Annual Report 2017

Successful Independents

Metcash Limited Annual Report 2017 ABN 32 112 073 480

Metcash is Australia's leading wholesaler and distributor, supplying and supporting more than 10,000* Independent Retailers across the food, grocery, liquor and hardware sectors.

Our focus is to support Successful Independents to become the 'Best Store in Town', by providing our network of strong retail brands with merchandising, operational and marketing support.

* Number of Independent Retail customers

About us

Our purpose Successful independents

Our vision

Best store in every town	Business partner of choice for suppliers and independents	Passionate about independents	Thriving communities, giving shoppers choice
– Differentiated offer & service – Celebrating Individuality – Loved by locals	– Australia's leading portfolio of independent retail brands – World class wholesaler	– Unlocking the potential of our people – Inspiring future leaders	– Championing local entrepreneurs – Pipeline of aspiring new business owners – Sustainable

Our values Integrity is our foundation

– Supporting our customers and suppliers
– Our people are empowered and accountable
– Adding value in our community

Our model

Our markets

Food Liquor Hardware

Our distribution network

Our national distribution network delivers products to more than 10,000 retail premises and a further ~95,000 wholesale customers across the food, grocery, liquor and hardware markets.

Our Independent Retail and wholesale customers are supported by distribution centres in each of the major cities, as well as a number of smaller distribution centres in regional areas.

Our retail footprint

	No of Retail Premises	No of Wholesale Customers
Supermarkets	1,683	>1,400
Convenience	18	>90,000
Hardware	740	>500
Liquor	7,985[1]	>3,800

1 Includes 5,468 Cellarbrations on-premise customers

Our retail brands Independence is worth fighting for!

Rob Murray
Chairman

Chairman's Report

I am pleased to present Metcash's Annual Report for 2017, a year of achievement, change and challenge for the company.

During the year we faced some of the most difficult external conditions in our history, particularly in Supermarkets where the continuation of intense competition led to price deflation at very high levels. Our ability to deliver some pleasing financial outcomes and continue to successfully execute our strategic initiatives in these conditions is, I believe, admirable.

Our strategy continues to focus on ensuring that independent family-owned retail businesses can thrive across the markets we serve. Key to this is supporting our retail customers to be the 'Best Store in Town' with a localised, differentiated offer that is tailored to their local community.

We made significant progress in the year with our 'Best Store in Town' initiatives, including a further 100 stores completing Supermarkets' Diamond Store Accelerator program, and an additional 10 stores completing the Sapphire Store Refurbishment program in Hardware. These have led to some truly remarkable stores that are receiving strong customer support.

We have provided some more information on our 'Best Store in Town' initiatives, together with some case studies profiling how the stores are benefiting from the transformations on pages 14 to 19 of this Annual Report. I hope you find this informative.

Earnings performance

Underlying profit after tax for the year increased 9.3% over the prior year to $194.8 million. This excludes $22.9 million of costs related to the acquisition and integration of the Home Timber & Hardware Group (HTH), as well as restructuring costs related to our Working Smarter program aimed at simplifying the way we do business. Underlying earnings per share was 20.3 cents, and 17.9 cents including the $22.9 million of costs mentioned above.

The success of our Working Smarter program in the year reflects considerable effort and dedication from our people. The importance of this work in the context of the current external environment cannot be underestimated.

Acquisition of HTH

The acquisition of HTH is very exciting for us. Not only is it a quality national hardware operation, it is also complementary to our Mitre 10 business. The increased scale it provides through the creation of Australia's second largest hardware player, enables the expanded network to operate more efficiently and competitively.

While the acquisition creates new attractive growth opportunities we will look to pursue, our immediate focus is to ensure the integration of the two businesses continues to be smooth and deliver on our expectations. We have a very capable team that is doing a great job, and I am confident this will be achieved.

The acquisition is also important for the diversification it provides to our Group earnings, which is in line with our strategic focus on ensuring the financial position of the company remains strong and resilient.

"Our strategy continues to focus on ensuring that independent family-owned retail businesses can thrive across the markets we serve."

Balance sheet strength

The financial highlight for the year was our strong cash performance. This, together with equity raised to partly fund the HTH acquisition, were the key drivers of net debt reducing a further $194.7 million to $80.8 million.

Strengthening our financial position has been a strategic priority for a number of years, and it is pleasing to report that we have reduced net debt by ~$690 million since FY14. This is a significant achievement.

We now have a very strong financial position, and this underpinned the Board's decision to bring forward the recommencement of dividends with the declaration of a 4.5 cent per share fully franked final dividend for FY17. The Board has also decided to target a dividend payout ratio of 60% commencing in FY18, with interim and final dividends to be weighted similarly to prior practice.

Remuneration

We have continued to refine our remuneration framework to deliver market-aligned remuneration practices, including taking into consideration concerns raised at last year's Annual General Meeting. These initiatives include a reduction in the weighting of the Short Term Incentive component in total remuneration, as well as the inclusion of more objective performance measures through moving to a balanced scorecard for all executives.

Remuneration outcomes for the year include only one member of our Key Management Personnel (KMP) receiving an increase in fixed remuneration, and total bonuses paid to KMP in respect of FY17 being 44% lower than for the prior year. Fees for Non-Executive Directors were left at a consistent level for the fifth consecutive year.

Further remuneration details can be found in our remuneration report commencing on page 37.

Going forward, while there is still much to do, we are well positioned to weather the current difficult market conditions and pursue our growth opportunities and cost efficiencies. We have a strong financial foundation, our strategic initiatives are delivering and there is strong leadership through your Board and senior leadership team.

We also have a strong focus on organisational culture and employee engagement which is helping underpin our performance. We have a well established program in this area, with a high level of employee participation, which importantly includes the Board and senior leadership team. Your Board continues to be actively involved in this area and was rated highly by both management and external stakeholders in the engagement survey.

Earlier this month we announced that Jeff Adams will succeed Ian Morrice as Group Chief Executive, following earlier advice from Ian that he intended to retire from the role in 2018. Ian has held this position since June 2013, and has overseen the repositioning of the company through a consumer focus, a strong balance sheet and a very capable management team to take the business forward. He also led transformation initiatives that have seen many of our Independent Retail customers improve their competitive position. I would like to sincerely thank Ian for his significant effort and achievements.

Jeff has broad international experience in the retail and wholesale industries and is ideally suited to lead the company's continued focus on supporting the success of Independent Retailers. We look forward to Jeff joining us in September this year.

On behalf of the Board, I would like to thank our people, the leadership team and all of our partner suppliers and retailers for their ongoing support as we work to ensure a sustainable and healthy Independent Retailer network.

I would also like to recognise the support and contribution of my fellow Directors. Together, we have formed a hardworking and cohesive team.

Robert Murray

Rob Murray
Chairman

Ian Morrice
Chief Executive Officer

CEO's Report

The last financial year was a very challenging one in many aspects, including highly competitive market conditions leading to increased price deflation, and market disruption from the closure of Masters' hardware stores. In this context, there were many facets of our performance that were pleasing.

From a financial perspective, the Group delivered growth in underlying earnings and strong cash inflows despite the market challenges, both creditable outcomes.

Underlying profit after tax increased 9.3% to $194.8 million, reflecting continued earnings growth in Liquor, and in Hardware which benefited from the successful acquisition of Home Timber & Hardware (HTH). Our Food pillar delivered earnings in line with the prior year, despite facing price and new space competition at levels never before seen in the sector.

Supporting Independent Retailers to be the 'Best Store in Town' is central to our strategic focus, and the past year saw significant progress on our retailer-centred initiatives.

The interests and values of Mitre 10 and HTH retailers are closely aligned. Our objective is to continue to build successful Independent Retailers and grow a vibrant independent hardware sector, for the long term.

We, and our Independent Retailers, are very passionate about driving growth for their businesses, and I am encouraged to see the network continuing to invest in both new stores and upgrades at an increasing rate despite the difficult market conditions.

In Supermarkets, there were 32 new store openings in the year, and a further 100 stores completed the Diamond Store Accelerator (DSA) refurbishment program. This brings total DSA completed stores to ~250, with another ~100 expected in FY18. The DSA refurbished stores are delivering impressive sales growth of well over 10%, on average.

In Liquor, retailers have continued investing in the network, with 95 stores completing the 'refresh' program and a further 130 cool rooms upgraded, both aimed at improving the shopper experience.

In Hardware, our Sapphire Store Refurbishment and upgrades and Core Ranging programs are both delivering strong sales growth. A further 10 stores were upgraded to Sapphire standards during the year, in line with our target. This brings the total completed so far to 22. Typically these Sapphire upgrades deliver greater than 15% uplift in sales per store.

The challenging market and economic conditions have reinforced just how important it is that we deliver on our targeted savings from the Working Smarter program. Simplifying the way we operate, and at the same time reducing our costs, is crucial to ensure we remain competitive and meet the future needs of our customers, retailers and suppliers. This year we exceeded our savings target of $35 million, and I am very appreciative of the significant effort, understanding and resilience of our people as we continue to simplify and change the way we operate.

Importantly, our cash performance for the year was very strong with operating cash flow of $304.6 million, an increase of $138.8 million on the prior year. This was a key driver of a $194.7 million reduction in net debt to $80.8 million. Debt reduction has been a priority for us in recent years, being a key component of our response to challenging market conditions. This year's reduction means net debt has now decreased by ~$690 million since FY14.

The strength of our financial position has us well placed for future investment in both growth and initiatives to drive cost efficiencies, and was a key factor in the Board bringing forward the recommencement of dividends. I would like to thank shareholders for their support in forgoing dividends over the last two years.

The year was also a very important one in our history, with the acquisition of the HTH Group. Combining HTH with our Mitre 10 network has created the second largest Hardware business in Australia, with sales of more than $2 billion per annum. This increased scale has created significant synergy opportunities, and enables us to improve our competitive position and deliver better outcomes for both our independent Hardware retailers, and their customers. This acquisition will also be strongly earnings accretive for shareholders.

Operating performance

The Group generated sales revenue for the year of $14.12 billion, an increase of 5.4% on the prior year, which includes sales from HTH since its acquisition on 2 October, as well as sales from a 53rd trading week in FY17.

Group EBIT increased 7.7% to $296.7 million, reflecting continued earnings growth in the Liquor and Hardware pillars.

In Food, sales increased 0.6% to $9.18 billion. Excluding the 53rd week, sales were 1.3% lower than the prior year.

Supermarkets sales increased 1.3% to $7.65 billion, and were 0.6% lower excluding the 53rd trading week as the uplift from our strategic initiatives and new store openings were more than offset by significant price deflation, the cycling of sold stores and store closures, increased competitor promotional activity, competitor entry into South Australia and Western Australia, and weak economic conditions in Western Australia.

Convenience sales declined 2.7% to $1.53 billion, and were 4.5% down excluding the 53rd trading week due to the impact of lower volumes in both C-Store Distribution and Campbells.

Food EBIT was in line with the prior year at $180.0 million. In Supermarkets, our Working Smarter savings enabled us to maintain margins by offsetting the impact of increased tobacco sales, which have lower margins. In Convenience, significant cost reductions from repositioning the business led to an improved 2H17, with earnings breaking even for the half.

In Liquor, sales increased 3.5% to $3.33 billion, and were up 1.8% excluding the 53rd trading week. Our IBA (retail) bannered network continued to perform well with further improvement to the quality of stores despite difficult trading conditions. These included intense competition driven mainly by the large retail chains, and weak economic conditions in Western Australia.

CEO's Report continued

Our Liquor business' focus on converting existing wholesale customers to our IBA network included the acquisition of Thirsty Camel in NSW and Tasmania, and Big Bargain in Tasmania, bringing a combined 79 stores into the network. We also acquired Porters Liquor in the second half which added a further 21 stores to the IBA retail network.

Liquor EBIT increased 7.9% to $67.0 million reflecting increased sales volumes, improved margins from the conversion of wholesale customers to the IBA network, savings from the Working Smarter program, and inclusion of the 53rd trading week.

In Hardware, sales increased 52.3% to $1.61 billion, and includes seven months of sales from HTH. Mitre 10 sales increased 2.9%, or 1.4% excluding the 53rd week, underpinned by our "shopper led" initiatives.

We are making great headway with our Competitive Pricing program and Digital Data and Insights initiatives, which are improving the competitiveness of our retailer network.

Hardware EBIT increased 48% to $48.5 million reflecting a ~$12 million contribution from HTH in 2H17, and improved earnings in Mitre 10 due to increased sales volumes and cost efficiencies.

Integrating two sizable businesses to create the Independent Hardware Group is a significant task. I am pleased to report that we are in line with our plan to complete the integration by the end of FY18. Our achievements to date are a testament to the quality and effort of our people, particularly our Hardware team. We have received strong support and goodwill from Independent Retailers, which is key to the integration. Other key areas such as property rationalisation, forming an integrated management structure, and merchandising synergies are also progressing well.

Safety

Metcash continues to have a strong focus on workplace safety and reducing injury. I am pleased to report that the Lost Time Injury Frequency Rate for the year declined to 10.1 for the year, compared with 10.3 in the prior year. This reflects a decrease in the number of LTIs to 90, compared with 94 in the prior year. There was also a 44% reduction in our High Potential Incident measure for the year, which was a good improvement.

We are determined to continue reducing our rate of injury and are driving greater automation of processes to reduce the risk of manual handling. We are also continuing to pursue increased awareness across our operations around the safety of our people.

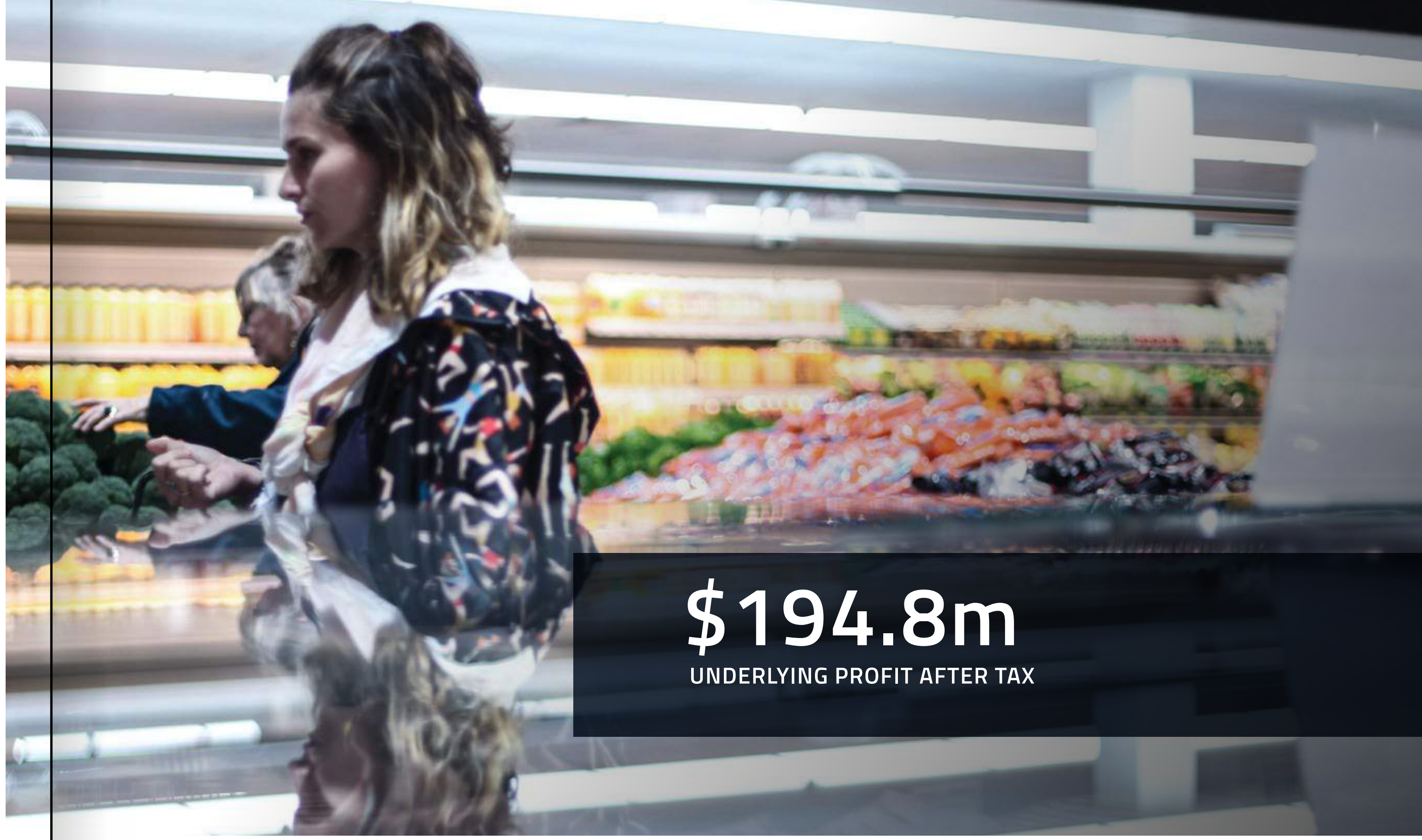
Outlook

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

In Liquor, we expect moderate growth in the overall Liquor market with the business remaining focused on building and improving the quality of its IBA (retail) bannered network.

In Hardware, positive market conditions remain. The business continues to focus on delivering synergies related to the acquisition of HTH, and these are expected to be at the upper end of our targeted range of $15 million – $20 million (annualised) by the end of FY18. FY18 will also include a full year of earnings from HTH.

Food EBIT	Liquor EBIT	Hardware EBIT
$180.0m	**$67.0m**	**$48.5m**



In Food, we expect a continuation of the significant external headwinds experienced in FY17. The business will continue to progress initiatives to support Australian Independent Retailers to be the 'Best Store in Town'. We expect Working Smarter savings to help mitigate the impact of difficult market conditions including price deflation, cost inflation and the necessary investment in new initiatives.

We have good businesses, and very capable, passionate and enthusiastic people, retailers and suppliers. We have a strong balance sheet and see great opportunities ahead in each of our pillars. I feel very encouraged by what we have achieved this year, and positive about what can be achieved in the future.

Our focus also remains on ensuring we continue to be the partner of choice for suppliers and Independent Retailers, and this is an important objective for each of our teams. Our independent network operates successfully through a very strong interdependency between Metcash as the wholesaler, our suppliers and our retailers.

Competition remains intense, but by working closely with our supplier partners we can ensure that Independent Retailers are able to provide a competitive localised, differentiated offer that is tailored to their local community, enabling them to achieve 'The Best Store in Town' for their shoppers.

I would like to sincerely thank all our people across the Metcash businesses for their considerable efforts, resilience and commitment during my time as CEO. It has been a real privilege to lead such a passionate team who fight for the success of independent family businesses every day.

Finally, thank you to all our retail customers for your passion and belief in being the 'Best Store in their Town', and at the heart of the communities in which you operate. The success of independent family-owned businesses is core to our purpose of "Successful Independents", and vital to the Australian economy and communities.

Ian Q Morrice

Ian Morrice
Chief Executive

Financial Highlights

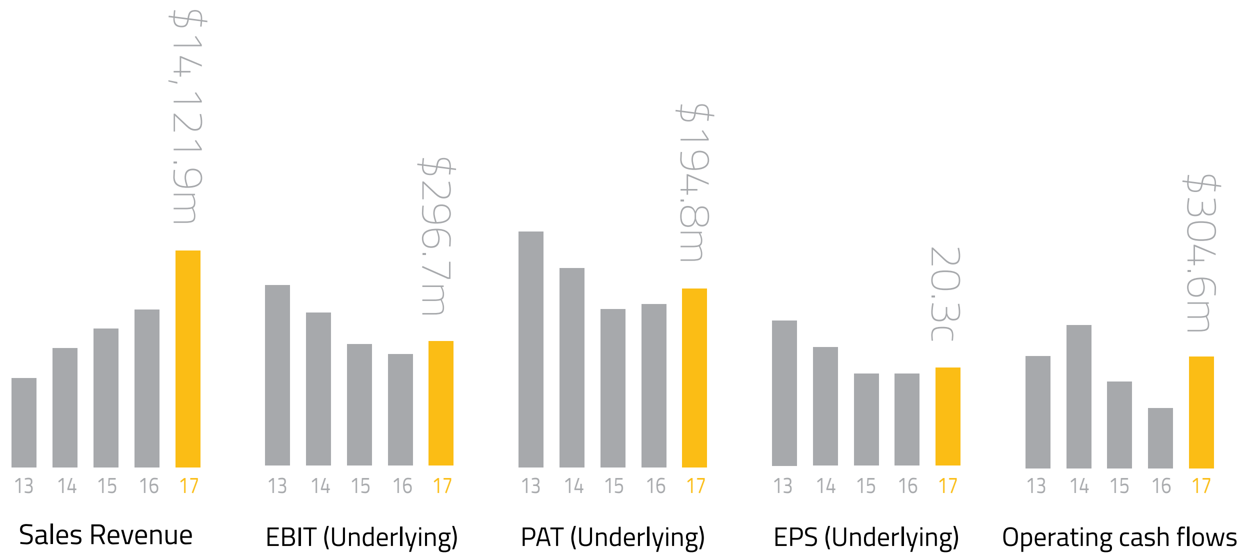
Strong financial position

$14.12 billion
GROUP SALES REVENUE

$194.8m
UNDERLYING PROFIT AFTER TAX

$304.6m
OPERATING CASHFLOW

$80.8m
NET DEBT

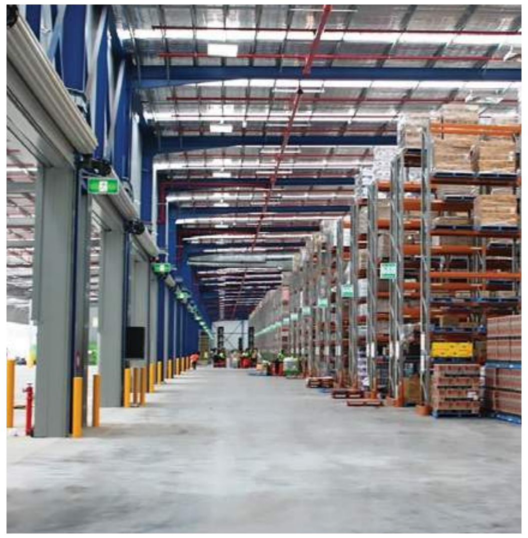


	2017[1]	2016	2015	2014	2013
Financial Performance					
Sales revenue ($m)	**14,121.9**	13,402.5	13,244.3	13,045.1	12,767.8
Underlying EBIT ($m)	**296.7**	275.4	297.3	368.4	437.7
Finance costs, net ($m)	**25.5**	27.0	55.1	57.3	61.7
Underlying profit after tax ($m)	**194.8**	178.3	173.6	218.4	261.2
Reported profit after tax ($m)	**171.9**	216.5	(384.2)	169.2	206.0
Operating cash flows ($m)	**304.6**	165.8	231.7	388.7	299.8
Cash realisation ratio (%)	**118%**	70%	97%	137%	94%
Financial Position					
Shareholder equity ($m)	**1,637.4**	1,369.1	1,156.6	1,594.0	1,624.2
Net debt (hedged) ($m)	**80.8**	275.5	667.8	766.9	719.8
Gearing ratio (net hedged) (%)	**4.7%**	16.8%	36.6%	32.5%	30.7%
Return on funds employed (%)	**18.5%**	16.5%	14.4%	15.8%	19.6%
Share Statistics					
Fully paid ordinary shares	**975.6**	928.4	928.4	888.3	880.7
Weighted average ordinary shares	**958.8**	928.4	907.0	882.7	859.7
Underlying earnings per share (cents)	**20.3**	19.2	19.1	24.7	30.4
Reported earnings per share (cents)	**17.9**	23.3	(42.4)	19.2	24.0
Dividends declared per share (cents)	**4.5**	-	6.5	18.5	28.0
Dividend payout ratio (%)	**22%**	-	34%	75%	92%
Other Statistics					
Number of employees (full-time equivalents)	**6,708**	5,807	6,398	6,174	5,794

[1] FY17 includes a 53rd week of trading

Logistics

Australia's leading wholesaler



12 NRL fields can fit into one of our largest distribution centres at Huntingwood, NSW.

Metcash is a world class wholesaler supplying leading independent retail brands across Australia within the food, grocery, liquor and hardware sectors.

Our people are our best asset, and we have around 5,000 of the company's ~6,700 employees working in our wholesale distribution operations, dedicated to ensuring the best possible level of service to our extensive network of Independent Retail customers.

By combining their buying power we are able to improve their competitive position against larger competitors. We are able to provide Independent Retailers with a competitive and efficient scale of operation across the wide range of products that we sell.

We also make it more efficient for suppliers, whether they operate at a national or local level, to reach what would otherwise be a very diverse and disparate network of Independent Retailers.

Widest distribution network in Australia

Our Independent Retail and wholesale customers are supported by seven large distribution centres across the major cities, as well as smaller distribution centres in regional areas.

Metcash has the widest retail distribution network in Australia. Housing grocery, convenience, hardware and liquor products, we service Independent Retailers in all corners of Australia, including; Cape York and Cooktown in the North East, Dampier and Broome in the North West, Albany and Denmark in the South West and Tarwin Lower and Foster in the South East.

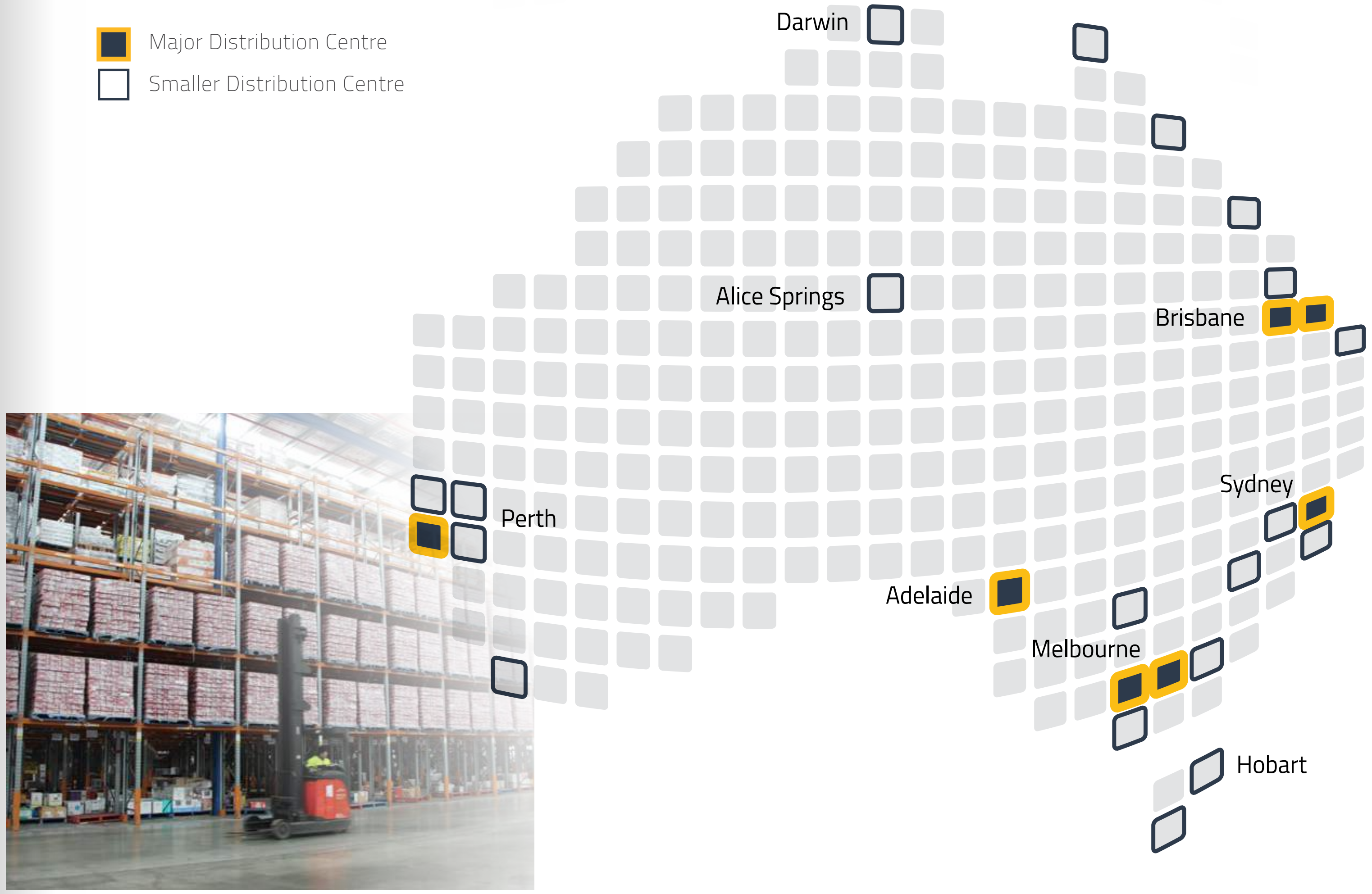
Along with capital cities and regional centres, Metcash also supports independents in areas that others don't reach. We provide products to some of Australia's remotest locations, such as Halls Creek WA, Coober Pedy SA, Tennant Creek NT, Cobar NSW to name just a few.

World class wholesale distribution

Across our people, processes, tools and systems, Metcash is investing to ensure that we continue to be Australia's leading wholesaler. Key to our operational excellence is our investment in automation, with the introduction of new state of the art material handling systems in a number of our distribution centres. These systems improve safety, support Independent Retailers by improving efficiency and optimise Metcash's cost to serve equation.

Partner of choice for retailers and suppliers

There is a very strong interdependency between Metcash as the wholesaler, our suppliers and our retailers. We work closely with our key supplier partners under a Vendor Managed Inventory program, which involves using supplier intelligence to ensure that we order optimum levels of stock to support our retail partners.



Our world class operations in action

Utilising our logistics flexibility to support the community of Beechworth

In early 2016, Beechworth Ritchies IGA was gutted after flames tore through the building leaving the local community without a supermarket. To ensure that residents could continue to have access to a local supermarket, a temporary store was quickly created out of little more than a tin shed.

Ritchies and Metcash teams filled the temporary store quickly with deliveries made on a 12 pallet rigid perishable truck, as the store could only receive rigid vehicles due to its residential location. Metcash has been combining chilled, frozen, dry grocery and liquor on the one truck 3-4 times per week since the reopening. The store has performed very well and the new store re-build is underway.

Using our distribution capability to be 'first to market' with Coca-Cola No Sugar

Early collaboration between Coca-Cola and Metcash's merchandise and logistics teams and Independent Retailers, enabled Metcash to be first to market for the launch of Coca-Cola No Sugar in June 2017.

The first to market opportunity involved the delivery of 67,553 cases and 798 pallets on 37 trucks, which were delivered within the first five hours of release. Over half of our extensive IGA retail network received Coca-Cola No Sugar within just four days of the product's launch.

Partnering with Community Enterprises Queensland to supply Thursday Islands

Metcash in its supply to remote communities, services the Islanders Board of Community Enterprises Queensland (CEQ). We provide CEQ with approximately 320,000 cases of dry and perishable goods per annum for the Torres Strait Island Communities. We closely partner with CEQ to facilitate the organisation's growth plans.

Trucks travel over 40 million kilometres per year making Metcash deliveries to Independent Retailers throughout Australia.

Food

Helping independent retailers thrive

Metcash has come a long way from its origins in 1924 as a standalone corner store in Sydney's Wolloomooloo.

Servicing over ~1,680 supermarket customers through bannered stores such as IGA, Foodland, Friendly Grocer and Eziway, Metcash offers a wide range of core wholesale grocery, fresh produce, meat, bakery and deli products.

Our Convenience business comprises two integrated wholesale distribution arms established to service the Australian petrol and convenience sector across Australia; Campbells Wholesale & C-Store Distribution.

'Best Store in Town'

The consumer is the central player in all our plans and with an ever changing retail landscape, Metcash's continued focus is to support the success of our Independent Retail customers, providing them with all the tools they need to become the 'Best Store in Town'.

Two key initiatives have been introduced in recent years with consumers in mind. Our Price Match program ensures that our pricing remains competitive with the major supermarket chains for both branded and private label products, and is now incorporated in ~1,000 supermarkets in the IGA network.

Store environment is also a focus, and the Diamond Store Accelerator (DSA) program is a unified store refurbishment program across the IGA banner, which aims to improve the shopping experience for the customer. This places an increased emphasis on the amount of floor space given to fresh produce and ready-made meals, improves customer access and the overall layout of the store. To date over 250 refurbishments have been completed, and the majority of participating stores have witnessed a significant increase in sales as a result.

Continued investment in the retail network led to 32 new stores opening during the year, and another ~35 new stores being in the pipeline for opening in FY18. Multi-store owners are also investing in new store formats that are tailored to meet the needs of their local community. Great examples of these are IGA's Romeo's Food Hall in Sydney's CBD and Ritchies SUPA IGA in Dromana, Victoria (see opposite).

Metcash also recently introduced a new mid-tier private label range called Community Co. The range offers 100 new products which seek to deliver greater value and quality to consumers while making a contribution to the community through the Community Chest Fund.

Earnings performance*

Including the benefit of a 53rd trading week, our Food business delivered underlying EBIT for the year of $180.0 million, in line with the prior year. Weak economic conditions in Western Australia and intense competition led to a continuation of difficult market conditions for the business. Sales improved 1.3% to $7.65 billion, and pleasingly our IGA retail sales on a like for like basis were positive for the third financial year in a row.

*A full review of the financial results is presented in the Operating and Financial Review on pages 29 to 31 of the Annual Report.

	Retail Stores:
Super IGA:	397
IGA:	823
IGA-Xpress:	206
Friendly Grocer/Eziway:	257

Best stores in town

Taylor Road IGA

Nedlands, WA

James and Rita Kelly's Taylor Road store has been designed so that customers' five senses compete each time they walk in the store – colourful bursts of flowers, freshly brewed coffee and fresh baked muffins, are complemented by signature lines, with the store stocking in excess of 290 locally produced WA products.

The store caters for the lunchtime and home-ward bound shoppers with ready-to-go meals including roast dinners, casseroles, gourmet pies and delicious salads created by in-house chefs. The store's success also comes from servicing community needs, and going above and beyond when it comes to customer service.

"Our success comes through creating an enjoyable shopping experience for our local community."

-James Kelly

IGA Romeo's Food Hall

Sydney, NSW

Designed to cater to the needs of city workers, commuters and people living in the inner-city, this one-of-a kind store, located in the business heart of Sydney, offers their customers a fresh, variety-driven range of delicious meals and snacks which they can buy on-the-go to eat at work or home.

The Romeo's passion for high quality, gourmet fresh food and tailored product has customers coming back every day – even twice a day!

"This is the next step in retailing for the Romeo Group. It has been designed with choice and convenience at its core."

-Joseph Romeo

Ritchies SUPA IGA

Dromana, Victoria

The Ritchies' latest DSA store in Dromana is an up-market format full of fresh and unique products that clearly differentiates them from their competitors. The store showcases products such as artisan bread, hand-rolled sushi, dry-aged beef and even bespoke peanut butter.

Less than a week after the store opening, sales were up 50 per cent on the same time last year as customers welcomed the up-market selection of cheese, bread, meat and ready-to-eat meals.

"With customers shopping up to three to four times a week, independent stores are well positioned to benefit due to their convenient location, but only if the product range is right.

We continue to see positive results from the investments in our store network. We have a focus on further upgrades and will use the proven DSA program which has been developed alongside Metcash."

- Fred Harrison

	Retail Stores:
Cellarbrations:	553
Bottle-O/ Bottle-O Neighbourhood:	457
IGA Liquor:	462
Other:	1,045

Liquor

Helping independent retailers thrive

Metcash is Australia's largest broad range liquor wholesaler.

Our Liquor pillar has two divisions; Australian Liquor Marketers (ALM) and Independent Brands Australia (IBA). The liquor division and its related businesses operate out of 15 distribution centres located in each state and territory in Australia, and in New Zealand.

Australian Liquor Marketers (ALM)

ALM is a broad range liquor wholesaler supplying approximately 12,000 hotels, liquor stores, restaurants and other licensed premises throughout Australia. It also has a specialist on-premise liquor division supplying bars, pubs, restaurants and hotels.

Independent Brands Australia (IBA)

Our IBA banner group is the second largest retail group in Australia. It includes strong national brands with a framework that enables independent liquor retailers to compete equally with larger competitors, and support their long-term sustainability. We do this through group buying power, providing strong marketing support and promotional programs, and through a wide variety of retail services to ensure high store standards.

Our IBA network includes 2,517 stores across brands such as Cellarbrations, The Bottle-O, IGA Liquor, Duncans, Thirsty Camel, Big Bargain and Porters. In FY17, sales to the IBA network represented ~55% of Liquor pillar sales.

Both ALM and IBA work to support Independent Retailers provide end customers with a competitively priced, extensive liquor range. This includes providing the most efficient and cost effective supply chain possible.

'Best Store in Town'

The smaller store format, and localised product range of our IBA retailer network, continue to position our network well for the shopper trend of buying smaller quantities per visit, but shopping more often.

Our product range is tailored to reflect our local customers' requirements from both a range and price perspective, and there is a key focus on providing shoppers with knowledgeable friendly service.

The network continues to invest in improving the shopper experience, and FY17 saw a further ~95 stores complete the store refresh program, and ~130 stores underwent upgrades to their cool rooms.

Earnings performance*

Our Liquor business continued to grow earnings with EBIT up 7.9% to $67.0 million for the year.

Sales increased 3.5% to $3.33 billion and like-for-like sales in our IBA bannered network increased 1.7%. The IBA bannered network has recorded sales at a compound annual growth rate of ~7% over the past three years.

*A full review of the financial results is presented in the Operating and Financial Review on pages 29 to 31 of the Annual Report.

Investing for growth

Best stores in town

Investing for growth

We continued to focus on converting existing wholesale customers to our IBA network as well as progressing our consolidation strategy. This included the acquisition of Thirsty Camel in NSW and Tasmania, Big Bargain in Tasmania, and the acquisition of Porters Liquor.

IBA will continue to apply the best retail offer by location to maximise the sales of our independent retail customers.

Porters Liquor

Porters Liquor is a well-recognised premium brand, positioned to capitalise on the growing trend to higher quality products. It now forms part of our IBA banner group, and provides significant growth opportunity for our Liquor business. This includes a potential expansion in store footprint from 30 to around 100 nationally.

Montrose IGA Plus Liquor

Montrose, VIC

Based at the foot of the Yarra Valley, Brad Munro has transformed IGA Montrose into a destination store for shoppers looking for premium wine, spirits and craft beer local to that region. The personalised service shoppers get from the Montrose IGA team, showcases their product knowledge, and along with their newly launched 'Cellar Selections' premium range, shoppers now have access to a truly localised offer.

"We sought to be the best liquor store in the area, and have achieved this through the creation of our differentiated localised offer, together with personalised service and in-depth knowledge on products, especially local wines, beers and spirits."

- Brad Munro

The Bottle-O Wyee Cellars

Wyee NSW

Chris Jameson recently relocated and renovated her Bottle-O store at Wyee, NSW to the highest standard, and it is now a standout at the Wyee community shopping centre. The new store has an extended product range tailored to the local community, and together with high service levels, is attracting significantly more customers than when operating from the original store. The upgraded store has now become a repeat finalist in the NSW IBA Bottle-O of the year awards.

"Our new store is proving very popular with local shoppers and we have seen sales grow more than 25%. Staying close to our customers and market trends, and having the flexibility to adapt is key to our success."

- Chris Jameson

Hardware

Helping independent retailers thrive

In October 2016, Metcash purchased the Home Timber & Hardware Group which, combined with our Mitre 10 business, created the second largest player in the Australian Hardware market.

The combined business, named the Independent Hardware Group (IHG) is a wholesaler and distributor with sales of more than $2 billion, servicing ~740 bannered stores and over 500 un-bannered stores. It is the largest channel of independent home improvement and hardware operators in Australia, with trade sales as its strength.

Our store network ranges from large format warehouses to smaller format convenience operations, trade centres and frame and truss sites, each catering to a broad mix of trade and DIY consumers.

Under the IHG network, we have a clear mandate to support the growth of Independents within the hardware sector in Australia. Our culture is built on being a low-cost and transparent business partner to our members. Partnership is also the culture on which the relationship with our suppliers is founded.

'Best Store in Town'

IHG is committed to supporting our independent store owners to be 'The Best Store in Town'. This means having a differentiated store offer that includes being locally owned, with a tailored 'shopper led' range of competitively priced products, together with superior customer service and convenient store layouts with high standards.

The rollout of our Sapphire Store Refurbishment program in Mitre 10 continued during the year, with investment in a further 10 stores. This takes the total stores upgraded to Sapphire standard to 22, with the average sales uplift for these stores ~17%.

Our Core Ranging program, which includes offering customers more choice, has now been implemented in over 50 stores and is delivering strong sales growth across key ranges such as fasteners, hand tools, power tools, paint and cement.

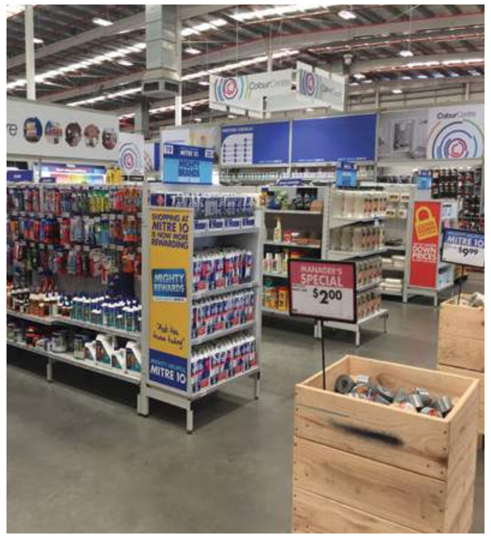
Earnings performance*

Our Hardware business continued to deliver earnings growth with EBIT of $48.5 million for the year, up from $32.8 million in the prior year. This included $12 million of EBIT from HTH for the period since acquisition, and increased earnings in Mitre 10.

*A full review of the financial results is presented in the Operating and Financial Review on pages 29 to 31 of the Annual Report.

	Retail Stores:
Mitre 10:	372
HTH and related brands:	368
True Value Hardware:	67

Best stores in town



Johnson Brothers Mitre 10

Mona Vale NSW

Johnson Brothers have been servicing Sydney's local Northern Beaches community for over 60 years. This year they opened a new 'Best Store in Town', relocating their existing store to larger premises to cater for their growing Trade and DIY business.

In addition to its high store standards and 'shopper led range' of competitively priced products, the site now has separate trade and retail entrances, an undercover drive through, a trade paint offer, and a garden centre as well as 150+ parking spots.

"Our upgraded store format is proving very popular with customers and we are seeing good sales growth"

- Ged Johnson

Womersley's Mitre 10

Chelsea VIC

The Womersley family is one of the founders of the Mitre 10 business. With their Chelsea store positioned in close proximity to a large Hardware chain competitor, the family embarked on a transformation of the store through Metcash's Sapphire program in 2016 to improve its competitiveness. The store has experienced good growth through its focus on high store standards, including providing 'Mighty Helpful' service and having a strong differentiated offer for its trade customers.

"With competition close by, our Sapphire store upgrade and our strong trade offer are helping deliver a competitive business that is tailored to our local customer base."

- Peter Womersley

Provans Home Timber and Hardware

Clifton Hill VIC

With its origin dating back to the 1880s, the Provans store has been in Barry Rosenburg's family for more than two generations. Barry's store became part of the IHG Group following the acquisition of HTH last October, and is a great example of being the 'Best Store in Town'. Provans has a reputation for being the leading supplier to the trade in Melbourne for restoring heritage houses. Around 90% of the stores sales are to trade customers, and the store is ideally set up to ensure its extensive timber offer remains under cover during collection, and that tradies can move through the site quickly.

The high level of service, product offer and store standards saw Provans awarded Home Time & Hardware's "Store of the Year" in 2017.

"We recognise the benefits of scale and are pleased to be part of the larger IHG network"

- Barry Rosenberg

Corporate Social Responsibility

Supporting local communities

The Metcash business has always been driven by its strong connection to the communities we serve.

For us, good Corporate Social Responsibility is about our role within the broader community, our connections within it and supporting our locals to be the heart and soul of communities right around the country.

We focus on having an integrated approach to community initiatives, partnering with our customers, suppliers and people to strengthen our level of engagement.

We acknowledge responsibility for the impact our business operations may have on the environment, and continue to pursue opportunities to reduce this.

Our communities

A key element of our vision is to support communities to thrive. Engaging and supporting our communities and our customers to help deliver this vision is an integral part of what we do.

Our support includes financial donations through our Independent Retailer network, the donation of staff time, and the donation of food and products to those in our communities who are most vulnerable.

Our Independent Retailer network has donated over $80 million into local communities over the past 25 years through the Community Chest Fund. This has supported over 7,000 charities at a national, state and local level, including schools, sporting clubs, country fire services, hospitals and disaster relief services.

Many communities have benefited from the purchase of much needed medical equipment, school equipment, local fire-fighting equipment as well as through disaster relief support such as food and gift vouchers.

During the year, IGA's across NSW and the ACT donated $150,000 to the Humpty Dumpty Foundation to support the purchase of medical equipment for hospitals. In Victoria, the IGA network donated $50,000 to the Royal Children's Hospital Good Friday Appeal.

The IGA network has a proud history of supporting local communities in times of need. During the year, the Queensland IGA network donated $100,000 in gift cards to residents affected by Cyclone Debbie. In the worst impacted areas, IGA West Mackay, SUPA IGA Sarina, SUPA IGA Bowen and SUPA IGA Proserpine donated our Community Co water and UHT long life milk to local SES centres to assist those impacted by the cyclone.

At a national level, we have long-standing support partnerships with the Special Olympics, St Vincent de Paul and the McGrath Foundation. All three charities received both in kind support through staff volunteerism, as well as financial support.

We also have a long-standing partnership with Foodbank. Foodbank rescues surplus but edible food and groceries from the country's farmers, manufacturers and retailers, and donates this to over 2,600 charities and 1,750 schools. Since 2012, Metcash has donated over one million kilograms of food to Foodbank.

Living healthier lives – promoting healthy families and healthy communities

As we aspire to be healthier and happier, it is important that we deliver nutritious healthy food options, as well as supporting educational materials on food and living a healthy lifestyle.

Under the IGA Family Program, we strive to support local communities by providing members with tools to promote healthy lifestyles for a healthier, happier Australia. This includes providing communities with access to healthy and affordable recipes, arts and craft activities that encourage creativity and recycling, fact sheets to teach children about the origins of food, as well as special offers to help our members shop to a budget.

Since the program's inception one year ago, over 16,000 families have become members of the IGA Family Program.

Special Olympics - celebrating a 25 year partnership with IGA

Sallie Jones from Gippsland Jersey, our IGA Family program Ambassador, providing members with nutritious recipes using milk from her farm

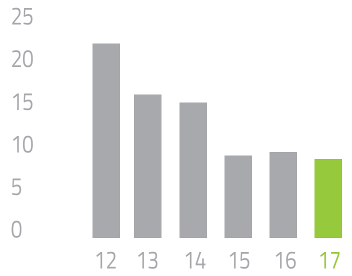
Safety and wellbeing

The safety and health of our people, contractors and visitors is at the core of everything we do. We continue to strive for improvement and to be world class in safety.

During the year we implemented additional initiatives to improve our safety performance, including progressing greater automation of processes to reduce the risk of manual handling, as well as increasing awareness across our operations around the safety of our people, contractors and visitors.

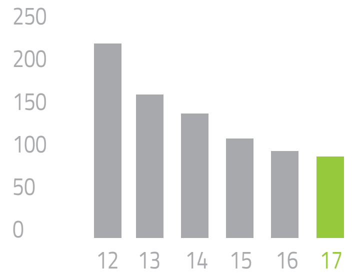
Our Lost Time Injury Frequency Rate (LTIFR) reduced to 10.1 for the year, from a LTIFR of 10.3 in the prior year . This reflects a decrease in the number of LTIs to 90, compared with 94 in the prior year. There was also a significant reduction in our High Potential Incident measure, which reduced from 63 incidents in the prior year to 35 in FY17.

In addition to safety, the wellbeing of our people is a top priority. Reflecting this, the company provides the opportunity for employees to access a range of employee benefits to promote the wellbeing of our employees. These include wellbeing leave days, volunteering days, flexible working arrangements, counselling services, paid parental leave and allowing eligible employees to access an additional week of leave per year.



Lost Time Injury Frequency Rate

The LTIFR for FY16 has been restated from 8.5 to 10.3 following a review of our safety statistics reporting carried out by PwC.



Lost Time Injuries

IGA Marketing team volunteer day helping to support Vinnies

Metcash donates to Foodbank

IGA Retailers supporting the Humpty Dumpty Foundation through Community Chest donations

Diversity, inclusion and our people

Inclusion and diversity are fundamental to our culture and core values. We recognise that each person has unique strengths, and that high performance is underpinned by embracing those strengths.

In addition to being a member of the Diversity Council of Australia (DCA), the company has established a Diversity and Inclusion Council that is responsible for driving greater awareness of diversity and inclusion across the organisation, as well as creating a comprehensive action plan for the Metcash group.

We believe that encouraging diversity will contribute to high performance by driving business results, encouraging greater innovation, and by attracting, recruiting, engaging and retaining a diverse team of high quality people.

The Metcash workforce is currently comprised of 33% females and 67% males. Women now hold 30% of all senior manager roles in the company. Woman account for 43% of the Metcash Board of Directors, which is well ahead of the ASX 200 average.

Sourcing with integrity

As a business we are responding to the expectations of our communities, this has been evidenced by the launch of the Community Co brand during the year which seeks to deliver greater value and quality to consumers. Fundamental to this is ensuring that our products are developed in accordance with expectations including responsible sourcing.

Our progress in responsible sourcing included the following during the year:

> Use of 100% Certified Sustainable Palm Oil (CSPO) across our private label brands. This includes a mix of mass balance and segregated palm oil.

> Sourcing the majority of our Tuna using sustainable fishing methods (FAD Free)

> Ensuring that 100% of our private label brand tissues, toilet paper and kitchen towels are sourced from third-party certified sustainable sources

> The introduction of sow stall free pork in our Community Co range

> Significant progress towards our target of achieving 100% cage free eggs in our private label brands by 2018

We are a member of the Roundtable on Sustainable Palm Oil (RSPO), and continue to work with our suppliers to ensure that Palm Oil used in our private label products is from sustainable sources.

Our environment

We are committed to reducing our impact on the environment, and work with our people, suppliers and customers to identify areas for improvement.

We report annually against a number of compulsory and voluntary programs, including:

> Dow Jones Sustainability Index (DJSI)

> Carbon Disclosure Project (CDP)

> National Greenhouse and Energy Reporting Act (NGERS)

> Australian Packaging Covenant (APC)

> Western Australian Waterwise Business Program

There were no breaches of environmental laws or regulations in the year.

Energy and emissions

Our energy savings initiatives have delivered a 6.3% reduction in emissions at our Distribution Centres, which account for the majority of the company's energy consumption.

The driver of this improvement was the implementation of a number of energy savings projects, including LED lighting retrofitting and the implementation of monitoring programs to review energy usage on a regular basis.

Energy reduction is an ongoing priority for us, and we are optimistic that further opportunities will arise through the use of more energy efficient technologies that are currently under review.

Waste and packaging

Waste and its diversion to recycling is an important area of focus for our business, and we are proud to play a stewardship role in these areas. We are committed to the Australian Packaging Covenant, and continue to work closely with our partner suppliers to reduce the volume of product packaging.

Our programs to increase the amount of material that is recycled, rather than being sent to landfill, are delivering good results. This year we diverted ~16% of waste from landfill.

We are committed to improving our performance in these areas, and further opportunities are being developed by work teams, primarily at our distribution centres.

Our people

Senior management

Ian Morrice
MBA
CEO
Metcash Group

Ian has over three decades of retail experience as Managing Director, Trading Director and Retail Director for some of the UK's leading retailers, including the Kingfisher Group and Dixons Retail. Ian was Group Chief Executive Officer and Group Managing Director of New Zealand's Warehouse Group.

Steven Cain
M.Eng
CEO
Supermarkets & Convenience

Steven joined Metcash in 2015 with significant local & international business experience through previous directorships at Coles, Asda (UK), Pacific Equity Partners & ITV (UK).

Steven has attended management programs at Harvard & London Business Schools, and has a Master of Chemical Engineering Degree from Imperial College London.

Mark Laidlaw
B.Ec, CPA
CEO
Independent Hardware Group

Mark joined Metcash in 2001 and was appointed CEO of Mitre 10 Australia in May 2010.

Mark has extensive experience in general management, sales, operations and commercial management and prior to joining Metcash, Mark worked for Mobil Oil.

Scott Marshall
B.Business
CEO
Australian Liquor Marketers

Scott began his career with Metcash in the ALM business 24 years ago and was appointed CEO of ALM in December 2013.

His areas of experience cover warehousing operations and management, sales, retail operations, state general management and marketing management.

Brad Soller
B.Comm, B.Acc, M.Comm, CA (SA)
CFO
Metcash Group

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

Linda Venables
B.Sc Hons
Chief Logistics Officer – Food & Liquor

Linda started with Metcash in October 2013 and was appointed Chief Logistics Officer in February 2015.

Linda's career spans both FMCG and Retail, including 3rd party logistics in Europe and the Australian retail market. Linda also has extensive systems implementation, program management and M&A experience.

Edwin Gear
B.Sc, MBA
Chief Information Officer

Edwin joined Metcash in 2014 and was appointed as Group CIO in April 2015. Edwin is responsible for IT's cross-functional collaboration with group companies.

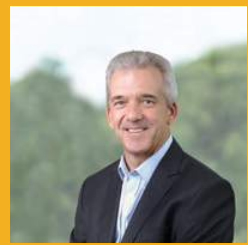
Before joining Metcash Edwin held various executive roles in merchandising, logistics and technology with Foodstuffs Wellington and Mitre10 in New Zealand and Supergroup in South Africa.

Penny Coates
BA Hons, Chartered Fellow CIPD, GAICD
Chief People & Culture Officer

Penny joined Metcash in 2015 as Chief People & Culture Officer. Penny has extensive international HR and line management experience gained in the retail, financial services and professional services industries.

Prior to joining Metcash Penny worked for TAL as their Chief Customer Service & Operations Officer.

Our board



Robert Murray
MA Hons, Economics (Cantab)
Non-executive Chairman

Chair of the Nomination Committee.

Ian Morrice
MBA
CEO, Executive Director

Patrick Allaway
BA, LLB
Non-executive Director

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

Fiona Balfour
BA (Hons), MBA, Grad Dip IM, FAICD
Non-executive Director

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

Tonianne Dwyer
BJuris Hons, LLB Hons, GAICD
Non-executive Director

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

Murray Jordan
MPA
Non-executive Director

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

Helen Nash
BA Hons, GAICD
Non-executive Director

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

Julie Hutton
B Asian Studies (Viet), LLB, LLM, GAICD
Company Secretary

For Directors' biographies, please see page 34 of the Annual Report. For more information on Board evaluation, please refer to the Corporate Governance page on our website: www.metcash.com/corporate-governance

Financial Report

For the year ended 30 April 2017

Contents

Directors' Report

For the year ended 30 April 2017

Your Directors submit their report of Metcash Limited (the 'Company') and its controlled entities (together the 'Group' or 'Metcash') for the financial year ended 30 April 2017 ('FY17').

Operating and Financial Review

1. Metcash's business model

Metcash is Australia's leading wholesaler and distributor, supplying and supporting approximately 5,000 independent retailers forming part of our bannered network and approximately 100,000 other businesses across the food and grocery, liquor and hardware industries. Metcash's retail customers operate some of Australia's leading independent brands including: IGA, Mitre 10, Home Timber & Hardware and Cellarbrations.

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

The Group employs over 6,000 people and indirectly supports further employment via its network of Successful Independents.

2. Strategic objectives

Metcash's strategic vision is to:

- be a business partner of choice for suppliers and independents;
- support independent retailers to be the *Best Store in Town*;
- be passionate about independents; and
- promote thriving communities, giving shoppers choice.

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

The Group commenced the *Working Smarter* program towards the end of FY16. This three year program (FY17 - FY19) aims to reduce complexity in existing business processes and make it simpler for customers and suppliers to do business with Metcash.

The program spans all business pillars and support functions and includes optimisation of organisational and cross-pillar structures; buying, promotions and pricing models; supply chain and non-trade procurement. The program is targeting a run rate of over $120 million of gross savings by FY19. This will help mitigate ongoing inflationary pressure on the Group's cost base.

3. Key developments

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

During the year, the Group raised $93.3 million of equity (net of transaction costs) through the issue of 47.3 million shares, in part to fund the HTH acquisition. Strong operating cash flows, together with prudent capital management, contributed to a low net debt level of $80.8 million at the end of the year.

Based on the Group's low debt position, the Board has determined to pay a fully franked final FY17 dividend of 4.5 cents. In addition, the intention of the Board is to recommence the payment of interim and final dividends during FY18, targeting a full year dividend payout ratio of 60% of Underlying Earnings Per Share.

As noted in last year's Directors' Report, Metcash's distribution centre at Huntingwood (NSW) suffered significant damages as a result of a hail storm in April 2015. As a result of this damage the distribution centre was largely out of operation during FY16. Final repairs have been completed and the distribution centre is now fully operational. Metcash incurred significant costs as a result of this event, which have been covered through insurance.

4. Key financial measures

Warehouse earnings

Metcash's operations are designed to allow significant volumes to be distributed through its warehouse infrastructure. The ability to leverage warehouse earnings is a key driver of the Group's profitability.

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

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

Cost of doing business

The Group's profitability depends on the efficiency and effectiveness of its operating model. This is achieved by optimising the Group's Cost of Doing Business (CODB) - which comprises the various costs of operating the distribution centres and the administrative support functions.

Working Smarter is a key strategic program aimed at maximising the effectiveness of the Group's CODB.

Funds employed and return on capital

The Group's funds employed is primarily influenced by the seasonal working capital cycle and the maintenance of a strong focus on cash flow through optimal stock levels and debtors management.

The Group has longer term capital investments in its supply chain capabilities, including warehouse automation technologies and software development. The Group also manages a portfolio of short-to-medium term investments to support the independent network - mainly in the form of equity participation or short term loans.

The Board's intention is to reinvest adequate funds within the business for future growth and otherwise return earnings to shareholders.

Impact of an additional trading week

The current financial year represents a 53 week trading period (from 25 April 2016 to 30 April 2017) as compared to a 52 week period in the previous financial year (from 27 April 2015 to 24 April 2016). Section 5 of this report provides an overview of the Group's financial performance, including the impact of the additional trading week.

Impact of new accounting standards on key financial measures

Metcash's key financial measures will be influenced by the following new accounting standards in the coming years. These changes will require significant analysis as well as changes to systems and processes. Whilst the Group has not yet completed its analysis, the following outcomes are currently expected.

AASB 16 Leases

Metcash enters into long-term property leases to secure competitive retail sites for the independent retail network. These arrangements are commonly 'back-to-back' operating leases where the related cash flows substantially offset each other within the income statement. Metcash also holds long-term leases over its distribution centres, support offices and certain retail stores.

The adoption of AASB 16 *Leases* in FY20 is expected to significantly gross up the Group's balance sheet for 'back-to-back' leases through the recognition of future receivables and payables. For properties occupied by the Group, the balance sheet will hold a depreciating non-financial asset and the associated payable under the lease.

In the income statement, net rental expense will be replaced by a 'front-loaded' net interest expense and a straight-lined depreciation expense. This is expected to significantly rebase the Group's earnings before interest and tax ('EBIT') and returns on funds employed ('ROFE'), both of which are key financial measures used by the business.

AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments

The Group is also undertaking a comprehensive review of the implementation impacts of AASB 9 and AASB 15. The Group has not reached a determination as to the impacts of these accounting standards. Metcash must apply AASB 15 and AASB 9 from FY19.

5. Review of financial results

Group overview

	2017 $m	2016 $m
Sales revenue	**14,121.9**	**13,402.5**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	360.2	335.7
Depreciation and amortisation	(63.5)	(60.3)
Earnings before interest and tax (EBIT)	**296.7**	**275.4**
Net finance costs	(25.5)	(27.0)
Underlying profit before tax	271.2	248.4
Tax expense on underlying profit	(74.6)	(68.4)
Non-controlling interests	(1.8)	(1.7)
Underlying profit after tax (i)	**194.8**	**178.3**
Significant items expense	(32.7)	-
Tax benefit on significant items	9.8	-
Net profit for the year from continuing operations	171.9	178.3
Net profit after tax for the year from discontinued operations	-	38.2
Net profit for the year	**171.9**	**216.5**
Underlying earnings per share (cents) (ii)	**20.3**	**19.2**
Reported earnings per share (cents)	**17.9**	**23.3**

(i) Underlying profit after tax is defined as reported profit after tax from continuing operations attributable to equity holders of the parent, excluding significant items after tax.
(ii) Underlying earnings per share (EPS) is calculated by dividing underlying profit after tax by the weighted average shares outstanding during the period.

The Group generated sales revenue of $14.12 billion, up 5.4% compared to the prior year, which includes $521.5 million of sales from the HTH business following its acquisition on 2 October 2016, as well as sales of $253.5 million from a 53rd trading week.

Group EBIT for the year increased 7.7% to $296.7 million (FY16: $275.4 million) due to continued earnings growth in both the Liquor and Hardware pillars. Earnings in the Food & Grocery pillar were in line with the prior year, with cost savings and a 53rd trading week offsetting the impact of intense competition, difficult economic conditions in Western Australia and a change in sales mix.

Underlying profit after tax increased 9.3% to $194.8 million (FY16: $178.3 million), including the benefit from a 53rd trading week and the acquisition of HTH. Reported profit after tax was $171.9 million (FY16: $216.5 million), and includes $22.9 million of costs (post tax) related to the acquisition and integration of HTH, and cost associated with implementing the Working Smarter program. The prior year comparative includes $38.2 million (post tax) relating to discontinued operations.

Segment results

	Segment revenue		Earnings before interest and tax (EBIT)	
	2017 $m	2016 $m	2017 $m	2016 $m
Food & Grocery	9,180.0	9,126.6	180.0	179.9
Liquor	3,333.1	3,219.3	67.0	62.1
Hardware	1,608.8	1,056.6	48.5	32.8
Corporate	-	-	1.2	0.6
Metcash Group	**14,121.9**	**13,402.5**	**296.7**	**275.4**

Food & Grocery

Food & Grocery sales increased 0.6% to $9.18 billion (FY16: $9.13 billion). Excluding the 53rd trading week, Food & Grocery sales declined 1.3%.

Supermarkets sales increased 1.3% to $7.65 billion, and were 0.6% lower excluding the 53rd week. This reflects an improved performance in the Eastern states and weaker sales in South Australia and Western Australia. The sales mix for the year included an increase in the weighting of tobacco sales, primarily due to excise price increases.

Wholesale sales (excluding tobacco) declined 4.3% over the comparable 52 week period. Sales growth from strategic initiatives and new store openings were more than offset by the impact of store sales and closures, deflation, difficult economic conditions in Western Australia, and increased competition including the expansion of competitor footprint in South Australia and Western Australia.

Like for like ("LfL") retail sales across the IGA network increased 0.1%, resulting in continuous sales growth over the past three financial years despite significant external challenges.

Convenience sales declined 2.7% to $1.53 billion (FY16: $1.57 billion), and were 4.5% lower excluding the 53rd trading week. Revision of a key contract during the year led to lower volumes in C-Store Distribution (CSD), while in Campbells, sales were adversely impacted by a continuation of the decline in reseller volumes.

Food & Grocery EBIT (including the 53rd trading week) was in line with the prior year at $180.0 million (FY16: $179.9 million). In Supermarkets, margins were maintained due to savings from the Working Smarter program offsetting the impact of a greater weighting to tobacco in the sales mix. In Convenience, a repositioning of the business, including significant cost reductions, underpinned an improved performance with earnings breaking even for the second half of the financial year.

Liquor

FY17 sales increased 3.5% to $3.33 billion (FY16: $3.22 billion), and were up 1.8% excluding the 53rd trading week. The IBA bannered network continued to perform well, with further improvement in the quality of the network. Wholesale sales through the IBA network increased 6.3%, and were up 4.6% excluding the 53rd trading week. IBA retail store sales increased 1.7% on a LfL basis. Liquor has now delivered sales and earnings growth for the past five reporting periods.

EBIT (including the 53rd trading week) increased 7.9% to $67.0 million (FY16: $62.1 million) reflecting increased sales volumes, improved margins from the conversion of wholesale customers to the IBA network and savings from the Working Smarter program.

Hardware

Hardware sales increased 52% to $1.61 billion (FY16: $1.06 billion), and includes seven months of sales from HTH following its acquisition in October 2016. Mitre 10 sales increased 2.9%, or 1.4% excluding the 53rd trading week. The growth in Mitre 10 sales was underpinned by positive momentum from its "shopper led" initiatives, partly offset by the cycling of closed stores and the impact of Masters closure in December 2016.

EBIT (including the 53rd trading week) increased 47.9% to $48.5 million (FY16: $32.8 million) reflecting the ~$12 million contribution from HTH in 2H17, and improved earnings in Mitre 10 driven by increased sales volumes and cost efficiencies.

The integration of HTH is tracking to plan for completion by the end of FY18. Significant progress has been made in all key areas, including: retention of customers, property rationalisation, management structure and merchandising synergies. A review of branding for the combined "Independent Hardware Group" is underway with completion expected by the end of this calendar year.

Corporate

The Corporate result included $5.3 million of profit on sale of surplus retail properties.

Finance costs and tax

Net finance costs in the previous financial year included a $9.6 million gain related to a finance facility restructure. Excluding this one-off impact, current year net finance costs reduced by 30.3% due to lower debt utilisation, tight working capital management and prudent capital expenditure.

Tax expense on underlying profit of $74.6 million represents an effective tax rate of 27.5% (2016: 27.5%). The effective tax rate reflects distributions from equity investments, the application of capital tax losses and research & development allowances.

Cash flows

	2017 $m	2016 $m
Operating cash flows	304.6	165.8
Investing cash flows	(198.6)	237.4
Equity raised (net)	92.8	-
Dividends paid and other financing activities	(4.1)	(10.9)
Reduction in net debt	**194.7**	**392.3**

Operating cash flow for the year was $304.6 million (FY16: $165.8 million) driven by strong cash generation from the pillars, tight working capital management, a non-recurring working capital benefit of ~$43 million related to the acquisition of HTH, and working capital synergies realised by the Hardware pillar post the HTH acquisition.

The Group had net investing outflows of $198.6 million (FY16: $237.4 million inflow), including payments related to the HTH acquisition and capital expenditure, offset by inflows of $41.2 million from capital recycling and customer loan repayments. The Group raised $92.8 million of equity during the year to partially fund the HTH acquisition.

Financial position

	2017 $m	2016 $m
Trade receivables and prepayments	1,133.3	967.7
Inventories	759.2	673.6
Trade payables and provisions	(1,811.4)	(1,632.0)
Net working capital	**81.1**	**9.3**
Intangible assets	1,152.7	1,135.5
Property, plant and equipment	242.1	251.9
Equity accounted investments	103.3	102.9
Customer loans and assets held for sale	51.9	72.5
Total funds employed	**1,631.1**	**1,572.1**
Net debt	(80.8)	(275.5)
Tax, put options and derivatives	87.1	72.5
Net assets/equity	**1,637.4**	**1,369.1**

The key changes in the balance sheet are attributable to the HTH acquisition, which resulted in an increase of ~$169 million in funds employed at the date of acquisition, including $124.3 million of net working capital.

Metcash had $767.6 million in unused debt facilities available at the reporting date for immediate use.

Commitments, contingencies and other financial exposures

Metcash's operating lease commitments, which predominantly relate to warehouses and retail stores, decreased from $1,545.9 million to $1,480.3 million. The decrease is primarily due to leases surrendered on supermarkets, partly offset by the additional lease commitments assumed with the HTH acquisition. Further details of lease commitments are presented in note 16 of the financial statements.

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

Metcash has a relatively low exposure to interest rate risk and minimal foreign exchange exposures. Variable interest rate exposures on core debt are hedged in accordance with the Treasury Policy between a minimum and maximum range. At year end 87% of debt was fixed. Further details are set out in note 14 of the financial statements.

6. Outlook

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

In Liquor, moderate growth is expected in the overall Liquor market, with the business remaining focused on building and improving the quality of its IBA bannered network.

In Hardware, the business continues to focus on delivering synergies related to the acquisition of HTH, and these are expected to be at the upper end of our targeted range of $15 million - $20 million (annualised) by the end of FY18. FY18 will also include a full year of earnings from HTH.

In Food & Grocery, sales have continued to be impacted by competitive pressure and difficult economic conditions in Western Australia in the first six weeks trading of FY18, and it is expected that these external headwinds will continue. We expect Working Smarter savings to help mitigate the impact of difficult market conditions including price deflation, cost inflation and investment in new initiatives.

The business continues to progress initiatives to support Australian Independent Retailers be the 'Best Store in Town'.

7. Material business risks

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

Strategic risks

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

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

Market risks

Market conditions continue to evolve with increased competition from new and existing competitors, ongoing decline in economic activity, the need for the independent retail network to remain competitive, accelerating price deflation, digital disruption and interest rate and foreign exchange movements, which may lead to a decline in sales and profitability. Furthermore changes to the regulatory environment, including proposed changes to trading hours and the possible introduction of new container deposit schemes may impact trading both at the retailer and wholesale level. The Group strategy is focused on providing a compelling value proposition to consumers through Successful Independents.

Metcash is well progressed on a number of programs aimed at establishing a strong shopper-led product range, reducing the cost of doing business and making it easier for suppliers and customers to engage with the Group. These initiatives coupled with the benefits realised from our Working Smarter program will help position Metcash and our independent retailers for ongoing success.

Operational and compliance risks

As Australia's leading wholesaler, Metcash is reliant upon the success of our suppliers and retailers. Metcash continues to invest in programs to improve the health of the independent retail network, such as our Working Smarter initiative which simplifies how we do business. These programs are aimed to position Metcash as the business partner of choice for our suppliers and retailers. There is a risk that these programs fail to deliver the expected benefits. Metcash has in place governance frameworks to manage these change programs to ensure projects are delivered in line with plans and can be adapted as required.

Metcash's operations require compliance with various regulatory requirements including OH&S, food safety, environmental, workplace industrial relations, public liability, privacy & security, financial and legal. Any regulatory breach could have a material negative impact on the wellbeing, reputation or financial results of Metcash or its stakeholders. The Group's internal processes are regularly assessed and tested as part of robust risk and assurance programs addressing areas including safety, security, sustainability, chain of responsibility and food safety. Metcash maintains a strong 'safety-first' culture and has established standards and policies to identify and limit risk. Metcash is committed to 'Supporting Independents' with a key element of this underpinned by ensuring our operations are conducted in a socially responsible manner.

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

Financial risks

Metcash's ability to reduce its cost of doing business is critical to support independent retailers in remaining competitive in an ongoing deflationary environment. The competitive trading conditions also increases the credit risk associated with the Group's activities with the independent retailer network. Metcash's strategy is to support successful independents through appropriate credit management processes.

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

People and culture

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

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

Board information

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

ROBERT A MURRAY (MA Hons, Economics (Cantab))

Non-executive Chairman

Robert (Rob) is currently a Non-executive Director of Southern Cross Media Group Limited (since 2014). He is also a Board member of the not-for-profit charity organisation, the Bestest Foundation.

Rob has extensive experience in retail and FMCG and an indepth understanding of consumers. He was previously the CEO of Lion Nathan and CEO of Nestle Oceania, and a former Director of Dick Smith Holdings Limited (from 2014 to 2016), Super Retail Group Limited (from 2013 to 2015) and Linfox Logistics.

IAN R MORRICE (MBA)

Chief Executive Officer, Executive Director

Ian has over three decades of retail experience as Managing Director, Trading Director and Retail Director for some of the UK's leading retailers, including the Kingfisher Group and Dixons Retail. Ian was Group Chief Executive Officer and Group Managing Director of New Zealand's Warehouse Group. Ian is a former Non-executive Director of Myer Holdings Limited and advisor to the Board of Spotlight Retail Group.

PATRICK N J ALLAWAY (BA/LLB)

Non-executive Director

Patrick is a Non-executive Director of Woolworths Holdings Limited (South Africa), David Jones, Country Road and Fairfax Media Limited. He is also Chairman and co-founder of a privately owned corporate advisory business, Saltbush Capital Markets, and Chairman of Giant Steps Endowment Fund.

Patrick has extensive experience in financial services, and held senior executive and Non-executive Director roles in large multinational companies, including Swiss Bank Corporation and Citibank.

FIONA E BALFOUR (BA (Hons), MBA, Grad Dip Information Management, FAICD)

Non-executive Director

Fiona is a Non-executive Director of Salmat Limited (since 2010) and Airservices Australia. She is a Fellow of the Australian Institute of Company Directors and Monash University, and a Member of Chief Executive Women.

Fiona has significant executive experience across aviation, telecommunications, financial services, education and the not-for-profit sector. She has over 15 years' experience as a Non-executive Director, including as a Director of TAL (Dai-ichi Life Australia) Limited and SITA SC (Geneva), Councillor of Chief Executive Women, Trustee of the National Breast Cancer Foundation and Councillor and Treasurer of Knox Grammar School. She was awarded the National Pearcey Medal for 'Lifetime Achievement to the Information Technology Industry' in 2006.

Fiona was recently appointed (in May 2017) as a member of the Board of the Australian Red Cross Blood Service.

TONIANNE DWYER (BJuris (Hons), LB (Hons), GAICD)

Non-executive Director

Tonianne is a Non-executive Director of Dexus Property Group and Dexus Wholesale Property Fund (since 2011), ALS Limited (since July 2016), Oz Minerals Limited (since March 2017) and Queensland Treasury Corporation. She is a member of the Senate and Deputy Chancellor of the University of Queensland, and a member of Chief Executive Women.

Tonianne has over 20 years' experience in investment banking and real estate in the UK and is a Graduate of the Australian Institute of Company Directors. She was also previously a Non-executive Director of Cardno Limited (from 2012 to 2016).

MURRAY P JORDAN (MPA)

Non-executive Director

Murray is a Non-executive Director of Chorus Limited, Stevenson Group Limited and Sky City Limited, each New Zealand companies. He is also a trustee of The Starship Foundation which raises funds for New Zealand's National Children's Hospital.

Murray has over ten years' experience in grocery retailing and wholesaling and held key management roles in property development and investment. Previously Murray was the Managing Director of New Zealand grocery retail and wholesale business Foodstuffs North Island Limited.

HELEN E NASH (BA Hons, GAICD)

Non-executive Director

Helen is a Non-Executive Director of Blackmores Limited (since 2013) and Southern Cross Media Group Limited (since 2015) and was formerly a Non-executive Director of Pacific Brands Group Limited (from 2013 to 2016).

Helen has more than 20 years' brand and marketing experience with Procter & Gamble and IPC Media and spent ten years in senior executive roles at McDonald's Australia Limited.

Helen was recently appointed (in May 2017) as a Non-executive Director of Inghams Enterprises Pty Limited.

FORMER DIRECTORS

Neil D Hamilton, former Non-executive Director, Member of the People & Culture Committee and Member of the Nomination Committee retired on 31 August 2016.

Michael R Butler, former Non-executive Director and Chair of the Audit, Risk & Compliance Committee and Member of the Nomination Committee retired on 31 August 2016.

COMPANY SECRETARY

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

Julie was appointed as Company Secretary on 6 June 2016. She joined Metcash from law firm Baker & McKenzie, where she was a partner who specialised in mergers & acquisitions, private equity and corporate restructures. Julie is a Graduate of the Australian Institute of Company Directors and was formerly a Non-executive Director of AVCAL, a national association which represents the private equity and venture capital industries in Australia.

Greg Watson, former Company Secretary, retired on 31 January 2016. **Brad Soller**, Chief Financial Officer, temporarily assumed the role of Company Secretary until Julie's appointment on 6 June 2016.

Indemnification and insurance of Directors and Officers

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

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.

The following table presents information relating to membership and attendance at meetings of the Company's Board of Directors and Board Committees held during the financial year and up to the date of this report. Information relating to meetings held reflects those meetings held during a Director's period of appointment as a Director during the year.

	Appointed	Retired	Meetings held	Meetings Attended	Ordinary shares held at reporting date
Board of Directors					
Robert A Murray (Chairman)(a)	29 Apr 2015	-	8	7	44,005
Ian R Morrice	12 Jun 2012	-	8	8	302,517
Patrick N J Allaway	7 Nov 2012	-	8	7	206,786
Fiona E Balfour	16 Nov 2010	-	8	8	87,804
Michael R Butler	8 Feb 2007	31 Aug 2016	5	4	-
Tonianne Dwyer	24 Jun 2014	-	8	8	40,000
Neil D Hamilton	7 Feb 2008	31 Aug 2016	5	4	-
Murray P Jordan	23 Feb 2016	-	8	8	23,041
Helen E Nash	23 Oct 2015	-	8	8	37,431
Audit, Risk & Compliance Committee					
Patrick N J Allaway (Chairman)(b)	7 Nov 2012	-	5	5	
Michael R Butler (former Chairman)	8 Feb 2007	31 Aug 2016	2	2	
Tonianne Dwyer	24 Jun 2014	-	5	5	
Murray P Jordan	23 Feb 2016	-	5	5	
People & Culture Committee					
Fiona E Balfour (Chair)	16 Nov 2010	-	7	7	
Neil D Hamilton	7 Feb 2008	31 Aug 2016	4	4	
Murray P Jordan	31 Aug 2016	-	3	3	
Helen E Nash	23 Oct 2015	-	7	7	
Nomination Committee					
Robert A Murray (Chairman)	29 Apr 2015	-	1	1	
Patrick N J Allaway	27 Feb 2013	-	1	1	
Fiona E Balfour	27 Feb 2013	-	1	1	
Michael R Butler	27 Feb 2013	31 Aug 2016	1	1	
Tonianne Dwyer	24 Jun 2014	-	1	1	
Neil D Hamilton	27 Feb 2013	31 Aug 2016	1	1	
Murray P Jordan	23 Feb 2016	-	1	1	
Helen E Nash	23 Oct 2015	-	1	1	

(a) Mr Murray was appointed as Chairman of the Board on 27 August 2015.
(b) Mr Allaway was appointed as Chairman of the Audit, Risk & Compliance Committee on 31 August 2016.

From time to time, additional Board committees are established and meetings of those committees are held throughout the year, for example, to consider material transactions, or to consider material issues that may arise. These committee meetings are not included in the above table.

In addition, the Group holds a strategy session each year. In FY17, this strategy session was held in October 2016. All Board members attended the FY17 strategy session.

Remuneration report

Message from the Chair of the People and Culture Committee

Dear Shareholder,

On behalf of the Board I am pleased to present Metcash's Remuneration Report for the financial year ended 30 April 2017 ('FY17').

Our remuneration framework continued to be refined in FY17, in line with previously outlined steps to deliver market-aligned remuneration practices and after taking into consideration concerns raised at last year's Annual General Meeting. These initiatives include a reduction in the weighting of the Short Term Incentive ('STI') component of total remuneration for the majority of executives, as well as the inclusion of more objective performance measures through the evolution to a Balanced Scorecard for all executives and improving our remuneration disclosure.

I would like to highlight that although Metcash delivered an increase in underlying Net Profit After Tax ('NPAT') on the prior year to $194.8 million, only one Key Management Personnel ('KMP') received an increase in Fixed Remuneration during the year and, STI payable to KMP in respect of FY17 was 44% lower than for FY16 and no Long Term Incentives ('LTI') vested.

While the Remuneration Report sets out a comprehensive account of remuneration at Metcash over the past year, I would like to take the opportunity to provide you with the following overview.

Our remuneration framework

Executive remuneration comprises Fixed Remuneration, STI and Long Term Incentive ('LTI') components and is designed to ensure that executives have a significant proportion of remuneration at risk, which is aligned to the delivery of positive outcomes for shareholders.

Fixed Remuneration levels are set according to the nature and extent of the executive's role as well as their performance and experience. This is benchmarked by independent external remuneration specialists against the 50th percentile of a group of companies of broadly similar size and complexity to Metcash.

The Group's STI plan is an at-risk, cash-based component designed to incentivise senior executives to deliver annual performance outcomes aligned to shareholder interests. The STI pools are based on the achievement of pre-determined financial performance measures, which are then distributed amongst participants using a Balanced Scorecard format comprising a mix of financial and individual performance objectives relevant to the executive's role, which are weighted significantly towards financial outcomes.

The Group's LTI plans are designed to reward executives when outcomes are aligned to the creation of shareholder value over the longer term. There are four active LTI plans in operation:

1. Additional Transformation Incentive Grant – this was granted to the Group Chief Executive Officer ('Group CEO') and Group Chief Financial Officer ('Group CFO') in FY15 based on stretch objectives. As noted in section 3.2.3 of the Remuneration Report, it is unlikely the performance hurdles for this Plan will be achieved, resulting in no shares being issued to these executives.
2. CEO Supermarkets and Convenience Commencement Grant – this was issued to the CEO of Supermarkets and Convenience at the time of his commencement with Metcash in FY16. Vesting of the performance component of this grant is dependent on meeting stretch targets applicable to the Supermarkets pillar. As noted in section 3.2.3 of the Remuneration Report, the performance hurdle for this component is unlikely to be achieved.
3. FY17 – FY19 LTI – this was issued to a number of executives, including KMPs, in FY17 and is subject to relative total shareholder return and earnings per share compound annual growth hurdles over the FY17-FY19 period of this grant.
4. Independent Hardware Group ('IHG') Integration Incentive Grant – this was issued to a number of IHG executives in FY17. Vesting is subject to Earnings Before Interest and Tax ('EBIT') and synergy performance hurdles relating to the integration of Home Timber & Hardware ('HTH') into IHG. The FY17 interim payment is subject to clawback if performance outcomes are not sustained.

Review of our financial performance

The Group continued to face significant external challenges during the year, including a further increase in the intensity of competition in Supermarkets resulting in continued selling price deflation, difficult economic conditions in Western Australia and the negative impact on sales of liquidated stock from a Hardware competitor that ceased trading. Despite these challenges, Metcash delivered a 9.3% increase in underlying Net Profit After Tax ('NPAT') on the prior year to $194.8 million, and a 7.7% increase in Group EBIT. On an earnings per share basis, Underlying Earning Per Share ('UEPS') increased 5.7% to 20.3 cents.

This performance included earnings from the HTH acquisition and the benefit of a 53rd trading week, and was otherwise underpinned by our strategic initiatives focused on supporting independent retailers to ensure they are well positioned as 'the best store in town', as well as our Working Smarter cost savings program.

Solid cash generation from the businesses, including tight working capital management, delivered an operating cash flow for the year of $304.6 million. Strong cash flows enabled Group net debt to be reduced by $194.7 million to $80.8 million.

The Group's strong financial position has enabled the Board to bring forward the recommencement of dividend payments to shareholders, with the announcement of a 4.5c per share fully franked final dividend in respect of the 2017 financial year.

Remuneration initiatives and outcomes for the year

Fixed remuneration

There was only one increase to KMP fixed remuneration in FY17, being an increase to Mr Marshall's remuneration which was below the benchmarked market median.

Short term incentives

- STI pools were based on financial measures and distributed across individual participants using Balanced Scorecards that have been introduced to assess KMP performance and which include both financial and individual performance targets.
- STI payments to KMP decreased by 44%.
- STI payments to KMP ranged from 11% to 49% of maximum (FY16: from 64% to 92% of maximum).
- Group CEO STI was 37% of maximum.
- The Group CEO and Group CFO were awarded an incentive of $300,000 and $150,000 respectively, following the successful completion of the HTH acquisition.
- No stretch STI incentive schemes were offered in FY17.
- No sign on or retention grants were issued in FY17.

Long term incentives

- No performance rights under the Group's existing LTI plans vested in FY17.
- An interim incentive is payable to certain IHG executives under the IHG Integration Incentive plan in relation to synergies delivered in FY17, which will be subject to independent review and retesting in FY18.
- The Transformation Incentive Scheme (FY15-FY17) failed to meet the performance hurdle and lapsed in FY17.
- The Additional Transformation Incentive granted to the Group CEO and Group CFO, and the performance component of the CEO Supermarkets and Convenience Commencement Grant, are currently both expected to perform below threshold levels, which would result in nil vesting.

In accordance with the overall remuneration plan, for the majority of executives, incentives will continue to be re-weighted towards LTI in FY18, with a corresponding reduction in STI weighting.

In addition, there was no change to Non-executive Director fees. Excepting the Chairman's fee, Non-executive Director fees have remained at a consistent level for 5 years and are currently set at approximately 10% - 20% below the benchmarked market median. A full benchmarking of Non-executive Director fees will be completed in FY18.

In setting the remuneration framework and determining outcomes, the Board has endeavoured to appropriately reflect recent business results, whilst ensuring the alignment of remuneration with the execution of strategic plans and delivering shareholder value to investors.

Thank you for your continued support and I hope you find this Remuneration Report informative.

Fiona Balfour
Chair, People & Culture Committee

Contents of Report

1. Overview of the Remuneration Report

The Directors present the Remuneration Report for the Company and its controlled entities (the 'Group') for the year ended 30 April 2017 ('FY17'). This report forms part of the Directors' Report and has been audited in accordance with section 308(3C) of the *Corporations Act 2001* and Australian Accounting Standards.

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

The KMP in FY17 are listed below.

Name	Position
Non-executive Directors	
Robert Murray	Chairman
Patrick Allaway	Director
Fiona Balfour	Director
Tonianne Dwyer	Director
Murray Jordan	Director
Helen Nash	Director
Michael Butler	Director – retired 31 August 2016
Neil Hamilton	Director – retired 31 August 2016
Executive Director	
Ian Morrice	Group Chief Executive Officer ('Group CEO')
Group Executives	
Brad Soller	Group Chief Financial Officer ('CFO')
Steven Cain	Chief Executive Officer, Supermarkets and Convenience
Mark Laidlaw	Chief Executive Officer, Independent Hardware Group ('IHG')
Scott Marshall	Chief Executive Officer, Australian Liquor Marketers ('ALM')

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

2. Remuneration governance

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

The Committee both receives and initiates proposals from management, which it assesses and, if appropriate, recommends for Board approval. The Committee may also commission external advisers to provide information and/or recommendations. If recommendations are sought in respect of KMP remuneration, interaction with external advisers is governed by protocol, which ensures the Committee can obtain independent advice. The Committee Chair appoints and engages directly with external advisers on KMP remuneration matters.

In FY17, the Committee engaged Aon Hewitt to conduct market benchmarking for KMP remuneration and Directors' fees.

3. Executive remuneration policy

3.1. Overview

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

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

For the FY16 to FY19 period, during which the Group is undergoing business transformation, the following principles are being applied in order to meet the above objectives:

- total remuneration was initially weighted towards STI over LTI to instil a greater focus on short term execution;
- STI plans will incorporate moderators for individual Balanced Scorecard and participant behaviour outcomes;
- LTI weighting will be progressively increased; and
- these changes will result in the design of the remuneration framework being market-aligned by FY19.

The steps being taken to align Metcash's remuneration framework are summarised in the table below.

	FY15	FY16	FY17	FY18	FY19
STI	Financial performance	Market-aligned design Financial performance and transformation progress Stretch targets introduced to drive improved profit outcomes	STI pool funded through company financial performance and paid on participants Balanced Scorecard performance Stretch targets removed	Balanced Scorecard captures performance objectives. Participant behaviours introduced into STI determination Reduced weighting in total remuneration mix	Balanced Scorecard captures performance objectives. Market -aligned design and weighting
LTI	FY14 - FY16 grants consolidated into one three year grant (Transformation incentive)	No new grants Covered by Transformation Incentive	Resumption of annual grant program Market-aligned design TSR and earnings hurdles	Increased weighting in total remuneration mix	Market-aligned design and weighting

3.2. Remuneration components

3.2.1. Fixed remuneration

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

TEC levels are set according to the nature and scope of the executive's role as well as his/her performance and experience. To benchmark its executive remuneration, Metcash references mainly ASX-listed companies of a comparable size and complexity. In FY17, Metcash reset its benchmark for executive salaries from the 62nd to the 50th percentile of this market.

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

Mr Marshall was the only KMP who had an increase to his fixed remuneration during the year. The increase in TEC was required to ensure Mr Marshall's fixed remuneration of $725,000 was in line with market benchmarks.

3.2.2. Short Term Incentives

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

The Group and Pillar STI pool outcomes are determined with reference against predetermined Group NPAT or Pillar EBIT performance measures. Once determined, the STI pool is distributed across individual participants based on their relative individual Balanced Scorecard performance outcomes.

The Group STI bonus pool is only released for distribution when at least 95% of the Group NPAT budget is achieved. Pillar EBIT must be at least 95% of budget in order for any Pillar STI pool to be released. The Board may also exercise its discretion to adjust the bonus pool to reflect the performance of the Group or a specific Pillar.

Achievement of the 'Minimum' financial performance releases 50% of an STI pool. Achievement of the budgeted or 'Target' financial performance releases 100% of an STI pool. Over-achievement of the budgeted financial performance is capped at 150% of an STI pool.

The Group CEO and Group CFO participate in the Group STI pool. The pillar CEOs participate in their respective Pillar STI pool (75% weighting) and the Group STI pool (25% weighting).

Once an STI pool is released for distribution, a participant's individual STI award is determined based on individual Balanced Scorecard outcomes. Individual Balanced Scorecard performance outcomes act as a multiplier against the base STI pool result, either positive (up to +50%) or negative (down to -50% at Threshold). Individual performance below Threshold results in no STI award. Individual results are also adjusted so that the collective individual participants' results are distributed in a manner consistent with a normal distribution curve and also such that the aggregate STI payments across the pool do not exceed the STI pool amount.

For KMP, financial objectives represent between 60% and 70% weighting in their Balanced Scorecards.

Role-specific non-financial measures included in the Balanced Scorecard reflect KMP's key strategic objectives and comprise increases in retailer sales, improvements in retailer and supplier satisfaction, delivery of store refresh targets, improvements in safety, strengthening talent bench-strength and team culture change goals.

The STI Balanced Scorecard performance measures for KMP are summarised below:

Balanced Scorecard - key result area	Group CEO and CFO	CEO Supermarkets and Convenience, CEO IHG and CEO ALM
Financial objectives – weighting	**70%**	**60%**
Group revenue and Group net profit after tax ('NPAT')	✓	✗
Pillar revenue and earnings before interest and tax ('EBIT')	✗	✓
Return on funds employed ('ROFE')	✓	✓
Working Smarter savings	✓	✓
Non-financial objectives – weighting	**30%**	**40%**
Role-specific non-financial objectives	✓	✓

The STI opportunities as a percentage of TEC for KMP are outlined below, along with the actual FY17 STI awards as a percentage of the maximum STI opportunity:

Position	Below threshold % of TEC	Threshold % of TEC	Target % of TEC	Maximum % of TEC	FY17 actual % of maximum STI
I Morrice, Group CEO	0%	25.0%	100.0%	150.0%	37%
B Soller, Group CFO	0%	17.5%	70.0%	157.5%	45%
S Cain, CEO Supermarkets and Convenience	0%	12.5%	50.0%	112.5%	11%
M Laidlaw, CEO IHG	0%	17.5%	70.0%	157.5%	49%
S Marshall, CEO ALM	0%	17.5%	70.0%	157.5%	45%

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

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

- Maximum achievement against Group NPAT or Pillar EBIT financial performance hurdles, as applicable ('STI pool'); and
- Maximum achievement against all financial and non-financial measures contained in the individual's Balanced Scorecard (individual distribution).

3.2.3. Long Term Incentives

The Group had four LTI plans in operation in FY17, two of which were issued in FY17 and two that were issued in prior periods:

Current year LTI grants:

- FY17–FY19 LTI – this grant was issued during FY17 and reflects the re-instatement of annual grants to Executive KMP and is subject to two performance conditions; Relative Total Shareholder Return ('RTSR') and Underlying Earnings per Share Compound Annual Growth Rate ('UEPS CAGR') over a three year period from 1 May 2016 to 30 April 2019; and
- IHG Integration Incentive grant – issued to Mr Laidlaw during FY17, which is a cash settled LTI. The plan is subject to three performance conditions; achievement of a threshold FY18 IHG EBIT gate-opener, IHG integration synergies measured at 30 April 2018 and includes a deferred component representing 33% of the award that is dependent on FY19 IHG EBIT and which is deferred until July 2019.

Prior period LTI grants:

- CEO Supermarkets and Convenience Commencement Grant – issued in FY16 to Mr Cain on commencement of his employment at Metcash. The plan includes a service component and a performance component based on the earnings of the Supermarkets business over a four year period from 1 May 2016 to 30 April 2020; and
- Additional Transformation Incentive – this was granted to the Group CEO and Group CFO in FY15 recognising the impact these roles have on shareholder returns.

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

The IHG Integration Incentive performance hurdles for FY17 were met and the interim incentive due to Mr Laidlaw will be paid on 15 July 2017. Otherwise, no performance rights issued under any of the Group's LTI plans vested in FY17.

The FY15-FY17 Transformation Incentive plan failed to meet the minimum performance hurdle and lapsed in FY17.

FY17–FY19 LTI

The FY17-FY19 LTI is designed to ensure Metcash is able to attract and retain key group executives, whilst incentivising these executives to achieve challenging Total Shareholder Return ('TSR') and earnings hurdles aligned to shareholder value. The FY17-FY19 LTI reflects the re-introduction of annual grants under the Metcash LTI scheme.

The FY17-FY19 LTI is a Performance Rights grant (the right to acquire Metcash shares at no cost, subject to the satisfaction of performance and service conditions) and is subject to two equally weighted performance hurdles:

Relative Total Shareholder Returns ('RTSR')

RTSR from 1 May 2016 to 30 April 2019 is measured against a group of selected peers, being consumer staples companies in the ASX 300 as at 1 May 2016. The TSR of those peer companies is multiplied against an index weighting. The sum of the weighted TSRs ('Index TSR') is the score against which Metcash's TSR is compared.

The rights vest against this hurdle as follows:

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

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

Metcash Underlying Earnings per Share Compound Annual Growth Rate between FY16 and FY19 ('UEPS CAGR')

UEPS CAGR	Vesting %
Threshold or less	0%
Between threshold and target	Straight-line pro-rata
Equal to target	50%
Between target and stretch	Straight-line pro-rata
Equal to stretch	67%
Between stretch and maximum	Straight-line pro-rata
Equal to or above maximum	100%

Full vesting will only occur if Metcash achieves an UEPS CAGR of greater than 6.5% over the 3-year performance period ending in FY19.

LTI Grants

The following FY17-FY19 LTI grants were made to KMP in FY17:

Participant	Grant date	Hurdle	Vesting date	No. of rights	Fair value per right	Grant % of TEC
I Morrice	31 August 2016	UEPS CAGR	15 August 2019	343,750	$2.03	61%
		RTSR	15 August 2019	343,750	$1.37	
B Soller	1 July 2016	UEPS CAGR	15 August 2019	92,969	$1.84	35%
		RTSR	15 August 2019	92,969	$1.24	
S Cain[1]	1 July 2016	UEPS CAGR	15 August 2019	390,625	$1.84	100%
		RTSR	15 August 2019	390,625	$1.24	
M Laidlaw	1 July 2016	UEPS CAGR	15 August 2019	76,932	$1.84	35%
		RTSR	15 August 2019	76,932	$1.24	
S Marshall	1 July 2016	UEPS CAGR	15 August 2019	79,297	$1.84	35%
		RTSR	15 August 2019	79,297	$1.24	

[1] Mr Cain's LTI grant for FY17 and FY18 is as stipulated in his employment contract.

FY17 Outcomes

The RTSR component is performing at the upper end of the vesting scale, when measured at the end of the financial year using a volume weighted average price of $2.27 per share. In FY17, the Group provided for the UEPS CAGR component based on target performance.

Performance rights that do not vest are forfeited and there is no re-testing. No rights vested nor were any forfeited in FY17.

IHG Integration Incentive

The IHG Integration Incentive is a cash settled scheme designed to incentivise key members of the IHG executive team to realise significant stretch synergies on formation of the Independent Hardware Group ('IHG'). IHG was formed when Metcash's existing Hardware operations were merged with the Home Timber & Hardware Group ('HTH'), which was acquired on 2 October 2016.

The incentive is subject to three performance hurdles:

FY18 IHG EBIT

As a minimum, FY18 IHG EBIT must exceed the amount included in the IHG integration strategy approved by the Board at the time of the HTH acquisition. Failure to achieve this gate-opener hurdle results in nil overall vesting regardless of the IHG integration synergies hurdle performance.

IHG integration synergies realised by 30 April 2018

The LTI vests against this hurdle as follows:

IHG integration synergies	Vesting %
Less than threshold	0%
Equal to threshold	33%
Between threshold and target	Straight-line pro-rata
Equal to target	67%
Between target and stretch	Straight-line pro-rata
Equal to stretch	83%
Between stretch and maximum	Straight-line pro-rata
Equal to or above maximum	100%

Maximum payment under the plan requires delivery of at least $34.1 million in synergies, measured based on the run-rate of gross synergies achieved by 30 April 2018. Synergy outcomes below maximum will result in lower vesting levels.

Following testing against the above FY18 IHG EBIT and IHG Integration Synergies hurdles, 67% of the resulting incentive will be paid in cash on 15 July 2018, with the balance of 33% subject to a further hurdle and deferral until 15 July 2019.

FY19 IHG EBIT

Vesting of the 33% deferred component is dependent on achieving a FY19 IHG EBIT vesting hurdle.

LTI Grants

The following IHG Integration Incentive grants were made to KMP:

Participant	Grant date	Hurdles	Vesting date	Target cash payment $	Maximum cash payment $
M Laidlaw	14 March 2017	IHG Synergies and FY18 IHG EBIT	15 July 2018	471,263	706,894
		FY19 IHG EBIT	15 July 2019	232,114	348,172

FY17 Outcomes

An interim incentive of $119,574 is payable on 15 July 2017 based on actual performance during FY17. This interim incentive is subject to independent review and re-testing based on FY18 performance, including clawback for subsequent lower performance in FY18.

In FY17, the Group provided for the IHG incentive scheme based on target performance.

CEO Supermarkets and Convenience Commencement Grant

The grant was issued in FY16 to provide an incentive for Mr Cain to accept Metcash's offer of employment, retain his services for three years from commencement of employment and to provide an incentive to successfully execute the Metcash Supermarkets business turnaround. The grant was divided into two components:

Sign-on and retention component

Performance Rights which vest if Mr Cain has continuous service in Metcash until the third anniversary of his commencement of employment in Metcash (1 August 2018). In the event of a takeover, change of control or comparable event the rights will vest and be satisfied by an early allocation of shares.

Performance component

Performance Rights tested against Metcash Supermarkets EBIT Compound Annual Growth Rate ('CAGR') from 1 May 2016 to 30 April 2020, providing Metcash Supermarkets ROFE averages at least 13.5% over the five years ended 30 April 2020. In the event of a takeover, change of control or comparable event, the Board retains discretion to vest some or all Performance Rights with an early allocation of shares.

The rights vest against the EBIT CAGR hurdle as follows:

Metcash Supermarkets FY20 EBIT CAGR	Vesting %
Less than threshold	0%
Equal to threshold	50%
Between threshold and target	Straight-line pro-rata
Equal to target	67%
Between target and stretch	Straight-line pro-rata
Equal to or above stretch	100%

Maximum payment under the Performance Component of the plan requires the Supermarkets pillar to deliver an EBIT of $263.1 million in FY20, which represents a 9.8% CAGR over the four years from the base FY16 financial year. Earnings outcomes below maximum will result in lower vesting levels.

LTI Grants

The following grants were made to Mr Cain in FY16:

Component	Grant date	Vesting date	No. of rights	Fair value per right
Sign-on and Retention	3 August 2015	1 August 2018	1,062,023	$1.07
Performance[1]	3 August 2015	15 August 2018	1,274,427	$1.07
Performance[2]	3 August 2015	15 August 2020	849,618	$1.01

[1] Available for early testing and vesting based on FY18, FY19 or FY20 Metcash Supermarkets EBIT CAGR.

[2] Deferred until 15 August 2020 regardless of which financial year EBIT CAGR is used to test vesting.

Mr Cain has the right to request early testing and vesting of the Performance Component rights after FY18 or FY19. If any vesting of rights results from early testing, 60% of the performance rights vest on 15 August of the financial year following the early testing request. The remaining 40% of early vesting rights will be deferred and will vest on 15 August 2020, providing Mr Cain remains employed in Metcash and has not given notice to resign prior to that date.

FY17 Outcomes

As at the date of this report, Supermarkets FY20 EBIT CAGR performance is expected to be below threshold on the vesting scale, resulting in nil vesting and accordingly no provision has been made for the performance component. In FY17, the Group provided for the sign-on and retention component based on target performance.

No performance rights vested or were forfeited in FY17. Performance rights that do not vest are forfeited and there is no re-testing.

Additional Transformation Incentive

During FY15, the Additional Transformation Incentive ('ATI') was issued to provide an incentive to the Group CEO and Group CFO to successfully execute the Transformation Plan, recognising the impact of their roles on shareholder returns.

The ATI is a Performance Rights grant (the right to acquire Metcash shares at no cost, subject to the satisfaction of performance and service conditions) and is subject to two performance hurdles:

Relative Total Shareholder Returns ('RTSR')

RTSR is tested across the FY18 (May 2014 to April 2018) and FY19 (May 2014 to April 2019) performance periods. Metcash RTSR is assessed against a selected group of ASX 100 companies, which excludes financial services companies, mining companies and real estate investment trusts.

The rights vest against this hurdle in both FY18 and FY19 as follows:

Relative TSR	Vesting %
< 50th percentile	0%
50th percentile	50%
Between 50th and 75th percentiles	Straight-line pro-rata vesting
≥ 75th percentile	100%

ROFE

Metcash ROFE during the FY18 and FY19 performance periods. The rights vest against this hurdle as follows:

ROFE	Vesting %
Less than threshold	0%
Equal to threshold	50%
Between threshold and target	Straight-line pro-rata
Equal to target	75%
Between target and stretch	Straight-line pro-rata
Equal to or above stretch	100%

Maximum (Stretch) payment under the ROFE component of the plan would require ROFE of 19.0% in FY18 and ROFE of 21.0% in FY19. ROFE outcomes below maximum will result in lower vesting levels.

LTI Grants

The following ATI grants were made to the Group CEO and CFO in FY15:

Participant	Grant date	Hurdle	Vesting date	No. of rights	Fair value per right
I Morrice	17 October 2014	RTSR FY18	15 August 2018	266,904	$1.28
		ROFE FY18	15 August 2018	266,904	$2.10
		RTSR FY19	15 August 2019	533,808	$1.25
		ROFE FY19	15 August 2019	533,808	$1.98
B Soller	11 February 2015	RTSR FY18	15 August 2018	85,410	$0.09
		ROFE FY18	15 August 2018	85,410	$1.20

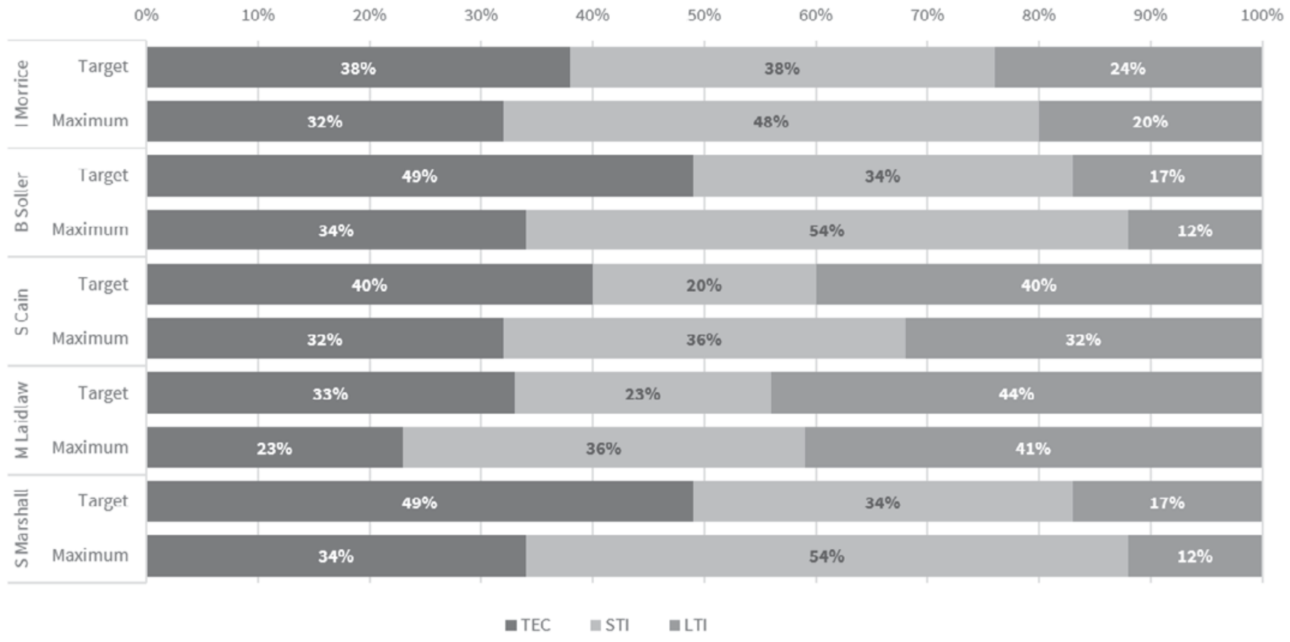
FY17 Outcomes

As at the date of this report, Metcash's RTSR performance is below threshold on the above vesting scale and Metcash's FY18 and FY19 ROFE performance is expected to be below threshold performance, which would result in nil vesting against all hurdles.

No performance rights vested or were forfeited in FY17. Performance rights that do not vest are forfeited and there is no re-testing.

3.2.4. Total remuneration mix

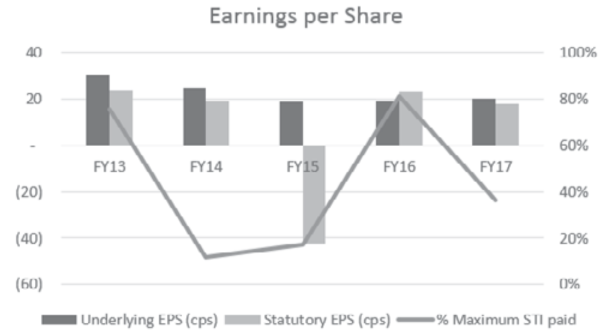
The chart below outlines the FY17 remuneration mix for total remuneration for KMP. Each remuneration component is shown as a percentage of total remuneration measured at Target and for Maximum earnings opportunity. LTI values have been measured at grant date, based on the face value of incentives granted in FY17.

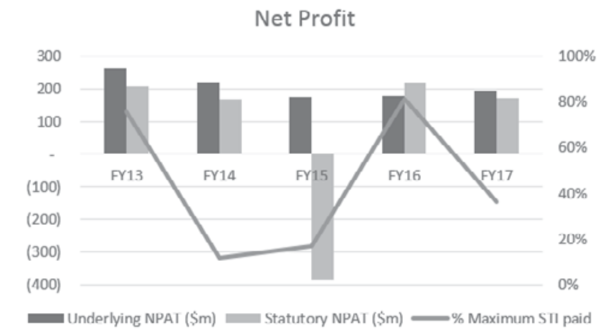


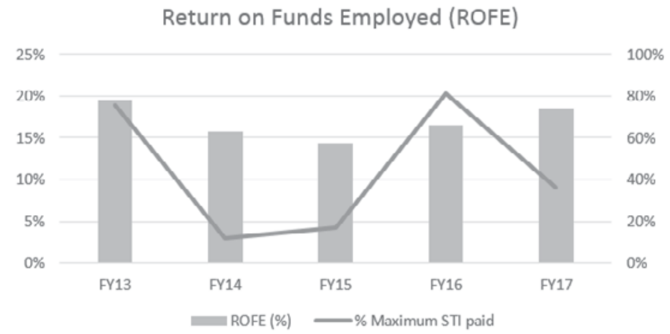
4. FY17 performance and remuneration outcomes

4.1. Group performance and at-risk remuneration outcomes FY13-FY17

The charts below show Metcash financial performance and percentage of maximum STI paid to KMP in the five-year period ended 30 April 2017. During FY17, STI payments to KMP averaged 36% of maximum (excluding the HTH acquisition incentive payable to the Group CEO and Group CFO as detailed in table 4.2).







Other Group performance metrics during this period were as follows.

Financial year	FY13	FY14	FY15	FY16	FY17
Revenue ($b)	12.8	13.0	13.2	13.4	14.1
Gearing ratio (net hedged) (%)	30.7%	32.5%	36.6%	16.8%	4.7%
Dividends declared per share (cents)	28.0	18.5	6.5	-	4.5

STI payments in FY14 and FY15 were low as Supermarkets did not meet its sales and EBIT targets resulting in nil payments for participants, whereas FY16 STI reflected improved profitability levels which flowed through to a 32% increase in share price. In FY17, the Food & Grocery pillar performed below threshold level, the Liquor pillar performed at target level and the Hardware pillar delivered earnings in excess of target.

Whilst the Group delivered a result that was in excess of target, the Group STI reward was capped at target, and in addition, the Group CEO STI was 37% of maximum.

The Balanced Scorecards set at the start of FY17 did not envisage the subsequent acquisition of HTH. An additional cash incentive was awarded to the Group CEO and Group CFO following the successful completion of the transaction, as set out in table 4.2 below.

Except for the interim IHG cash incentive, there was no vesting of performance rights under any LTI program during this five year period.

4.2. Actual FY17 KMP remuneration

The table below reflects actual cash payments made or due to KMP in respect of performance during the FY17 financial year. The table does not comply with IFRS requirements. The required statutory disclosures are shown in section 7 of this report:

KMP	Total Employment Cost $	STI [1] $	STI Other [2] $	LTI $	Termination $	Total $
I Morrice	1,800,000	1,000,000	300,000	-	-	3,100,000
B Soller	850,000	600,000	150,000	-	-	1,600,000
S Cain	1,250,000	156,250	-	-	-	1,406,250
M Laidlaw	703,377	540,000	-	119,574	-	1,362,951
S Marshall	725,000	510,000	-	-	-	1,235,000

[1] Cash incentive payable relating to FY17 performance under the Company's STI scheme, as set out in table 4.3.

[2] Cash incentive payable following the successful completion of the HTH acquisition on 2 October 2016.

4.3. FY17 STI outcomes

KMP	Target Potential STI $	Maximum Potential STI $	STI awarded % of Maximum	STI awarded $	Maximum STI forfeited $
I Morrice	1,800,000	2,700,000	37%	1,000,000	1,700,000
B Soller	595,000	1,338,750	45%	600,000	738,750
S Cain	625,000	1,406,250	11%	156,250	1,250,000
M Laidlaw	492,364	1,107,819	49%	540,000	567,819
S Marshall	507,500	1,141,875	45%	510,000	631,875

5. KMP service agreements

Name	Agreement Term	Executive Notice	Metcash Notice	Redundancy
I Morrice	Ongoing unless notice given	6 months	12 months	12 months
B Soller	Ongoing unless notice given	3 months	6 months	6 months
S Cain	Ongoing unless notice given	6 months	12 months	12 months
M Laidlaw	Ongoing unless notice given	3 months	9 months	Metcash Notice + 6 months
S Marshall	Ongoing unless notice given	3 months	6 months	Metcash Notice + 6 months

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

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

6. Non-executive Director remuneration

6.1. Policy

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

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

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

6.2. Structure of Non-executive Director remuneration

Non-executive Director remuneration is structured as follows:

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

6.3. Aggregate fee limit

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

The People & Culture Committee is responsible for reviewing and recommending Non-executive Director fees. There have been no changes to Non-executive Director's fees in FY17.

Excepting the Chairman's fee, Non-executive Director fees have remained at a consistent level for 5 years and are currently set at approximately 10% - 20% below the benchmarked market median. A full benchmarking of Non-executive Director fees will be completed in FY18.

6.4. Non-executive Director fee structure

Board	FY17 $[1]	FY16 $[1]
Chair	390,000	390,000
Non-executive Director	129,703	129,703
Committee		
Audit, Risk & Compliance		
Chair	31,580	31,580
Member	12,970	12,970
People & Culture		
Chair	31,580	31,580
Member	12,970	12,970
Nomination		
Chair	-	-
Member	-	-

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

6.5. FY17 Non-executive Director remuneration

Name	Financial Year	Fees $	Post-employment (Superannuation) $	Other $	Total $
R Murray	2017	370,432	19,568	-	390,000
	2016	322,496	18,697	-	341,193
P Allaway	2017	141,690	13,461	-	155,151
	2016	130,295	12,378	-	142,673
F Balfour	2017	147,290	13,993	-	161,283
	2016	147,290	13,993	-	161,283
T Dwyer	2017	130,295	12,378	-	142,673
	2016	130,295	12,378	-	142,673
M Jordan	2017	137,744	13,133	-	150,877
	2016	24,222	2,301	-	26,523
H Nash	2017	130,295	12,378	-	142,673
	2016	68,155	6,475	-	74,630
M Butler (retired)	2017	49,097	4,664	-	53,761
	2016	147,290	13,993	-	161,283
N Hamilton (retired)	2017	43,432	4,126	-	47,558
	2016	130,295	12,378	-	142,673
P Barnes (retired)	2017	-	-	-	-
	2016	93,999	6,261	211,619[1]	311,879
E Jankelowitz (retired)	2017	-	-	-	-
	2016	42,095	3,999	-	46,094
M McMahon (retired)	2017	-	-	-	-
	2016	21,716	2,063	-	23,779
Total	2017	1,150,275	93,701	-	1,243,976
	2016	1,258,148	104,916	211,619	1,574,683

[1] Retirement benefit paid to Mr Barnes upon his retirement from the Board in August 2015. This was a legacy entitlement from a retirement benefit scheme for Non-executive Directors which was discontinued at the 2005 Annual General Meeting. Mr Barnes was the only remaining participant in the scheme.

7. Statutory disclosures

7.1. Fixed and at-risk remuneration

FY17	Fixed remuneration $	STI $	STI Other[1] $	Post-employment benefits - superannuation $	Termination benefits $	Leave[2] $	LTI (share based payments) $	LTI (cash)[3] $	Total $	Performance related %
I Morrice	1,780,432	1,000,000	300,000	19,568	-	(53,159)	446,730	-	3,493,571	50.0%
B Soller	830,432	600,000	150,000	19,568	-	(25,222)	62,181	-	1,636,959	49.6%
S Cain	1,223,495	156,250	-	19,568	-	(13,294)	362,849	-	1,748,868	29.7%
M Laidlaw	683,809	540,000	-	19,568	-	26,332	49,680	249,880	1,569,269	53.5%
S Marshall	705,432	510,000	-	19,568	-	55,570	51,207	-	1,341,777	41.8%
Total	5,223,600	2,806,250	450,000	97,840	-	(9,773)	972,647	249,880	9,790,444	45.7%

[1] Cash incentive payable following the successful completion of the HTH acquisition on 2 October 2016.
[2] Including changes in annual and long service leave entitlements.
[3] Represents the FY17 share based payments expense recognised in relation to the IHG Integration LTI. Further details of this incentive are outlined in section 3.2.3.

FY16	Fixed remuneration $	STI (cash)[1] $	Other benefits $	Post-employment benefits - superannuation $	Termination benefits $	Leave[2] $	LTI (share based payments) $	STI (share based payments)[3] $	Total $	Performance related %
I Morrice	1,808,219	1,725,000	-	19,221	-	-	(574,437)	-	2,978,003	38.6%
B Soller	844,699	1,115,000	-	19,221	-	-	(24,177)	16,194	1,970,937	56.2%
S Cain[4]	959,510	600,000	-	14,481	-	-	548,753	-	2,122,744	54.1%
M Laidlaw	665,229	785,000	-	19,221	-	16,327	(182,103)	57,619	1,361,293	48.5%
S Marshall	654,136	750,000	-	19,221	-	37,419	(153,999)	30,454	1,337,231	46.8%
Total	4,931,793	4,975,000	-	91,365	-	53,746	(385,963)	104,267	9,770,208	48.0%

[1] These amounts represent the amounts payable under the FY16 STI plan.
[2] Including changes in long service leave entitlement.
[3] These amounts represent the FY16 expense of the deferred component of the FY15 STI plan that was settled in shares in FY16.
[4] Mr Cain commenced employment in Metcash on 1 August 2015 on fixed remuneration of $1,250,000 p.a. including superannuation. The amounts disclosed above are in respect of Mr Cain's remuneration from 1 August 2015 to 30 April 2016.

7.2. KMP performance rights holdings

Name	Balance at 1 May 2016	Granted during the year	Vested during the year	Changed, forfeited or lapsed during the year[1]	Balance at 30 April 2017	Balance at report date
I Morrice[2]	2,882,563	687,500	-	(1,281,139)	2,288,924	2,288,924
B Soller[2]	512,458	185,938	-	(341,638)	356,758	356,758
S Cain[3]	3,186,068	781,250	-	-	3,967,318	3,967,318
M Laidlaw	437,438	153,864	-	(437,438)	153,864	153,864
S Marshall	369,929	158,594	-	(369,929)	158,594	158,594
Total	7,388,456	1,967,146	-	(2,430,144)	6,925,458	6,925,458

[1] Lapsing of Transformation Incentive performance rights which failed to meet the required Return on Funds Employed threshold.
[2] As noted in section 3.2.3, the ATI grants made to Mr Morrice on 17 October 2014 of 1,601,424 rights and to Mr Soller on 11 February 2015 of 170,820 rights are currently expected to perform below threshold levels which would result in nil vesting.
[3] As noted in section 3.2.3, the performance component of the grant made to Mr Cain on 3 August 2015 of 2,124,045 rights is currently expected to perform below threshold levels which would result in nil vesting.

7.3. KMP shareholdings

Name	Balance at 1 May 2016	Share purchase plan[1]	On market trade	Other adjustments[2]	Balance at 30 April 2017	Balance at report date
Directors						
R Murray	44,005	-	-	-	44,005	44,005
I Morrice	297,517	5,000	-	-	302,517	302,517
P Allaway	206,786	-	-	-	206,786	206,786
F Balfour	82,804	5,000	-	-	87,804	87,804
T Dwyer	40,000	-	-	-	40,000	40,000
M Jordan	-	-	23,041	-	23,041	23,041
H Nash	32,431	5,000	-	-	37,431	37,431
M Butler (retired)	60,749	-	-	(60,749)	-	-
N Hamilton (retired)	121,318	-	-	(121,318)	-	-
Executives						
B Soller	17,582	-	-	-	17,582	17,582
S Cain	100,000	-	-	-	100,000	100,000
M Laidlaw	157,752	-	-	-	157,752	157,752
S Marshall	53,978	-	-	-	53,978	53,978
Total	1,214,922	15,000	23,041	(182,067)	1,070,896	1,070,896

[1] Purchased as part of the Home Timber & Hardware capital raising available to all shareholders with fully paid ordinary shares on 23 August 2016.
[2] Reflecting changes in KMP composition following retirement.

This concludes the remuneration report.

Other disclosures

Unissued shares under share options and performance rights

At the date of this report, there were 8,192,019 unissued ordinary shares under performance rights (8,192,019 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 18 of the financial statements for further details of the performance rights.

Shares issued as a result of options and performance rights

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

Non-audit services

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

The auditor's independence declaration for the year ended 30 April 2017 has been received and is included on page 97.

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

Tax compliance and advisory services	$597,000
Other advisory services	$818,000

Subsequent events

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

Rounding

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

Signed in accordance with a resolution of the Directors.

Ian R Morrice

Ian Morrice
Director
Sydney, 26 June 2017

Statement of comprehensive income

For the year ended 30 April 2017

	Notes	2017 $m	2016 $m
Sales revenue		14,121.9	13,402.5
Cost of sales		(12,885.6)	(12,273.5)
Gross profit		**1,236.3**	**1,129.0**
Other income	3	106.7	138.4
Distribution costs		(485.3)	(475.2)
Administrative costs		(566.9)	(509.8)
Share of profit of equity-accounted investments	7	9.7	7.1
Significant items	3	(32.7)	-
Finance costs	3	(29.3)	(41.1)
Profit from continuing operations before income tax		**238.5**	**248.4**
Income tax expense from continuing operations	4	(64.8)	(68.4)
Net profit for the year from continuing operations		**173.7**	**180.0**
Net profit after tax for the year from discontinued operations	23	-	38.2
Net profit for the year		**173.7**	**218.2**
Net profit for the year is attributable to:			
Equity holders of the parent		**171.9**	**216.5**
Non-controlling interests		1.8	1.7
		173.7	218.2
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustments		0.6	(1.0)
Cash flow hedge adjustment		0.9	1.6
Income tax expense		(0.3)	(0.6)
Other comprehensive income for the year, net of tax		**1.2**	**-**
Total comprehensive income for the year		**174.9**	**218.2**
Total comprehensive income for the year is attributable to:			
Equity holders of the parent		173.1	216.5
Non-controlling interests		1.8	1.7
		174.9	218.2
Earnings per share attributable to the ordinary equity holders of the Company			
From continuing operations for the year			
- basic earnings per share (cents)	21	17.9	19.2
- diluted earnings per share (cents)	21	17.9	19.2
From discontinued operations for the year			
- basic earnings per share (cents)	21	-	4.1
- diluted earnings per share (cents)	21	-	4.1
From net profit for the year			
- basic earnings per share (cents)	21	17.9	23.3
- diluted earnings per share (cents)	21	17.9	23.3

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

Statement of financial position

As at 30 April 2017

	Notes	2017 $m	2016 $m
ASSETS			
Current assets			
Cash and cash equivalents		96.5	26.4
Trade receivables and loans	6	1,136.6	981.4
Inventories		759.2	673.6
Assets held for sale		18.8	32.1
Derivative financial instruments		0.3	-
Prepayments and other assets		13.4	10.8
Total current assets		**2,024.8**	**1,724.3**
Non-current assets			
Derivative financial instruments		12.7	12.1
Trade receivables and loans	6	16.4	15.9
Equity-accounted investments	7	103.3	102.9
Property, plant and equipment	8	242.1	251.9
Net deferred tax assets	4	103.8	105.5
Intangible assets and goodwill	9	1,152.7	1,135.5
Total non-current assets		**1,631.0**	**1,623.8**
TOTAL ASSETS		**3,655.8**	**3,348.1**
LIABILITIES			
Current liabilities			
Trade and other payables		1,524.3	1,356.9
Interest bearing borrowings	10	3.0	15.7
Derivative financial instruments		0.8	1.8
Provisions	11	139.7	140.4
Income tax payable		6.1	15.8
Other financial liabilities		10.0	13.6
Total current liabilities		**1,683.9**	**1,544.2**
Non-current liabilities			
Interest bearing borrowings	10	187.1	299.4
Provisions	11	141.4	123.8
Derivative financial instruments		2.3	3.9
Other financial liabilities		3.7	7.7
Total non-current liabilities		**334.5**	**434.8**
TOTAL LIABILITIES		**2,018.4**	**1,979.0**
NET ASSETS		**1,637.4**	**1,369.1**
EQUITY			
Contributed and other equity	12	1,719.3	1,626.0
Retained earnings/(accumulated losses)		(87.7)	(259.6)
Other reserves	12	(3.0)	(5.6)
Parent interest		1,628.6	1,360.8
Non-controlling interests		8.8	8.3
TOTAL EQUITY		**1,637.4**	**1,369.1**

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

Statement of changes in equity

For the year ended 30 April 2017

	Contributed and other equity $m	Retained earnings/ (accumulated losses) $m	Other reserves $m	Owners of the parent $m	Non-controlling interests $m	Total equity $m
At 1 May 2016	**1,626.0**	**(259.6)**	**(5.6)**	**1,360.8**	**8.3**	**1,369.1**
Total comprehensive income, net of tax	-	171.9	1.2	173.1	1.8	174.9
Transactions with owners						
Proceeds from equity raising (Note 12)	93.3	-	-	93.3	-	93.3
Dividends paid	-	-	-	-	(1.3)	(1.3)
Share-based payments	-	-	1.4	1.4	-	1.4
At 30 April 2017	**1,719.3**	**(87.7)**	**(3.0)**	**1,628.6**	**8.8**	**1,637.4**
At 1 May 2015	**1,626.0**	**(475.8)**	**(1.3)**	**1,148.9**	**7.7**	**1,156.6**
Total comprehensive income, net of tax	-	216.5	-	216.5	1.7	218.2
Transactions with owners						
Dividends paid	-	-	-	-	(1.4)	(1.4)
Share-based payments	-	-	(4.3)	(4.3)	-	(4.3)
Transfers and other adjustments	-	(0.3)	-	(0.3)	0.3	-
At 30 April 2016	**1,626.0**	**(259.6)**	**(5.6)**	**1,360.8**	**8.3**	**1,369.1**

Refer note 12 for details on equity and reserves.

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

Statement of cashflows

For the year ended 30 April 2017

	Notes	2017 $m	2016 $m
Cash flows from operating activities			
Receipts from customers		15,458.7	14,864.6
Payments to suppliers and employees		(15,079.2)	(14,620.8)
Interest and dividends, net		(12.6)	(14.3)
Income tax paid, net of tax refunds		(62.3)	(63.7)
Net cash generated by operating activities	13	**304.6**	**165.8**
Cash flows from investing activities			
Proceeds from sale of businesses		1.8	242.1
Proceeds from sale of business assets		36.3	57.3
Payments for acquisition of business assets		(44.4)	(64.9)
Payment on acquisition of businesses, net of cash acquired		(195.4)	(15.6)
Proceeds from loans repaid by other entities		10.4	30.2
Loans to other entities		(7.3)	(11.7)
Net cash from/(used in) investing activities		**(198.6)**	**237.4**
Cash flows from financing activities			
Proceeds from equity raising, net of share issue costs	12	92.8	(0.6)
Repayments of borrowings, net		(127.3)	(453.7)
Payment of dividends to non-controlling interests		(1.4)	(5.8)
Net cash used in financing activities		**(35.9)**	**(460.1)**
Net increase/(decrease) in cash and cash equivalents		**70.1**	**(56.9)**
Add opening cash and cash equivalents		26.4	83.3
Cash and cash equivalents at the end of the year		**96.5**	**26.4**

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

1. Corporate information

The financial statements of Metcash Limited (the 'Company') and its controlled entities (together the 'Group') for the year ended 30 April 2017 were authorised for issue in accordance with a resolution of the Directors on 26 June 2017.

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

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

2. Segment information

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

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

- **Food & Grocery** activities comprise the distribution of dry grocery, perishable and general merchandise supplies to retail outlets.
- **Liquor** activities comprise the distribution of liquor products to retail outlets and hotels.
- **Hardware** activities comprise the distribution of hardware supplies to retail outlets and trade customers.

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

The selling price between segments is at normal selling prices and is paid under similar terms and conditions as other customers of the Group. Segment results exclude results from discontinued operations.

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

Segment results

	Segment revenue		Segment profit before tax	
	2017 $m	2016 $m	2017 $m	2016 $m
Food & Grocery	9,180.0	9,126.6	180.0	179.9
Liquor	3,333.1	3,219.3	67.0	62.1
Hardware	1,608.8	1,056.6	48.5	32.8
Segment results	14,121.9	13,402.5	295.5	274.8
Corporate			1.2	0.6
Group earnings before interest and tax ('EBIT')			296.7	275.4
Net finance costs			(25.5)	(27.0)
Significant items (Note 3)			(32.7)	-
Net profit before tax from continuing operations			238.5	248.4

3. Revenue and expenses

	2017 $m	2016 $m
(i) Other income		
Lease income – rent	73.7	81.6
Lease income – outgoings recoveries	22.1	26.5
Interest from other persons/corporations	3.8	4.5
Other interest income – gain on finance facility restructure	-	9.6
Net gain from disposal of surplus properties and related assets	5.8	14.4
Other	1.3	1.8
	106.7	138.4
(ii) Operating lease expenses		
Property rent – stores	87.5	84.9
Property rent – warehouse and other properties	85.9	81.5
Property outgoings	35.2	37.9
Equipment and other leases	22.2	21.8
	230.8	226.1
(iii) Employee benefit expenses		
Salaries and wages	514.4	480.1
Superannuation expense	42.1	37.1
Share based payments	1.4	(3.7)
Working Smarter restructuring costs (Note 3(a))	-	9.1
Other employee benefit expenses, including related taxes	47.5	42.0
	605.4	564.6
(iv) Depreciation and amortisation		
Depreciation of property, plant and equipment	36.2	35.3
Amortisation of software	18.1	16.0
Amortisation of other intangible assets	9.2	9.0
	63.5	60.3
(v) Provisions for impairment, net of reversals		
Trade receivables and loans	17.0	18.7
Inventories	25.6	18.9
Assets held for sale	1.9	2.2
Equity-accounted investments	(1.1)	-
Property, plant and equipment	1.7	8.3
Intangible assets	5.7	-
Property lease and onerous contracts provisions	1.6	1.0
	52.4	49.1
(vi) Significant items		
HTH acquisition and integration costs (Note 22)	13.6	-
Working Smarter restructuring costs (Note 3(a))	19.1	-
Total significant items expense before tax	32.7	-
Income tax benefit attributable to significant items	(9.8)	-
Total significant items expense after tax	22.9	-
(vii) Finance costs		
Interest expense	19.6	31.0
Deferred borrowing costs	1.4	1.1
Finance costs from discounting of provisions	8.3	9.0
	29.3	41.1

3. Revenue and expenses (continued)

(a) Working Smarter restructuring costs

During the current year, the Group incurred $19.1 million of restructuring costs in relation to implementing the Working Smarter program that are separately disclosed within significant items. These costs are not trading related and only include costs specifically related to the program, such as redundancies, restructuring costs and advisor fees. Metcash incurred $9.1 million of costs in relation to the Working Smarter program during the prior year (Note 3(iii)).

4. Income tax

	2017 $m	2016 $m
Major components of income tax expense		
Current income tax charge	58.0	76.3
Adjustments in respect of income tax of previous years	(4.8)	(4.8)
Deferred income tax relating to origination and reversal of temporary differences	11.6	10.3
Total income tax expense	64.8	81.8
Classification of income tax expense		
Income tax attributable to significant items in profit from continuing operations before tax	(9.8)	-
Income tax attributable to other continuing operations	74.6	68.4
Total income tax expense attributable to continuing operations	64.8	68.4
Income tax expense attributable to discontinued operations	-	13.4
Total income tax expense	64.8	81.8

Reconciliation of income tax expense from continuing operations

The following table presents a reconciliation between the tax expense implied by the Group's applicable income tax rate and the actual expense for the year.

	2017 $m	2016 $m
Accounting profit from continuing operations before income tax	238.5	248.4
At the Group's statutory income tax rate of 30% (2016: 30%)	71.6	74.5
Expenditure not allowable for income tax purposes – continuing operations	1.6	4.8
Other amounts assessable for income tax purposes	-	0.6
Other amounts not assessable for income tax purposes	(2.6)	(2.9)
Other amounts allowable for income tax purposes	(1.0)	(3.8)
Adjustments in respect of income tax of previous years	(4.8)	(4.8)
Income tax expense attributable to continuing operations	64.8	68.4

4. Income tax (continued)

	2017 $m	2016 $m
Components of deferred tax assets		
Provisions	135.7	131.7
Unutilised tax losses	0.2	2.5
Accelerated depreciation for accounting purposes	1.0	4.8
Other	5.4	8.9
Intangible assets (set off of deferred tax liabilities)	(38.5)	(42.4)
	103.8	105.5
Movements in deferred tax assets		
Opening balance	105.5	116.4
Charged to net profit for the year	(11.6)	(10.3)
Charged to other comprehensive income for the year	(0.3)	(0.6)
Tax benefit associated with share issue costs	0.5	-
Adjustments related to business combinations	9.7	-
Closing balance	103.8	105.5

The Group has unrecognised gross capital losses of $16.1 million (2016: $12.6 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.

5. Dividends

Dividends on ordinary shares

	2017 $m	2016 $m
Dividends determined (not recognised as a liability as at 30 April 2017)		
Final fully franked dividend for 2017: 4.5c (2016: nil)	43.9	-

On 26 June 2017, the Board determined to pay a fully franked FY17 final dividend of 4.5 cents per share, sourced from the profit reserve established by Metcash Limited (Parent Company), with a record date of 7 July 2017 and payable in cash on 27 July 2017. The Board also resolved to suspend the Dividend Reinvestment Plan (DRP), with effect from 26 June 2017.

No dividends were paid during FY16 or FY17.

Franking credit balance of Metcash Limited

	2017 $m	2016 $m
Franking account balance as at the end of the financial year at 30% (2016: 30%)	192.0	129.7
Franking credits that will arise from the payment of income tax payable at the reporting date	5.5	15.2
Franking credits on dividends determined but not distributed to shareholders during the year	(18.8)	-
	178.7	144.9

6. Trade receivables and loans

	2017 $m	2016 $m
Current		
Trade receivables - securitised (Note 14)	744.6	732.6
Trade receivables - non-securitised	338.5	186.3
Allowance for impairment loss	(57.3)	(45.0)
Trade receivables	1,025.8	873.9
Marketing and other receivables	92.1	82.1
Trade and other receivables	1,117.9	956.0
Customer loans	28.0	33.1
Allowance for impairment loss	(9.3)	(7.7)
Customer loans	18.7	25.4
Total trade receivables and loans – current	1,136.6	981.4
Non-current		
Customer loans	22.5	21.8
Allowance for impairment loss	(8.1)	(6.8)
Customer loans	14.4	15.0
Other receivables	2.0	0.9
Total trade receivables and loans – non-current	16.4	15.9

6. Trade receivables and loans (continued)

Movements in allowance for impairment loss

	2017 $m	2016 $m
Opening balance	59.5	74.7
Charged as an expense during the year	17.0	18.7
Accounts written off as non-recoverable	(28.2)	(32.7)
Related to acquisitions and disposals of businesses	26.4	(1.2)
Closing balance	74.7	59.5

Weighted average interest

Trade receivables, marketing and other receivables are non-interest bearing and repayment terms vary by business unit. As at 30 April 2017, $7.5 million (2016: $5.1 million) of customer loans are non-interest bearing and $43.0 million (2016: $49.8 million) of customer loans have a weighted average annual interest rate of 8.7% (2016: 8.9%).

Maturity of trade receivables

At 30 April 2017, 78.1% of trade receivables are either due or required to be settled within 30 days (2016: 77.8%), 20.8% have terms extending from 30 to 60 days (2016: 21.5%) and 0.8% have terms greater than 60 days (2016: 0.7%).

Customer loan security

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

Ageing of unimpaired trade receivables and loans

Days overdue	Trade receivables $m	%	Customer loans $m	%	Marketing and other receivables $m	%
At 30 April 2017						
Neither past due nor impaired	888.0	86.6%	23.0	69.5%	85.1	90.4%
Less than 30 days	106.6	10.4%	0.6	1.8%	9.0	9.6%
Between 30 and 60 days	18.4	1.8%	-	-	-	-
Between 60 and 90 days	7.1	0.7%	-	-	-	-
Between 90 and 120 days	5.0	0.4%	-	-	-	-
More than 120 days	0.7	0.1%	9.5	28.7%	-	-
Total	1,025.8	100.0%	33.1	100.0%	94.1	100.0%
At 30 April 2016						
Neither past due nor impaired	837.2	95.8%	31.0	76.7%	50.9	61.3%
Less than 30 days	32.8	3.8%	-	-	30.6	36.9%
Between 30 and 60 days	2.8	0.3%	0.3	0.7%	0.5	0.6%
Between 60 and 90 days	0.8	0.1%	-	-	0.5	0.6%
Between 90 and 120 days	0.2	-	1.6	4.0%	0.1	0.1%
More than 120 days	0.1	-	7.5	18.6%	0.4	0.5%
Total	873.9	100.0%	40.4	100.0%	83.0	100.0%

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

7. Equity-accounted investments

Nature and extent

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

Contingent liabilities and commitments

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

Share of investees' profit

At the reporting date, the equity-accounted investments are not individually material to the Group. In aggregate, the Group's share of income from equity-accounted investments during the year was $9.7 million (2016: $7.1 million), which includes a $3.3 million (2016: $3.1 million) share of income tax expense incurred by the investees.

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

Share of investees' net assets

	2017 $m	2016 $m
Current assets	70.2	69.9
Non-current assets	121.2	123.7
Total assets	191.4	193.6
Current liabilities	(90.0)	(94.8)
Non-current liabilities	(37.8)	(35.8)
Total liabilities	(127.8)	(130.6)
Net assets	63.6	63.0

8. Property, plant and equipment

	Land & buildings $m	Plant & equipment $m	Total $m
Year ended 30 April 2017			
Opening balance	26.4	225.5	251.9
Additions	0.6	37.9	38.5
Additions through business combinations (Note 22)	22.0	4.3	26.3
Disposals	(0.1)	(9.2)	(9.3)
Impairment	-	(3.7)	(3.7)
Reclassifications	(11.0)	(14.4)	(25.4)
Depreciation	-	(36.2)	(36.2)
Closing balance	37.9	204.2	242.1
At 30 April 2017			
Cost	44.2	400.7	444.9
Accumulated depreciation and impairment	(6.3)	(196.5)	(202.8)
Net carrying amount	37.9	204.2	242.1
Year ended 30 April 2016			
Opening balance	45.9	230.1	276.0
Additions	-	57.1	57.1
Disposal of Automotive (Note 23)	-	(9.8)	(9.8)
Other disposals	(6.4)	(5.2)	(11.6)
Assets classified as held for sale	(11.8)	(3.8)	(15.6)
Impairments	(1.0)	(7.3)	(8.3)
Depreciation	(0.3)	(35.6)	(35.9)
Closing balance	26.4	225.5	251.9
At 30 April 2016			
Cost	32.7	380.1	412.8
Accumulated depreciation and impairment	(6.3)	(154.6)	(160.9)
Net carrying amount	26.4	225.5	251.9

Additions to plant and equipment include $14.8 million (2016: $30.8 million) of assets under construction. The closing balance of plant and equipment includes $16.2 million (2016: $41.6 million) of assets under construction.

The carrying value of assets held under finance leases and hire purchase contracts at 30 April 2017 is $6.1 million (2016: $8.2 million).

9. Intangible assets and goodwill

	Software development costs $m	Customer contracts $m	Trade names and other $m	Goodwill $m	Total $m
Year ended 30 April 2017					
Opening balance	60.9	101.7	41.2	931.7	1,135.5
Additions	6.4	1.0	-	-	7.4
Additions through business combinations (Note 22)	1.7	-	-	25.2	26.9
Impairment	(1.5)	(4.2)	-	-	(5.7)
Reclassifications	17.1	(1.2)	-	-	15.9
Amortisation	(18.1)	(8.8)	(0.4)	-	(27.3)
Closing balance	66.5	88.5	40.8	956.9	1,152.7
At 30 April 2017					
Cost	248.4	231.6	43.4	1,398.5	1,921.9
Accumulated amortisation and impairment	(181.9)	(143.1)	(2.6)	(441.6)	(769.2)
Net carrying amount	66.5	88.5	40.8	956.9	1,152.7
Year ended 30 April 2016					
Opening balance	71.1	140.2	80.4	1,000.8	1,292.5
Additions	7.9	-	0.3	1.9	10.1
Disposal of Automotive (Note 23)	(1.6)	(29.0)	(34.5)	(71.7)	(136.8)
Other disposals	(0.5)	-	-	(0.6)	(1.1)
Reclassifications	-	-	(4.7)	1.3	(3.4)
Amortisation	(16.0)	(9.5)	(0.3)	-	(25.8)
Closing balance	60.9	101.7	41.2	931.7	1,135.5
At 30 April 2016					
Cost	223.2	234.4	43.5	1,373.3	1,874.4
Accumulated amortisation and impairment	(162.3)	(132.7)	(2.3)	(441.6)	(738.9)
Net carrying amount	60.9	101.7	41.2	931.7	1,135.5

9. Intangible assets and goodwill (continued)

Impairment tests for goodwill and intangibles with indefinite useful lives

Description of cash generating units

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

Current year assessment

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

Allocation of CGUs

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

	Allocated goodwill		Trade names and other intangibles		Post-tax discount rates	
Cash-generating units	**2017 $m**	**2016 $m**	**2017 $m**	**2016 $m**	**2017 %**	**2016 %**
Food & Grocery	756.1	756.1	0.7	1.0	11.3%	11.3%
Liquor	112.5	104.0	12.9	13.0	10.1%	10.1%
Hardware	88.3	71.6	27.2	27.2	10.1%	10.1%
	956.9	931.7	40.8	41.2		

Key assumptions used in assessment

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

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

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

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

  The calculation of WACC is market-driven and key inputs include target capital structure, equity beta, market risk premium, risk-free rate of return and debt risk premium. Pre-tax equivalents of the adopted discount rates are derived iteratively and differ based on the timing and extent of tax cash flows. Pre-tax rates were 15.8% for Food & Grocery, 14.4% for Liquor and 14.0% for Hardware.

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

Results of assessment

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

9. Intangible assets and goodwill (continued)

Sensitivity to changes in key assumptions

The recoverable amount of the Food & Grocery CGU exceeded its carrying amount by $7.9 million ('headroom'). The limited headroom is a consequence of an impairment charge of $422.1 million which was recorded against the CGU's goodwill in FY15, which reduced the CGU's headroom to nil at that time. The CGU has since performed to forecast.

The Food & Grocery CGU has been assessed in the current year as having no impairment. Nevertheless, while the CGU assessment incorporates adjustments to address cash flow risk, the limited headroom is sensitive to reasonably possible changes to key inputs. As future forecast cash flows are broadly in line with the current carrying value of the Food & Grocery CGU, any adverse change in an assumption which is not offset by a positive change in another assumption would lead to a reduced valuation on a value in use basis, and hence result in an impairment. The following sensitivity changes are deemed to be reasonably possible and would cause an impairment, assuming all other assumptions are held constant:

- A 10% reduction in forecasted EBIT across all projection years, including the terminal year, would reduce headroom by $114.8 million, causing an impairment of $106.9 million.
- An increase of 50 basis points in the post-tax discount rate to 11.8% would reduce headroom by $55.1 million, causing an impairment of $47.2 million; or
- A decrease of 50 basis points in the terminal growth rate to 1.0% would reduce headroom by $39.1 million, causing an impairment of $31.2 million.

Together, any adverse changes in the key inputs would cumulatively result in a more significant impairment impact.

At the assessment date, no reasonably possible change in key assumptions would cause the carrying amounts of the Liquor and Hardware CGUs to exceed their respective recoverable amounts.

10. Interest bearing borrowings

	2017 $m	2016 $m
Current		
Bank overdrafts	-	11.3
Bilateral loans	-	0.6
Finance lease obligations	3.0	3.8
	3.0	15.7
Non-current		
Bank loans – syndicated	150.0	200.0
US private placement (USPP)	36.1	36.6
Bank loans - working capital	-	61.0
Finance lease obligations	3.5	4.8
Deferred borrowing costs	(2.5)	(3.0)
	187.1	299.4

Core borrowing facilities

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

Finance lease obligations

Finance leases have an average remaining lease term of 2 years with the option to purchase the asset at the completion of the lease term for the asset's market value. The weighted average interest rate implicit in the lease is 4.9% (2016: 5.3%). Certain lease liabilities are secured by a charge over the leased asset.

10. Interest bearing borrowings (continued)

Financial covenants

The core borrowings of the Group must comply with three primary covenants which apply to the syndicated bank facilities, the working capital facilities and the USPP debt. These covenants are: a fixed charges cover ratio (Underlying Earnings Before Interest, Tax, Depreciation, Amortisation and Net Rent (EBITDAR) divided by Total Net Interest plus Net Rent Expense), a senior leverage ratio (Total Group Debt divided by Underlying Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)) and minimum shareholders' funds (a fixed figure representing the Group share capital and reserves). At the reporting date, there were no defaults or breaches on the Group's core borrowings.

Fair value

The carrying amounts of the Group's borrowings approximate their fair value. The weighted average effective interest rate on the syndicated, working capital loans and the USPP debt, after taking into account cross currency and interest rate swaps, at the end of the financial year was 4.5% (2016: 4.2%).

11. Provisions

	Employee entitlements $m	Property lease and onerous contracts provisions $m	Total $m
30 April 2017			
Current	109.2	30.5	139.7
Non-current	8.8	132.6	141.4
	118.0	163.1	281.1
30 April 2016			
Current	109.4	31.0	140.4
Non-current	7.0	116.8	123.8
	116.4	147.8	264.2

Property lease provisions include the value of certain retail store lease obligations recognised as part of the acquisition of Franklins in 2012 and the current year HTH acquisition. The provision is initially recognised at the acquisition date fair value and subsequently utilised to settle lease obligations. The provision related to an individual lease is derecognised when the Group has met its obligations in full under that lease.

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

Movements in property lease and onerous contracts provisions

	2017 $m	2016 $m
Opening balance	147.8	168.4
Expense arising/(released) during the year	1.6	1.0
Utilised during the year	(18.0)	(29.5)
Reclassifications and other transactions	2.9	-
Resulting from acquisitions and disposals of businesses	20.5	(1.1)
Finance cost discount rate adjustment	8.3	9.0
Closing balance	163.1	147.8

12. Contributed equity and reserves

Contributed and other equity

	2017		2016	
	Number of shares	$m	Number of shares	$m
At 1 May	928,357,876	2,391.9	928,357,876	2,391.9
Issued under equity raising	47,284,000	94.6	-	-
Share issue costs net of tax	-	(1.3)	-	-
At 30 April – contributed equity	975,641,876	2,485.2	928,357,876	2,391.9
Less: other equity		(765.9)		(765.9)
Total contributed and other equity	975,641,876	1,719.3	928,357,876	1,626.0

During August/September 2016, the Company issued 40.0 million shares via an Institutional Placement and 7.3 million shares via a Share Placement Plan, both at $2.00 per share, which raised $94.6 million of equity. The proceeds from the capital raising were applied to partly fund the acquisition of HTH and otherwise to reduce debt.

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

The ‘Other equity’ account was used to record the reverse acquisition adjustment on application of AASB 3 *Business Combinations* in 2005. Refer Appendix A.3.

Other reserves

	Share-based payments reserve $m	Foreign currency translation reserve $m	Cash flow hedge reserve $m	Total other reserves $m
At 1 May 2015	5.1	(4.2)	(2.2)	(1.3)
Total comprehensive income, net of tax	-	(1.0)	1.0	-
Share-based payments expense	(3.7)	-	-	(3.7)
Share-based payments exercised	(0.6)	-	-	(0.6)
At 30 April 2016	0.8	(5.2)	(1.2)	(5.6)
Settlements during the year	-	-	1.5	1.5
Movement in fair value of derivatives	-	-	(0.6)	(0.6)
Movement in foreign currency valuations	-	0.6	-	0.6
Tax impact of above movements	-	-	(0.3)	(0.3)
Total comprehensive income, net of tax	-	0.6	0.6	1.2
Share-based payments expense	1.4	-	-	1.4
At 30 April 2017	2.2	(4.6)	(0.6)	(3.0)

Refer Appendix A for further details on the above reserves.

13. Cash flows from operating activities

	2017 $m	2016 $m
Net profit for the year	173.7	218.2
Adjustments for:		
Depreciation and amortisation	63.5	61.7
Impairment losses	54.4	40.8
Net profit on disposal of property, plant and equipment	(5.8)	(16.1)
Net gain on disposal of discontinued operations	-	(34.5)
Share based payments	1.4	(3.7)
Other adjustments	(4.3)	(4.6)
HTH acquisition costs paid	5.7	-
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	(4.2)	(40.7)
(Increase)/decrease in other current assets	(2.6)	0.9
(Increase)/decrease in inventories	(5.2)	(36.7)
(Increase)/decrease in tax balances	1.7	5.5
Increase/(decrease) in payables and provisions	26.3	(25.0)
Cash from operating activities	304.6	165.8

Non-cash financing and investing activities include $1.3 million (2016: $2.3 million) of assets acquired under finance leases.

14. Financial risk management

Objectives and policies

The Group’s principal financial instruments comprise bank loans, bonds and overdrafts, finance and operating leases, cash and short-term deposits and derivatives. The main purpose of these instruments is to 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 main risks arising from the Group’s financial instruments are interest rate risk, foreign exchange risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are detailed below. The objective of the Group’s risk management policy is to support delivery of the Group's financial targets while protecting future financial security.

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

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, the Group manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. The Group has three sources of primary debt funding, of which 21% has been utilised at 30 April 2017. The Group monitors forecasts of liquidity reserves on the basis of expected cash flow.

14. Financial risk management (continued)

Available credit facilities

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

	Total facility $m	Debt usage $m	Guarantees & other usage $m	Facility available $m
Syndicated facility	675.0	150.0	-	525.0
US private placement	23.3	23.3	-	-
Securitisation facility	100.0	-	-	100.0
Working capital, including guarantees	170.5	-	27.9	142.6
	968.8	173.3	27.9	767.6
Cash and cash equivalents				96.5
	968.8	173.3	27.9	864.1

- Syndicated facility
  Syndicated bank loans are senior unsecured loan note subscription facilities. The facilities are due to expire in June 2019 ($225.0 million), June 2020 ($350.0 million) and August 2021 ($100.0 million). Interest payable on the facilities is based on BBSY plus a margin and interest rate resets are monthly. The applicable margin is dependent upon an escalation matrix linked to the senior leverage ratio achieved. These bank loans are subject to certain financial undertakings as detailed in note 10.

- US private placement
  US private placement (USPP) comprises two tranches of fixed coupon debt of US$5.0 million maturing September 2019 and US$20.0 million maturing September 2023. The foreign exchange and fixed interest rate risk has been hedged using cross currency interest rate swaps. The financial effect of these hedges is to convert the US$25.0 million of USPP fixed interest rate debt into $23.3 million of floating rate debt with interest payable on a quarterly basis at BBSW plus a margin.

  The debt was revalued at the reporting date to $36.1 million (2016: $36.6 million), as presented in note 10. The fair value of the associated cross currency interest rate swaps is separately classified within derivative financial instruments. The USPP debt is subject to certain financial undertakings as detailed in note 10.

- Securitisation facility
  Under the $100.0 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 2019. 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 $744.6 million (2016: $732.6 million) had been securitised, with nil (2016: 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.

- Working capital
  Working capital bank loans are represented by three unsecured revolving facilities totalling $170.5 million, one of which expires in May 2017 ($0.5 million) and two of which expire in June 2018 (total of $170.0 million). Interest payable on any loans drawn under these facilities is based on BBSY or the RBA cash rate plus a margin. These bank loans are subject to certain financial undertakings as detailed in note 10.

14. Financial risk management (continued)

Maturity analysis of financial liabilities based on contracted date

The following table reflects the gross contracted values of financial liabilities categorised by their contracted dates of settlement. Except where these exposures are provided for, these are also the expected dates of settlement.

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

	1 year or less* $m	1 - 5 years $m	More than 5 years $m	Total $m
Year ended 30 April 2017				
Trade and other payables	1,524.3	-	-	1,524.3
Finance lease obligations	3.3	3.6	-	6.9
Financial guarantee contracts	2.2	1.5	-	3.7
Put options written over non-controlling interests	7.7	-	-	7.7
Bank and other loans	5.9	168.4	19.7	194.0
Derivative liabilities – net settled	1.8	1.9	-	3.7
Derivative liabilities – gross settled:				
- Inflows	(10.2)	-	-	(10.2)
- Outflows	10.2	-	-	10.2
Net maturity	1,545.2	175.4	19.7	1,740.3
Year ended 30 April 2016				
Trade and other payables	1,356.9	-	-	1,356.9
Finance lease obligations	3.9	5.1	-	9.0
Financial guarantee contracts	2.3	3.7	-	6.0
Put options written over non-controlling interests	10.4	-	-	10.4
Bank and other loans	22.8	278.3	20.6	321.7
Derivative liabilities – net settled	0.7	3.9	-	4.6
Derivative liabilities – gross settled:				
- Inflows	(24.3)	-	-	(24.3)
- Outflows	25.4	-	-	25.4
Net maturity	1,398.1	291.0	20.6	1,709.7

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

One of these put options relates to the acquisition of a retail supermarket and another relates to the acquisition by Mitre 10 from co-investors of an additional ownership interest in an equity-accounted investment. The holders of these put options have the right to put these assets back to the Group under certain prescribed circumstances. The put option purchase prices are defined within the option deeds and are active until April 2022. The put option consideration is estimated to be $10.9 million (2016: $17.0 million).

In addition, Metcash has a 26.0% ownership interest in Ritchies Stores Pty Ltd (Ritchies), which is recognised as an equity-accounted investment in the Group's balance sheet (refer note 7). During the year ended June 2016, Ritchies generated sales revenue of $860.6 million.

At the time of its original acquisition in July 2005, Metcash granted put options to the remaining shareholders over their 74.0% ownership interests in that business. The holders of these put options have the right to "put" their shares to Metcash subject to a margin related annual financial hurdle (‘hurdle’) being achieved.

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

14. Financial risk management (continued)

Based on the last 5 years reported results, Ritchies has not achieved the hurdle required to enable the shareholders to exercise their put options, including the financial year ended June 2016 (the latest available audited results). Accordingly, Metcash had previously assessed the probability of the option being exercised as remote. Ritchies recently acquired a large retail group and, following this acquisition, it is possible that Ritchies future performance may improve to a level where the financial hurdle could be exceeded.

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

As the hurdle was not achieved in 2016, it is not possible to determine the specific consideration that would have been payable under the put option agreement at that time. However, assuming the financial hurdle had been achieved, and based on Ritchies reported financial results for the year ended June 2016, Metcash estimates that the consideration payable in respect of the Ritchies 2016 financial year would have been between $90 million and $130 million.

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

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

Within the Hardware segment, put options have been granted over three subsidiaries. These put option arrangements allow minority shareholders to sell their equity interests to Metcash, subject to specific terms and conditions. The Group has recognised a liability of $7.7 million (2016: $10.4 million) in respect of these put options, measured at the present value of the redemption amount under the option as set out in the above maturity table.

Interest rate risk

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

Metcash manages this risk by entering into interest rate swap contracts with various major Australian banks. At 30 April 2017, the principal hedged was $150.0 million with a weighted average hedge maturity of 2.4 years and a weighted average base interest rate of 2.1%. 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 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:

	2017 $m	2016 $m
Financial assets		
Cash and cash equivalents	96.5	26.4
Financial liabilities		
Bank loans - working capital, including bank overdrafts	-	(72.3)
Bilateral loans	-	(0.6)
Bank loans – syndicated	(150.0)	(200.0)
US private placement	(23.3)	(23.3)
Less: Interest rate swaps notional principal value - designated as cash flow hedges	150.0	175.0
	(23.3)	(121.2)
Net exposure	73.2	(94.8)

14. Financial risk management (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 2017, the interest rate swap hedges of $150.0 million fell within the required range.

Sensitivity analysis

A 0.25% change in interest rates is estimated to result in a $0.3 million (2016: $0.2 million) change in the Group's net profit after tax and a $0.6 million (2016: $0.8 million) change in the Group's other comprehensive income. 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.

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. It also includes the impact of the Group's interest rate derivatives that hedge core debt.

Credit risk

Trade receivables and loans

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

Receivables and loans are monitored on an ongoing basis and a formal review of all balances occurs every six months. Where necessary, appropriate provisions are established.

As identified in note 6, the current level of impairment provision represents 6.1% (2016: 5.6%) of the Group's receivables and loans.

Leases

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

Derivative financial instruments

The Group's derivative financial instruments are with financial institutions with credit ratings of AA- to A and at 30 April 2017, the mark-to-market position of derivative financial assets is $13.0 million. This valuation includes a credit valuation adjustment of $0.8 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.

Other

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

Foreign currency risk

The Group is exposed to foreign exchange fluctuations on transactions and balances in 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$25.0 million USPP facility have been hedged using cross currency interest rate swaps (see note 10).

15. Capital management

For the purpose of the Group's capital management, capital includes all accounts classified as equity on the statement of financial position. The Board's intention is to retain adequate funds within the business to reinvest in future growth opportunities and otherwise return earnings to shareholders.

On 26 June 2017, the Board determined to pay a fully franked FY17 final dividend of 4.5 cents per share. The intention of the Board is to recommence the payment of interim and final dividends during FY18, targeting a dividend payout ratio of 60% of Underlying Earnings Per Share.

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

Management monitor capital through the gearing ratio (net debt / net debt plus total equity). The gearing ratios at 30 April 2017 and 30 April 2016 were 4.7% and 16.8% respectively.

Other than the Board's announcement regarding dividends, no changes were made in objectives, policies or processes for managing capital during the reporting periods presented.

16. Commitments

Operating leases

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

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

	2017 $m	2016 $m
Within 1 year	209.5	201.1
After 1 year but not more than 5 years	638.2	657.0
More than 5 years	632.6	687.8
Aggregate lease expenditure contracted for at reporting date	1,480.3	1,545.9

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

	2017 $m	2016 $m
Within 1 year	76.8	83.2
After 1 year but not more than 5 years	253.2	274.5
More than 5 years	274.4	284.6
Aggregate lease income contracted for at the reporting date	604.4	642.3

Capital expenditure commitments

At 30 April 2017, the Group had no material commitments for capital expenditure.

17. Related party disclosures

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

Material transactions and balances with related parties - Group

	2017 $m	2016 $m
Transactions with related parties – Equity-accounted investments		
Sales revenue	1,272.9	1,308.1
Lease charges	13.1	15.5
Dividends received	5.2	2.8
Balances with related parties – Equity-accounted investments		
Trade receivables – gross	106.1	100.5
Provision for impairment	(3.8)	(6.3)
	102.3	94.2
Loans receivable – gross	6.8	9.8
Provision for impairment	(6.8)	(7.1)
	-	2.7

Transactions and balances with related parties – Parent entity

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

Compensation of key management personnel of the Group

	2017 $m	2016 $m
Short-term	9.6	11.1
Long-term	0.2	0.1
Post-employment	0.2	0.2
Termination benefits	-	0.2
Share-based payments	1.0	(0.3)
	11.0	11.3

Other transactions with key management personnel

Mrs Balfour is a director of Salmat Limited and a former director TAL (Dai–ichi Life Australia) Limited. Ms Dwyer is a director of Dexus Property Group. Mr Murray is a director of Southern Cross Media Group and was a former director of Linfox Logistics Pty Ltd. Ms Nash is a director of Blackmores Ltd and Southern Cross Media Group; and a former director of Pacific Brands Group Limited. Subsequent to the financial year, Ms Nash was appointed as a director of Inghams Enterprises Pty Limited. Mr Butler was Chairman of AMP Superannuation Ltd.

All the above organisations are suppliers to the Group under normal commercial terms and conditions. The total level of purchases from all companies is less than 1.0% of Metcash's annual purchases and is not considered material.

18. Share-based payments

Description of share-based payment arrangements

The Group currently has three active share-based payment incentive schemes for employees – as summarised in the following table.

Scheme name	Description
Long Term Incentive (LTI)	
LTI (FY17- FY19)	This grant was issued during FY17 and reflects the re-instatement of annual performance rights grants to KMP and key executives and is subject to two performance conditions; Relative Total Shareholder Return ('RTSR') and Earnings per Share Compound Annual Growth Rate ('EPS CAGR') over a three year period from 1 May 2016 to 30 April 2019.
Additional Transformation Incentive (ATI)	
ATI (FY15 - FY18)	Performance rights issued to incentivise the Group CEO and Group CFO to achieve or exceed a specified Return on Funds Employed (ROFE) and Relative Total Shareholder Return (RTSR) target in FY18. Scheme minimum, target and stretch hurdles were based on the Group's Transformation Plan. Both ROFE and RTSR are independently and separately tested.
ATI (FY16 - FY19)	Performance rights issued to incentivise the Group CEO to achieve or exceed a specified ROFE and RTSR target in FY19. Scheme minimum, target and stretch hurdles were based on the Group's Transformation Plan. Both ROFE and RTSR are independently and separately tested.
CEO MFG Commencement Grant	
CEO MFG Retention	Performance rights issued to incentivise Mr Cain, CEO Supermarkets & Convenience ('CEO MFG'), to retain his services for at least three years from commencement of employment.
CEO MFG Performance	Performance rights issued to incentivise Mr Cain to successfully execute the Metcash Supermarkets business turnaround. The grant requires MFG Supermarkets to achieve a specified EBIT by FY20. Should this EBIT be achieved by FY18 or FY19 60% of these rights are eligible, at Mr Cain's discretion, for early vesting, with the remainder deferred until 15 August 2020. All performance rights not elected for early vesting are assessed against FY20 MFG Supermarkets EBIT and are due for vesting on 15 August 2020.

The Transformation Incentive Plan (TI) was issued in 2014 with a performance period that ranged over FY15 – FY17. The Group failed to meet the 13% ROFE threshold in FY16, consequently the TI lapsed and all related performance rights have expired.

Measurement of fair values

LTI Performance Rights

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

	LTI FY17 – FY19 (EPS)	CEO MFG Retention	CEO MFG Performance	ATI FY18 (ROFE)	ATI FY19 (ROFE)
Dividend yield	2.5%	3.0%	3.0%	5.9%	5.9%
Risk free rate	1.5%	2.1%	2.1%	2.2%	2.3%
Expected volatility	41.0%	34.5%	33.1%	23.8%	21.2%
Days to vesting	1,127	1,097	1,825	1,371	1,764
Exercise price	-	-	-	-	-
Share price at grant date	$2.03	$1.15	$1.15	$2.36	$2.64
Fair value at grant date	$1.88	$1.07	$1.04	$1.88	$1.98

18. Share-based payments (continued)

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

	LTI FY17 – FY19 (RTSR)	ATI FY18 (RTSR)	ATI FY19 (RTSR)
Dividend yield	2.5%	6.3%	5.5%
Risk free rate	1.5%	2.7%	2.9%
Expected volatility	41.0%	25.0%	25.0%
Days to vesting	1,127	1,371	1,764
Exercise price	-	-	-
Share price at grant date	$2.03	$2.36	$2.64
Fair value at grant date	$1.27	$0.99	$1.25

Service and non-market performance conditions attached to the arrangements outlined in the above tables were not taken into account in measuring fair value. Market performance conditions associated with the LTI FY17 – FY19 (RTSR), ATI FY18 (RTSR) and ATI FY19 (RTSR) have been reflected in the fair value of the related performance rights. Expected volatility has been based upon an evaluation of the historical volatility of Metcash's share price, particularly over the historical period commensurate with the expected term. Performance rights are only exercisable on their vesting date.

Reconciliation of outstanding performance rights

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

	2017 Number	2016 Number
Outstanding at the beginning of the year	12,497,505	14,686,780
Granted during the year – LTI	3,405,652	3,186,068
Granted during the year – STI	-	173,685
Exercised during the year – STI	-	(173,685)
Expired/forfeited during the year – LTI	(7,711,138)	(5,375,343)
Outstanding at the end of the year	8,192,019	12,497,505

The outstanding balance of performance rights as at 30 April 2017 is represented by:

Scheme name	Vesting date	Total outstanding (number)	Exercisable (number)	Remaining contractual life
CEO MFG Retention	1 August 2018	1,062,023	-	1 year 4 months
ATI FY18 (ROFE)*	15 August 2018	352,314	-	1 year 4 months
ATI FY18 (RTSR)*	15 August 2018	352,314	-	1 year 4 months
ATI FY19 (ROFE)*	15 August 2019	533,808	-	2 years 4 months
ATI FY19 (RTSR)*	15 August 2019	533,808	-	2 years 4 months
LTI FY17 – FY19	15 August 2019	3,233,707	-	2 years 4 months
CEO MFG Performance*	15 August 2020	2,124,045	-	3 years 4 months
Total outstanding at the reporting date		8,192,019	-	

*As at the date of this report, these plans are expected to perform below the threshold performance hurdle, which would result in nil vesting.

18. Share-based payments (continued)

Key terms and conditions

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

The key terms of the Rights Plan include:

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

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

In accordance with the amendment to the *Corporations Act 2001*, Metcash Limited (the Parent Company) has replaced the separate entity financial statements with the following note.

	2017 $m	2016 $m
Statement of financial position		
Current assets – amounts receivable from subsidiaries	1,633.9	1,539.3
Non-current assets – investments in subsidiaries	941.1	2,030.7
Total assets	2,575.0	3,570.0
Current liabilities – loans payable to subsidiaries	(2,089.1)	(4,333.9)
Net assets/(deficiency)	485.9	(763.9)
Contributed equity	3,151.1	3,057.8
Accumulated losses	(3,817.4)	(3,822.5)
Profit reserve	1,150.0	-
Share based payments reserve	2.2	0.8
Total equity/(deficiency)	485.9	(763.9)
Statement of comprehensive income		
Dividends received from subsidiaries	1,155.1	-
Interest expense on loans from subsidiaries	-	(83.0)
Impairment of investments in subsidiaries	-	(641.3)
Write-off of amounts receivable from subsidiaries	-	(1,175.2)
Other transactions	-	10.8
Net profit/ (loss) for the year	1,155.1	(1,888.7)
Total comprehensive income/(loss) for the year, net of tax	1,155.1	(1,888.7)

On 2 May 2016, the Parent Company received a dividend from its subsidiary Metoz Holdings Limited of $2,244.7 million. The dividend was partially applied to reduce the carrying amount of the investment by $1,089.6 million to nil and the residual amount was recorded as dividend income of $1,155.1 million.

During the year, the Parent Company established a profit reserve within its separate financial statements, in accordance with the Company's constitution. Prior to the end of the current financial year, $1,150.0 million of the profit generated in FY17 was credited into the profit reserve.

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

20. Auditors remuneration

	2017 $	2016 $
Amounts received or due and receivable by EY Australia for:		
- an audit or review of the financial statements of the entity and any other entity in the Group	1,620,000	2,153,000
- assurance related services	-	86,000
	1,620,000	2,239,000
Other services in relation to the entity and any other entity in the Group		
- tax compliance and advisory services	597,000	397,000
- other advisory services	818,000	471,000
	1,415,000	868,000
	3,035,000	3,107,000

During the current financial year, EY Australia provided advice in relation to the HTH acquisition, including acquisition due diligence, tax advice and certain acquisition accounting services.

21. Earnings per share

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

	2017 $m	2016 $m
Earnings used in calculating basic and diluted EPS from continuing operations		
Net profit from continuing operations	171.9	178.3
Earnings used in calculating basic and diluted EPS from discontinued operations		
Net profit from discontinued operations	-	38.2
Earnings used in calculating basic and diluted EPS		
Net profit attributable to ordinary equity holders of Metcash Limited	171.9	216.5

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

	2017 Number	2016 Number
Weighted average number of ordinary shares used in calculating basic EPS	958,778,523	928,357,876
Effect of dilutive securities	1,248,511	584,895
Weighted average number of ordinary shares used in calculating diluted EPS	960,027,034	928,942,771

At the reporting date, 8,192,019 performance rights (2016: 12,497,505) were outstanding, of which 5,513,143 (2016: 11,435,482) were not included in the calculation of diluted EPS as they are not dilutive for the periods presented. Refer note 18 for more details about performance rights.

22. Business combinations

Home Timber & Hardware ('HTH')

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

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

	Total $m
Purchase consideration	
Cash consideration	193.5
Less: Cash and bank balances acquired	(14.8)
Total purchase consideration, before transaction costs	**178.7**
Net assets acquired	
Trade receivables and loans	168.1
Inventories	106.0
Property, plant and equipment	26.3
Software development costs	1.7
Goodwill and other intangibles	16.7
Deferred tax assets	9.7
Trade payables and provisions	(149.8)
Net assets, at acquisition date fair value	**178.7**

The acquisition date fair values ascribed to net assets are provisional. The carrying amount of acquired trade receivables includes a provision for amounts estimated to be uncollectible at the date of acquisition. The purchase consideration has been allocated largely to tangible assets and $16.7 million to goodwill and other intangibles.

Since acquisition, HTH has generated $521.5 million of revenue. The Group estimates that the acquired business has contributed approximately $12 million of earnings since the acquisition date.

Transaction costs of $5.0 million and integration costs of $4.5 million were incurred, net of tax, in relation to the acquisition. These costs are separately disclosed within significant items in note 3.

Other business combinations

During the year, the Group entered into a number of other business combinations that were not material to the Group, individually or in aggregate. The total purchase consideration for these businesses was $8.5 million, including $8.5 million allocated to goodwill.

23. Discontinued operations

On 31 July 2015, the Group sold the entire issued share capital of Metcash Automotive Holdings Pty Ltd to Bursons Group Limited (ASX:BAP) for a total sale consideration of $285.4 million. Discontinued operations includes the $34.5 million profit after tax on sale and Automotive's trading profit of $3.7 million for the pre-sale period.

24. Contingent assets and liabilities

	2017 $m	2016 $m
Bank guarantees to third parties in respect of property lease obligations	16.7	26.6
Bank guarantees in respect of Work Cover	11.3	11.3
Outstanding debts under the American Express charge card agreement	276.0	216.3

American Express charge card

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

The agreement will continue on an evergreen basis unless either party provides a 12 month notice of cancellation. The earliest date on which the agreement could be cancelled is 24 December 2018.

Financial guarantee contracts

The Group has granted a financial guarantee contract relating to the bank loan of a joint venture, Adcome Pty Ltd. Under the contract, the bank has the right to require Metcash to repay the debt under certain prescribed circumstances of default. The estimate of the maximum amount payable in respect of the guarantee, if exercised, is $47.5 million (2016: $47.5 million). Had the guarantee been exercised at 30 April 2017, the amount payable would have been $43.9 million (2016: $43.8 million). The fair value of the financial guarantee contract at the reporting date was $3.7 million (2016: $6.0 million) and is recognised as a financial liability.

Put options

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

25. Subsequent events

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.

Appendix A – Summary of significant accounting policies

1. BASIS OF ACCOUNTING

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

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

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

The current financial year comprises the 53 week period that commenced on 25 April 2016 and ended on 30 April 2017. The prior financial year comprises the 52 week period that commenced on 27 April 2015 and ended on 24 April 2016.

2. STATEMENT OF COMPLIANCE

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

(a) Changes in accounting policy

The Group adopted all new and amended Australian Accounting Standards and Interpretations that became applicable during the current financial year. The adoption of these Standards and Interpretations did not have a significant impact on the Group's financial results or statement of financial position.

As a consequence of an IFRS Interpretation Committee (IFRIC) agenda decision issued in November 2016, management has amended its accounting policy to recognise a deferred tax liability on indefinite life intangibles acquired as part of a business combination. The amendment resulted in an increase of $8.0 million to goodwill and deferred tax liabilities as at the beginning of the earliest comparative period.

All other accounting policies are consistent with those applied in the previous financial year.

(b) Australian Accounting Standards issued but not yet effective

A number of new accounting standards have been issued but were not effective as at 30 April 2017. The Group has elected not to early adopt any of these new standards or amendments in these financial statements. The Group has yet to fully assess the impact the following accounting standards and amendments will have on the financial statements, when applied in future periods:

- AASB 9 *Financial Instruments*;
- AASB 15 *Revenue from Contracts with Customers*;
- AASB 16 *Leases*

The adoption of AASB 16 *Leases* in FY20 is expected to have a significant impact on the Group's balance sheet and income statement, given the volume and maturity profile of the Group's property leases (see note 16). The adoption of AASB 16 *Leases* in FY20 is expected to significantly gross up the Group's balance sheet for 'back-to-back' leases through the recognition of future receivables and payables. For properties occupied by the Group, the balance sheet will hold a depreciating non-financial asset and the associated payable under the lease. In the income statement, net rental expense will be replaced by a 'front-loaded' net interest expense and a straight-lined depreciation expense. This is expected to significantly rebase the Group's earnings before interest and tax ('EBIT') and returns on funds employed ('ROFE'), both of which are key financial measures used by the business.

The Group is also undertaking a comprehensive review of its revenue arrangements ahead of the FY19 application of AASB 15 *Revenue from Contracts with Customers.* The Group has not reached a determination as to the impact of the new accounting standard.

The Group's impact assessment of AASB 9 is currently in progress. Other standards and interpretations that have been issued but are not yet effective are not expected to have a significant impact on the Group's financial statements in the year of their initial application.

3. BASIS OF CONSOLIDATION

Controlled entities

The financial statements comprise the consolidated financial statements of Metcash Limited and its controlled entities for the year ended 30 April 2017. Refer Appendix B for a list of significant controlled entities.

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

Business combinations

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

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

Consolidation procedures

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

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

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

Appendix A – Summary of significant accounting policies

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

Separate financial statements

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

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).

Foreign currency translation reserve

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

(a) Significant accounting judgements

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

Assessment of control and joint control

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

Supplier income

Determining the classification and presentation of certain streams of supplier income.

Purchase price allocation

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

Contractual customer relationships

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

(b) Significant accounting estimates and assumptions

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

Impairment of goodwill

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

Provision for rental subsidy, onerous contracts and restructuring

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

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

Contractual customer relationships

The useful life of contractual customer relationships of between 3 and 25 years includes estimates of future attrition rates based on historical rates experienced. Recoverable amounts are assessed using estimates of retail and warehouse profitability, future attrition rates, discount rates and customer support requirements.

Impairment of equity-accounted investments

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

5. 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 and an allowance for impairment loss is recognised, measured as the difference between the carrying amount of the receivables and the estimated future cash flows expected to be received from relevant debtors. Bad debts are written off as incurred.

Notes to the financial statements (continued)
For the year ended 30 April 2017

Appendix A – Summary of significant accounting policies

Trade receivables provided as security under the Group's securitisation facility 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.

6. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

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

Cash flow hedge reserve

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

Current versus non-current classification

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

7. EQUITY-ACCOUNTED INVESTMENTS

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

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

For those associates and joint ventures with non-coterminous year ends, management accounts for the relevant period to the Group's reporting date have been 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.

8. 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.

9. PROPERTY, PLANT AND EQUIPMENT

Recognition and measurement

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

Depreciation

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

	2017	2016
Freehold buildings	25-50 years	25-50 years
Plant and equipment	2-20 years	2-20 years

Appendix A – Summary of significant accounting policies

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.

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 Appendix A.21.

10. INTANGIBLE ASSETS

Recognition and measurement

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

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

Goodwill acquired in a business combination is initially measured at cost; being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Goodwill is not amortised.

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

Customer contracts are acquired either through business combinations or through direct acquisition of contractual relationships. Customer contacts are recognised as intangible assets when the criteria specified in AASB 138 *Intangible Assets* have been met. Customer contracts are valued by applying a discounted cash flow valuation methodology with consideration given to customer retention and projected future cash flows to the end of the contract period. Contractual customer relationships are assessed to have a finite life and are amortised over the asset's useful life. The amortisation has been recognised in the statement of comprehensive income in the line item 'administrative costs'.

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

De-recognition

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.

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

Useful lives

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

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

	2017	2016
Customer contracts	3-25 years	3-25 years
Software development costs	5-10 years	5-10 years
Other	10 years	10 years

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

11. IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

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

Impairment losses are recognised in the statement of comprehensive income.

Appendix A – Summary of significant accounting policies

12. EMPLOYEE LEAVE BENEFITS

Wages, salaries, annual leave and sick leave

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

Long service leave

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

13. INTEREST-BEARING BORROWINGS

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

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

Gains and losses are recognised in profit or loss when the liabilities are de-recognised.

14. LEASES

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases - Group as a lessee

Operating leases are those leases where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item. Operating lease payments are recognised as an expense on a straight-line basis.

Operating leases - Group as a lessor

Leases in which the Group retains substantially all the risks and benefits of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income.

15. PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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.

16. SHARE-BASED PAYMENT TRANSACTIONS

The Group provides a portion of senior executive and key employee remuneration as equity-settled share-based payments, in the form of performance rights.

The value of the performance rights issued is determined on the date which both the employee and the Group understand and agree to the share-based payment terms and conditions (grant date). The value at grant date is based upon the fair value of a similar arrangement between the Group and an independent third party and is determined using an appropriate valuation model. The fair value does not consider the impact of service or performance conditions, other than conditions linked to the share price of Metcash Limited (market conditions). Details of the valuation models used and fair values for each tranche of performance rights issued are outlined in note 18.

The fair value of performance rights is recognised as an expense, together with a corresponding increase in the share-based payments reserve within equity, over the period between grant date and the date on which employee becomes fully entitled to the award (vesting date). This expense is recognised cumulatively by estimating the number of performance rights expected to vest. This opinion is formed based on the best available information at the reporting date. No adjustment is made for the likelihood of market conditions being met as the effect of these conditions is included in the determination of fair value at grant date. Where the performance rights are cancelled, any expense not yet recognised for the award is recognised immediately.

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

Share-based payments reserve

The share-based payments reserve is used to record the value of equity benefits provided to executives as part of their remuneration. Refer to note 18 for further details of these plans. Once a performance right has lapsed the Group no longer has any obligation to convert these performance rights into share capital. The amount transferred to retained earnings represents the value of share based payments previously recognised as an expense through the Statement of Comprehensive Income that have now lapsed.

Appendix A – Summary of significant accounting policies

17. REVENUE AND SUPPLIER INCOME 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.

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.

Supplier income

The Group receives income from suppliers based on purchase volumes, promotional and marketing or other similar activities. Volumetric income is either directly referenced or otherwise directly attributable to the products purchased, and as such is recognised as income upon the sale of the product.

Non-volumetric supplier income is conditional on specific performance obligations, such as providing promotional or marketing materials and activities or promotional product positioning. This income is recognised when the related performance obligations have been discharged by the Group and the income can be measured reliably based on the terms of the contract.

Supplier income is generally recognised as a credit within cost of sales.

18. FINANCE COSTS

Finance costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other finance costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Certain provisions are measured at their discounted value. During each period the provision is increased by an amount that is equal to the provision multiplied by the discount rate. This increment, including any change in the value of the provision as a result of a change in discount rate, is treated as a finance cost in the Statement of Comprehensive Income.

19. INCOME TAX

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the relevant reporting date.

Deferred income tax 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
- 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.

Appendix A – Summary of significant accounting policies

20. EARNINGS PER SHARE

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares, adjusted for any bonus element.
Diluted earnings per share are calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

21. 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.

Net profit after tax from discontinued operations are reported separately from continuing operations, 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.

22. 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.

23. 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.

Specifically, the Group has revised the presentation of a specific category of supplier income in Western Australia, resulting in a reduction of both sales revenue and cost of goods sold by the same amount. The revision did not have any impact on gross profit within the income statement.

Appendix B – Information on subsidiaries

Metcash Limited is the ultimate parent entity of the Group. The consolidated financial statements include the financial statements of Metcash Limited and the subsidiaries listed in the following table. All entities are incorporated in Australia except where specifically identified.

	2017 %	2016 %
A.C.N. 131 933 376 Pty Ltd [2]	100	100
Action Holdings Pty Ltd [1]	100	100
Action Projects Proprietary Limited [2]	100	100
Action Supermarkets Pty Ltd [1]	100	100
Amalgamated Confectionery Wholesalers Pty. Ltd. [1,2]	100	100
Anzam (Aust.) Pty Ltd [1]	100	100
Arrow Pty Limited [1]	100	100
Australian Asia Pacific Wholesalers Pty Ltd [1]	100	100
Australian Hardware Distributors Pty. Limited [1]	100	-
Australian Hardware Support Services Pty Ltd [1]	100	100
Australian Liquor Marketers (QLD) Pty Ltd [1]	100	100
Australian Liquor Marketers (WA) Pty Ltd [1]	100	100
Australian Liquor Marketers Pty. Limited [1]	100	100
Big Bargain Bottleshops Australia Pty Ltd [1]	100	-
Capeview Hardware Pty Ltd.	80	80
Casuarina Village Shopping Centre Pty. Ltd. [2]	100	100
Chelsea Heights Operations Pty Limited [1,2]	100	100
City Ice & Cold Storage Company Proprietary Limited [1]	100	100
Clancy's Food Stores Pty Limited [1]	100	100
Community Co Australia Pty Ltd	100	100
Composite Buyers Finance Pty. Ltd. [1]	100	100
Composite Buyers Pty Limited [1]	100	100
Composite Pty. Ltd. [2]	100	100
Cornerstone Retail Pty Ltd [2]	100	100
Danks Holdings Pty Limited [1]	100	-
Davids Foodservices Pty Ltd [1]	100	100
Davids Group Staff Superannuation Fund Pty. Ltd. [1]	100	100
Denham Bros. Pty Limited [1]	100	100
DIY Superannuation Pty Ltd [1]	100	100
Drumstar V 2 Pty Ltd [1]	100	100
Echuca Hardware Pty Ltd [1]	100	100
Faggs Geelong Pty Ltd	90	80
FAL Properties Pty. Ltd. [2]	100	100
FAL Superannuation Fund Pty Ltd [2]	100	100
Five Star Wholesalers Pty. Ltd. [2]	100	100

Appendix B – Information on subsidiaries

	2017 %	2016 %
Foodchain Holdings Pty Ltd [2]	100	100
Foodland Properties Pty Ltd [1]	100	100
Foodland Property Holdings Pty. Ltd. [1]	100	100
Foodland Property Unit Trust	100	100
Franklins Bankstown Square Pty Ltd [1,2]	100	100
Franklins Bass Hill Pty Ltd [1]	100	100
Franklins Blacktown Pty Ltd [1]	100	100
Franklins Bonnyrigg Pty Ltd [1]	100	100
Franklins Casula Pty Ltd [1]	100	100
Franklins Cronulla Pty Ltd [1,2]	100	100
Franklins Drummoyne Pty Ltd [1,2]	100	100
Franklins Franchising Pty Ltd [1,2]	100	100
Franklins Liverpool Pty Ltd [1]	100	100
Franklins Macquarie Pty Ltd [1,2]	100	100
Franklins Maroubra Pty Ltd [1,2]	100	100
Franklins Merrylands Pty Limited [1]	100	100
Franklins Moorebank Pty Limited [1]	100	100
Franklins North Rocks Pty Ltd [1,2]	100	100
Franklins Pennant Hills Pty Ltd [1,2]	100	100
Franklins Penrith Nepean Pty Ltd [1]	100	100
Franklins Penrith Plaza Pty Ltd [1]	100	100
Franklins Pty Ltd [1]	100	100
Franklins Rockdale Plaza Pty Ltd [1,2]	100	100
Franklins Singleton Pty Ltd [1]	100	100
Franklins Spit Junction Pty Ltd [1,2]	100	100
Franklins Supermarkets Pty Ltd [1]	100	100
Franklins Ulladulla Pty Ltd [1,2]	100	100
Franklins Wentworthville Pty Ltd [1]	100	100
Franklins Westleigh Pty Ltd [1,2]	100	100
Franklins Wetherill Park Pty Ltd [1,2]	100	100
Fresco Supermarket Holdings Pty Ltd [1]	100	100
FW Viva 3 Pty Ltd [1,2]	100	100
Garden Fresh Produce Pty. Ltd. [1]	100	100
Gawler Supermarkets Pty. Ltd. [2]	100	100
Global Liquor Wholesalers Pty Limited [1]	100	100
Green Triangle Meatworks Pty Limited [2]	100	100
Gympie Property Investment Pty Ltd	84.7	84.7
Hammer Hardware Stores Pty. Ltd. [1]	100	-
Handyman Stores Pty Ltd [1]	100	100
Hardings Hardware Pty. Ltd. [1]	100	-
Hardware Property Trust	100	100
Himaco Pty Ltd [1]	100	100
Home Hardware Australasia Pty. Ltd. [1]	100	-
Home Timber & Hardware Group Pty Ltd [1]	100	-
Homestead Hardware Australasia Pty Ltd [1]	100	-
HTH Events Pty Ltd [1]	100	-
HTH Stores Pty Limited [1]	100	-
Hudson Building Supplies Pty Limited [1]	100	-
IGA Community Chest Limited	100	100
IGA Distribution (SA) Pty Limited [1]	100	100
IGA Distribution (Vic) Pty Limited [1]	100	100
IGA Distribution (WA) Pty Limited [1]	100	100
IGA Fresh (Northern Queensland) Pty Limited [1]	100	100
IGA Fresh (NSW) Pty Limited [1]	100	100
IGA Pacific Pty Limited [2]	100	100
IGA Retail Network Limited	100	100
IGA Retail Services Pty Limited [1]	100	100
Independent Brands Australia Pty Limited [1]	100	100

	2017 %	2016 %
Independent Hardware Group Pty Ltd (previously Mittenmet Pty. Ltd) [1]	100	100
Independent Solutions Pty Ltd [1]	100	100
Interfrank Group Holdings Pty Ltd [1]	100	100
Jewel Food Stores Pty. Ltd. [1]	100	100
Jorgensen Confectionery Pty. Limited [2]	100	100
JV Pub Group Pty Ltd [1]	100	100
Keithara Pty. Ltd. [1]	100	100
Knoxfield Transport Service Pty. Ltd. [2]	100	100
Lilydale Operations Pty Limited [1,2]	100	100
Liquor Traders Pty. Ltd. [1]	100	100
M-C International Australia Pty Limited [1]	100	100
Mega Property Management Pty. Ltd. [1]	100	100
Melton New Co Pty Ltd [2]	100	100
Mermaid Tavern (Freehold) Pty Ltd [1]	100	100
Mermaid Tavern (Trading) Pty Ltd [1]	100	100
Metcash Asia Limited (incorporated in China)	100	100
Metcash Export Services Pty Ltd [1]	100	100
Metcash Food & Grocery Convenience Division Pty Limited [1]	100	100
Metcash Food & Grocery Pty Ltd [1]	100	100
Metcash Holdings Pty Ltd [1]	100	100
Metcash Management Pty Limited [1]	100	100
Metcash Services Proprietary Limited [1]	100	100
Metcash Storage Pty Limited [1]	100	100
Metcash Trading Limited [1]	100	100
Metoz Holding Limited (incorporated in South Africa)	100	100
Metro Cash & Carry Pty Limited [1]	100	100
Mirren (Australia) Pty. Ltd. [1]	100	100
Mitre 10 Australia Pty Ltd [1]	100	100
Mitre 10 Mega Property Trust	100	100
Mitre 10 Mega Pty Ltd [1]	100	100
Mitre 10 Pty Ltd [1]	100	100
Moorebank Transport Pty Ltd [2]	100	100
Moucharo Pty. Ltd. [2]	100	100
Narellan Hardware Pty Ltd [1]	100	100
National Retail Support Services Pty Ltd [1]	100	100
Newton Cellars Pty Ltd [2]	100	100
NFRF Developments Pty Ltd	51	51
Northern Hardware Group Pty Ltd	84.7	84.7
Nu Fruit Pty. Ltd.	51	51
Payless Superbarn (N S W) Pty Ltd [1]	100	100
Payless Superbarn (VIC.) Pty. Ltd. [2]	100	100
Pinnacle Holdings Corporation Pty Limited [2]	100	100
Plympton Properties Pty. Ltd. [2]	100	100
Produce Traders Trust	100	100
Property Reference Pty. Limited [2]	100	100
QIW Pty Limited [1]	100	100
Queensland Independent Wholesalers Pty Limited [1]	100	100
Quickstop Pty Ltd [1]	100	100
R.S.D.F. Nominees Pty. Ltd. [2]	100	100
Rainbow Supermarkets Pty Ltd [2]	100	100
Rainbow Unit Trust	100	100
Rainfresh Vic Pty. Ltd.	51	51
Regeno Pty Limited [2]	100	100
Regzem (No 3) Pty. Ltd. [2]	100	100

Appendix B – Information on subsidiaries

	2017 %	2016 %
Regzem (No 4) Pty. Ltd. [2]	100	100
Rennet Pty. Ltd. [2]	100	100
Retail Merchandise Services Pty. Limited	100	100
Retail Stores Development Finance Pty Limited [1]	100	100
Rockblock Pty. Ltd. [1]	100	100
Roma Hardware Pty Ltd [1]	100	100
Scanning Systems (Fuel) Pty Ltd [1]	100	100
Smart IP Co Pty Ltd [1]	100	100
Soetensteeg 2 61 Exploitatiemaatschappij BV (incorporated in Netherlands)	100	100
South Coast Operations Pty Ltd [1]	100	100
South West Operations Pty Ltd [1]	100	100
SR Brands Pty Ltd [2]	100	100
SSA Holding Pty Ltd [1]	100	100
Stonemans (Management) Proprietary Limited [1]	100	100

	2017 %	2016 %
Stonemans Self Service Pty. Ltd. [2]	100	100
Sunshine Hardware Pty Ltd	84.7	84.7
Tasher No 8 Pty. Ltd. [2]	100	100
Tasman Liquor Company Limited (incorporated in New Zealand)	100	100
Tasmania Hardware Pty Ltd	80	80
Thrifty-Link Hardware Pty. Ltd. [1]	100	-
Timber and Hardware Exchange Pty Ltd	68.42	68.42
Timberten Pty Ltd [1]	100	100
UIAL NSW/ACT Pty Ltd [1]	100	-
UIAL Tasmania Pty Ltd [1]	100	-
Vawn No 3 Pty. Ltd. [1]	100	100
W.A. Hardware Services Pty. Ltd [1]	100	100
Wickson Corporation Pty Limited [1]	100	100
Wimbledon Unit Trust	100	100

1. Entities subject to class order relief

Certain controlled entities of Metcash Limited, collectively referred to as the 'Closed Group', are party to a Deed of Cross Guarantee issued pursuant to *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.* Under the Instrument, entities within the Closed Group are granted relief from standalone financial reporting and audit requirements of the *Corporations Act 2001.* For entities that have entered the Closed Group during the current financial year, the relief is conditional on an opt-in notice being lodged with ASIC within four months of the end of the financial year. Under the Deed of Cross Guarantee, the entities within the Closed Group, including Metcash Limited, have guaranteed to pay any deficiency in the event of winding up of any other entity within the Closed Group.

2. Entities deregistered subsequent to the financial year end

Subsequent to the end of the financial year, certain controlled entities of the Group were deregistered.

Appendix B – Information on subsidiaries

Summary Statement of Comprehensive Income of the Closed Group

	2017 $m	2016 $m
Distributions from subsidiaries outside the Closed Group	1,155.1	-
Other transactions with subsidiaries outside the Closed Group	(1,559.9)	-
Other net income	224.8	282.4
Profit before income tax	**(180.0)**	**282.4**
Income tax expense	(52.9)	(78.0)
Net profit for the year	**(232.9)**	**204.4**

Summary Statement of Financial Position of the Closed Group

	2017 $m	2016 $m
Assets		
Cash and cash equivalents	70.1	10.4
Trade receivables and loans	1,095.6	933.3
Inventories	710.5	622.8
Other current assets	31.5	31.9
Total current assets	**1,907.7**	**1,598.4**
Investments	1,145.4	2,583.4
Property, plant and equipment	210.0	218.3
Net deferred tax assets	108.1	110.1
Intangible assets and goodwill	1,091.4	817.3
Other non-current assets	29.1	28.0
Total non-current assets	**2,584.0**	**3,757.1**
Total assets	**4,491.7**	**5,355.5**
Liabilities		
Trade and other payables	1,464.8	1,284.1
Interest-bearing borrowings	3.0	15.7
Income tax payable	5.6	15.2
Provisions and other current liabilities	144.5	149.2
Total current liabilities	**1,617.9**	**1,464.2**
Interest-bearing borrowings	187.1	299.4
Amounts due to related parties	2,034.8	2,814.7
Provisions and other non-current liabilities	145.9	134.0
Total non-current liabilities	**2,367.8**	**3,248.1**
Total liabilities	**3,985.7**	**4,712.3**
Net assets	**506.0**	**643.2**
Equity		
Contributed and other equity	1,719.3	1,626.0
Other reserves	(3.0)	(5.4)
Retained profits/(accumulated losses)		
Opening balance	(977.4)	(1,181.8)
Net profit for the year	(232.9)	204.4
Closing balance	(1,210.3)	(977.4)
Total equity	**506.0**	**643.2**

Appendix C – Equity-accounted investments

Equity-accounted investments of the Group represent both associates and joint ventures and are structured through equity participation in separate legal entities. Metcash invests capital to support the independent retail network, strengthen relationships and fund growth. Relationships with co-investors are governed by contractual agreements which allow the Group to exercise either significant influence or joint control over these entities. Where the Group exercises joint control, all key operating decisions are agreed unanimously, regardless of ownership interest.

The principal place of business for all of the Group's equity-accounted investments is Australia.

The following table presents key information about the Group's interests in joint ventures and associates.

Investee	Principal activities	Reporting date	2017 %	2016 %
Associates				
Abacus Independent Retail Property Trust	Retail property investment	30 June	25.0	25.0
Ritchies Stores Pty Ltd	Grocery retailing	30 June	26.0	26.0
BMS Retail Group Holdings Pty Ltd	Grocery retailing	30 June	25.1	25.1
Dramet Holdings Pty Ltd	Grocery retailing	30 June	26.0	26.0
Joint ventures				
Adcome Pty Ltd	Grocery retailing	30 April	45.0	45.0
Lecome Pty Ltd	Grocery retailing	30 April	50.0	50.0
Progressive Trading Pty Ltd	Grocery retailing	30 April	52.2	52.2
Metfood Pty Limited	Merchandise services	30 April	50.0	50.0
Waltock Pty Limited	Hardware retailing	30 June	49.0	49.0
Banner 10 Pty Ltd	Hardware retailing	30 June	49.0	49.0
G Gay Hardware Pty Ltd	Hardware retailing	30 June	49.0	49.0
Woody's Timber & Hardware Pty Ltd (a)	Hardware retailing	30 June	-	46.0
LA United Pty Ltd (b)	Liquor wholesaling	30 June	63.0	44.5
Liquor Alliance Pty Ltd (b)	Liquor wholesaling	30 June	50.0	25.0

(a) During the year, the Group disposed of its equity interest in the joint venture.

(b) The Group has a direct ownership of 26.0% in LA United Pty Ltd and an indirect ownership of 37.0% (2016: 18.5%) via its interest in Liquor Alliance Pty Ltd. While the Group has beneficial ownership of more than 50% of the entity, key operating and financial decisions require the unanimous consent of other joint venture partners. Accordingly, LA United Pty Ltd and Liquor Alliance Pty Ltd are accounted for as joint arrangements.

Directors' declaration

For the year ended 30 April 2017

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 2017 and of its performance for the year ended on that date; and
      ii. Complying with Accounting Standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001*;
   b. The financial statements and notes also comply with *International Financial Reporting Standards* as disclosed in Appendix A.2; and
   c. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 April 2017.
3. In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Appendix B 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 R Morrice

Ian Morrice
Director
Sydney, 26 June 2017

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Auditor's Independence Declaration to the Directors of Metcash Limited

As lead auditor for the audit of Metcash Limited for the financial year ended 30 April 2017, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Ernst & Young

R Robinson

Renay Robinson
Partner
26 June 2017

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Independent auditor's report to the shareholders of Metcash Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Metcash Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 April 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 April 2017 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Impairment assessment for goodwill and other intangible assets

Why significant	How our audit addressed the key audit matter
At 30 April 2017 the Group's consolidated statement of financial position includes goodwill and other intangible assets amounting to $1,152.7 million. As disclosed within Note 9 to the financial statements, the assessment of the impairment of the Group's goodwill and other intangible assets incorporated significant judgments and estimates, specifically concerning factors such as forecast cashflows, discount rates and terminal growth rates. These estimates and assumptions are impacted by future performance, market and economic conditions. Minor changes in certain assumptions can lead to significant changes in the valuation. A key audit matter was whether the Group's assessment included appropriate consideration of these factors.	In performing procedures in respect of the carrying value of goodwill and other intangible assets, we: ▪ Assessed the Group's determination of the cash generating units (CGUs) used in the impairment model, based on our understanding of the nature of the Group's business and the economic environment in which the segments operate. We also considered internal reporting of the Group's results to assess how earnings and goodwill are monitored and reported; ▪ Assessed the cash flow forecasts, assumptions and estimates used to determine the CGU recoverable amount, as outlined in Note 9 to the financial statements, considering the reliability of historical cash flow forecasts, our knowledge of the business and involvement of our valuation specialists who compared the valuation assumptions against external benchmarks; ▪ Tested the mathematical accuracy of the cash flow models including the consistency of relevant data with latest management approved forecasts; ▪ Performed sensitivity analysis on the discount rates, terminal growth rates and EBIT forecasts for each of the Group's CGUs; and ▪ Assessed the adequacy of the financial statement disclosures contained in Note 9.

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Accounting for supplier income

Why significant	How our audit addressed the key audit matter
Appendix A.17 of the financial statements outlines the Group's accounting policy relating to the recognition of supplier income. The Group receives income from suppliers which is determined based upon a number of measures including quantities purchased, quantities sold, purchase values and the performance of promotional activities. We considered this to be a key audit matter as supplier income contributes a significant value to the Group's results, there are a large number of varied agreements in place and some of the arrangements require judgment to be applied in determining the appropriate consolidated statement of comprehensive income classification based on the terms of the agreement.	In performing our procedures in respect of supplier income, we: ▪ Evaluated the Group's processes and controls relating to the recognition and valuation of the income amount, including the classification within the consolidated statement of comprehensive income; ▪ Gained an understanding of the nature of a sample of individual trading term agreements and supplier income streams; ▪ Assessed the design and operating effectiveness of key financial controls for volumetric, purchase value and sales value related supplier income streams; ▪ Selected a sample of supplier income transactions invoiced and accrued for during the year and tested whether the income was accurately calculated and recognised in the correct period. This included agreeing rebates to trading term agreements and recalculating the income recognised; ▪ Selected a sample of supplier income transactions linked to future events and marketing activity to test for recognition in the correct period by examining the timing of these events and marketing activity; ▪ Considered the impact of supplier claims during and subsequent to year end on the income amount recognised; and ▪ Inquired of management and the Directors as to the existence of any non-standard agreements or side arrangements.

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Onerous contracts

Why significant	How our audit addressed the key audit matter
As set out within Note 11 to the financial statements, various companies within the Group are the head lessee on a number of retail stores the Group sub-leases to retailers. As disclosed within Appendix A.4 to the financial statements, the assessment of onerous contracts requires significant judgments and estimates, concerning factors such as retail profitability. A key audit matter was whether the Group's assessment included appropriate consideration of these factors.	In performing our audit procedures in respect of the onerous lease provisions, we: ▪ Evaluated the Group's processes for identifying onerous positions; and ▪ Tested the valuation of the onerous lease provisions by evaluating whether appropriate judgments and assumptions had been applied in determining the unavoidable costs of meeting the obligation and the estimate of the expected benefits to be received under the contract.

Acquisition of Home Timber & Hardware

Why significant	How our audit addressed the key audit matter
In October 2016, Metcash acquired Home Timber & Hardware for a total purchase consideration of $178.7 million, as set out in Note 22. Accounting for this transaction is complex, requiring the Group to exercise judgment to determine the fair value of acquired assets and liabilities and the allocation of purchase consideration to goodwill and separately identifiable intangible assets. As outlined in Note 22 the accounting for the acquisition remains provisional at the time of issuing the financial statements. This is considered to be a key audit matter due to the size of the acquisition and the judgment involved in accounting for the transaction.	Noting that the Group's accounting remains provisional, in performing our audit procedures we: ▪ Assessed the Group's determination of provisional fair values for assets and liabilities acquired and the methods used to value underlying assets and liabilities; and ▪ Assessed the adequacy of the relevant disclosures in the financial statements.

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Information Other than the Financial Statements and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 39 to 52 of the directors' report for the year ended 30 April 2017.

In our opinion, the Remuneration Report of Metcash Limited for the year ended 30 April 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

RRobinson

Renay Robinson
Partner
Sydney
26 June 2017

ASX Information

Year ended 30 April 2017

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows:

The information is current as at 30 June 2017:

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	6,445
1,001-5,000	11,990
5,001-10,000	4,407
10,001-100,000	3,731
100,001-9,999,999,999	156
Total	**26,729**

There were 1,414 shareholders holding less than a marketable parcel of Metcash ordinary shares.

Twenty largest holders of quoted shares

The names of the 20 largest holders of quoted shares are:

Name	Number Of Shares	Percentage Of Shares
HSBC Custody Nominees	394,056,393	40.389%
J P Morgan Nominees Australia	154,760,650	15.862%
Citicorp Nominees Pty Limited	104,491,061	10.710%
National Nominees Limited	37,876,122	3.882%
BNP Paribas Nominees Pty Ltd	23,168,728	2.375%
BNP Paribas Noms Pty Ltd	19,701,687	2.019%
Bond Street Custodians Limited	9,158,056	0.939%
HSBC Custody Nominees	8,623,107	0.884%
Citicorp Nominees Pty Limited	7,899,631	0.810%
BNP Paribas Nominees Pty Ltd	4,950,000	0.507%
Buttonwood Nominees Pty Ltd	4,400,000	0.451%
RBC Investor Services	4,337,923	0.445%
UBS Nominees Pty Ltd	3,759,613	0.385%
Bainpro Nominees Pty Limited	2,043,954	0.209%
HSBC Custody Nominees	2,013,641	0.206%
Ecapital Nominees Pty Limited	1,841,874	0.189%
Bond Street Custodians Ltd	1,477,298	0.151%
National Nominees Limited	1,396,324	0.143%
HSBC Custody Nominees	1,284,713	0.132%
Powerwrap Limited	998,219	0.102%
Total	**788,238,994**	**80.792%**

Substantial Shareholders

The following is extracted from the Company's register of substantial shareholders:

	Number Of Shares
Allan Gray Australia Pty Ltd	148,303,522
BT Investment Management Limited	124,840,430
Lazard Asset Management Pacific Co	60,146,842
Macquarie Group Limited	59,492,070
Dimensional Equities	48,864,690
JPMorgan Chase & Co.	48,853,745

Voting Rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

Corporate Information

ABN 32 112 073 480

Directors

Robert Murray (Chair)
Ian Morrice (Group CEO)
Patrick Allaway
Fiona Balfour
Tonianne Dwyer
Murray Jordan
Helen Nash

Company Secretary

Julie Hutton

Share Register

Boardroom Pty Limited
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Sydney NSW 2001

1300 737 760
61 2 9290 9600

Auditor

Ernst & Young
200 George Street
Sydney NSW 2000 Australia

61 2 9248 5555

National Office

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Macquarie Park NSW 1670

61 2 9741 3000

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Metcash Food & Grocery (Head Office)

1 Thomas Holt Drive
Macquarie Park NSW 2113

61 2 9741 3000

PO Box 557
Macquarie Park NSW 1670

Australian Liquor Marketers (Head Office)

1 Thomas Holt Drive
Macquarie Park NSW 2113

61 2 9741 3000

PO Box 557
Macquarie Park NSW 1670

Independent Hardware Group (Head Office)

15 Corporate Drive
Heatherton VIC 3202

61 3 9264 5000

Locked Bag 10
Doveton VIC 3177

Corporate Governance

A copy of the Corporate Governance Statement can be found on our website. Visit www.metcash.com/investor-centre/corporate-information/corporategovernance.

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