES TO THE **FINANCIAL STATEMENTS**

Year ended 30 April 2014

20. SHARE-BASED PAYMENTS (continued)

(b) Summary of rights and options granted (continued)

Pricing model

The FY2012 and FY2013 LTI performance rights issued were valued on the grant date using either the Black-Scholes or the binomial options pricing models. The following table lists the inputs to the valuations. Metcash has not issued a FY2014 LTI.

	FY2013 LTI Plan	FY2012 LTI Plan
Dividend yield	7.55%	6.41%
Risk free rate	3.06%	3.69%
Expected volatility	18.74%	17.64%
Days to vesting	994	927
Exercise price	-	-
Share price at measurement date	\$3.22	\$4.21

The FY2014 STI performance rights will be issued based on the volume-weighted average price (VWAP) of Metcash's shares for the five days ending 15 August 2014. The rights were valued at \$0.1 million, represented by the nominal value of the STI entitlement of the executives as calculated in accordance with the STI Plan rules.

Metcash issued 368,909 performance rights in relation to the FY2013 STI at \$3.56 per right. The performance right value was based upon the VWAP of Metcash's shares for the five days ended 31 July 2013.

MEOP

The following table illustrates the number of options, exercise prices and movements during the year ended 30 April 2014 and 30 April 2013:

	2014 number	2014 exercise price \$	2013 number	2013 exercise price \$
Outstanding at the beginning of the year	13,395,496		15,361,985	
Reinstated during the year	-	-	500,000	Various
Expired during the year	(13,395,496)	4.267	(2,466,489)	Various
Outstanding at the end of the year	-		13,395,496	

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

21. DIRECTORS' AND EXECUTIVES DISCLOSURES

a) Details of Key Management Personnel

Directors

Peter L Barnes	Non-executive Chairman
Ian R Morrice ⁽ⁱ⁾	Chief Executive Officer
Andrew Reitzer ⁽ⁱ⁾	Chief Executive Officer
Patrick N J Allaway	Non-executive Director
Fiona E Balfour	Non-executive Director
Michael R Butler	Non-executive Director
Neil D Hamilton	Non-executive Director
Edwin M Jankelowitz	Non-executive Director
Michael P McMahon ⁽ⁱⁱ⁾	Non-executive Director
V Dudley Rubin	Non-executive Director

Executives

Adrian Gratwicke	Chief Financial Officer
Fergus Collins	CEO - Supermarkets MFG
Mark Laidlaw	CEO Hardware
Scott Marshall ⁽ⁱⁱⁱ⁾	CEO ALM
Silvestro Morabito ^(iv)	COO Food & Grocery

(i) Mr Reitzer retired as CEO on 30 June 2013 and ceased employment with Metcash on 30 September 2013. Mr Morrice was appointed as CEO to replace Mr Reitzer with effect from 30 June 2013.

(ii) Mr McMahon was appointed as a Non-executive Director on 27 November 2013.

(iii) Mr Marshall was appointed as CEO of ALM on 21 December 2013.

(iv) Mr Morabito was COO of Food & Grocery from 1 May 2013 to 20 December 2013 and will cease employment on 31 October 2014.

b) Performance Rights holding of Key Management Personnel

Name	Balance at 1 May 2013	Granted as remuneration	Vested during the year	Changed, forfeited or lapsed during the year	Balance at 30 April 2014	Balance at report date
Directors						
P Barnes	-	-	-	-	-	-
I Morrice	-	-	-	-	-	-
A Reitzer	-	-	-	-	-	-
P Allaway	-	-	-	-	-	-
F Balfour	-	-	-	-	-	-
M Butler	-	-	-	-	-	-
N Hamilton	-	-	-	-	-	-
E Jankelowitz	-	-	-	-	-	-
M McMahon	-	-	-	-	-	-
D Rubin	-	-	-	-	-	-
Executives						
A Gratwicke	233,815	45,405	(45,405)	(59,770)	174,045	174,045
F Collins	197,136	44,316	(44,316)	(53,923)	143,213	143,213
M Laidlaw	176,606	30,482	(30,482)	(49,166)	127,440	127,440
S Marshall ⁽ⁱ⁾	-	-	-	46,467	46,467	46,467
S Morabito ⁽ⁱⁱ⁾	277,856	45,656	-	(323,512)	-	-
Total	885,413	165,859	(120,203)	(439,904)	491,165	491,165

(i) The Performance Rights amounts disclosed above reflect all rights held by Mr Marshall, including those provided to him prior to 21 December 2013.

(ii) The Performance Rights amounts disclosed above reflect all rights held by Mr Morabito until his cessation as a KMP on 20 December 2013.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

21. DIRECTORS' AND EXECUTIVES DISCLOSURES (continued)

b) Performance Rights holding of Key Management Personnel (continued)

Name	Balance at 1 May 2012	Granted during the year	Vested during the year	Changed, forfeited or lapsed during the year	Balance at 30 April 2013	Balance at report date
Directors						
P Barnes	-	-	-	-	-	-
A Reitzer	-	-	-	-	-	-
I Morrice	-	-	-	-	-	-
P Allaway	-	-	-	-	-	-
F Balfour	-	-	-	-	-	-
M Butler	-	-	-	-	-	-
N Hamilton	-	-	-	-	-	-
E Jankelowitz	-	-	-	-	-	-
R Longes	-	-	-	-	-	-
D Rubin	-	-	-	-	-	-
Executives						
F Collins	109,648	87,488	-	-	197,136	197,136
A Gratwicke	132,974	100,841	-	-	233,815	233,815
M Laidlaw	95,367	81,239	-	-	176,606	176,606
S Morabito	142,687	135,169	-	-	277,856	277,856
Total	480,676	404,737	-	-	885,413	885,413

c) Option holding of Key Management Personnel (MEOP)

Name	Balance at 1 May 2013	Granted during the year	Exercised during the year	Disposed, forfeited or lapsed during the year	Balance at 30 Apr 2014	Vested during the year	Vested and Exercisable at 30 Apr 2014	Balance at report date
Directors								
P Barnes	-	-	-	-	-	-	-	-
I Morrice	-	-	-	-	-	-	-	-
A Reitzer	-	-	-	-	-	-	-	-
P Allaway	-	-	-	-	-	-	-	-
F Balfour	-	-	-	-	-	-	-	-
M Butler	-	-	-	-	-	-	-	-
N Hamilton	-	-	-	-	-	-	-	-
E Jankelowitz	-	-	-	-	-	-	-	-
M McMahon	-	-	-	-	-	-	-	-
D Rubin	-	-	-	-	-	-	-	-
Executives								
A Gratwicke	500,000	-	-	(500,000)	-	-	-	-
F Collins	-	-	-	-	-	-	-	-
M Laidlaw	350,000	-	-	(350,000)	-	-	-	-
S Marshall ⁽ⁱ⁾	350,000	-	-	(350,000)	-	-	-	-
S Morabito	350,000	-	-	(350,000)	-	-	-	-
Total	1,550,000	-	-	(1,550,000)	-	-	-	-

(i) The option holdings disclosed above reflect all options held by Mr Marshall, including those provided to him prior to 21 December 2013.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

21. DIRECTORS' AND EXECUTIVES DISCLOSURES (continued)

c) Option holding of Key Management Personnel (MEOP) (continued)

Name	Balance at 1 May 2012	Granted during the year	Exercised during the year	Disposed, forfeited or lapsed during the year	Balance at 30 Apr 2013	Vested during the year	Vested and Exercisable at 30 Apr 2013	Balance at report date
Directors								
P Barnes	-	-	-	-	-	-	-	-
A Reitzer	-	-	-	-	-	-	-	-
I Morrice	-	-	-	-	-	-	-	-
P Allaway	-	-	-	-	-	-	-	-
F Balfour	-	-	-	-	-	-	-	-
M Butler	-	-	-	-	-	-	-	-
N Hamilton	-	-	-	-	-	-	-	-
E Jankelowitz	-	-	-	-	-	-	-	-
R Longes	-	-	-	-	-	-	-	-
D Rubin	-	-	-	-	-	-	-	-
Executives								
F Collins	-	-	-	-	-	-	-	-
A Gratwicke	500,000	-	-	-	500,000	100,000	500,000	500,000
M Laidlaw	350,000	-	-	-	350,000	70,000	350,000	350,000
S Morabito	350,000	-	-	-	350,000	70,000	350,000	350,000
Total	1,200,000	-	-	-	1,200,000	240,000	1,200,000	1,200,000

d) Shareholding of Key Management Personnel

Name	Balance at 1 May 2013	Granted as remuneration ⁽ⁱ⁾	On market trade	Options exercised	Other adjustments ⁽ⁱⁱ⁾	Balance at 30 April 2014	Balance at report date
Directors							
P Barnes	182,034	-	-	-	5,651	187,685	187,685
I Morrice	21,000	-	-	-	-	21,000	21,000
A Reitzer ⁽ⁱⁱⁱ⁾	829,951	-	-	-	(829,951)	-	-
P Allaway	54,000	-	-	-	-	54,000	54,000
F Balfour	29,673	-	-	-	921	30,594	30,594
M Butler	54,951	-	-	-	1,705	56,656	56,656
N Hamilton	20,000	-	-	-	620	20,620	20,620
E Jankelowitz	320,000	-	-	-	-	320,000	320,000
M McMahon	-	-	30,000	-	-	30,000	30,000
D Rubin	17,500	-	-	-	-	17,500	17,500
Executives							
A Gratwicke	73,478	45,405	-	-	-	118,883	118,883
F Collins	2,090	44,316	-	-	-	46,406	46,406
M Laidlaw	-	30,482	-	-	-	30,482	30,482
S Marshall	-	-	-	-	-	-	-
S Morabito ^(iv)	39,179	-	-	-	(39,179)	-	-
Total	1,643,856	120,203	30,000	-	(860,233)	933,826	933,826

(i) Shares granted as remuneration reflect the 25% component of the FY2013 plan total reward amount that was deferred and issued as shares on 15 April 2014. These shares are restricted from trading until 31 July 2014.

(ii) Other adjustments represents shares issued to KMP as part of the Dividend Reinvestment Plan on 24 January 2014 and changes in KMP composition.

(iii) As Mr Reitzer ceased his role as CEO on 30 June 2013 his shareholdings are no longer disclosed, with his shareholdings on 30 June 2013 disclosed as an "other adjustment".

(iv) As Mr Morabito ceased his role as COO, Food & Grocery on 20 December 2013 his shareholdings are no longer disclosed, with his shareholdings on 20 December 2013 disclosed as an "other adjustment".

METCASH FINANCIAL REPORT 2014

NOTES TO THE **FINANCIAL STATEMENTS**

Year ended 30 April 2014

21. DIRECTORS' AND EXECUTIVES DISCLOSURES (continued)

d) Shareholding of Key Management Personnel (continued)

Name	Balance at 1 May 2012	Granted as remuneration	On market trade	Options exercised	Other adjustments ⁽ⁱ⁾	Balance at 30 April 2013	Balance at report date
Directors							
P Barnes	177,083	-	-	-	4,951	182,034	182,034
A Reitzer	1,750,000	-	(929,951)	-	9,902	829,951	829,951
I Morrice	-	-	21,000	-	-	21,000	21,000
P Allaway	-	-	54,000	-	-	54,000	54,000
F Balfour	13,600	-	11,910	-	4,163	29,673	29,673
M Butler	50,000	-	-	-	4,951	54,951	54,951
N Hamilton	20,000	-	-	-	-	20,000	20,000
E Jankelowitz	320,000	-	-	-	-	320,000	320,000
R Longes ⁽ⁱⁱ⁾	128,154	-	-	-	(138,056)	-	-
D Rubin	15,000	-	2,500	-	-	17,500	17,500
Executives							
F Collins	1,600	-	-	-	490	2,090	2,090
A Gratwicke	63,950	-	-	-	9,528	73,478	73,478
M Laidlaw	-	-	-	-	-	-	-
S Morabito	32,575	-	-	-	6,604	39,179	39,179
Total	2,571,962	-	(840,541)	-	(97,467)	1,643,856	1,643,856

(i) Other adjustments represent shares acquired by key management personnel as part of the Share Purchase Plan completed in July 2012 and changes in KMP composition.

(ii) As Mr Longes retired from the Board of Directors on 30 August 2012 his shareholdings are no longer disclosed, with his shareholdings on 30 August 2012 disclosed as an "other adjustment".

e) Compensation by category

	2014 \$'m	2013 \$'m
Short-term	7.3	10.0
Long-term	(0.3)	(0.2)
Post employment	0.2	0.2
Termination benefits	2.6	0.2
Share-based payments	0.3	0.3
Total	10.1	10.5

There were no other transactions and balances with key management personnel other than as disclosed in Note 19.

22. INFORMATION RELATING TO METCASH LIMITED (THE PARENT ENTITY)

In accordance with the amendment to the *Corporations Act 2001*, the Company has replaced the separate entity financial statements with the following note.

	METCASH LIMITED	
	2014 \$'m	2013 \$'m
Current assets	2,891.3	2,428.6
Total assets	7,514.6	7,058.2
Current liabilities	4,344.5	3,901.5
Total liabilities	4,344.5	3,901.5
Net assets	3,170.1	3,156.7
Contributed equity	2,974.0	2,950.9
Retained earnings	196.0	205.2
Share based payments reserve	0.1	0.6
Total equity	3,170.1	3,156.7
Net profit for the year	219.3	296.1
Total comprehensive income for the year, net of tax	219.3	296.1

Metcash Limited has provided guarantees as part of the Closed Group arrangements as disclosed in Note 19(c).

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

23. AUDITORS REMUNERATION

	2014 \$	2013 \$
Amounts received or due and receivable by Ernst & Young (Australia) for:		
- an audit or review of the financial statements of the entity and any other entity in the Group	1,564,000	2,587,000
- assurance related	81,000	37,000
	1,645,000	2,624,000
Other services in relation to the entity and any other entity in the Group		
- tax compliance and advisory	457,877	946,493
- tax ATO audit	696,483	998,155
- tax acquisitions/other	4,700	398,543
	1,159,060	2,343,191
	2,804,060	4,967,191

24. BUSINESS COMBINATIONS

During the year, the Metcash Group acquired the following entities or assets:

Date of acquisition	Acquiree	% acquired
30 April 2013	Capeview Hardware ⁽ⁱ⁾	80.0%(b)
20 May 2013	Australian Truck & Auto Parts Group (ATAP) ⁽ⁱ⁾	100.0%(a)
01 November 2013	Sunshine Hardware Pty Ltd ⁽ⁱⁱ⁾	35.7%(b)
01 November 2013	Raymond Terrace & Maitland Automotive ⁽ⁱ⁾	100%(b)
28 November 2013	MacGregor Automotive ⁽ⁱ⁾	100%(b)
19 December 2013	Partco Automotive ⁽ⁱ⁾	100%(b)
07 February 2014	Toowoomba Automotive ⁽ⁱ⁾	100%(b)
28 February 2014	Young Automotive ⁽ⁱ⁾	100%(b)
28 February 2014	Malz Automotive ⁽ⁱ⁾	100%(b)
18 March 2014	Innaloo Automotive ⁽ⁱ⁾	100%(b)
04 April 2014	Malaga Automotive ⁽ⁱ⁾	100%(b)
10 April 2014	Port Macquarie Automotive ⁽ⁱ⁾	100%(b)

(i) Acquisition of business assets

(ii) During the year, the Group acquired additional shares in Sunshine Hardware Pty Ltd increasing its ownership interest from a 49.0% joint venture to a controlling interest of 84.7%.

(a) Australian Truck & Auto Parts Group (ATAP)

On 20 May 2013, the Group acquired, through Metcash Automotive Holdings Pty Ltd ('MAH'), 100% of the Australian Truck & Auto Parts Group (ATAP) for \$79.4 million. ATAP is a national wholesaler of brake, clutch and under-car products and also includes: ABS, the franchisor of a national chain of 53 retail service and brake/clutch repair centres, with 4 corporate stores and 5 joint venture stores; IBS Auto Solutions, Garmax, Melbourne Clutch & Brake; and Brake Friction Technology.

The purchase consideration was contributed fully by Metcash and did not involve any funding from the non controlling interests in MAH. Therefore, the acquisition resulted in an increase in the Group's interest in MAH from 75.1% to 83.2%.

Costs amounting to \$2.8 million were incurred during the current period in completing the acquisition. These costs have been disclosed as part of 'significant items' in the Statement of Comprehensive Income.

(b) Other current period acquisitions

During the current year, Mitre 10 acquired various businesses in order to broaden its footprint as one of the leading hardware and home improvement businesses. Automotive also acquired various businesses that were synergistic fits to the existing business. The total purchase consideration for these businesses was \$46.2 million which resulted in goodwill of \$21.9 million being recognised. The business combinations were not individually significant, and are disclosed below in aggregate.

The costs incurred in completing these acquisitions have been included within 'administrative costs' in the Statement of Comprehensive Income as they do not relate to material acquisitions.

The accounting for the above business combinations is provisional as at 30 April 2014.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

24. BUSINESS COMBINATIONS (continued)

(c) Purchase price allocation

Details of the fair value of the assets and liabilities acquired are as follows:

	ATAP \$'m	Other \$'m	Total \$'m
Purchase consideration:			
Cash consideration	79.4	31.8	111.2
Less: cash acquired	(0.8)	(1.8)	(2.6)
Net cash consideration	78.6	30.0	108.6
Plus: Acquisition date fair value of previously held equity interest and settlement of other pre-existing relationships	-	14.4	14.4
Net purchase consideration	78.6	44.4	123.0
Less: fair value of net identifiable assets acquired	(49.6)	(22.5)	(72.1)
Goodwill	29.0	21.9	50.9
Assets and liabilities assumed:			
Receivables	17.0	9.9	26.9
Inventories	23.3	36.0	59.3
Property, plant and equipment	3.0	13.8	16.8
Intangibles	18.3	0.3	18.6
Deferred tax asset	1.6	1.7	3.3
Provisions and creditors	(13.6)	(28.3)	(41.9)
Interest bearing loans and borrowings	-	(6.2)	(6.2)
Put options written over non-controlling interests	-	(2.4)	(2.4)
Fair value of net identifiable assets on acquisition date	49.6	24.8	74.4
Attributable to non-controlling interests	-	(2.3)	(2.3)
	49.6	22.5	72.1

The carrying amounts of acquired receivables approximated their gross contractual amounts and the estimated collectible amounts at the dates of acquisition. The fair value of all identifiable assets and liabilities acquired approximated their carrying values at the dates of acquisition.

The goodwill recognised on the above acquisitions is attributed to the expected synergies and other benefits from combining the assets and activities of the acquired entities. Goodwill acquired on the above business combinations is treated as a capital asset for tax purposes.

The accounting for the ATAP business combination is final as at 30 April 2014. Other business combinations are provisional.

Since acquisition, the ATAP business has been integrated to the existing Automotive business. Accordingly, the Group is not able to reliably disaggregate the revenue and profit and loss of ATAP from the acquisition date or from the beginning of the reporting period.

(d) Prior period acquisitions

Automotive Brands Group (ABG)

On 1 July 2012, Metcash acquired 75.1% of the equity of Automotive Brands Holdings Pty Ltd. The fair value of the net assets acquired recognised in the 30 April 2013 financial report were based on a preliminary accounting assessment. During this year, the fair values have been adjusted for an increase of \$6.1 million in the value of put options written over non controlling interests; an increase in provisions of \$0.1 million; an increase in fixed assets of \$0.1 million; a decrease in receivables of \$0.7 million; a decrease in inventories of \$1.2 million; and an increase of \$1.3 million in deferred tax assets. This has resulted in an increase in goodwill of \$6.7 million. There were no other significant changes to the acquisition date balance sheet or income statement for the post acquisition period.

The accounting for the ABG business combination is final as at 30 April 2014.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

24. BUSINESS COMBINATIONS (continued)

(d) Prior period acquisitions (continued)

Other

During the current year, the carrying amount of put options written over non-controlling interests related to prior period acquisitions increased by \$7.1 million. This increase is primarily driven by (a) estimated increases in the value of the businesses since the acquisition date and; (b) unwinding of discount with the passage of time. Changes since the acquisition date in the value of put options are recorded through the income statement.

(e) Business combinations after the reporting date

Subsequent to the end of the financial year, the Group invested in new business acquisitions, which mainly included the Midas Group. The acquisitions were not material individually, or in aggregate to the Group.

25. EARNINGS PER SHARE

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

	2014 \$'m	2013 \$'m
Net profit from continuing operations	179.7	265.9
Earnings used in calculating basic and diluted earnings per share from continuing operations	179.7	265.9
Net profit/(loss) from discontinued operations	(10.5)	(59.9)
Earnings used in calculating basic and diluted earnings per share from discontinued operations	(10.5)	(59.9)
Net profit attributable to ordinary equity holders of Metcash Limited	169.2	206.0
Earnings used in calculating basic and diluted earnings per share	169.2	206.0

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

	2014 NUMBER	2013 NUMBER
Weighted average number of ordinary shares used in calculating basic earnings per share	882,676,013	859,742,607
Effect of dilutive securities	-	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	882,676,013	859,742,607

At the reporting date, 2,940,325 performance rights (2013: 4,489,265) were outstanding that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are anti-dilutive for the periods presented. Refer Note 20 for more details about performance rights.

Of the interim fully franked dividend of \$83.7 million, \$23.4 million was settled by the issue of 7,633,262 shares under the DRP at a discount of 1%. The discount component did not have a material impact on the basic or diluted earnings per share for all periods presented.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

26. DISPOSAL GROUPS AND ASSETS HELD FOR SALE

	2014 \$'m	2013 \$'m
Discontinued operations (a)	-	18.1
Retail development assets	41.1	29.5
	41.1	47.6

(a) Discontinued operations

On 30 September 2011, being the date of acquisition of the Franklins Group, Metcash announced its intention to dispose of Franklins corporate retail stores to independent retailers. These retail operations, along with the associated assets were classified as disposal group assets. At the reporting date Metcash has, either through sale or closure, disposed of all the stores acquired. The wholesale operations of the Franklins Group have been classified as continuing operations within the Food & Grocery segment.

The results of the disposal group are as follows.

	2014 \$'m	2013 \$'m
Revenue from sale of goods	24.8	109.2
Cost of sales and other costs	(36.6)	(184.2)
Finance costs attributable to discounting of provisions	(2.1)	(13.4)
Operating loss before income tax	(13.9)	(88.4)
Income tax benefit related to operating loss	4.2	26.8
Operating loss after income tax	(9.7)	(61.6)
(Loss)/gain on disposal of assets	(1.1)	2.5
Income tax benefit/(expense) related to disposal of assets	0.3	(0.8)
Net loss from discontinued operations	(10.5)	(59.9)
Net loss is attributable to:		
Equity holders of the parent	(10.5)	(59.9)

The net cash inflow from operations, per the Statement of Cash Flows, includes cash outflows of \$21.5 million (2013: \$54.2 million) from discontinued operations. The net cash outflow from investing activities, per the Statement of Cash Flows, includes cash inflows of \$4.7 million (2013: \$58.3 million) from discontinued operations. There were no financing cash flows specifically related to discontinued operations.

METCASH FINANCIAL REPORT 2014

NOTES TO THE *FINANCIAL STATEMENTS*

Year ended 30 April 2014

27. CONTINGENT ASSETS AND LIABILITIES

	2014 \$'m	2013 \$'m
Bank guarantees to third parties in respect of property lease obligations	20.0	32.3
Bank guarantees in respect of Work Cover	29.0	32.0
Standby letters of credit	1.3	1.2
Face value of the outstanding charges due to American Express (a)	238.9	204.8
Put options to third parties (b)	7.5	8.0

For contingent assets and liabilities related to the Group's equity-accounted investments, refer to Note 10.

(a) American Express charge card

On 9 May 2007, Metcash Trading Limited entered into an agreement with American Express (Amex), due to expire on 1 May 2016, in relation to Customer Charge Cards. Under the agreement, should a customer default on payment, where Amex has previously made a payment to Metcash Trading Limited, then Metcash Trading Limited must pay Amex an amount equal to the charge outstanding.

The maximum amount payable shall be limited to the actual face value of the outstanding charge due to Amex. This does not include any interest or other fees payable by the customer to Amex. Metcash Trading Limited shall have no other obligation to Amex in respect of the outstanding charge and shall not be liable for any costs, loss or liability of any nature whatsoever incurred by Amex as a result of the failure by the customer to make payment.

(b) Put options

The Group has granted put options relating to the sale of retail store assets to certain customers. The holders of the put option have the right to "put" these non-financial assets back to the Group within an agreed period and under certain prescribed circumstances. The estimate of the financial effect of the put options, if exercised, is the aggregate of the purchase price as defined in the option deed or business sale agreement. This amount is recorded as a contingent liability of \$7.5 million (2013: \$8.0 million) in the above table.

Certain put option arrangements with minority shareholders of partially owned subsidiaries, if exercised, would result in an increase in Metcash's ownership interest in the subsidiaries, 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 option. Refer Note 15 for details of this \$46.6 million (2013: \$31.0 million) liability.

The Group has entered into certain put option agreements with co-investors in two equity-accounted investments, with an aggregate exercise price of \$2.3 million, which has been disclosed as a contingent liability in Note 10.

28. SUBSEQUENT EVENTS

On 5 May 2014, the dispute between Metcash and the ATO was settled and the Group received a partial refund of the \$24.4 million originally paid in FY2012. The settlement resulted in an income tax expense of \$10.8 million which was recorded as a 'significant item'. Refer Note 4(d) for further details.

Subsequent to the end of the financial year, the Group invested in new business acquisitions, which mainly included the Midas Group. The acquisitions were not material individually or in aggregate to the Group.

Except as noted above, 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.

METCASH FINANCIAL REPORT 2014

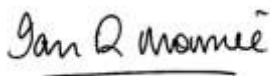
DIRECTORS' DECLARATION

Year ended 30 April 2014

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 2014 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 Note 2(i); 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 2014.
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 Note 19 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

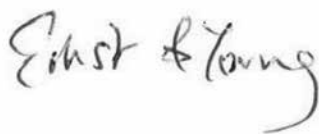


Ian Morrice
Director

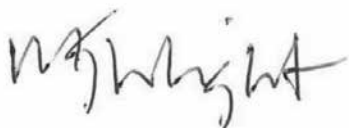
Sydney, 23 June 2014

Auditor's Independence Declaration to the Directors of Metcash Limited

In relation to our audit of the financial report of Metcash Limited for the financial year ended 30 April 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



Michael J Wright
Partner
23 June 2014

Independent auditor's report to the members of Metcash Limited

Report on the financial report

We have audited the accompanying financial report of Metcash Limited, which comprises the consolidated statement of financial position as at 30 April 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included by reference in the directors' report.

Opinion

In our opinion:

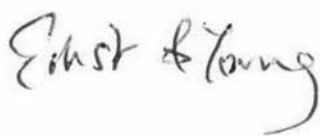
- a. the financial report of Metcash Limited is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 30 April 2014 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

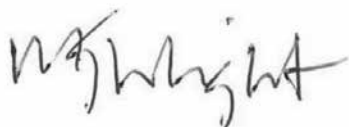
We have audited the Remuneration Report included in pages 51 to 64 of the directors' report for the year ended 30 April 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Metcash Limited for the year ended 30 April 2014, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Michael J Wright
Partner
Sydney
23 June 2014

ASX ADDITIONAL INFORMATION

ASX Additional Information – Year ended 30 April 2014

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows:

The information is current as at 10 July 2014:

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	8,853
1,001-5,000	22,867
5,001-10,000	8,832
10,001-100,000	6,658
100,001-9,999,999,999	198
Total	47,408

There were 3,675 shareholders less than a marketable parcel of Metcash ordinary shares.

Twenty largest shareholders

The names of the 20 largest holders of quoted shares are:

Name	Number of Shares	Percentage of Shares
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	191,902,762	21.60
J P MORGAN NOMINEES AUSTRALIA LIMITED	144,605,095	16.28
NATIONAL NOMINEES LIMITED	104,017,343	11.71
CITICORP NOMINEES PTY LIMITED	58,123,914	6.54
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	17,984,071	2.02
BNP PARIBAS NOMS PTY LTD <DRP>	11,343,229	1.28
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	10,082,543	1.14
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <MBA A/C>	5,368,983	0.60
AMP LIFE LIMITED	4,507,958	0.51
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	4,124,600	0.46
MILTON CORPORATION LIMITED	4,047,559	0.46
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	2,947,867	0.33
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	2,661,207	0.30
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	1,719,484	0.19
QIC LIMITED	1,407,528	0.16
ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	1,042,061	0.12
SHARE DIRECT NOMINEES PTY LTD <10015 A/C>	1,008,756	0.11
MR BRIAN LESLIE BOEHME & MRS MARY ANN BOEHME	1,000,000	0.11
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	902,397	0.10
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	901,026	0.10

Substantial Shareholders

The following is extracted from the Company's register of substantial shareholders:

	Number of Shares
BlackRock Group	75,446,836
Allan Gray Australia Pty Ltd (and its related bodies)	55,970,784
Lazard Asset Management Pacific Co	45,097,871
Maple-Brown Abbott Limited	44,568,515

Voting Rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

[illegible]

[illegible]

[illegible]

CORPORATE INFORMATION

Corporate Information

ABN 32 112 073 480

Directors

Peter Barnes (Chairman)

Patrick Allaway

Fiona Balfour

Michael Butler

Tonianne Dwyer

Neil Hamilton

Edwin Jankelowitz

Mick McMahon

Ian Morrice

Dudley Rubin

Company Secretary

Gregory C Watson

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Facsimile: 61 2 9248 5959

National Office

Telephone: 61 2 9751 8200

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Silverwater Business Centre NSW 1811

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Silverwater Business Centre NSW 1811

Mitre 10

Head Office

Telephone: 61 3 9703 4200

Facsimile: 61 3 9703 4222

12 Dansu Court

Hallam VIC 3803

Postal Address

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Doveton VIC 3177

Automotive Brands Group

Head Office

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Telephone: 61 3 8878 1111

Facsimile: 61 3 8878 2266

