



# *Championing Successful Independents*

2018 Annual Report



**Metcash is Australia's leading wholesaler and distributor, supplying and supporting more than 10,000 independent retailers across the Food, Liquor and Hardware sectors.**

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

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# About Us

**Metcash is Australia's leading wholesale distribution and marketing company with sales of over \$14 billion in FY18.**

We believe that it is absolutely vital to Australia that there is a sustainable, independent, family-owned business sector. Independent retailers support their local communities. We help them to be the 'Best Store in Town' by providing merchandising, operational and marketing support across our Food, Liquor and Hardware pillars.



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



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



In Hardware, we are the largest independent hardware group in Australia and a true leader when it comes to servicing the trade market. Under our Independent Hardware Group (IHG), we support leading independent hardware brands Mitre 10 and Home Timber & Hardware along with Hardings, Thrifty-Link Hardware and True Value Hardware; we supply more than 1,200 stores nationwide.

## Our purpose and vision

**We have a single purpose – championing successful independents**

## Our values

### Integrity is our foundation

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

## Our vision



### Best store in every town

For our retailers and their shoppers, we want to help them to be the 'Best Store in Town', which is loved by locals for its offering and service.

Every day, our retailers are delivering on what shoppers say they want – including great service, a broad range of products, an enjoyable shopping experience, knowing the families behind the stores, stocking local products and being part of the broader community.

We celebrate individuality and help our independent stores to differentiate themselves from their larger-scale competitors. We offer a distinctive and unique service and source local products from local communities. You'll often notice that independent retailers stock brands that you can't find anywhere else in Australia!



### Business partner of choice for suppliers and independents

We want to be known as the business partner of choice for our retailers by offering a portfolio of leading independent retail brands, and by being a world-class wholesaler for our suppliers.

The best store in town is supported by a wholesaler who is world-class and the most efficient we can be.

With our buying power as Australia's largest distribution network, we have the best commercial agreements that benefit Metcash, our suppliers, and our retailers to help all parties thrive and grow.

Our logistics operations are world-class and we provide a true end-to-end solution.



### Passionate about independents

We want our people to be known for being passionate about independents.

We have inspiring leaders who enable their teams through empowerment and collaboration.

We nurture and develop our people's careers, we coach and mentor each other, we have an agile mindset and we lead change.

We believe in ourselves and others and we accept responsibility.

We want to be a favourite place to work.



### Thriving communities, giving shoppers choice

We want to ensure Australia has thriving communities – giving shoppers choice, by supporting local and aspiring business owners.

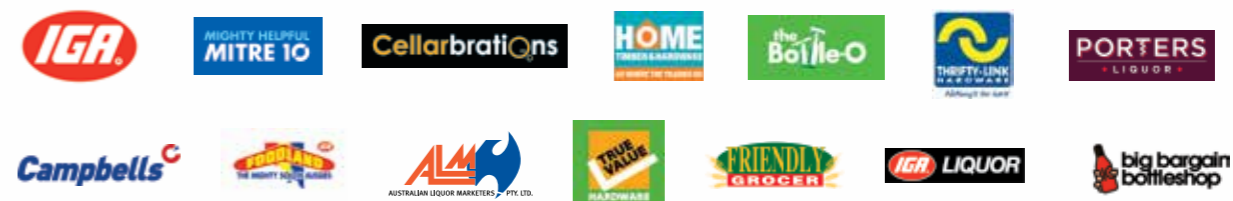
Metcash has been championing local entrepreneurs since the 1920s. We help independent retailers thrive through enhancing their business and marketing skills.

Our independent retailers have a strong connection to their communities. We are passionate about our community programs, such as Community Chest where local IGAs donate valuable funds to support local community groups.

We learn from and share our successes and failures and we always look for a better way.

Our retailers are investing in their businesses and we have a pipeline of aspiring retailers who are creating future growth opportunities.

## Our brands



# Chairman's Report



Robert Murray  
Chair

**I am pleased to present Metcash's Annual Report for 2018 – a year in which the Group performed commendably despite experiencing highly competitive and challenging conditions, particularly in Supermarkets.**

The ongoing execution of our strategic initiatives across our Food, Liquor and Hardware pillars underpinned the Group reporting an improvement in underlying earnings for the year, with our Working Smarter program and the integration of Home Timber & Hardware (HTH) being key contributors.

The entire organisation has done an admirable job in reducing cost, and the Hardware management team has done an excellent job combining two large and complex groups in HTH and Mitre 10. The integration of HTH is now largely complete, with the team having gained the support of both the HTH and Mitre 10 independent retailers, while also delivering synergies well ahead of the target set at the time of acquisition. The combined Hardware business now has new attractive growth opportunities that management will continue to focus on. After the end of the financial year, we were disappointed to receive advice from Drakes Supermarkets that it would not commit to a long-term supply agreement to have its South Australian stores supplied by our proposed new Distribution Centre in that State. Our current supply agreement with Drakes for these South Australian stores ends in June 2019. Our Food pillar has a strong focus on delivering operational efficiencies to help address the adverse impact on operating leverage from the loss of Drakes in South Australia.

## **New Group CEO and strategic focus**

Last year I advised shareholders that Jeff Adams would replace Ian Morrice as Group CEO. This followed Ian's earlier notification that he intended to retire from the role in 2018 following five years as Group CEO. Jeff joined in September last year and worked alongside Ian for three months before being appointed Group CEO in December. Jeff's transition into the role has been seamless, and he has quickly formed relationships with our key stakeholders and has a clear vision as to how he will lead our company into the future.

As the Group has a strong balance sheet with the capacity to invest, the next phase of the company's strategy will focus on delivering growth initiatives along with cost efficiencies. This includes investing in new initiatives, accelerating current initiatives where appropriate, and ensuring we continue our strong focus on costs to provide a sustainable cost structure, particularly in Supermarkets as we address the loss of the Drakes business.

At the heart of our strategy is supporting the ongoing success of independent retailers across our Food, Liquor and Hardware pillars. You can read more about the next phase of our strategic focus in Jeff's CEO's Report.

## **New CEO Supermarkets & Convenience**

The Board was fortunate to have a very strong internal candidate in Scott Marshall to take over as CEO Supermarkets & Convenience from Steven Cain following Steven's resignation in March this year. Scott was the incumbent CEO of our Liquor business which has performed strongly for the past four years, and he previously led the Supermarkets' Western Australia operations. Scott has more than 25 years' experience in wholesale and retail at Metcash, and has well established relationships across our Supermarkets retail network. I am pleased to report that his appointment has been well received by our suppliers, our retailer partners and the Metcash Supermarkets & Convenience team.

## **Earnings performance**

Underlying profit after tax in FY18 increased 10.7% to \$215.6m before adjusting for a 53rd trading week in the prior financial year. Underlying earnings per share increased 8.9% to 22.1 cents per share.

The advice from Drakes Supermarkets was taken into account in the company's year-end testing of the carrying value of assets and was the primary driver of a \$352.1m impairment charge to goodwill and other net assets in the Food pillar. The impairments are non-cash in nature and have no impact on the company's debt facilities or compliance with banking covenants.

The impairment charge is shown as a significant item in our FY18 accounts, and led to the company reporting a statutory loss for the year of \$149.5m.

## **Strong financial position and capital management**

The Group continued to generate strong cash flows, and with a cash conversion ratio of approximately 100%, we ended the year in a net cash position of \$42.8m.

Our strong balance sheet and cash flows have provided us with the capacity to fund our new initiatives as well as return capital to shareholders. The Board considered a range of options for returning capital, and was pleased to announce on 25 June 2018 an Off-Market Buy-Back with the intention to purchase approximately \$125m of equity. The Buy-Back is expected to be earnings per share accretive and benefit all shareholders. We expect the Buy-Back to be completed by 20 August 2018.

The Board also determined to maintain its dividend payout ratio of approximately 60% of underlying earnings. In line with this policy, a final dividend of 7.0 cents per share was declared, bringing total dividends for the year to 13.0 cents per share, fully franked.

## **Remuneration**

We are now in the final year of our five-year remuneration transition which has included a progressive increase in executive 'at risk' remuneration as a component of on-target total reward. Our executives now have most of their on-target remuneration 'at risk', and this is directly linked to performance outcomes including our share price.

The only changes to Key Management Personnel (KMP) fixed remuneration during the year were to Mark Laidlaw, reflecting the increased responsibilities of his role post the HTH acquisition; and to Scott Marshall following his appointment as CEO of Supermarkets & Convenience.

Total Short Term Incentive (STI) bonuses paid to KMP ranged between 0% to 81% of maximum. Taking into account the impairment related to the Drakes advice, the Board applied its discretion to the KMP STI payments for the year which averaged 47% of maximum. Shareholders should note that Management's Long Term Incentive is also likely to be significantly impacted by the recent impairments.

It is pleasing to report that we have continued to make significant inroads into achieving gender pay equality across the Group. At year-end, the gap had reduced to less than 2%.

Further remuneration details can be found in our Remuneration report commencing on page 38.

## **Board changes**

I was delighted to announce the appointment of Anne Brennan as a non-executive director on 26 March 2018. Anne is a very experienced company director with a distinguished executive career in the corporate sector and in professional services. Anne's breadth and depth of experience, particularly in finance, is proving to be an asset to the Board.

Anne's appointment followed advice from Patrick Allaway that he would retire from the Metcash Board following completion of the company's FY18 reporting process. I would like to thank Patrick for his outstanding contribution as Chair of the Audit, Risk and Compliance Committee where he brought improved oversight to our capital management, reporting and risk management framework. I am pleased to have supported the Board's appointment of Tonianne Dwyer as the new Chair of the Audit, Risk and Compliance Committee.

I am confident that our mix of Director skills, background and gender balance ensures that we have an appropriately diversified Board.

## **The future**

Looking forward, we remain focused on supporting our independent retail networks to be strong and grow in highly competitive and challenging markets. Many of our retailers already have some of the best stores in the world. I believe the quality, commitment and passion of our leadership team and Board will underpin the successful execution of the next phase of the company's strategy, and the ongoing success of Metcash and our partners.

## **Final thanks**

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

I would also like to specifically recognise Ian Morrice for his significant contribution to the transformation and growth of Metcash over the past five years, and for assisting Jeff Adams with his transition into the Group CEO role.

To my fellow Directors, I have valued your support to me and your commitment and contribution to Metcash over the past year. I look forward to continuing to work as a cohesive Board as we progress through the next phase of our strategy to build a better Metcash.

Robert Murray

Chair



# CEO's Report

Jeff Adams

Group Chief Executive Officer

## I am delighted to present my first report as Group CEO of Metcash.

Since joining the company in September last year, I have spent time meeting our independent network store owners, our suppliers and our people, which has helped me to better understand our challenges and opportunities. The ongoing success of our independent retailers is at the core of our purpose at Metcash, and I am truly excited by the passion of our retailers, the commitment of our suppliers and the enthusiasm of the Metcash team.

I have also spent time assessing our current Pillar initiatives and how we can build on our achievements to position the company for the future. I discuss this later in my report.

From a financial perspective, we reported an underlying profit after tax for the year of \$215.6m. This includes strong growth in the Hardware pillar due to the inclusion of a full year of earnings from the HTH acquisition and the related integration synergies.

As the Chair noted, we were disappointed to have received advice after year-end from Drakes Supermarkets that they would not commit to a long-term supply agreement to have their stores in South Australia supplied from our proposed new Distribution Centre. This was a key driver of the company recording an impairment expense of \$352.1m and a statutory net loss for the year of \$149.5m.

Operationally, the Group performed well in highly competitive and challenging conditions. The ongoing execution of our strategic initiatives, including key programs such as Working Smarter and the integration of HTH, underpinned improved underlying Group earnings.

Many of our independent retailers have continued to invest in their stores and respond to changes in consumer trends to be the 'Best Store in Town' with a differentiated offer tailored to their local community.

In Supermarkets, a further 75 stores completed our Diamond Store Accelerator (DSA) refurbishment program, bringing total stores that have completed the program to 325. These stores have reported average sales growth of over 10%, and growth of more than 5% in the average number of items per shopping visit. We are now working closely with our retailers to simplify and accelerate the roll-out of the program.

For our retailers, having the right range includes ensuring access to an attractive private label offer. Our Community Co mid-tier private label has continued to expand its range and store take-up since being launched in FY17. Community Co seeks to deliver greater value and quality to shoppers, while also providing a contribution to the community through the Community Chest Trust Fund. The new range has been well received by shoppers, and is delivering good sales growth.

In Liquor, there was a continued focus on improving the quality of the IBA network to support independent retailers to be the 'Best Store in Town'. This included progressing the store 'refresh' program, as well as extending ranges.

The premium brand, Porters Liquor, became part of the IBA network in FY17 and provides a significant growth opportunity for the Liquor pillar. Three new Porters stores were launched in Sydney, New South Wales during the year, and we are now positioned to begin a national roll-out.

In Hardware, our Sapphire store transformation and Core Ranging programs have continued to support many of our independent retailers to be the 'Best Store in Town'. The success of the program to date, which includes average sales growth of over 15%, has led to the program now being accelerated.

In Hardware, we have a large trade component that accounts for over 60% of pillar sales. As part of our plans to leverage our strength in trade, we trialled four new Trade Only stores and have plans to open a further eight in FY19.

Pleasingly, we also delivered another strong cash outcome. This included Group operating cash flow of \$288.6m, which was the key driver of a \$123.6m reduction in net debt and a net cash position at year-end of \$42.8m, as noted by the Chair.

### Operating performance

The Group generated sales revenue of \$14.46bn, an increase of 4.3% on the prior financial year after adjusting for a 53rd trading week in FY17. This largely reflects the inclusion of HTH for a full financial year, compared to seven months last year.

Group EBIT increased 9.2% to \$332.7m, noting that the prior year included earnings on \$253.5m of sales from an additional week of trading.

The increase in EBIT is predominantly driven by growth in the Hardware pillar following the acquisition of HTH. Earnings also increased in the Liquor pillar through continued growth in the IBA network. Earnings in the Food pillar were flat compared to the prior financial year, but improved after adjusting for the 53rd trading week in FY17. Group EBIT also includes a positive contribution from Corporate of \$6.7m, principally due to the reversal of a provision against the Huntingwood, New South Wales DC hail insurance claim which was settled during the year.

In Food, total sales<sup>1</sup> declined 1.2% to \$8.9bn. Supermarkets sales<sup>1</sup> declined 1.4%, with positive sales growth on the eastern seaboard more than offset by lower sales in South Australia and Western Australia. Intense competition continued across all States, with Western Australia again the most challenging State due to the ongoing roll-out of competitor footprint and weak economic conditions. There was an improvement in the sales trend in South Australia in the second half of the financial year.

Convenience sales<sup>1</sup> were slightly lower at \$1.49bn reflecting the cycling of revisions to key customer contracts in 1H18, partly offset by increased sales in 2H18 that reflect growth in sales to a major contract customer.

Food EBIT was broadly flat at \$188.6m, with a positive contribution from the Convenience business and Working Smarter cost savings, partly offset by the impact of a decline in Supermarkets' wholesale sales (excluding tobacco) and lower Joint Venture earnings which were negatively impacted primarily by prior period one-off adjustments.

In Liquor, total sales<sup>1</sup> increased 5.7% to \$3.47bn reflecting increased sales from both existing and new contract customers, and from the annualisation of Porters Liquor which was acquired in 2H17. Wholesale sales through the IBA network increased 8.8% as a number of wholesale customers converted to the IBA banner. Retail sales in the IBA network increased 1.5% on a like-for-like (LfL) basis, representing five consecutive years of sales growth.

Liquor EBIT increased 2.1% to \$68.4m reflecting the earnings benefit from increased sales to both the IBA network and contract customers. Working Smarter savings were partly offset by an increase in the bad debts provision in Western Australia and costs associated with the implementation of the New South Wales Container Deposit Scheme.

In Hardware, sales<sup>1</sup> increased \$520.1m to \$2.10bn reflecting the inclusion of a full year of sales from HTH. Combined wholesale sales in Hardware increased 5.3%, driven by strong trade sales. Construction activity was robust through most of the year, with some softening evident in the fourth quarter. Mitre 10 continued to perform well with wholesale sales up 8.6% (6.0% on a LfL basis). Sales in HTH increased 1.9% (3.4% on a LfL basis). Retailer sales through the IHG banner group increased 7.4% on a LfL basis.

Hardware EBIT increased \$20.5m to \$69.0m, principally due to the inclusion of a full year of earnings from HTH together with related synergies.

1. Sales percentage references are based on 52 trading weeks in FY17

## CEO's Report (continued)

### Safety

This year we adopted the more widely used Total Recordable Injury Frequency Rate (TRIFR) as our key safety performance measure. This measure comprises Lost Time Injuries, Medical Treatment Injuries and Restricted Work Cases. The use of this wider measure has helped improve our incident reporting and investigation culture. This is reflected in TRIFR reducing by 11% from 41.2 (excluding HTH) in FY17 to 36.7 (inclusive of HTH) in FY18.

Our safety goal remains 'Zero Harm' and we have implemented a number of new initiatives based on 'making safety simple' to help further improve our safety performance and continue our drive towards this goal.

### Outlook

In Food, we have seen some improvement in sales through the first seven weeks of FY19. Despite this, we do not expect a material change this year to the highly competitive market conditions experienced in FY18. The advice from Drakes Supermarkets is not expected to have a material impact on the earnings of our Supermarkets business in FY19. Planned investments in new initiatives by the Supermarkets business are expected to adversely impact earnings in FY19 by approximately \$10m. These investments are anticipated to deliver earnings benefits beyond FY19. Additional Working Smarter savings in the Food pillar are expected to help mitigate the impact of difficult market conditions and cost inflation.

In Liquor, there is uncertainty associated with the further roll-out of the Container Deposit Scheme, particularly in Queensland, Western Australia and the Australian Capital Territory, which are the next States to implement their schemes. Despite this, the Liquor market is expected to continue to grow at modest levels and the business remains focused on building and improving the quality of its IBA network.

In Hardware, we expect construction activity to continue at a solid level, at least through the first half of FY19. Earnings for the year are expected to benefit from the realisation of the full synergy benefits related to the integration of HTH.

“ While we continue to have challenging markets, I am excited about our plans for the future. I look forward to working with our partners to ensure the independent retail sector remains strong and grows. ”

### Strategic focus

As I mentioned earlier, the next five-year phase of the company's strategy will focus on delivering growth initiatives along with cost efficiencies. We are calling this phase 'Mfuture', which includes accelerating current Pillar initiatives and investing in new growth and efficiency programs.

Our successful Working Smarter program is now in its final year and will be embedded into our focus on ensuring we have a sustainable cost structure.

In the Food pillar, we will focus on ensuring our independent retailers are positioned to deliver a differentiated and leading convenience offer, including driving growth in core ranges in produce, centre of plate, fresh and ready meals, and accelerating our bakery and deli solutions. We will also be expanding our DSA program to our express format stores.

As the Chair noted, we have a strong focus on operational efficiencies in the Food pillar to help address the impact of the loss of operating leverage in South Australia related to the advice from Drakes Supermarkets.

In Liquor, there is an increased focus on the premium market; establishing a retail presence and driving growth through e-commerce.

In Hardware, we are expanding the Hardings business, and accelerating the roll-out of new Trade Only stores and the Sapphire store transformation program. We also have an increased focus on digital platforms to drive growth, particularly through our Click & Collect and Tradies Online services.

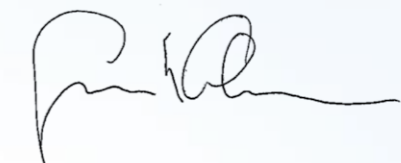
In Logistics, we will be repositioning our Distribution Centres over time to enable more frequent and smaller truck deliveries, and establishing cross-dock facilities to support our growth initiatives. We will, at all times, continue to have a strong focus on having a sustainable cost structure including streamlining our infrastructure.

### Thanks

I would like to sincerely thank our independent retailers and suppliers, and the Metcash team and Board for their warm welcome and support. We have a shared vision of supporting our retail customers to be competitive through providing a tailored range of products that customers want, at reasonable prices.

While we continue to have challenging markets, I am excited about our plans for the future. I look forward to working with our partners to ensure the independent retail sector remains strong and grows.

It is a privilege to lead the Metcash team and I am excited about our opportunities ahead.



Jeff Adams

Group Chief Executive Officer

# Financial Highlights

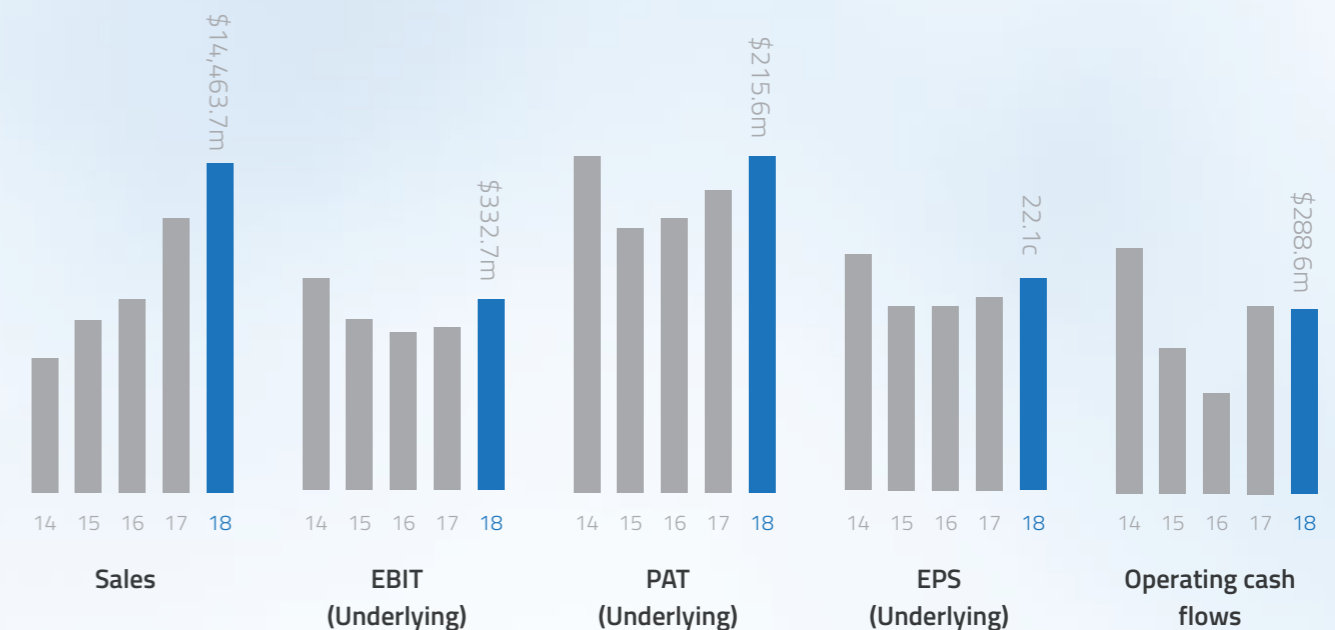
STRONG FINANCIAL POSITION

**\$14.46bn**  
GROUP SALES REVENUE

**\$215.6m**  
UNDERLYING PROFIT

**\$288.6m**  
OPERATING CASH FLOWS

**\$42.8m**  
NET CASH



2018 2017<sup>1</sup> 2016 2015 2014

Financial Performance	2018	2017 <sup>1</sup>	2016	2015	2014
Sales revenue (\$m)	14,463.7	14,121.9	13,402.5	13,244.3	13,045.1
Underlying EBIT (\$m)	332.7	304.8	286.7	310.6	378.7
Finance costs, net (\$m)	(26.4)	(33.6)	(38.3)	(68.4)	(67.6)
Underlying profit after tax (\$m)	215.6	194.8	178.3	173.6	218.4
Reported (loss)/profit after tax (\$m)	(149.5)	171.9	216.5	(384.2)	169.2
Operating cash flows (\$m)	288.6	304.6	165.8	231.7	388.7
Cash realisation ratio (%)	102%	118%	70%	97%	137%

Financial Position	2018	2017 <sup>1</sup>	2016	2015	2014
Shareholder equity (\$m)	1,388.6	1,637.4	1,369.1	1,156.6	1,594.0
Net (cash)/debt (hedged) (\$m)	(42.8)	80.8	275.5	667.8	766.9
Gearing ratio (net hedged) (%)	(3.2%)	4.7%	16.8%	36.6%	32.5%
Return on funds employed (%)	23.0%	19.0%	17.2%	15.1%	16.2%

Share Statistics	2018	2017 <sup>1</sup>	2016	2015	2014
Fully paid ordinary shares	975.6	975.6	928.4	928.4	888.3
Weighted average ordinary shares	975.6	958.8	928.4	907.0	882.7
Underlying earnings per share (cents)	22.1	20.3	19.2	19.1	24.7
Reported (loss)/earnings per share (cents)	(15.3)	17.9	23.3	(42.4)	19.2
Dividends declared per share (cents)	13.0	4.5	–	6.5	18.5
Dividend payout ratio (%)	59%	22%	–	34%	75%

Other Statistics	2018	2017 <sup>1</sup>	2016	2015	2014
Number of employees (full-time equivalents)	6,378	6,708	5,807	6,398	6,174

1. FY17 includes a 53rd week of trading

# Food

## Metcash's Food pillar incorporates its Supermarkets and Convenience businesses.

In Supermarkets, we proudly support a network of over 1,600 independently owned stores Australia-wide, including the well-known IGA and Foodland (IGA) brands.

In Convenience, we provide a 'one wholesaler solution' for more than 90,000 customers nationwide, including forecourt retail, convenience businesses, small coffee shops, fresh food outlets and restaurants.

### Community focus

Our independent retailers sit at the heart of their local community. Each supermarket strives to be the 'Best Store in Town', offering its own unique character, from the products they sell to the local people who work there.

Our retailer partners mix the charm, knowledge and convenience of a local store with the quality and competitive prices of a national one. The buying power of a combined network helps independent retailers to offer great value. For example, through our Price Match program, retailers offer low prices across everyday items by matching prices on over 1,000 products to the major supermarket chains.

Through our Community Chest program, independent retailers support an enormous variety of local charities, sporting clubs, schools and other initiatives that benefit the welfare of the local community. You can read more about the Community Chest program in the Corporate Social Responsibility section of this report.

Our Community Co mid-tier private label range offers great value to shoppers, while also contributing to local communities via the Community Chest program. Community Co has continued to expand in range and store take-up since it was launched in FY17. A further ~80 Community Co products were added to the range this year, bringing the total on offer to ~180. The range has been well received by both retailers and shoppers and it is delivering good sales growth.

### Strengthening our network

Through our Diamond Store Accelerator (DSA) program, store owners and Metcash invest in refurbishments to improve the shopping experience for customers. This includes increasing the amount of floor space provided for fresh produce and ready meals, and improving the overall layout of the store. This year a further 75 stores completed the DSA program, bringing total stores through the program to 325. These stores have reported average sales growth of over 10%.

We have also been working with our independent retailer network to develop a 'winning range' of products for their stores. This has included deleting around 6,000 products from our warehouses and adding back approximately 2,900 new products that shoppers want most. This shopper-led change not only benefits store customers, it also positions the retailers and ourselves for improved efficiencies and sales growth.

As part of our increased focus on 'buy-as-you-need' food, we recently rolled out new ready meal ranges, including private label, to our independent retailer network. Ready meals are now one of our fastest growing food categories.

Looking forward, our initiatives focus on driving core ranges and growth in categories such as produce, centre of plate and ready meals, as well as accelerating our bakery and deli solutions for retailers. We are also looking to accelerate our store refurbishment program and trial a more modern express store format.

We will also have an increased focus on organisational efficiencies and other costs to address the loss of sales from Drakes Supermarkets, as noted in the Chairman's and CEO's reports.

### Earnings performance

Food EBIT was broadly in line with the prior year at \$188.6m, reflecting a positive contribution from the Convenience business and Working Smarter cost savings, partly offset by a 3.6% decline in Supermarkets wholesale sales (excluding tobacco) and lower Joint Venture earnings. The prior financial year includes sales of \$168.6m from a 53rd trading week. Adjusting for the impact of the 53rd week, EBIT improved compared to FY17.

Total Food sales<sup>1</sup> declined 1.2% to \$8.90bn. Supermarkets sales<sup>1</sup> were 1.4% lower, with growth on the eastern seaboard more than offset by lower sales in South Australia and Western Australia. Intense competition continued across all States, with Western Australia again the most challenging market. Retail sales across our IGA network were 0.9% lower on a LfL basis. Convenience sales<sup>1</sup> were down 0.5% to \$1.49bn, largely reflecting revisions to key customer contracts in the prior year.

1. All sales percentage references are based on 52 trading weeks in FY17



## Creating the 'Best Store in Town'

In 2016, Roz and Michael White developed a new 1,200 sqm IGA store at Peregian Beach on the Sunshine Coast in Queensland. The \$2m fit-out includes a stunning design and innovative features which have been drawn from the White family's travels across Australia and overseas.

In 2018 the store was named Queensland IGA Store of the Year.

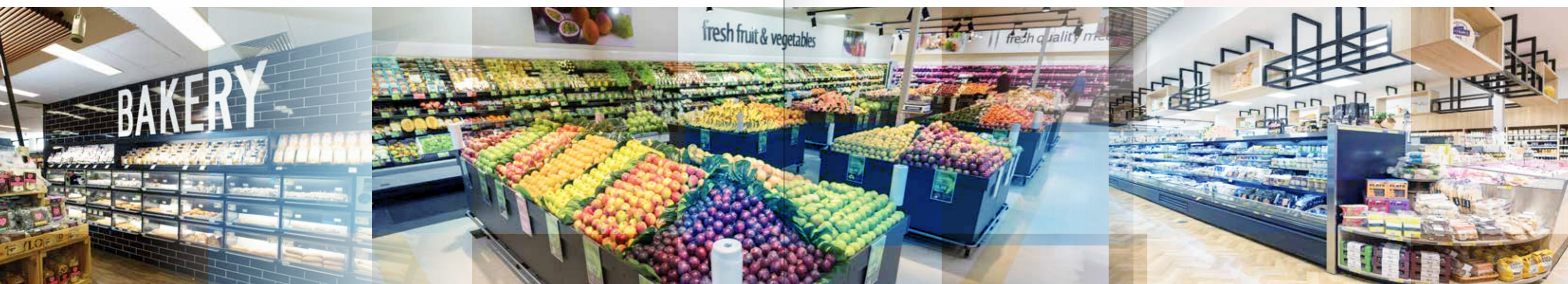
The Whites have had a long-held 'buy local' mantra directed towards sourcing as much produce from the local community as possible.

White's IGA Peregian Beach includes all the traditional supermarket lines, along with several gourmet and hard to source items such as cheeses, breads, cured meats, seafood, spices, sauces and other condiments. The store also offers its own in-house barista where customers can enjoy a freshly brewed coffee.

With a wide range of vegan, gourmet smallgoods and salads their deli has become famous in the local community.



White's IGA store, Peregian Beach, QLD





# Liquor

**Metcash is Australia's largest supplier of liquor to independently-owned liquor retailers, and the second-largest broad range liquor wholesaler in Australia.**

Through our two divisions, Australian Liquor Marketers (ALM) and Independent Brands Australia (IBA), we supply over 12,000 hotels, liquor stores, restaurants and other licensed premises throughout Australia and New Zealand, and support over 2,700 independently owned stores operating under our banner group.

## Australian Liquor Marketers (ALM)

ALM provides wholesale supply to a range of liquor outlets, and incorporates a specialist on-premise liquor division that supports bars, pubs, restaurants and hotels. It also provides a similar supply service in New Zealand via the Tasman Liquor Company.

Through our network of 15 distribution centres located in each State and Territory in Australia, and in New Zealand, we support small businesses with a competitively priced and extensive liquor range, delivered via our cost effective and efficient supply chain.

## Independent Brands Australia (IBA)

IBA has established a stable of strong national liquor brands, such as Cellarbrations, The Bottle-O, IGA Liquor, Duncan's, Thirsty Camel, Big Bargain and Porters. The group is focused on supporting independent liquor retailers through a framework that offers strong buying power, marketing support and promotional programs, enabling them to compete equally with larger competitors.

## Strengthening the network

Our independent retailers have continued to invest in their stores to improve the shopping experience for their customers. This year a further 67 stores were 'refreshed' bringing the total number of stores completing the 'Refresh' program to approximately 250. There was also continued investment in upgrading store cool rooms with a further 111 cool rooms upgraded in the year. There are now almost 500 stores that have invested to upgrade their cool rooms.

Our IBA category and range extension program has been implemented in approximately 1,500 stores nationally. Through this program we provide our retailers with a differentiated, localised offer that includes private label and higher value premium products – particularly in the wine and spirits category to meet the consumer trend to less consumption, but higher quality product.

The year also included expanding our IBA network through the conversion of existing wholesale customers to the IBA banner group, as well as through the acquisition of Thirsty Camel in South Australia and the Northern Territory which added a further 70 stores to our network.

## Earnings performance

Liquor EBIT increased 2.1% to \$68.4m reflecting the earnings benefit from increased sales to both the IBA network and contract customers. Working Smarter savings were partly offset by an increase in the bad debts provision in Western Australia, and costs associated with the implementation of the New South Wales Container Deposit Scheme.

Liquor EBIT in FY17 includes earnings related to \$54.6m of sales from the 53rd trading week.

Total Liquor sales<sup>1</sup> increased 5.7% to \$3.47bn reflecting increased sales from both existing and new contract customers, and from the annualisation of Porters Liquor which was acquired in the second half of FY17. Wholesale sales through the IBA network increased 8.8%, as a number of wholesale customers converted to the IBA banner. Retail sales in the IBA network increased 1.5% on a LfL basis.

Looking forward, the business will continue to focus on its initiatives to support our independent retailers to be the 'Best Store in Town', including accelerating the store 'Refresh' program. It also remains focused on growing the IBA retail network and will conduct retail store and e-commerce trials.



## Expanding the Porters footprint

In 2017, Metcash acquired the well known premium brand, Porters Liquor, joining other brands in the IBA network including, Cellarbrations, The Bottle-O, IGA Liquor, Duncan's, Thirsty Camel and Big Bargain.

Following the establishment of our branding and model for expansion during the year, three new Porters stores were launched in Sydney, New South Wales, and we are now positioned to begin a national roll-out.

Locations for future store developments include areas which best support Porters premium brand offer of niche products such as exclusive wines, craft beers and spirits.

Key to the expansion of Porters is ensuring it offers a range of premium products that the customer wants, and which are available locally at competitive prices.

The acquisition of Porters provides our Liquor pillar with a significant growth opportunity.



1. All sales percentage references are based on 52 trading weeks in FY17



# Hardware

**Metcash's Independent Hardware Group (IHG) was established when it acquired Home Timber & Hardware in October 2016 to join the company's existing Mitre 10 business.**

IHG is the largest independent hardware group in Australia, and a leader when it comes to servicing the trade market. In addition to the Mitre 10 and Home Timber & Hardware (HTH) brands, IHG also supports independent operators under the banners Thrifty-Link Hardware, True Value Hardware and Hardings Hardware. IHG is Australia's largest independent home improvement wholesaler, supplying more than 1,200 stores nationwide that range from large format warehouses to small convenience operations, trade centres and frame and truss sites – each catering to a broad mix of trade and DIY customers. The culture of IHG is built on being a low-cost and transparent business partner to our members.

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

Home Timber & Hardware has a national footprint of approximately 230 stores with more than 80% regionally based. It is also known for its strength in servicing the trade market, which gives it the credibility and know-how to meet the needs of the DIY customer too.

## Integration update

The integration of HTH is now largely complete with synergy benefits exceeding the target set at the time of the acquisition. Annualised gross synergy benefits were approximately \$34m, with gross realised synergies reaching a cumulative \$24m at the end of the financial year. These synergies are after sharing merchandising savings with IHG store owners. Other key achievements include the introduction of new trading terms for all IHG members and the launch of a dual brand strategy and direction for both the Mitre 10 and HTH brands.

## Strengthening the network

Initiatives focused on supporting IHG store owners to be the 'Best Store in Town' continued to be rolled out through the year. A total of 30 stores have now completed the Sapphire store transformation program with average sales growth of over 15% being delivered. The success of the program to date has led to it being accelerated to target the completion of approximately 200 stores by 2022. The Core Ranging program also continued to deliver good sales growth and was further rolled out across the network. The Core Ranging program now includes the key categories of fasteners, paint, power tools, hand tools, cement, timber and garden. In addition, this year we established an e-commerce platform across all IHG brands.

With an aim of leveraging our strength in the Trade segment, the business trialled four Mitre 10 Sapphire Trade Only stores during the year. These trials were successful and the business now plans to roll out a further eight Trade Only stores in FY19. You can read more about Mitre 10's first Trade Only store in the next column.

## Earnings performance

Hardware EBIT increased \$20.5m to \$69.0m principally due to the inclusion of a full year of earnings from HTH (FY17: seven months) together with related synergies from the integration of HTH. FY17 Hardware EBIT includes earnings related to \$30.3m of sales from the 53rd trading week.

Hardware sales<sup>1</sup> increased \$520.1m to \$2.10bn reflecting the inclusion of a full year of sales from HTH. Total wholesale sales increased 5.3%<sup>2,3</sup>, driven by strong trade sales. Construction activity was robust through most of the year, with some softening evident in the fourth quarter. Mitre 10 continued to perform well with wholesale sales increasing 8.6% (6.0% on a LfL basis), while sales in HTH increased 1.9% (3.4% on a LfL basis). Retail sales through the IHG banner group increased 7.4%<sup>4</sup> on a LfL basis.

Looking forward, the business continues to focus on its initiatives to support its independent retailers to be the 'Best Store in Town' and leverage the strength of its trade business.

1. All sales percentage references are based on 52 trading weeks in FY17
2. Wholesale sales include sales by Mitre 10 and HTH to both independent retailers and company-owned stores
3. FY17 includes HTH sales post acquisition on 2 October 2016 and pro forma sales pre acquisition
4. LfL sales growth across 104 stores



## Mitre 10's first Trade Only store

Clennett's Mitre 10 located at Mornington, Tasmania was Mitre 10's first standalone Trade Only Sapphire store. Clennett's hardware heritage dates back to 1885 and it is no surprise that its reputation for expertise in hardware is unparalleled in the area. The new Trade Only store was designed as a low-cost model to meet the Trade customer's needs and attract new customers to the Mitre 10 brand. The store opens at a trade-friendly 7:00am and customers are offered free coffee. The Trade desk is located immediately as you enter the building, reflecting its focus on service.

The store also provides customer-focused initiatives such as 'Tradies Online', which enables tradies to have 24-hour access to store statements and invoices, as well as online access to contract pricing and quotes. The store is also trialling a 'Truck Tracker' mobile phone app that enables customers to order deliveries when convenient, and provides users with SMS updates on delivery and a live map for tracking where the delivery truck is located.



# Logistics

**As Australia's leading wholesaler, Metcash is dedicated to ensuring we provide the best level of service to our extensive network of independent retail and wholesale customers across the Food, Liquor and Hardware sectors.**

We deliver to more than 10,000 retail customers supported by distribution centres in each of the major cities, as well as smaller regional centres. We also supply around 90,000 wholesale customers from smaller branches across the country.

We have the widest distribution network in Australia and deliver to all corners of the country, 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.

## Partner of choice

There is a strong interdependency between Metcash as the wholesaler, our suppliers and our independent retailers. Strengthening our position as 'partner of choice' is at the core of our initiatives in Logistics. This year included a focus on improvements to integrate supply chain systems with our suppliers, and continuing to work closely with our transport providers, as we strive to deliver exceptional service to our retailers.

Supply chain integration between Metcash and our suppliers has streamlined and optimised processes,

ensuring suppliers' products are available to our retailers when and where they need them.

In transport, we have worked closely with our freight partners to roll out 'best in class' management systems. This will enable us to provide retailers with greater delivery visibility and an enhanced service experience.

Building on our extensive investment in distribution centre automation, we have introduced further state-of-the-art materials handling systems with the trial of driverless forklifts at our Huntingwood, New South Wales Distribution Centre. These vehicles have automated load and unload capabilities that increase efficiency, reduce the risk of human error and improve safety levels. The capability is being assessed for further deployment into other Metcash distribution centres.

New initiatives focused on digitalisation have enabled 'best in class' product data exchange from our suppliers. This has enhanced our ability to support suppliers and independent retailers to be first to market with new product launches. You can read about some recent examples of this on the following page.

## Network for the future

Metcash is transforming its distribution network over time to support the company's focus on small format and convenience stores and growth in short shelf life perishable, fresh and 'buy-as-you-need' categories. This requires a more agile and responsive supply chain, with dedicated cross-dock facilities and a 'high frequency' delivery network to complement distribution to large format stores from our larger distribution centres. Further information on Metcash's strategic focus is provided in the CEO's Report commencing on page 6.



## Proposed new Distribution Centre in South Australia

Metcash has been investigating the merits of a new 'best in class' distribution centre in South Australia. The new distribution centre will deliver operational efficiencies and enable local independent retailers to access a wider range of products. It will also benefit local suppliers by providing an efficient route to market for their products through access to Metcash's national distribution network.

The assessment is progressing with design and site identification well advanced; and regulatory approvals are underway.

## First to market for independent retailers

Metcash champions independent retailers to offer their customers the latest products as soon as they are available to the market. This involves working closely with suppliers and streamlining the end-to-end processes for getting the new products on our retailers' shelves wherever they are located in Australia. During the year we helped our IGA retailers be 'first to market' with many new products. These included new launches for Arnott's biscuits and Nescafé Gold, as well as almost all new PepsiCo (Smiths) products including Doritos Colossal and Red Rock Deli popcorn. These new products were on our retailers' shelves between one to five weeks earlier than competitor stores.

*"What a great result for IGA stores for Metcash to have been able to achieve first to market status on the majority of the new products we've launched over the past 9-12 months."*

*Business Manager, PepsiCo*



# Corporate Social Responsibility

**At Metcash, being a responsible business is fundamental to our operating principles and it is embedded in our overarching business strategy.**

Significant progress was made during the year across our social and environmental practices. This included increased community engagement and support, removing single use plastic bags across our supermarket network, improving our responsible sourcing practices and reducing our energy usage and waste to landfill.

## Community

Metcash recognises that it plays an important role in the communities in which it operates, including being an integral part of the social fabric of many of the regional communities where our independent retailers are located.

Our support to community organisations consists of financial support from our independent retailers and Metcash, the donation of staff time, and the donation of product from our Food pillar. Metcash has supported local communities through the IGA Community Chest Trust Fund for the past 29 years. The Fund has raised over \$80m during this time for distribution to local charities, regional sporting groups, hospitals, health and wellbeing initiatives, local fire services and disaster relief efforts to name a few.

In calendar year 2017, \$2.3m was raised through the Fund and distributed to over 440 local schools and 470 local sport and recreational clubs, as well as our three charity partners: The McGrath Foundation; Special Olympics Australia; and Vinnies Christmas Appeal.

Metcash staff participated in the 'Vinnies CEO Sleepout' held during the year at various venues across the country and raised over \$63,000 to support this worthwhile cause.

A number of other activities were held by our staff across many of our sites to raise awareness and support for those in need. Over \$55,000 was raised collectively through these activities.

Food waste reduction remains a primary focus for our business and our retailer network. Metcash is a long-time partner of Foodbank and has donated over one million kilograms of both food and non-food items to Foodbank over the past eight years. Through this partnership we play a small but important role in supporting those in our community that are the most vulnerable and require assistance. A number of our IGA retailers also support the work of OzHarvest through the supply of fresh food.

Metcash and our retailer partners have collectively donated 369,000kg of food and 4,340kg of non-food to Foodbank and OzHarvest over the past year.

## Healthier food, healthier people and communities

We believe our business has a role in supporting healthy communities through the development and ranging of nutritious healthy products, and through creating programs and educational tools that help all consumers make healthy food choices.

The development of our Community Co range of products has enabled us to deliver a quality private label offer that excludes artificial flavours and colours. The brand also supports our local communities through the donation of a portion of sales proceeds to the IGA Community Chest Trust Fund.

Our IGA Family Program provides communities with access to a range of educational tools on how to live a healthier lifestyle, including recipes for healthy eating options. The program has been in existence for two years, with more than 20,000 families already registered and receiving materials to help live healthier lifestyles.

The program also partners with the Stephanie Alexander Kitchen Garden Foundation (SAKGF) to provide our retail network with an avenue to support onsite gardens and kitchens in schools. The SAKGF assists schools to develop a program that teaches students how to grow and harvest produce and cook delicious food, helping to establish strong fresh food principles from an early age.

Since the commencement of the partnership in July 2017, we have supported 30 school kitchen garden programs across Australia.

## Maroochydore Swans Kick 4 Kids Day

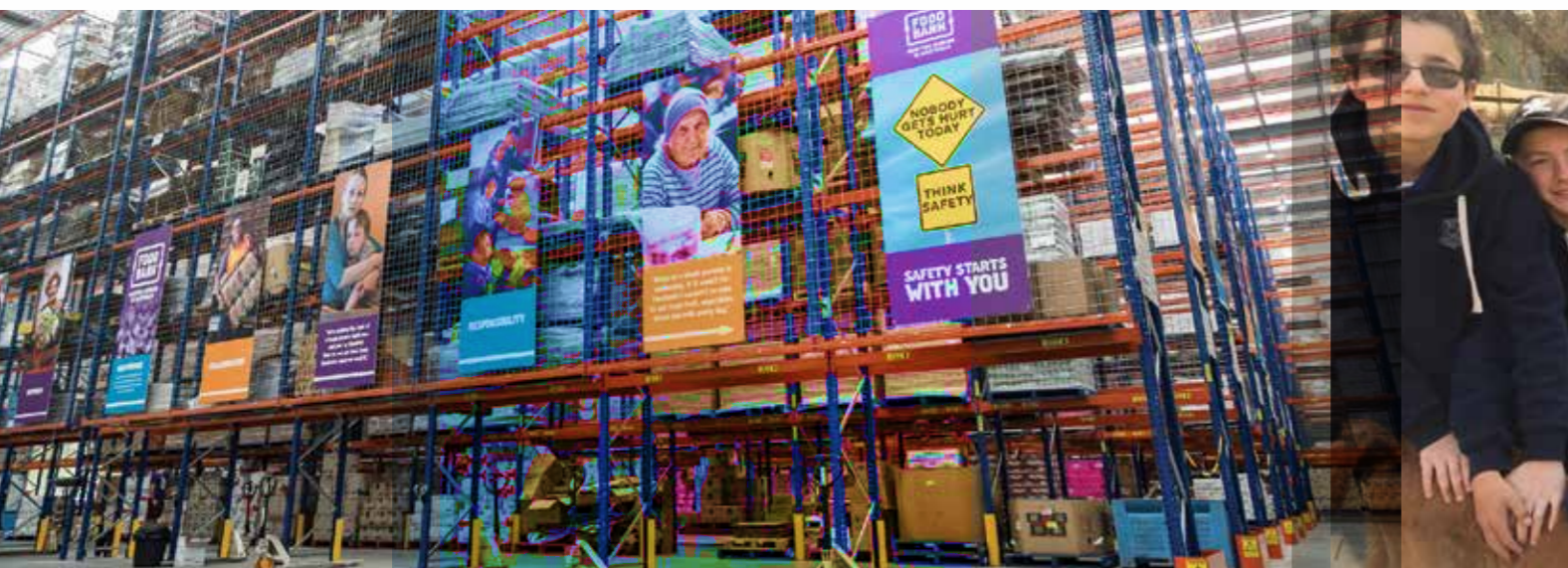
IGA independent retailers on the Sunshine Coast spent a day supporting the Maroochydore Swans Kick 4 Kids Day. This event brings special-needs children from local schools to the Maroochydore Football Club to be hosted by local football coach Tim Sheridan.

The day aims to create awareness of special needs, show the children that the community cares about them, and provide the children with skills they can adapt for later employment.

Local Sunshine Coast retailer Roz White of Whites SUPA IGA Bli Bli is a great supporter of the program. Roz said:

*"The IGA Swans Kick 4 Kids Day is an event close to our hearts as we are very passionate about supporting disabled people through employment in our stores. We know this makes a huge difference for them and their lives. We have three disabled team members including Mitchell who has worked with us for four-and-a-half years, and is an integral part of our team. Our local shoppers are very supportive of him too. The Swans Kick 4 Kids Day is a real highlight for the Whites SUPA IGA Bli Bli team who assisted on the day."*

Metcash has been a national donor to Foodbank since 2010



The IGA Family Program supports healthy communities



Maroochydore Swans Kick 4 Kids Day



## Corporate Social Responsibility (continued)

### People

#### Diversity, inclusion and our people

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

Progress against gender targets is regularly reported to the Board and includes a focus on improving female representation in leadership and in roles traditionally occupied by males. At the end of the financial year, our workforce comprised 31.5% female and 68.5% male, supported by our equal opportunity hiring policies. The gender mix of the Metcash Board is now 57% female and 43% male following the appointment of our fourth female non-executive director during the year.

Our Group CEO, Jeff Adams, became a Gender Pay Equity Ambassador under the Workplace Gender Equality Agency (WGEA) during the year replacing former Group CEO Ian Morrice. Through this organisation Metcash has pledged to drive gender pay equality. The company was pleased to report that Metcash's gender pay gap at the end of the financial year had reduced to less than 2%.

Initiatives implemented during the year to better support gender equality and workplace flexibility included:

- An increase in paid parental leave for primary carers from 10 to 12 weeks;
- Release of a new Domestic and Family Violence policy that provides eligible employees access to paid and/or unpaid leave and support through the Employee Assistance Program;
- The provision of a more robust grievance process for sexual harassment and discrimination;
- An additional week of annual leave for employees with eligibility criteria designed to encourage our people to balance work and home commitments; and
- School holiday support across a number of sites, for working parents through our Camp Metcash program that offers care for employees' children between the ages of 4-14.

Metcash also formally recognised International Men's Day and International Women's Day events and provided facilitated discussion forums for all staff.

#### Health, wellbeing and safety

Metcash remains committed to the continuous reinforcement of 'Zero Harm', the prevention of work-related injury and illness to employees, visitors, contractors and members of the public in all areas in which we operate.

This year we adopted the more widely used Total Recordable Injury Frequency Rate (TRIFR) as our key safety performance measure. This measure comprises Lost Time Injuries, Medical Treatment Injuries and Restricted Work Cases. The use of this wider measure has helped improve our incident reporting and investigation culture within Metcash, which is reflected in TRIFR reducing by 11% from 41.2 (excluding Home Timber & Hardware) in FY17 to 36.7 (inclusive of Home Timber & Hardware) in FY18.

Our safety goal remains 'Zero Harm' and we have implemented a number of new initiatives based around 'making safety simple' to help further improve our safety performance and continue our drive towards this goal.

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

#### Human rights and modern slavery

Metcash has a wide and diverse supply chain that encompasses goods and services from both food and non-food sectors. The company is committed to upholding human rights within our business and across our supply chain. We acknowledge our role and responsibility in seeking to safeguard human rights through responsible, ethical and sustainable business practices.

We support the United Nations Framework and Guiding Principles on Business and Human Rights and the eight international fundamental conventions. We reinforce our core value of treating people with dignity and respect, and we aim to ensure that our supply chains and operations do not contain products as a result of forced, bonded or child labour practices.

We work collaboratively with our supply chain partners to ensure that suppliers have appropriate procedures and practices in place to deliver compliance with the above principles. We undertake supplier assurance audits as part of the on-boarding process for suppliers, and are

able to identify non-conformance through desktop and physical audits. However, we recognise that this may not detect all breaches, and we continue to investigate opportunities for improvement.

Metcash is preparing a Modern Slavery Statement that will be completed and made available in FY19.

### Environment

#### Responsible sourcing

Metcash remains committed to the sourcing of products and services in a responsible manner. As a member of the Roundtable on Sustainable Palm Oil (RSPO), we work with our suppliers to ensure we maintain 100% Certified Sustainable Palm Oil (CSPO) in all of our private label products.

We have been recognised for our efforts in using CSPO through a unique partnership with the Taronga Conservation Society Tiger Exhibit and 'Zoopermart'. This partnership aims to promote the use of products that contain 100% CSPO, and Metcash products are included in their interactive displays.

We are also committed to the phasing out of cage eggs in our private label range by the end of 2018, and are on track to achieve this.

All suppliers of timber to our Hardware pillar are 100% Forest Stewardship Council (FSC) or Program for the Endorsement of Forest Certification (PEFC) certified. We are also working towards 100% FSC or PEFC certification for all of our private label brand toilet paper, tissues and paper towels by 2020.

#### Waste

We remain focused on reducing waste and diverting material from landfill and continue to work closely with our waste and recycling contractors to achieve this. In FY18, 82.5% of our waste was diverted from landfill, with the majority being paper, plastics and cardboard sent for recycling; as well as over 300 tonnes of food that was donated to Foodbank.

Last year Metcash and our independent retailers committed to eliminate the distribution and sale of single use plastic bags by 30 June 2018.

In April 2018, Metcash joined the Australian Packaging Covenant's Soft Plastic Working Group to collaborate with government and industry partners to reduce the use of soft plastic. We anticipate working closely with this group to develop innovative solutions to repurpose soft plastic. This will include liaising with our suppliers to support the reduction of plastic packaging across our private label and fresh product range.

#### Energy reduction

Our distribution centres, warehouses and associated refrigeration systems are the largest users of energy across our businesses and represent our greatest opportunities for energy reduction.

This year we reduced our total energy use by 7% from 446,361 GJ to 415,485 GJ. The improvement was largely driven by initiatives including the retrofitting of LED lighting across our distribution network, as well as more efficient energy usage. Many of our Distribution Centres have now implemented the off-peak charging of forklifts, as well as refrigeration and lighting controls to reduce electricity usage.

## Sustainable farmers

We are passionate about enabling our independent retailers to support local farmers, especially those that use sustainable agriculture techniques. Glenn and Katrina Morris from Figtrees Organic Farms supply local IGAs in northern New South Wales by bringing their customers fresh, sustainable and nutritious produce, direct from the farm gate.

The Morris' are very aware of the environmental impact of pesticide and fertiliser overuse in agriculture, with Glenn raising the public profile of these issues by riding his horse across the Sydney Harbour Bridge in 2017.

The Morris' emphasis is on working with natural processes and creating healthy ecosystems on their land. Figtrees Organic Farms have been regenerated from tired conventionally-run farms, to thriving healthy landscapes bursting with abundance. Katrina is also passionate about education and teaching children the importance of understanding where their food comes from to help improve their health and well being.

**Bingara IGA owner John Bishton works closely with John Morris from Figtrees Organic Farms**



# Our People

## Senior management



**Jeff Adams**  
BA, Business Administration & Management

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

**Mark Laidlaw**  
B.Ec, CPA  
**CEO Independent Hardware Group**

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

**Scott Marshall**  
B.Business  
**CEO Supermarkets & Convenience**

Scott began his career with Metcash in the ALM business 25 years ago and was appointed CEO of ALM in December 2013. In March 2018 Scott was appointed CEO, Supermarkets & Convenience. His areas of experience cover warehousing operations and management, sales, retail operations, State general management and marketing management.

**Rod Pritchard**  
Dip. Marketing  
**Interim Chief Executive Australian Liquor Marketers**

In 2015 Rod joined ALM and was General Manager, Merchandise for three years before being appointed as interim CEO in March 2018. Rod has over 18 years' experience in the liquor industry, including a 15-year period with Brown-Forman (operating as Swift & Moore until 2006).



**Brad Soller**  
B.Comm, B.Acc, M.Comm, CA (SA)

**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 third 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 its Chief Customer Service & Operations Officer.

# Our Board



**Robert Murray**  
MA Hons, Economics (Cantab)  
**Non-executive Chairman**  
Chair of the Nomination Committee.

**Jeff Adams**  
BA, Business Administration & Management  
**CEO, Executive Director**

**Fiona Balfour**  
BA (Hons), MBA, Grad Dip IM, FAICD  
**Non-executive Director**  
Chair of People & Culture Committee, Member of the Nomination Committee.

**Anne Brennan**  
BCom (Hons), FCA, FAICD  
**Non-executive Director**  
Member of the Audit, Risk & Compliance Committee, Member of the Nomination Committee.



**Tonianne Dwyer**  
BJuris Hons, LLB Hons, GAICD  
**Non-executive Director**  
Chair 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 the 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 35 of the Annual Report. For more information on Board evaluation, please refer to the Corporate Governance page on our website: [www.metcash.com/corporate-information/corporate-governance](http://www.metcash.com/corporate-information/corporate-governance)

# Financial Report

For the year ended 30 April 2018

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## Directors' Report

For the year ended 30 April 2018

### 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 (HTH) 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 Campbells 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) continues to reduce complexity in business processes and makes 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 will help mitigate ongoing inflationary pressure on the Group's cost base.

#### 3. Key developments

*Potential new distribution centre (DC) and loss of major customer in South Australia*

On 28 May 2018, the Group announced that it is planning for a potential new purpose-built DC in South Australia. If approved and constructed, the DC will enable local independent retailers in South Australia to benefit from significant operational efficiencies, as well as accessing a broader range of products. It would also benefit local suppliers through the opening up of a pathway to access Metcash's extensive distribution network.

The Group also announced that the Drakes Supermarkets group (Drakes) has advised that it will not be making a commitment to have its supermarkets in South Australia supplied from Metcash's proposed new DC. Drakes later confirmed that they intend to supply these stores out of their own new DC that is currently under development.

As a result of the loss of this commitment, and the intensifying economic and competitive environment, particularly in Western Australia, an impairment expense of \$352.1 million was recorded against the carrying value of goodwill and other net assets in the Food & Grocery segment. This expense is presented separately within 'significant items' in the income statement. Refer note 3 of the financial report for further information.

## Directors' Report (continued)

For the year ended 30 April 2018

### Changes in key management personnel (KMP)

Jeff Adams joined the Group on 4 September 2017 and was appointed as Group Chief Executive Officer (CEO) and Executive Director on 5 December 2017 following Ian Morrice's resignation from these roles. Ian assisted with Jeff's transition into the role from September 2017 until June 2018.

Patrick Allaway announced his intention to retire from his roles as Non-executive Director and Chair of the Audit, Risk and Compliance Committee following completion of the Group's FY18 financial reporting process in June 2018.

Anne Brennan joined the Metcash Board as a Non-executive Director and a member of the Audit, Risk and Compliance Committee in March 2018.

Details of Directors' experience and qualifications are included within this report.

Scott Marshall was appointed as Chief Executive Officer – Supermarkets and Convenience (S&C) in March 2018 following Steven Cain's resignation from the role. Scott has been with Metcash for over 25 years, including as CEO Australian Liquor Marketers and also had a leadership role in the S&C operations in Western Australia. Rod Pritchard, General Manager Merchandise, is acting in the role of CEO Australian Liquor Marketers on an interim basis, while the formal recruitment process is underway.

### Dividend declaration

The Group recommenced dividend payments following the FY17 results announcement, and has paid \$102.4 million in dividends during the current financial year – a total of 10.5 cents per share. The Board has determined to pay a fully franked final FY18 dividend of 7.0 cents, which represents a full year dividend payout ratio of 59% of Underlying Earnings Per Share.

## 4. Key financial measures

### Warehouse earnings

Metcash's operations are designed to allow significant volumes to be distributed through its warehouse infrastructure. The ability to leverage warehouse efficiencies 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 the 53<sup>rd</sup> trading week in FY17

The current financial year (FY18) comprises a 52 week trading period (from 1 May 2017 to 29 April 2018) as compared to a 53 week period in FY17 (from 25 April 2016 to 30 April 2017). Section 5 of this report provides an overview of the Group's financial performance.

## Directors' Report (continued)

For the year ended 30 April 2018

### Impact of new accounting standards on key financial measures

Metcash's key financial measures will be influenced by the application of new accounting standards in the coming financial years. AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments* are applicable to the Group from FY19, and AASB 16 *Leases* is applicable from FY20.

Appendix A to the financial report provides a comprehensive description of the key changes arising from the new accounting standards and the expected impact on the Group in the respective years of their initial application.

## 5. Review of financial results

### Group overview

	FY18 \$m	FY17 \$m
<b>Sales revenue</b>	<b>14,463.7</b>	<b>14,121.9</b>
Earnings before interest, tax, depreciation and amortisation (EBITDA)	400.7	368.3
Depreciation and amortisation	(68.0)	(63.5)
<b>Earnings before interest and tax (EBIT)</b>	<b>332.7</b>	<b>304.8</b>
Net finance costs	(26.4)	(33.6)
Underlying profit before tax	306.3	271.2
Tax expense on underlying profit	(87.9)	(74.6)
Non-controlling interests	(2.8)	(1.8)
<b>Underlying profit after tax (i)</b>	<b>215.6</b>	<b>194.8</b>
Significant items	(380.1)	(32.7)
Tax benefit attributable to significant items	15.0	9.8
<b>Net (loss)/profit for the year</b>	<b>(149.5)</b>	<b>171.9</b>
<b>Underlying earnings per share (cents) (ii)</b>	<b>22.1</b>	<b>20.3</b>
<b>Reported (loss)/earnings per share (cents)</b>	<b>(15.3)</b>	<b>17.9</b>

(i) Underlying profit after tax is defined as reported profit after tax attributable to equity holders of the parent, excluding significant items identified in note 3(vii) of the financial report.

(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 \$14.46 billion, an increase of 4.3% on the prior financial year after adjusting for a 53<sup>rd</sup> trading week in FY17, largely reflecting the inclusion of HTH for a full financial year (FY17: 7 months).

Underlying profit after tax increased 10.7% to \$215.6 million (FY17: \$194.8 million) and includes strong earnings growth in the Hardware pillar, with a full year of earnings from the HTH acquisition compared to seven months in FY17.

The Group reported a statutory loss of \$149.5 million after tax (FY17: statutory profit of \$171.9 million after tax). The reported loss is due to the impairment of goodwill and other net assets of \$345.5 million (post tax) in the Food & Grocery pillar, which was announced on 6 June 2018.

Group EBIT increased 9.2% to \$332.7 million (FY17: \$304.8 million), predominantly driven by earnings growth in the Hardware pillar following the acquisition of HTH. Earnings also increased in the Liquor pillar through continued growth in the IBA network. Earnings in the Food & Grocery pillar were flat compared to the prior financial year, but improved after adjusting for the 53<sup>rd</sup> trading week in FY17.

Group EBIT includes a positive contribution from Corporate of \$6.7 million (FY17: \$1.2 million), principally due to the reversal of a provision against the Huntingwood, NSW DC hail insurance claim, which was settled in 1H18.



## Directors' Report (continued)

For the year ended 30 April 2018

### Segment results

	Segment revenue		Earnings before interest and tax (EBIT)	
	FY18 \$m	FY17 \$m	FY18 \$m	FY17 \$m
Food & Grocery	8,899.6	9,180.0	188.6	188.1
Liquor	3,465.5	3,333.1	68.4	67.0
Hardware	2,098.6	1,608.8	69.0	48.5
Corporate	-	-	6.7	1.2
<b>Metcash Group</b>	<b>14,463.7</b>	<b>14,121.9</b>	<b>332.7</b>	<b>304.8</b>

#### Food & Grocery

Total Food & Grocery sales declined 1.2% to \$8.90 billion (FY17: \$9.01 billion, excluding the 53<sup>rd</sup> trading week).

Supermarkets sales declined 1.4% with growth on the Eastern seaboard more than offset by lower sales in South Australia and Western Australia. Intense competition continued across all states, with Western Australia again the most challenging market due to the ongoing rollout of competitor footprint and weak economic conditions.

Supermarkets wholesale sales (excluding tobacco) declined 3.6%, with deflation continuing to be a key driver of the decline, as competitor investment in price and promotions remained at high levels. Grocery deflation for the year was 2.4% (FY17: 2.0%), with some slowing in the rate of deflation in the second half of the financial year.

Retail sales across our IGA retail network declined 0.9% on a like for like basis (Lfl).

Convenience sales decreased 0.5% to \$1.49 billion (FY17: \$1.50 billion, excluding the 53<sup>rd</sup> trading week) reflecting the cycling of revisions to key customer contracts in 1H18, partly offset by increased sales in 2H18 that reflect growth in sales to a large contract customer.

Food & Grocery EBIT was broadly flat at \$188.6 million (FY17: \$188.1 million), reflecting a positive contribution from the Convenience business and Working Smarter cost savings, partly offset by the impact of the decline in Supermarkets wholesale sales (excluding tobacco), and lower joint venture earnings which were negatively impacted by prior period one-off adjustments.

FY17 Food & Grocery EBIT includes earnings related to \$168.6 million of sales from the 53<sup>rd</sup> trading week.

#### Liquor

Total Liquor sales increased 5.7% to \$3.47 billion (FY17: \$3.28 billion, excluding the 53<sup>rd</sup> trading week) reflecting increased sales from both existing and new contract customers, and from the annualisation of Porters Liquor, which was acquired in 2H17.

Wholesale sales through the IBA network increased 8.8% as a number of wholesale customers converted to the IBA banner. Retail sales in the IBA network increased 1.5% on a Lfl basis.

EBIT increased 2.1% to \$68.4 million reflecting the earnings benefit from increased sales to both the IBA network and contract customers. Working Smarter savings were partly offset by an increase in the bad debts provision in Western Australia and costs associated with the implementation of the NSW Container Deposit Scheme noted at the half year results.

FY17 Liquor EBIT includes earnings related to \$54.6 million of sales from the 53<sup>rd</sup> trading week.

#### Hardware

Hardware sales increased \$520.1 million to \$2.10 billion (FY17: \$1.58 billion, excluding the 53<sup>rd</sup> trading week) reflecting the inclusion of a full year of sales from HTH (FY17: 7 months).

Total wholesale sales increased 5.3%, driven by strong trade sales. Construction activity was robust through most of the year, with some softening evident in the fourth quarter. Mitre 10 continued to perform well with wholesale sales increasing 8.6% (6.0% on a Lfl basis), while sales in HTH increased 1.9% (3.4% on a Lfl basis).

Retail sales through the IHG banner group increased 7.4% on a Lfl basis.

EBIT increased \$20.5 million to \$69.0 million (FY17: \$48.5 million) principally due to the inclusion of a full year of earnings from HTH (FY17: 7 months) together with related synergies.

FY17 Hardware EBIT includes earnings related to \$30.3 million of sales from the 53<sup>rd</sup> trading week.

## Directors' Report (continued)

For the year ended 30 April 2018

### Corporate

The Corporate result of \$6.7 million (FY17: \$1.2 million) is principally due to the reversal of a provision against the Huntingwood, NSW DC hail insurance claim which was settled in FY18. The FY18 result included \$2.8 million of net gains on sale of surplus properties.

### Finance costs and tax

Net finance costs reduced reflecting lower debt utilisation as a result of tight working capital management and prudent capital expenditure.

Tax expense of \$87.9 million on underlying profit represents an effective tax rate of 28.7% (FY17: 27.5%). The lower effective tax rate in FY17 reflects distributions from equity-accounted investments and the application of capital tax losses.

### Significant items

On 28 May 2018, Metcash advised the market that the Drakes Supermarkets group had communicated their intention not to provide a long-term commitment to the new proposed Metcash DC in South Australia. Shortly after Metcash's ASX announcement, Drakes confirmed to the market that their own DC in South Australia is currently under development.

As a result of the loss of this commitment, and the intensifying economic and competitive environment, particularly in Western Australia, an impairment expense of \$352.1 million was recorded against the carrying value of assets in the Food & Grocery segment. The impairment expense predominantly related to goodwill and other intangible assets, but also included certain residual tangible assets and lease exposures.

Other items reported separately within 'significant items' include acquisition and integration costs in relation to the HTH acquisition and implementation costs in relation to the Working Smarter program. Refer note 3 of the financial report for further information.

### Cash flows

	FY18 \$m	FY17 \$m
Operating cash flows	288.6	304.6
Investing cash flows	(56.1)	(198.6)
Equity raised (net)	-	92.8
Dividends paid and other financing activities	(108.9)	(4.1)
<b>Reduction in net debt</b>	<b>123.6</b>	<b>194.7</b>

The Group continued to deliver strong operating cash flows during the current year. Excluding a non-recurring cash receipt of ~\$20 million in relation to the Huntingwood insurance claim during FY18, and a non-recurring working capital benefit of ~\$43 million related to the acquisition of HTH in FY17, operating cash flows were broadly in line with last year, supported by strong cash generation from HTH and a continued focus on efficient working capital management.

The Group had net investing outflows of \$56.1 million which primarily related to capital expenditure. The prior year investing outflows of \$198.6 million included payments related to the HTH acquisition.

The Group recommenced dividend payments following the FY17 results announcement, and has paid \$102.4 million in dividends during the current financial year – a total of 10.5 cents per share.

## Directors' Report (continued)

For the year ended 30 April 2018

### Financial position

	FY18 \$m	FY17 \$m
Trade receivables and prepayments	1,184.2	1,133.3
Trade receivables - customer charge cards agreement	274.0	276.0
Inventories	784.4	759.2
Trade payables and provisions	(1,896.2)	(1,811.4)
Customer charge cards agreement	(274.0)	(276.0)
<b>Net working capital</b>	<b>72.4</b>	<b>81.1</b>
Intangible assets	818.4	1,152.7
Property, plant and equipment	236.7	242.1
Equity-accounted investments	88.3	103.3
Customer loans and assets held for sale	51.4	51.9
<b>Total funds employed</b>	<b>1,267.2</b>	<b>1,631.1</b>
Net cash/(debt)	42.8	(80.8)
Tax, put options and derivatives	78.6	87.1
<b>Net assets/equity</b>	<b>1,388.6</b>	<b>1,637.4</b>

The Group balance sheet remains strong, with a strong cash position supported by an optimised level of net working capital. The \$352.1 million significant items impairment primarily impacted non-current assets and provisions.

The Group invested \$52.1 million in capital expenditure during the year, partially offsetting depreciation and amortisation expenses of \$68.0 million.

Group net debt reduced by \$123.6 million during the current year, from a net debt position of \$80.8 million at FY17 to a net cash position of \$42.8 million. Metcash had \$712.7 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 \$1,491.7 million to \$1,373.1 million at 30 April 2018. Of the total commitment, \$578.9 million is recoverable from tenants under sub-leases, down from \$617.0 million at the end of April 2017. Further details of lease commitments are presented in note 17 of the financial statements.

Put options, including in relation to Ritchies Stores Pty Ltd, are detailed along with other contingent liabilities in note 15 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, 79% of gross debt was fixed. Further details are set out in note 15 of the financial statements.

## 6. Outlook

In Food & Grocery, we have seen some improvement in sales through the first seven weeks of FY19. Despite this, we do not expect a material change in FY19 to the highly competitive market conditions experienced in FY18.

As stated in our ASX release on 28 May 2018, we do not expect the advice from Drakes Supermarkets regarding their intention to supply their own stores in South Australia to have a material impact on the earnings of our Supermarkets business in FY19. The business will focus on operational efficiencies to help address the impact of the loss of operating leverage in South Australia beyond FY19.

Planned investments in growth initiatives by the Supermarkets business in FY19 are expected to adversely impact earnings for the year by ~\$10 million. These operating investments are expected to deliver earnings benefits beyond FY19.

Additional Working Smarter savings in the Food & Grocery pillar are expected to help mitigate the impact of difficult market conditions and cost inflation.

In Liquor, there is uncertainty associated with the further rollout of the Container Deposit Scheme, particularly in Queensland, Western Australia and the ACT, which are the next states to implement their schemes. Despite this, the Liquor market is expected to continue to grow at modest levels. The Liquor pillar remains focused on building and improving the quality of its IBA network.

In Hardware, we expect construction activity to continue at a solid level, at least through the first half of FY19. Earnings for the year are expected to benefit from the realisation of the full synergy benefits related to the integration of Home Timber & Hardware.

## 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 continued increasing competition from new and existing competitors, risk of losing a major customer, declines in economic activity, the need for the independent retail network to remain competitive, ongoing price deflation, and potential adverse interest rate and foreign exchange movements, all of which may lead to a decline in sales and profitability. Furthermore, changes to the regulatory environment including proposed changes to trading hours may impact trading conditions both at the retail and wholesale level. The Group strategy is focused on providing a compelling value proposition to consumers through Successful Independents.

Metcash continues to progress programs aimed at establishing a strong shopper-led product range, reducing costs of doing business and making it easier for suppliers and customers to engage with the Group. We are confident these initiatives coupled with the benefits realised from our Working Smarter program, now in its third year, 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. As with any significant change, there is a risk that these transformation 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 WHS, 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 'Chain of Responsibility' 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. Further to this Metcash manages the costs of compliance to ensure our costs of doing business are not significantly impacted. We do this by ensuring we proactively manage changes to regulatory requirements and respond with effective programs to ensure compliance.

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

### 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 remains 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

## Directors' Report (continued)

For the year ended 30 April 2018

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 15 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 Australia's favourite place to work by unlocking the potential of its people through empowerment and ensuring the Group's cultural values align with their values. Integrity is the foundation of the ethical values and standards of behaviour set for all employees through the Group's Code of Conduct.

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

## Directors' Report (continued)

For the year ended 30 April 2018

### 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 Chair

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 in-depth 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.

#### **JEFFERY K ADAMS** (BA, Business Administration and Management)

Group Chief Executive Officer, Executive Director

Jeffery (Jeff) has over 40 years of international retail experience across domestic and international businesses in the United States, Europe, Asia, Central America, and the Middle East.

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

#### **PATRICK N J ALLAWAY** (BA/LLB)

Non-executive Director

Patrick is a Non-executive Director of Woolworths Holdings Limited (South Africa), including David Jones and Country Road (since 2014), Domain Holdings Australia Limited (since November 2017), and Fairfax Media Limited (since April 2016). He is also Chair and co-founder of a privately owned corporate advisory business, Saltbush Capital Markets, and Chair 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 Airservices Australia (since 2013), the Australian Red Cross Blood Service (since 2017), Western Sydney Airport Co (since 2017) and Land Services South Australia Pty Ltd (since February 2018). 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 Salmat Limited, 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 and Contribution to the Information Technology Industry' in 2006.

#### **ANNE BRENNAN** (BCom (Hons), FCA, FAICD)

Non-executive Director

Anne is a Non-executive Director of Argo Investments Limited (since 2011), Charter Hall Limited (since 2010), Nufarm Limited (since 2011), Rabobank Australia Limited (since 2011) and Rabobank NZ Limited.

Anne has held a variety of senior management and executive roles in large corporates and professional services firms over 35 years in business. During her executive career, Anne was the Finance Director of Coates Group and the Chief Financial Officer of CSR Limited. Prior to her role at CSR, she was a partner at KPMG, Arthur Andersen and Ernst & Young.

Anne was also previously a Non-executive Director of Myer Holdings Limited (from 2009 to 2017) and The Star Entertainment Group Limited (from 2012 to 2014).

#### **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 the Deputy Chancellor and a member of the Senate of the University of Queensland, and a Director 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).

## Directors' Report (continued)

For the year ended 30 April 2018

### 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 and each since 2016. He is also a trustee of The Starship Foundation which raises funds for New Zealand's National Children's Hospital.

Murray has over 10 years' experience in grocery retailing and wholesaling and held key management roles in property development and investment. Murray was previously 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), Southern Cross Media Group Limited (since 2015) and Inghams Enterprises Pty Limited (since 2017). Helen 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 10 years in senior executive roles at McDonald's Australia Limited.

### FORMER DIRECTORS

**Ian R Morrice** resigned from his roles as Group CEO and Executive Director on 5 December 2017.

### COMPANY SECRETARY

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

Julie 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.

### Indemnification and insurance of Directors and Officers

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

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

## Directors' Report (continued)

For the year ended 30 April 2018

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
<b>Board of Directors</b>					
Robert A Murray (Chair)(a)	29 Apr 2015	-	5	5	64,005
Jeffery K Adams	5 Dec 2017	-	2	2	-
Ian R Morrice	12 Jun 2012	5 Dec 2017	3	3	-
Patrick N J Allaway	7 Nov 2012	-	5	5	206,786
Fiona E Balfour	16 Nov 2010	-	5	5	87,804
Anne Brennan	26 March 2018	-	1	1	-
Tonianne Dwyer	24 Jun 2014	-	5	5	40,000
Murray P Jordan	23 Feb 2016	-	5	5	23,041
Helen E Nash	23 Oct 2015	-	5	5	37,431
<b>Audit, Risk &amp; Compliance Committee</b>					
Patrick N J Allaway (Chair) (b)	7 Nov 2012	-	5	5	
Anne Brennan	26 March 2018	-	1	1	
Tonianne Dwyer	24 Jun 2014	-	5	4	
Murray P Jordan	23 Feb 2016	-	5	5	
<b>People &amp; Culture Committee</b>					
Fiona E Balfour (Chair) (c)	16 Nov 2010	-	6	6	
Murray P Jordan	31 Aug 2016	-	6	6	
Helen E Nash	23 Oct 2015	-	6	6	
<b>Nomination Committee</b>					
Robert A Murray (Chair)	29 Apr 2015	-	2	2	
Patrick N J Allaway	27 Feb 2013	-	2	1	
Fiona E Balfour	27 Feb 2013	-	2	2	
Anne Brennan	26 March 2018	-	-	-	
Tonianne Dwyer	24 Jun 2014	-	2	2	
Murray P Jordan	23 Feb 2016	-	2	2	
Helen E Nash	23 Oct 2015	-	2	2	

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

(b) Mr Allaway was appointed as Chair of the Audit, Risk & Compliance Committee on 31 August 2016.

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

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

In addition, the Group holds a strategy session each year. In FY18, this strategy session was held in October 2017. All Board members in office at that time attended the FY18 strategy session.

## Directors' Report (continued)

For the year ended 30 April 2018

### Remuneration report

#### Message from the Chair of the People and Culture Committee

Dear Shareholder,

On behalf of the Board I am pleased to present our Remuneration Report for the financial year ended 30 April 2018. We believe the outcomes for the year are a fair reflection of the performance of Metcash, our businesses and key individuals.

#### Our framework

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

We are now in the final year of our five-year pay mix transition which has seen a progressive increase in executive 'at risk' pay as a component of on-target total reward. Changes in FY18 included a further reduction of STI as a proportion of Total Reward to 29% (FY17: 34%) and an increase in LTI to 23% (FY17: 17%). Our executives now have most of their on-target remuneration 'at risk', and this is directly linked to performance outcomes including Metcash share price.

This year also included the introduction of behaviours as a modifier for determining STI outcomes. One policy change was made to transition the performance hurdle for the Group STI pool from Group net profit after tax ('NPAT') to Group earnings before interest and tax ('EBIT') to more closely align Group and Pillar financial outcomes.

I'm delighted to share that we have made a significant improvement in gender pay parity over the last 12 months. In our recent submission to the Workplace Gender Equality Agency we have reduced our overall pay gap to less than 2%.

#### FY18 performance

Our markets continued to be highly competitive, particularly in Supermarkets where the high level of promotional activity and deflation continued throughout the year. Despite this, Group EBIT increased 9.2% from \$304.8 million to \$332.7 million, and underlying Group NPAT grew 10.7% to \$215.6 million, with the benefit from the HTH acquisition driving significant growth. This is reflected in an 8.9% increase in underlying earnings per share to 22.1 cents.

Cash generation was strong and the Group moved from a net debt position of \$80.8 million at the end of FY17 to a net cash position of \$42.8 million at the end of FY18.

From a shareholder perspective, net dividends for the year increased by 8.5 cents to 13.0 cents per share.

Subsequent to year-end, Metcash announced that the Drakes Supermarkets group (Drakes) had advised that it will not be making a commitment to have its supermarkets in South Australia supplied from Metcash's proposed new distribution centre (DC). Drakes later confirmed that they intend to supply these stores out of their own new DC that is currently under development. As set out in note 3 of the financial report, the Group recognised a total impairment expense of \$352.1 million, which was predominantly related to goodwill and other net assets and is non-cash in nature.

Taking into account the impairment, the Board applied its discretion to the KMP STI payments which have been paid at an average of 47% of maximum.

#### Remuneration outcomes

##### Fixed remuneration

The only changes to KMP fixed remuneration were as a result of role change. Mr Laidlaw's pay was adjusted to reflect the increased size of his role post acquisition of HTH; and an increase was awarded to Mr Marshall on his appointment to the larger CEO role in Supermarkets & Convenience in mid-March.

As part of the Aon Hewitt pay benchmarking review, it was noted executive pay has continued to increase across our peer group. To remain aligned to the market, some increases may be required in FY19 for KMP. The Board will take this into consideration when it next reviews KMP remuneration.

##### Short term incentives

STI outcomes for KMP are based on pool and balanced scorecard outcomes and ranged from 0% to 81.0% of maximum reflecting operational performance and reduced for the impairment detailed above.

The STI payment to Mr Ian Morrice (former Group CEO) was 48.1% of maximum, and the payment to Mr Jeff Adams was 44.4% of maximum.

## Directors' Report (continued)

For the year ended 30 April 2018

#### Long term incentive schemes

Other than the IHG Integration Plan noted below, no grants under the Group's existing LTI plans vested in FY18.

The IHG Integration Incentive available to Mr Laidlaw is a cash-settled LTI. The results delivered were at a maximum level, resulting in 67% of the incentive being awarded. A deferred component representing 33% of the award is subject to a Hardware EBIT (including synergies realisation) performance hurdle in FY19.

In line with the outlined pay mix weighting changes of LTI in total reward, additional performance rights were granted to KMP. The performance hurdles for these grants are in line with last year: Relative Total Shareholder Return and Underlying Earnings Per Share Compound Annual Growth Hurdles, over a three-year period.

The LTIs granted to the former Group CEO and the Group CFO in FY15 were cancelled at their request as these rights were unlikely to vest.

The Board notes that the LTI schemes align the long term interests of our people with our shareholders. Subsequent to year-end, the impact of Metcash's announcement regarding Drakes and the decline in share price has resulted in a reduction in the likelihood of current Metcash LTI schemes vesting.

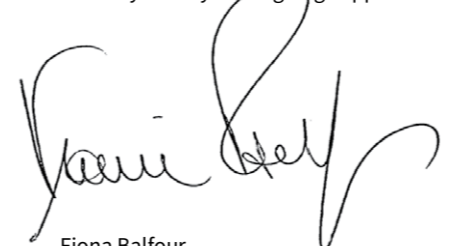
#### Non-executive Director remuneration

As foreshadowed in last year's Report a full benchmarking of director fees by Aon Hewitt was completed resulting in modest increases.

Commencing in FY19 a minimum shareholding policy for Non-executive Directors and the Group CEO will be implemented.

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

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



Fiona Balfour  
Chair, People and Culture Committee

## Directors' Report (continued)

For the year ended 30 April 2018

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Section 2.	Remuneration governance
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Section 4.	FY18 performance and remuneration outcomes
Section 5.	KMP service agreements
Section 6.	Non-executive Director remuneration
Section 7.	Statutory disclosures

### 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 2018 ('FY18'). 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 FY18 are listed below.

Name	Position	Term as KMP in FY18
<b>Non-executive Directors</b>		
Robert Murray	Chair	Full year
Patrick Allaway	Director	Full year
Fiona Balfour	Director	Full year
Anne Brennan	Director	Commenced 26 March 2018
Tonianne Dwyer	Director	Full year
Murray Jordan	Director	Full year
Helen Nash	Director	Full year
<b>Executive Directors</b>		
Jeff Adams	Group Chief Executive Officer ('Group CEO')	Commenced 5 December 2017
Ian Morrice	Group Chief Executive Officer ('Group CEO')	1 May 2017 to 5 December 2017
<b>Group Executives</b>		
Brad Soller	Group Chief Financial Officer ('CFO')	Full year
Scott Marshall	Chief Executive Officer, Supermarkets and Convenience	Commenced 16 March 2018
	Chief Executive Officer, Australian Liquor Marketers ('ALM')	1 May 2017 to 15 March 2018
Steven Cain	Chief Executive Officer, Supermarkets and Convenience	1 May 2017 to 15 March 2018
Mark Laidlaw	Chief Executive Officer, Independent Hardware Group ('IHG')	Full year

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

## Directors' Report (continued)

For the year ended 30 April 2018

### 2. Remuneration governance

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

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

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

Aon Hewitt was engaged in FY18 to provide recommendations in relation to the FY19 KMP remuneration. Services provided by Aon Hewitt included benchmarking market remuneration levels, including short-term (STI) and long-term incentives (LTI). Total fees of \$42,240 (FY17: \$37,079) were paid for these services.

In addition to remuneration recommendations, Aon Hewitt provided certain other people-related services during the year. Total fees of \$143,090 are either paid or payable for these services.

### 3. Executive remuneration policy

#### 3.1. Overview

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

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

As outlined in the FY17 Financial Report, the Group commenced a journey starting in FY15 to implement a market-aligned remuneration structure. With effect from FY19, these objectives have been achieved through the implementation of the following principles:

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

The steps that have and will be 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 Increased weighting in total remuneration mix	Participant behaviours introduced into STI determination Reduced weighting in total remuneration mix	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 Lower weighting in total remuneration mix	Increased weighting in total remuneration mix	Market-aligned design and weighting

## Directors' Report (continued)

For the year ended 30 April 2018

### 3.2. Remuneration components

#### 3.2.1. Fixed remuneration

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

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

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

Mr Laidlaw and Mr Marshall received increases in fixed remuneration during the year. The increase in TEC of Mr Laidlaw was required to ensure that his fixed remuneration of \$750,000 was in line with market benchmarks following the acquisition of Home Timber & Hardware, while the increase in TEC of Mr Marshall to \$850,000 effective 16 March 2018 was a result of his appointment as CEO Supermarkets & Convenience.

#### 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.

In FY18, the performance hurdle for the Group STI pool was changed from underlying Group NPAT to underlying Group EBIT to more closely align Group and Pillar financial outcomes. The Group and Pillar STI pool outcomes are now both determined with reference to pre-determined underlying Group and Pillar EBIT performance measures. Once determined, the STI pool is distributed across individual participants based on their relative individual Balanced Scorecard performance outcomes and moderated for individual participant behaviour outcomes.

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

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

The Group CEO and Group CFO participate in the Group STI pool. The pillar CEOs participate in their respective Pillar STI 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 and behavioural outcomes. Individual Balanced Scorecard performance outcomes act as a multiplier against the base STI pool result and behavioural outcomes as a moderator. 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 40% and 70% weighting in their Balanced Scorecards.

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

## Directors' Report (continued)

For the year ended 30 April 2018

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

Balanced Scorecard - key result area	Measure	Group CEO	Other KMP
<b>Financial objectives - weighting</b>			
<b>Our Financials</b>	Group revenue and Group NPAT	<b>70%</b>	<b>60%-40%</b>
	Pillar revenue and EBIT		
	Return on funds employed ('ROFE')		
<b>Non-financial objectives - weighting</b>			
<b>Our Partners</b>	Network growth, supplier and retailer satisfaction	<b>30%</b>	<b>40%-60%</b>
<b>Our People</b>	Culture, engagement and safety		
<b>Our Business</b>	Business improvements		

The STI opportunities as a percentage of TEC for KMP are outlined below, along with the actual FY18 STI awards as a percentage of the maximum STI opportunity:

Position	Below threshold	Threshold	Target	Maximum	FY18 actual
	% of TEC	% of TEC	% of TEC	% of TEC	% of maximum STI
<b>KMPs employed as at 30 April 2018</b>					
J Adams, Group CEO <sup>1</sup>	0%	16.7%	66.7%	150.0%	44.4%
B Soller, Group CFO	0%	15.0%	60.0%	135.0%	73.3%
S Marshall, CEO Supermarkets and Convenience <sup>2</sup>	0%	15.0%	60.0%	135.0%	49.7%
M Laidlaw, CEO IHG	0%	15.0%	60.0%	135.0%	81.0%
<b>KMPs resigned/retired as at 30 April 2018</b>					
I Morrice, Group CEO <sup>3</sup>	0%	25.0%	100.0%	150.0%	48.1%
S Cain, CEO Supermarkets and Convenience <sup>4</sup>	0%	12.5%	50.0%	112.5%	-

<sup>1</sup> Mr Adams commenced employment on 4 September 2017 and was appointed as Executive Director and Group CEO on 5 December 2017.

<sup>2</sup> Mr Marshall's STI was based on the full year performance of ALM. There is no STI reward for Mr Marshall's term as CEO Supermarkets and Convenience from 16 March 2018 to 30 April 2018.

<sup>3</sup> Mr Morrice was Group CEO from 1 May 2017 to 5 December 2017 and ceased employment on 23 June 2018.

<sup>4</sup> Mr Cain resigned as CEO Supermarkets and Convenience effective 15 March 2018 and will cease employment on 14 September 2018. The Board applied its discretion and cancelled his STI reward.

Taking into account the impairment of goodwill and other net assets detailed in note 3 of the financial statements, the Board has applied its discretion to the KMP STI payments which have been paid at an average of 47% of maximum.

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

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

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

## Directors' Report (continued)

For the year ended 30 April 2018

### 3.2.3. Long Term Incentives

The Group had three active LTI plans in operation at the end of FY18.

Current year LTI grant:

- FY18-FY20 LTI – this grant was issued to KMP during FY18 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 2017 to 30 April 2020.

Prior period LTI grants:

- FY17-FY19 LTI – this grant was issued to KMP during FY17 and is subject to two performance conditions: RTSR and UEPS CAGR over a three-year period from 1 May 2016 to 30 April 2019; and
- IHG Integration Incentive grant – issued to Mr Laidlaw during FY17, which is a cash-settled LTI. The plan 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 (including synergies realisation) and which is deferred until July 2019.

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

Other than the IHG Integration Plan, no grants issued under any of the Group's LTI plans vested in FY18.

The Additional Transformation Incentive ('ATI') was granted to the former Group CEO and the Group CFO in FY15. Given no likelihood of vesting, the participants voluntarily requested that the Board cancel the plan, which was accepted by the Board. This resulted in the plan being cancelled and the acceleration of the remaining accounting expense in FY18.

The Board applied its discretion not to keep the CEO Supermarkets & Convenience Commencement Grant issued in FY16 to Mr Cain on foot upon Mr Cain's resignation. The plan included 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. Accordingly, this forfeiture resulted in the reversal of the expense recognised for the years FY16 and FY17 of \$659,351 in FY18.

#### FY17-FY19 and FY18-FY20 LTIs

The FY17-FY19 and FY18-FY20 LTIs are designed to enable Metcash to attract and retain key executives, whilst incentivising these executives to achieve challenging Total Shareholder Return ('TSR') and earnings hurdles aligned to shareholder value. The FY17-FY19 and FY18-FY20 LTIs reflect the re-introduction of annual grants under the Metcash LTI scheme.

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

#### Relative Total Shareholder Returns ('RTSR')

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

The rights vest against this hurdle as follows:

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

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

## Directors' Report (continued)

For the year ended 30 April 2018

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

#### FY17-FY19 LTI

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%

#### FY18-FY20 LTI

UEPS CAGR	Vesting %
Threshold or less	0%
Equal to threshold	50%
Between threshold and target	Straight-line pro-rata
Equal to target	75%
Between target and maximum	Straight-line pro-rata
Equal to or above maximum	100%

Full vesting under each grant will only occur if Metcash achieves an UEPS CAGR of greater than 6.5% over the grants' respective three-year performance period.

#### LTI Grant

The following FY18-FY20 LTI grant was made to KMP during FY18:

Participant	Grant date	Hurdle	Vesting date	No. of rights	Fair value per right	Grant entitlement <sup>4</sup> (% of TEC)
<b>KMPs employed at 30 April 2018</b>						
J Adams <sup>1</sup>	4 September 2017	UEPS CAGR	15 August 2020	233,902	\$2.57	67%
		RTSR	15 August 2020	233,902	\$1.70	
B Soller	14 July 2017	UEPS CAGR	15 August 2020	93,612	\$2.28	50%
		RTSR	15 August 2020	93,612	\$1.51	
S Marshall	14 July 2017	UEPS CAGR	15 August 2020	79,846	\$2.28	50%
		RTSR	15 August 2020	79,846	\$1.51	
M Laidlaw	14 July 2017	UEPS CAGR	15 August 2020	77,464	\$2.28	47%
		RTSR	15 August 2020	77,464	\$1.51	
<b>KMPs resigned/retired as at 30 April 2018</b>						
I Morrice <sup>2</sup>	30 August 2017	UEPS CAGR	15 August 2020	92,491	\$2.57	61%
		RTSR	15 August 2020	92,491	\$1.70	
S Cain <sup>3</sup>	14 July 2017	UEPS CAGR	15 August 2020	275,330	\$2.28	100%
		RTSR	15 August 2020	275,330	\$1.51	

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

<sup>2</sup> Mr Morrice's FY18-FY20 LTI performance rights were pro-rated to the date of Mr Morrice's retirement on 23 June 2018. The performance rights grant was approved by shareholders at the AGM in August 2017 and remains on foot subject to all performance conditions which will be tested in FY20.

<sup>3</sup> Mr Cain's LTI grant was as stipulated in his employment contract. Mr Cain resigned as CEO Supermarkets and Convenience effective 15 March 2018 and will cease employment on 14 September 2018. The Board applied its discretion not to keep his LTI on foot and as a consequence it has been forfeited.

<sup>4</sup> The grant entitlement is expressed as a percentage of the face value of performance rights issued divided by the participants' TEC at grant date, prior to any applicable pro-rata impact from part year service.



## Directors' Report (continued)

For the year ended 30 April 2018

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
<b>KMPs employed at 30 April 2018</b>						
B Soller	1 July 2016	UEPS CAGR	15 August 2019	92,969	\$1.84	35%
		RTSR	15 August 2019	92,969	\$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	
M Laidlaw	1 July 2016	UEPS CAGR	15 August 2019	76,932	\$1.84	35%
		RTSR	15 August 2019	76,932	\$1.24	
<b>KMPs resigned/retired as at 30 April 2018</b>						
I Morrice <sup>1</sup>	31 August 2016	UEPS CAGR	15 August 2019	343,750	\$2.03	61%
		RTSR	15 August 2019	343,750	\$1.37	
S Cain <sup>2</sup>	1 July 2016	UEPS CAGR	15 August 2019	390,625	\$1.84	100%
		RTSR	15 August 2019	390,625	\$1.24	

<sup>1</sup> In FY17, Mr Morrice was issued 687,500 performance rights in relation to the FY17-FY19 LTI grant. Upon his retirement on 23 June 2018, Mr Morrice retained 492,250 FY17-FY19 LTI performance rights, which remain on foot subject to existing performance hurdles and timeframes. The number of performance rights retained was determined on a pro-rata basis up to the date of retirement on 23 June 2018. The balance of 195,250 performance rights were forfeited.

<sup>2</sup> Mr Cain's LTI grant was as stipulated in his employment contract. Mr Cain resigned as CEO Supermarkets and Convenience effective 15 March 2018 and will cease employment on 14 September 2018. The Board applied its discretion not to keep his LTI on foot and as a consequence it has been forfeited.

### FY18 Outcomes

#### • FY17-FY19 LTI grant

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 \$3.26 per share. In FY18, the Group provided for the UEPS CAGR component based on maximum performance. Subsequent to year-end, the decline in share price has resulted in a reduction in the likelihood of the RTSR component vesting.

#### • FY18-FY20 LTI grant

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 \$3.26 per share. In FY18, the Group provided for the UEPS CAGR component based on maximum performance. Subsequent to year-end, the decline in share price has resulted in a reduction in the likelihood of the RTSR component vesting.

Performance rights that do not vest are forfeited and there is no re-testing. Except for the cancellation of the ATI and the forfeiture of Mr Cain's performance rights, no rights vested nor were any forfeited in FY18.

### 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'). The incentive is subject to two "gate-openers", being a minimum EBIT target and the achievement of a minimum level of operating synergies, which was aligned to the integration strategy approved by the Board at the time of the acquisition. 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. Two of the performance hurdles relate to the 67% component payable in relation to FY18. The other performance hurdle relates to the 33% deferred component payable in relation to FY19. These are explained in more detail below.

#### Performance Hurdles

##### 1) Hurdle - 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.

## Directors' Report (continued)

For the year ended 30 April 2018

### 2) Hurdle - 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 is payable (i.e., 17% was paid on 15 July 2017 and 50% will be paid on 15 July 2018). The balance of 33% is deferred until July 2019 and is subject to the FY19 EBIT hurdle noted below.

### 3) Hurdle - FY19 IHG EBIT

Vesting of the 33% deferred component is dependent on achieving specified FY19 IHG EBIT (including synergies realisation) performance conditions.

#### LTI Grants

The following performance conditions relate to the IHG Integration Incentive grant made to Mr Laidlaw (CEO of IHG) on 14 March 2017:

Hurdles	Vesting date	Target cash payment \$	Maximum cash payment \$
IHG Synergies and FY18 IHG EBIT	15 July 2018	471,263	706,894
FY19 IHG EBIT	15 July 2019	232,114	348,172

#### FY18 Outcomes

IHG delivered an EBIT result that met the FY18 EBIT gate-opener performance hurdle. IHG also realised maximum IHG integration synergies at 30 April 2018. The total incentive due to Mr Laidlaw for FY18 is \$706,894 comprising an interim payment of \$119,574 made in July 2017 (in line with realised synergies at that date) and with the balance of \$587,320 payable on 15 July 2018.

The final payment due in July 2019 is subject to the FY19 EBIT (including synergies realisation) hurdle being achieved.

### CEO Supermarkets and Convenience Commencement Grant (Legacy Scheme)

The grant was issued in FY16 to provide an incentive for Mr Cain to accept Metcash's employment offer, 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 and Performance component.

Mr Cain's grant was forfeited following Mr Cain's resignation as CEO Supermarkets and Convenience. Share-based payment expenses of \$659,351 recognised in FY16 and FY17 were reversed in FY18.

## Directors' Report (continued)

For the year ended 30 April 2018

### Additional Transformation Incentive (ATI, Legacy Scheme)

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

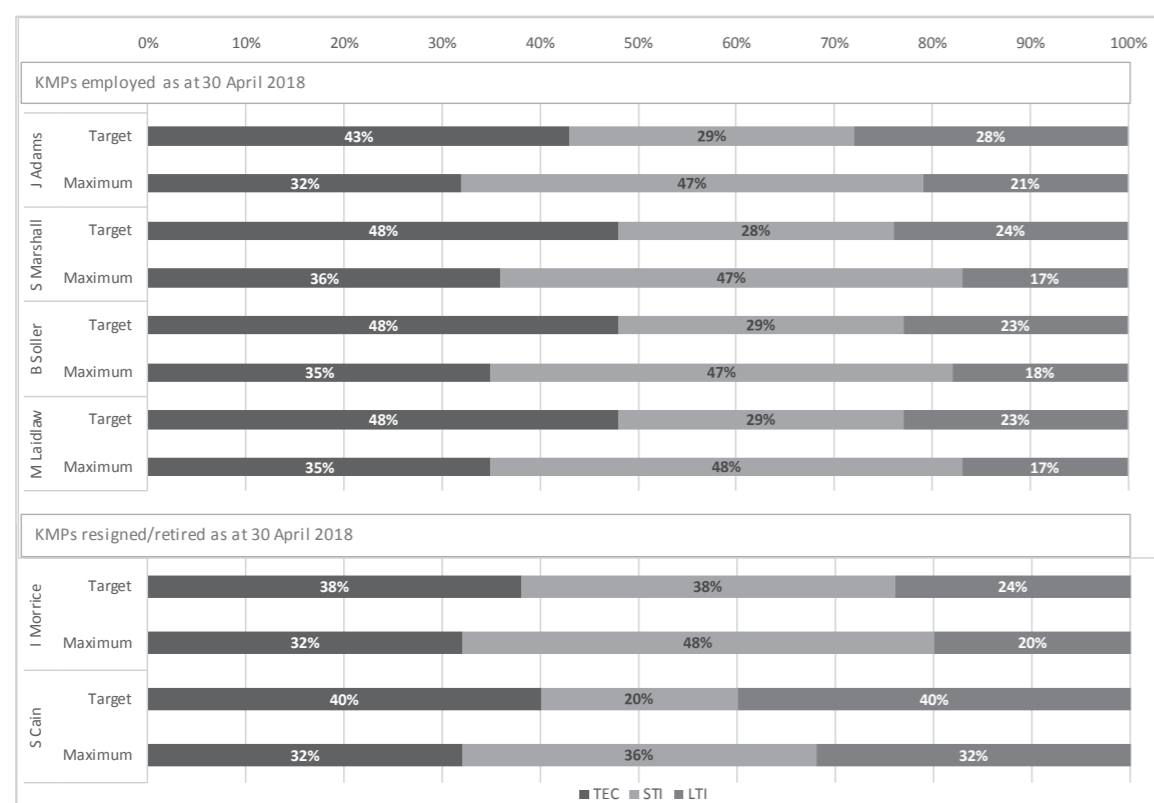
The ATI was a Performance Rights grant (the right to acquire Metcash shares at no cost, subject to the satisfaction of performance and service conditions) and subject to RTSR and ROFE performance hurdles.

During FY18, the participants voluntarily requested that the Board cancel the plan, which was accepted by the Board. This resulted in the plan being cancelled and the acceleration of the remaining accounting expense in FY18.

### 3.2.4. Total remuneration mix

The chart below outlines the FY18 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 FY18.

The KMP (excluding new Group CEO) remuneration mix transition will be completed in FY19 with Fixed Pay (TEC) and STI reducing and long term 'at risk' pay increasing as a proportion of total remuneration. KMP (excluding new Group CEO) remuneration for FY19 will be 45% Fixed Pay (TEC); 23% STI and 32% LTI.



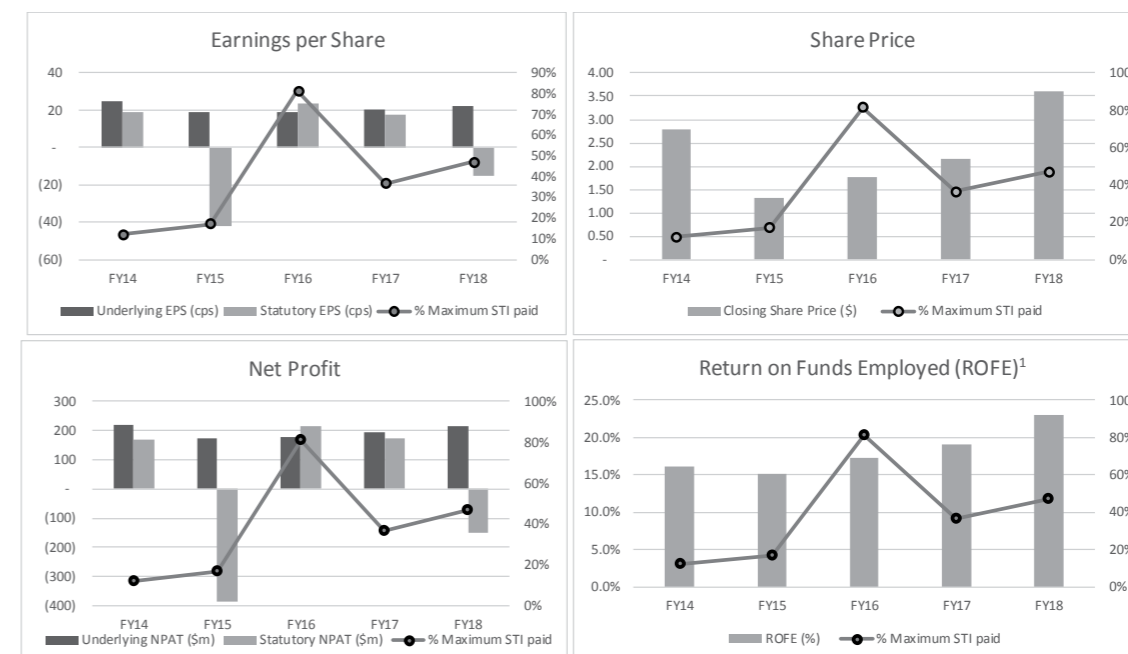
## Directors' Report (continued)

For the year ended 30 April 2018

### 4. FY18 performance and remuneration outcomes

#### 4.1. Group performance and at-risk remuneration outcomes FY14-FY18

The charts below show Metcash financial performance and percentage of maximum STI paid to KMP in the five-year period ended 30 April 2018. During FY18, STI payments to KMP averaged 47.0% of maximum.



(1) ROFE is calculated based on an average of opening and closing funds employed. Excluding the significant items impairment of goodwill and other net assets, FY18 ROFE is 20.5%.

Other Group performance metrics during this period were as follows.

Financial year	FY14	FY15	FY16	FY17	FY18
Revenue (\$b)	13.0	13.2	13.4	14.1	14.5
Gearing ratio (net hedged) (%)	32.5%	36.6%	16.8%	4.7%	(3.2)%
Dividends declared per share (cents)	18.5	6.5	-	4.5	13.0

STI payments in FY14 and FY15 were low as Food & Grocery did not meet its sales and EBIT targets resulting in nil payments for participants, whereas FY16 STI reflected improved profitability levels and an increase in share price during the year. 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.

In FY18, Hardware and Corporate delivered EBIT results at or above the maximum hurdle. The Liquor pillar performed at target level and the Food & Grocery pillar performed between threshold and target. Taking into account the impairment of goodwill and other net assets detailed in note 3 of the financial statements, the Board has applied its discretion to the KMP STI payments which have been paid at an average of 47% of maximum.

There was no vesting of performance rights under any LTI program during this five year period.

## Directors' Report (continued)

For the year ended 30 April 2018

### 4.2. Actual FY18 KMP remuneration

The table below reflects actual cash payments made or due to KMP in respect of performance during FY18. 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 <sup>1</sup> \$	LTI \$	Total \$
<b>KMPs employed as at 30 April 2018</b>				
J Adams <sup>2</sup>	724,932	494,118	-	1,219,050
B Soller	850,000	841,500	-	1,691,500
S Marshall	740,669	486,850	-	1,227,519
M Laidlaw	742,226	820,000	587,320	2,149,546
<b>KMPs resigned/retired as at 30 April 2018</b>				
I Morrice <sup>3</sup>	1,075,068	776,438	-	1,851,506
S Cain <sup>4</sup>	1,092,985	-	-	1,092,985

<sup>1</sup> Cash incentive payable relating to FY18 performance under the Company's STI scheme, as set out in table 4.3.

<sup>2</sup> Mr Adams commenced employment on 4 September 2017 and was appointed as Executive Director and Group CEO on 5 December 2017, with fixed remuneration set at \$1,800,000 per annum. The amount disclosed above reflects Mr Adams' total fixed remuneration and actual STI award for the period from 5 December 2017 to 30 April 2018 as KMP. In addition, Mr Adams received total fixed remuneration of \$467,925 and actual STI award of \$305,882 as non-KMP for the period from 4 September 2017 to 4 December 2017. Metcash also reimbursed Mr Adams \$68,342 of relocation costs.

<sup>3</sup> Mr Morrice was Group CEO from 1 May 2017 to 5 December 2017 and ceased employment on 23 June 2018. The amount disclosed above reflects Mr Morrice's total fixed remuneration and actual STI award for the period from 1 May 2017 to 5 December 2017 as KMP. In addition, Mr Morrice received total fixed remuneration of \$724,932 and actual STI award of \$523,562 as non-KMP for the period from 6 December 2017 to 30 April 2018.

<sup>4</sup> Mr Cain resigned as CEO Supermarkets and Convenience effective 15 March 2018 and will cease employment on 14 September 2018. The amount disclosed above reflects Mr Cain's total fixed remuneration from 1 May 2017 to 15 March 2018 as KMP. In addition, Mr Cain will receive total fixed remuneration of \$692,797 as non-KMP for the period from 16 March 2018 to 14 September 2018. The terms of Mr Cain's employment prohibit him from accepting employment at a competitor company for six months following his resignation on 15 March 2018.

### 4.3. FY18 STI outcomes

KMP	Target Potential STI \$	Maximum Potential STI \$	STI awarded % of Maximum	STI awarded \$	Maximum STI forfeited \$
<b>KMPs employed as at 30 April 2018</b>					
J Adams <sup>1</sup>	494,118	1,111,765	44.4%	494,118	617,647
B Soller	510,000	1,147,500	73.3%	841,500	306,000
S Marshall <sup>2</sup>	435,000	978,750	49.7%	486,850	491,900
M Laidlaw	450,000	1,012,500	81.0%	820,000	192,500
<b>KMPs resigned/retired as at 30 April 2018</b>					
I Morrice <sup>3</sup>	1,075,068	1,612,603	48.1%	776,438	836,164
S Cain <sup>4</sup>	625,000	1,406,250	-	-	1,406,250

<sup>1</sup> Mr Adams commenced employment on 4 September 2017 and was appointed as Executive Director and Group CEO on 5 December 2017. The amount disclosed above reflects Mr Adams' target and maximum potential STI for the period from 5 December 2017 to 30 April 2018 as KMP. Mr Adams' target and maximum potential STI are \$305,882 and \$688,235, respectively, during the non-KMP period between 4 September 2017 and 4 December 2017. The STI awarded to Mr Adams and maximum STI forfeited for the non-KMP period is \$305,882 and \$382,353, respectively.

<sup>2</sup> Mr Marshall's STI was based on the full year performance of ALM. There is no STI reward for Mr Marshall's term as CEO Supermarkets and Convenience from 16 March 2018 to 30 April 2018.

<sup>3</sup> Mr Morrice was Group CEO from 1 May 2017 to 5 December 2017 and ceased employment on 23 June 2018. The amount disclosed above reflects Mr Morrice's target and maximum potential STI as KMP. Mr Morrice's target and maximum potential STI are \$724,932 and \$1,087,397, respectively, during the non-KMP period between 6 December 2017 and 30 April 2018. The STI awarded to Mr Morrice and maximum STI forfeited for the non-KMP period is \$523,562 and \$563,836, respectively.

<sup>4</sup> Mr Cain resigned as CEO Supermarkets and Convenience effective 15 March 2018 and will cease employment on 14 September 2018. The Board applied its discretion and cancelled his STI reward.

Taking into account the impairment of goodwill and other net assets detailed in note 3 of the financial statements, the Board has applied its discretion to the KMP STI payments which have been paid at an average of 47% of maximum.

## Directors' Report (continued)

For the year ended 30 April 2018

### 5. KMP service agreements

Name	Agreement Term	Executive Notice	Metcash Notice	Redundancy
<b>KMPs employed as at 30 April 2018</b>				
J Adams <sup>1</sup>	Four years (based on current 457 visa limitations)	12 months	12 months	12 months
B Soller	Ongoing unless notice given	3 months	6 months	6 months
S Marshall	Ongoing unless notice given	12 months	12 months	12 months
M Laidlaw	Ongoing unless notice given	3 months	9 months	Metcash Notice + 6 months
<b>KMPs resigned/retired as at 30 April 2018</b>				
I Morrice <sup>2</sup>	Ongoing unless notice given	6 months	12 months	12 months
S Cain <sup>3</sup>	Ongoing unless notice given	6 months	12 months	12 months

<sup>1</sup> Mr Adams commenced employment on 4 September 2017 and was appointed as Executive Director and Group CEO on 5 December 2017.

<sup>2</sup> Mr Morrice was Group CEO from 1 May 2017 to 5 December 2017 and ceased employment on 23 June 2018.

<sup>3</sup> Mr Cain resigned as CEO Supermarkets and Convenience effective 15 March 2018 and will cease employment on 14 September 2018.

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

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

### 6. Non-executive Director remuneration

#### 6.1. Policy

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

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

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

#### 6.2. Structure of Non-executive Director remuneration

Non-executive Director remuneration is structured as follows:

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

#### 6.3. Aggregate fee limit

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

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

The Non-executive Director fees were increased in FY18 based on a full benchmarking process performed by AON Hewitt for FY18. The FY18 fees are currently set at approximately 2% to 9% below the benchmarked market median.

## Directors' Report (continued)

For the year ended 30 April 2018

### 6.4. Non-executive Director fee structure

Board	FY18 \$ <sup>1</sup>	FY17 \$ <sup>1</sup>
Chair	409,500	390,000
Non-executive Director	138,782	129,703

Committee	FY18 \$ <sup>1</sup>	FY17 \$ <sup>1</sup>
Audit, Risk & Compliance		
Chair	33,159	31,580
Member	14,916	12,970
People & Culture		
Chair	33,159	31,580
Member	14,916	12,970
Nomination		
Chair	-	-
Member	-	-

<sup>1</sup> Per annum fees as at the end of the financial year, including superannuation.

### 6.5. FY18 Non-executive Director remuneration

Name	Financial Year	Fees \$	Post-employment (Superannuation) \$	Total \$
R Murray	2018	389,520	19,980	409,500
	2017	370,432	19,568	390,000
P Allaway	2018	157,024	14,917	171,941
	2017	141,690	13,461	155,151
F Balfour	2018	157,024	14,917	171,941
	2017	147,290	13,993	161,283
A Brennan	2018	14,396	1,368	15,764
	2017	-	-	-
T Dwyer	2018	140,363	13,335	153,698
	2017	130,295	12,378	142,673
M Jordan	2018	153,985	14,629	168,614
	2017	137,744	13,133	150,877
H Nash	2018	140,363	13,335	153,698
	2017	130,295	12,378	142,673
M Butler (retired)	2018	-	-	-
	2017	49,097	4,664	53,761
N Hamilton (retired)	2018	-	-	-
	2017	43,432	4,126	47,558
<b>Total</b>	<b>2018</b>	<b>1,152,675</b>	<b>92,481</b>	<b>1,245,156</b>
	<b>2017</b>	<b>1,150,275</b>	<b>93,701</b>	<b>1,243,976</b>

## Directors' Report (continued)

For the year ended 30 April 2018

### 7. Statutory disclosures

#### 7.1. Fixed and at-risk remuneration

FY18	Fixed remuneration \$	STI \$	Relocation benefits \$	Post-employment benefits - superannuation \$	Leave <sup>2</sup> \$	LTI (share-based payments) \$	LTI (cash) \$	Total \$	Performance related %
<b>KMPs employed as at 30 April 2018</b>									
J Adams <sup>1</sup>	724,932	494,118	68,342	-	(34,706)	136,813	-	1,389,499	50.2%
B Soller	830,020	841,500	-	19,980	(3,448)	212,794	-	1,900,846	55.5%
S Marshall	720,689	486,850	-	19,980	96,786	179,135	-	1,503,440	44.3%
M Laidlaw	722,246	820,000	-	19,980	21,503	173,792	593,527	2,351,048	67.5%
<b>KMPs resigned/retired as at 30 April 2018</b>									
I Morrice <sup>2</sup>	1,063,135	776,438	-	11,933	131,159	751,214	-	2,733,879	55.9%
S Cain <sup>3</sup>	1,075,524	-	-	17,461	2,766	(911,602)	-	184,149	-
<b>Total</b>	<b>5,136,546</b>	<b>3,418,906</b>	<b>68,342</b>	<b>89,334</b>	<b>214,060</b>	<b>542,146</b>	<b>593,527</b>	<b>10,062,861</b>	<b>45.9%</b>
<sup>1</sup> Mr Adams commenced employment on 4 September 2017 and was appointed as Executive Director and Group CEO on 5 December 2017, with fixed remuneration set at \$1,800,000 per annum. The amount disclosed above reflects Mr Adams' total remuneration for the period from 5 December 2017 to 30 April 2018 as KMP. In addition, Mr Adams received total fixed remuneration of \$467,925 and actual STI award of \$305,882 as non-KMP for the period from 4 September 2017 to 4 December 2017.									
<sup>2</sup> Mr Morrice was Group CEO from 1 May 2017 to 5 December 2017 and ceased employment on 23 June 2018. The amount disclosed above reflects Mr Morrice's total remuneration for the period from 1 May 2017 to 5 December 2017 as KMP. In addition, Mr Morrice received total fixed remuneration of \$724,932 and actual STI award of \$523,562 as non-KMP for the period from 6 December 2017 to 30 April 2018.									
<sup>3</sup> Mr Cain resigned as CEO Supermarkets and Convenience effective 15 March 2018 and will cease employment on 14 September 2018. The amount disclosed above reflects Mr Cain's total fixed remuneration from 1 May 2017 to 15 March 2018 as KMP. In addition, Mr Cain will receive total fixed remuneration of \$692,797 as non-KMP for the period from 16 March 2018 to 14 September 2018. The terms of Mr Cain's employment prohibit him from accepting employment at a competitor company for six months following his resignation on 15 March 2018.									
<sup>4</sup> Including changes in annual and long service leave entitlements.									

FY17	Fixed remuneration \$	STI \$	STI Other <sup>1</sup> \$	Post-employment benefits - superannuation \$	Leave <sup>2</sup> \$	LTI (share-based payments) \$	LTI (cash) <sup>3</sup> \$	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 Marshall	705,432	510,000	-	19,568	55,570	51,207	-	1,341,777	41.8%
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%
<b>Total</b>	<b>5,223,600</b>	<b>2,806,250</b>	<b>450,000</b>	<b>97,840</b>	<b>(9,773)</b>	<b>972,647</b>	<b>249,880</b>	<b>9,790,444</b>	<b>45.7%</b>

<sup>1</sup> Cash incentive paid following the successful completion of the HTH acquisition on 2 October 2016.

<sup>2</sup> Including changes in annual and long service leave entitlements.

<sup>3</sup> Represents the FY17 expense recognised in relation to the IHG Integration LTI. Further details of this incentive are outlined in section 3.2.3.

## Directors' Report (continued)

For the year ended 30 April 2018

### 7.2. KMP performance rights holdings

Name	Balance at 1 May 2017	Granted during the year	Vested during the year	Cancelled, forfeited or lapsed during the year <sup>1</sup>	Balance at 30 April 2018	Balance at report date <sup>2</sup>
<b>KMPs employed as at 30 April 2018</b>						
J Adams	-	467,804	-	-	467,804	467,804
B Soller	356,758	187,224	-	(170,820)	373,162	373,162
S Marshall	158,594	159,692	-	-	318,286	318,286
M Laidlaw	153,864	154,928	-	-	308,792	308,792
<b>KMPs resigned/retired as at 30 April 2018</b>						
I Morrice <sup>2</sup>	2,288,924	184,982	-	(1,601,424)	872,482	677,232
S Cain <sup>3</sup>	3,967,318	550,660	-	(4,517,978)	-	-
<b>Total</b>	<b>6,925,458</b>	<b>1,705,290</b>	<b>-</b>	<b>(6,290,222)</b>	<b>2,340,526</b>	<b>2,145,276</b>

<sup>1</sup> As noted in section 3.2.3, the ATI grants made to Mr Morrice on 17 October 2014 and Mr Soller on 11 February 2015 were voluntarily cancelled during the year.

<sup>2</sup> As noted in section 3.2.3, Mr Morrice has retained 492,250 LTI FY17-19 performance rights which remain on foot subject to existing performance hurdles and timeframes. The number of rights was determined on a pro-rata basis up to the date of Mr Morrice's retirement on 23 June 2018. The balance of 195,250 performance rights were forfeited on 23 June 2018.

<sup>3</sup> As noted in section 3.2.3, Mr Cain resigned as CEO Supermarkets and Convenience effective 15 March 2018 and will cease employment on 14 September 2018. The Board applied its discretion not to keep his LTI on foot and as a consequence it has been forfeited.

### 7.3. KMP shareholdings

Name	Balance at 1 May 2017	On market trade	Other adjustments <sup>1</sup>	Balance at 30 April 2018	Balance at report date
<b>Directors</b>					
R Murray	44,005	20,000	-	64,005	64,005
J Adams	-	-	-	-	-
P Allaway	206,786	-	-	206,786	206,786
F Balfour	87,804	-	-	87,804	87,804
A Brennan	-	-	-	-	-
T Dwyer	40,000	-	-	40,000	40,000
M Jordan	23,041	-	-	23,041	23,041
H Nash	37,431	-	-	37,431	37,431
I Morrice (retired) <sup>1</sup>	302,517	(302,517)	-	-	-
<b>Executives</b>					
B Soller	17,582	-	-	17,582	17,582
S Cain <sup>1</sup>	100,000	-	(100,000)	-	-
M Laidlaw	157,752	-	-	157,752	157,752
S Marshall	53,978	-	-	53,978	53,978
<b>Total</b>	<b>1,070,896</b>	<b>(282,517)</b>	<b>(100,000)</b>	<b>688,379</b>	<b>481,593</b>

<sup>1</sup> Reflecting changes in KMP composition following retirement or resignation.

## Directors' Report (continued)

For the year ended 30 April 2018

### 8. Minimum shareholding guidelines

With effect from 1 May 2018, minimum shareholding guidelines will be implemented for all Directors, including the Group CEO.

Position	Value	Time to achieve
Chair	1 x annual base fees	5 years
Directors	1 x annual base fees	5 years
Group CEO	1 x TEC	5 years

This concludes the Remuneration Report.

## Directors' Report (continued)

For the year ended 30 April 2018

### Other disclosures

#### Unissued shares under share options and performance rights

At the date of this report, there were 4,425,603 unissued ordinary shares under performance rights (4,660,076 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 19 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 2018 has been received and is included on page 100.

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

Tax compliance and advisory services	\$472,000
Other advisory services	\$207,000

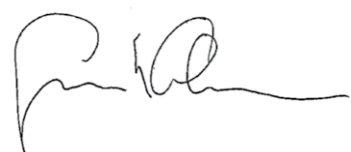
#### Subsequent events

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

#### Rounding

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

Signed in accordance with a resolution of the Directors.



#### Jeff Adams

Director  
Sydney, 25 June 2018

## Statement of comprehensive income

For the year ended 30 April 2018

	Notes	FY18 \$m	FY17 \$m
Sales revenue		14,463.7	14,121.9
Cost of sales		(13,175.6)	(12,885.6)
<b>Gross profit</b>		<b>1,288.1</b>	<b>1,236.3</b>
Other income	3	101.2	104.4
Distribution costs		(486.5)	(488.6)
Administrative costs		(566.1)	(553.2)
Share of profit of equity-accounted investments	7	0.6	9.7
Significant items	3	(380.1)	(32.7)
Finance costs	3	(31.0)	(37.4)
<b>(Loss)/profit before income tax</b>		<b>(73.8)</b>	<b>238.5</b>
Income tax expense	4	(72.9)	(64.8)
<b>Net (loss)/profit for the year</b>		<b>(146.7)</b>	<b>173.7</b>
Net (loss)/profit for the year is attributable to:			
<b>Equity holders of the parent</b>		<b>(149.5)</b>	<b>171.9</b>
Non-controlling interests		2.8	1.8
		(146.7)	173.7
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to profit or loss		0.9	1.2
<b>Other comprehensive income for the year, net of tax</b>		<b>0.9</b>	<b>1.2</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>(145.8)</b>	<b>174.9</b>
Total comprehensive income/(loss) for the year is attributable to:			
Equity holders of the parent		(148.6)	173.1
Non-controlling interests		2.8	1.8
		(145.8)	174.9
(Loss)/earnings per share attributable to the ordinary equity holders of the Company			
From net (loss)/profit for the year			
- basic (loss)/earnings per share (cents)	22	(15.3)	17.9
- diluted (loss)/earnings per share (cents)	22	(15.3)	17.9

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

## Statement of financial position

As at 30 April 2018

	Notes	FY18 \$m	FY17 \$m
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		161.2	96.5
Trade receivables and loans	6	1,203.7	1,150.0
Trade receivables - customer charge cards agreement	6	274.0	276.0
Inventories		784.4	759.2
Assets held for sale		11.8	18.8
Derivative financial instruments		0.6	0.3
<b>Total current assets</b>		<b>2,435.7</b>	<b>2,300.8</b>
<b>Non-current assets</b>			
Derivative financial instruments		10.1	12.7
Trade receivables and loans	6	20.1	16.4
Equity-accounted investments	7	88.3	103.3
Property, plant and equipment	8	236.7	242.1
Net deferred tax assets	4	109.7	103.8
Intangible assets and goodwill	9	818.4	1,152.7
<b>Total non-current assets</b>		<b>1,283.3</b>	<b>1,631.0</b>
<b>TOTAL ASSETS</b>		<b>3,719.0</b>	<b>3,931.8</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		1,629.6	1,524.3
Customer charge cards agreement	10	274.0	276.0
Interest bearing borrowings	11	1.9	3.0
Derivative financial instruments		0.1	0.8
Provisions	12	126.4	139.7
Income tax payable		24.9	6.1
Other financial liabilities		7.3	10.0
<b>Total current liabilities</b>		<b>2,064.2</b>	<b>1,959.9</b>
<b>Non-current liabilities</b>			
Interest bearing borrowings	11	127.1	187.1
Provisions	12	137.6	141.4
Derivative financial instruments		0.9	2.3
Other financial liabilities		0.6	3.7
<b>Total non-current liabilities</b>		<b>266.2</b>	<b>334.5</b>
<b>TOTAL LIABILITIES</b>		<b>2,330.4</b>	<b>2,294.4</b>
<b>NET ASSETS</b>		<b>1,388.6</b>	<b>1,637.4</b>
<b>EQUITY</b>			
Contributed and other equity <sup>(a)</sup>	13	600.0	1,719.3
Retained earnings/(accumulated losses) <sup>(a)</sup>		780.6	(87.7)
Other reserves	13	(0.7)	(3.0)
Parent interest		1,379.9	1,628.6
Non-controlling interests		8.7	8.8
<b>TOTAL EQUITY</b>		<b>1,388.6</b>	<b>1,637.4</b>

(a) During the current financial year, Metcash Limited, the Parent Company of the Group, undertook a capital reduction to reduce its share capital by \$2,551.1 million to \$600.0 million, in accordance with section 258F of the Corporations Act 2001. The reduction was allocated in full to the accumulated losses account in the Parent Company with no impact on the net assets of either the Parent Company or the Group. On consolidation, the share capital of the Group has been adjusted by \$1,119.3 million to reflect the revised share capital of the Parent Company. Refer note 20 for further information on the standalone financial statements of the Parent Company.

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 2018

	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
<b>At 1 May 2017</b>	<b>1,719.3</b>	<b>(87.7)</b>	<b>(3.0)</b>	<b>1,628.6</b>	<b>8.8</b>	<b>1,637.4</b>
Total comprehensive income/(loss)	-	(149.5)	0.9	(148.6)	2.8	(145.8)
<b>Transactions with owners</b>						
Dividends paid	-	(102.4)	-	(102.4)	(2.9)	(105.3)
Capital reduction <sup>(a)</sup>	(1,119.3)	1,119.3	-	-	-	-
Share-based payments	-	-	2.3	2.3	-	2.3
Transfers	-	0.9	(0.9)	-	-	-
<b>At 30 April 2018</b>	<b>600.0</b>	<b>780.6</b>	<b>(0.7)</b>	<b>1,379.9</b>	<b>8.7</b>	<b>1,388.6</b>
<b>At 1 May 2016</b>	<b>1,626.0</b>	<b>(259.6)</b>	<b>(5.6)</b>	<b>1,360.8</b>	<b>8.3</b>	<b>1,369.1</b>
Total comprehensive income	-	171.9	1.2	173.1	1.8	174.9
<b>Transactions with owners</b>						
Proceeds from equity raising (Note 13)	93.3	-	-	93.3	-	93.3
Dividends paid	-	-	-	-	(1.3)	(1.3)
Share-based payments	-	-	1.4	1.4	-	1.4
<b>At 30 April 2017</b>	<b>1,719.3</b>	<b>(87.7)</b>	<b>(3.0)</b>	<b>1,628.6</b>	<b>8.8</b>	<b>1,637.4</b>

(a) During the current financial year, Metcash Limited, the Parent Company of the Group, undertook a capital reduction to reduce its share capital by \$2,551.1 million to \$600.0 million, in accordance with section 258F of the Corporations Act 2001. The reduction was allocated in full to the accumulated losses account in the Parent Company with no impact on the net assets of either the Parent Company or the Group. On consolidation, the share capital of the Group has been adjusted by \$1,119.3 million to reflect the revised share capital of the Parent Company. Refer note 20 for further information on the standalone financial statements of the Parent Company.

Refer note 13 for details on equity and reserves.

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

## Statement of cash flows

For the year ended 30 April 2018

	Notes	FY18 \$m	FY17 \$m
<b>Cash flows from operating activities</b>			
Receipts from customers		15,765.9	15,458.7
Payments to suppliers and employees		(15,392.5)	(15,071.1)
Interest and dividends, net		(19.2)	(20.7)
Income tax paid, net of tax refunds		(65.6)	(62.3)
<b>Net cash generated by operating activities</b>	14	<b>288.6</b>	<b>304.6</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of businesses		-	1.8
Proceeds from sale of business assets		10.5	36.3
Payments for acquisition of business assets		(47.0)	(44.4)
Payments for acquisition of businesses, net of cash acquired		(15.9)	(195.4)
Proceeds from loans repaid by other entities		13.0	10.4
Loans to other entities		(16.7)	(7.3)
<b>Net cash used in investing activities</b>		<b>(56.1)</b>	<b>(198.6)</b>
<b>Cash flows from financing activities</b>			
Proceeds from equity raising, net of share issue costs	13	-	92.8
Repayments of borrowings, net		(62.5)	(127.3)
Payment of dividends to owners of the parent		(102.4)	-
Payment of dividends to non-controlling interests		(2.9)	(1.4)
<b>Net cash used in financing activities</b>		<b>(167.8)</b>	<b>(35.9)</b>
<b>Net increase in cash and cash equivalents</b>		<b>64.7</b>	<b>70.1</b>
Add opening cash and cash equivalents		96.5	26.4
<b>Cash and cash equivalents at the end of the year</b>		<b>161.2</b>	<b>96.5</b>

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

## Notes to the financial statements

For the year ended 30 April 2018

### 1. Corporate information

The financial statements of Metcash Limited (the 'Company') and its controlled entities (together the 'Group') for the year ended 30 April 2018 were authorised for issue in accordance with a resolution of the Directors on 25 June 2018.

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 B.

### 2. Segment information

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

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

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

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

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

#### Segment results

	Segment revenue		Segment profit before tax	
	FY18 \$m	FY17 \$m	FY18 \$m	FY17 \$m
Food & Grocery	8,899.6	9,180.0	188.6	188.1
Liquor	3,465.5	3,333.1	68.4	67.0
Hardware	2,098.6	1,608.8	69.0	48.5
Segment results	14,463.7	14,121.9	326.0	303.6
Corporate (a)			6.7	1.2
Group earnings before interest and tax ('EBIT')			332.7	304.8
Net finance costs			(26.4)	(33.6)
Significant items (Note 3)			(380.1)	(32.7)
Net (loss)/profit before tax			(73.8)	238.5

(a) The positive Corporate result of \$6.7 million (FY17: \$1.2 million) is principally due to the reversal of a provision against the Huntingwood, NSW DC hail insurance claim which was settled in FY18 and a net gain of \$2.8 million from the disposal of a surplus property. The FY17 result included \$5.8 million of net gains on sale of surplus properties.



## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 3. Revenue and expenses

	FY18 \$m	FY17 \$m
<b>(i) Other income</b>		
Lease income – rent	72.0	73.7
Lease income – outgoing recoveries	20.2	19.8
Interest from other persons/corporations	4.6	3.8
Net gain from disposal of plant and equipment	1.6	0.2
Net gain from disposal of property	2.8	5.8
Other	-	1.1
	101.2	104.4
<b>(ii) Operating lease expenses</b>		
Property rent – stores	89.5	87.5
Property rent – warehouse and other properties	81.7	85.9
Property outgoing	60.0	55.9
Equipment and other leases	22.7	22.2
	253.9	251.5
<b>(iii) Employee benefit expenses</b>		
Salaries and wages	559.0	514.3
Superannuation expense	40.0	42.1
Share-based payments	2.3	1.4
Other employee benefit expenses	45.6	47.5
	646.9	605.3
<b>(iv) Depreciation and amortisation</b>		
Depreciation of property, plant and equipment	38.5	36.2
Amortisation of software	20.5	18.1
Amortisation of other intangible assets	9.0	9.2
	68.0	63.5
<b>(v) Provisions for impairment, net of reversals</b>		
Trade receivables and loans	6.7	17.0
Inventories	15.1	25.6
Assets held for sale	1.7	1.9
Equity-accounted investments	-	(1.1)
Property, plant and equipment	3.4	1.7
Intangible assets	0.1	5.7
Property lease and onerous contracts provisions	(8.0)	1.6
	19.0	52.4
<b>(vi) Finance costs</b>		
Interest expense	14.8	19.6
Transaction fees in relation to customer charge cards (note 10)	8.4	8.1
Deferred borrowing costs	0.9	1.4
Finance costs from discounting of provisions	6.9	8.3
	31.0	37.4
<b>(vii) Significant items</b>		
Impairment of goodwill and other intangible assets	318.4	-
Impairment of equity-accounted investments and other tangible assets	18.7	-
Provisions for lease and guarantee exposures	15.0	-
HTH acquisition and integration costs	17.0	13.6
Working Smarter restructuring costs	11.0	19.1
Total significant items	380.1	32.7
Income tax benefit attributable to significant items	(15.0)	(9.8)
Total significant items after tax	365.1	22.9

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 3. Revenue and expenses (continued)

#### Impairment of assets

On 28 May 2018, Metcash advised the market that the Drakes Supermarkets group had communicated their intention not to provide a long-term commitment to the new proposed Metcash DC in South Australia. Shortly after Metcash's ASX announcement, Drakes confirmed to the market that their own DC in South Australia is currently under development.

As a result of the loss of this commitment, and the intensifying economic and competitive environment, particularly in Western Australia, an impairment expense of \$352.1 million was recorded against the carrying value of assets in the Food & Grocery segment. The impairment expense predominantly related to goodwill and other intangible assets, but also included certain residual tangible assets and lease exposures.

#### HTH acquisition and integration costs

During the current year, costs of \$17.0 million (FY17: \$13.6 million) were incurred in relation to the integration of the Home Timber and Hardware (HTH) business into the existing Hardware business. The comparative number included costs in relation to the acquisition of the business in FY17. Refer note 23 for further details in relation to the acquisition.

#### Working Smarter restructuring costs

During the current year, the Group incurred \$11.0 million (FY17: \$19.1 million) of restructuring costs in relation to implementing the Working Smarter program. These costs are separately disclosed within significant items to enable a better understanding of the Group's results. Implementation costs are directly associated with the program and are non-routine in nature, such as redundancies, restructuring costs and advisor fees.

### 4. Income tax

	FY18 \$m	FY17 \$m
<b>Major components of income tax expense</b>		
Current income tax charge	87.6	58.0
Adjustments in respect of income tax of previous years	(3.1)	(4.8)
Deferred income tax relating to origination and reversal of temporary differences	(11.6)	11.6
Total income tax expense	72.9	64.8
<b>Classification of income tax expense</b>		
Income tax attributable to significant items	(15.0)	(9.8)
Income tax attributable to other continuing operations	87.9	74.6
Total income tax expense	72.9	64.8

#### 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.

Accounting profit/(loss) before income tax	(73.8)	238.5
At the Group's statutory income tax rate of 30% (FY17: 30%)	(22.1)	71.6
Impairment of goodwill and other assets	99.1	-
Expenditure not allowable for income tax purposes	0.9	1.6
Other amounts not assessable for income tax purposes	(1.9)	(2.6)
Other amounts allowable for income tax purposes	-	(1.0)
Adjustments in respect of income tax of previous years	(3.1)	(4.8)
Income tax expense	72.9	64.8

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 4. Income tax (continued)

	FY18 \$m	FY17 \$m
<b>Components of deferred tax assets</b>		
Provisions	136.1	135.7
Unutilised tax losses	1.6	0.2
Accelerated depreciation for accounting purposes	6.0	1.0
Other	1.8	5.4
Intangible assets (set off of deferred tax liabilities)	(35.8)	(38.5)
	109.7	103.8
<b>Movements in deferred tax assets</b>		
Opening balance	103.8	105.5
Charged to net profit for the year	11.6	(11.6)
Charged to other comprehensive income for the year	(0.3)	(0.3)
Tax benefit associated with share issue costs	-	0.5
Adjustments related to business combinations	(5.4)	9.7
Closing balance	109.7	103.8

The Group has unrecognised gross capital losses of \$14.0 million (FY17: \$16.1 million) that are available indefinitely for offset against future capital gains.

#### Tax consolidation

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

#### Tax effect accounting by members of the tax consolidated group

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

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

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 5. Dividends

#### Dividends on ordinary shares

	FY18 \$m	FY17 \$m
<b>Dividends paid on ordinary shares during the year</b>		
Final fully franked dividend for FY17: 4.5c (FY16: nil)	43.9	-
Interim fully franked dividend for FY18: 6.0c (FY17: nil)	58.5	-
	102.4	-
<b>Dividends determined (not recognised as a liability as at 30 April)</b>		
Final fully franked dividend for FY18: 7.0c (FY17: 4.5c)	68.3	43.9

On 25 June 2018, the Board determined to pay a fully franked FY18 final dividend of 7.0 cents per share, sourced from the profit reserve established by Metcash Limited (Parent Company), with a record date of 11 July 2018 and payable in cash on 8 August 2018. The Dividend Reinvestment Plan remains suspended with effect from 26 June 2017.

#### Franking credit balance of Metcash Limited

	FY18 \$m	FY17 \$m
Franking account balance as at the end of the financial year at 30% (FY17: 30%)	211.2	192.0
Franking credits that will arise from the payment of income tax payable at the reporting date	24.1	5.5
Franking credits on dividends determined but not distributed to shareholders during the year	(29.3)	(18.8)
	206.0	178.7

### 6. Trade receivables and loans

	FY18 \$m	FY17 \$m
<b>Current</b>		
Trade receivables - securitised (Note 15)	769.4	744.6
Trade receivables - non-securitised	354.1	338.5
Allowance for impairment loss	(50.3)	(57.3)
Trade receivables	1,073.2	1,025.8
Other receivables and prepayments	110.9	105.5
Trade and other receivables	1,184.1	1,131.3
Customer loans	27.1	28.0
Allowance for impairment loss	(7.5)	(9.3)
Customer loans	19.6	18.7
Total trade receivables and loans - current	1,203.7	1,150.0
Trade receivables - customer charge cards agreement (Note 10)	274.0	276.0
<b>Non-current</b>		
Customer loans	28.1	22.5
Allowance for impairment loss	(8.1)	(8.1)
Customer loans	20.0	14.4
Other receivables	0.1	2.0
Total trade receivables and loans - non-current	20.1	16.4

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 6. Trade receivables and loans (continued)

#### Movements in allowance for impairment loss

	FY18 \$m	FY17 \$m
Opening balance	74.7	59.5
Charged as an expense during the year	9.4	17.0
Accounts written off as non-recoverable	(16.0)	(28.2)
Related to acquisitions and disposals of businesses	(2.2)	26.4
Closing balance	65.9	74.7

#### Weighted average interest

Trade and other receivables are non-interest bearing and repayment terms vary by business unit. As at 30 April 2018, \$4.4 million (FY17: \$7.5 million) of customer loans are non-interest bearing and \$50.8 million (FY17: \$43.0 million) of customer loans have a weighted average annual interest rate of 8.2% (FY17: 8.7%).

#### Maturity of trade receivables

At 30 April 2018, 86.2% of trade receivables are either due or required to be settled within 30 days (FY17: 82.8%), 13.1% have terms extending from 30 to 60 days (FY17: 16.6%) and 0.7% have terms greater than 60 days (FY17: 0.6%).

#### 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 <sup>(a)</sup>		Customer loans		Other receivables and prepayments	
	\$m	%	\$m	%	\$m	%
<b>At 30 April 2018</b>						
Neither past due nor impaired	1,256.2	93.2%	28.9	73.0%	110.7	99.7%
Less than 30 days	77.4	5.8%	-	-	0.3	0.3%
Between 30 and 60 days	4.9	0.4%	-	-	-	-
Between 60 and 90 days	2.9	0.2%	0.4	1.0%	-	-
Between 90 and 120 days	2.7	0.2%	0.2	0.5%	-	-
More than 120 days	3.1	0.2%	10.1	25.5%	-	-
Total	1,347.2	100.0%	39.6	100.0%	111.0	100.0%
<b>At 30 April 2017</b>						
Neither past due nor impaired	1,164.0	89.4%	23.0	69.5%	98.5	90.4%
Less than 30 days	106.6	8.2%	0.6	1.8%	9.0	9.6%
Between 30 and 60 days	18.4	1.4%	-	-	-	-
Between 60 and 90 days	7.1	0.5%	-	-	-	-
Between 90 and 120 days	5.0	0.4%	-	-	-	-
More than 120 days	0.7	0.1%	9.5	28.7%	-	-
Total	1,301.8	100.0%	33.1	100.0%	107.5	100.0%

(a) The ageing profile of trade receivables includes amounts receivable under the customer charge cards agreement. Refer note 10 for further information.

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

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 7. Equity-accounted investments

#### Nature and extent

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

#### Contingent liabilities and commitments

Refer note 15 for details of the Group's contingent liabilities in relation to equity-accounted investments.

#### Share of investees' profit

In aggregate, the Group's share of income from equity-accounted investments during the year was \$0.6 million (FY17: \$9.7 million), which includes a \$0.2 million (FY17: \$3.3 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

	FY18 \$m	FY17 \$m
Current assets	78.5	70.2
Non-current assets	118.9	121.2
Total assets	197.4	191.4
Current liabilities	(94.9)	(90.0)
Non-current liabilities	(36.6)	(37.8)
Total liabilities	(131.5)	(127.8)
Net assets	65.9	63.6

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 8. Property, plant and equipment

	Land & buildings \$m	Plant & equipment \$m	Total \$m
<b>Year ended 30 April 2018</b>			
Opening balance	37.9	204.2	242.1
Additions	0.1	41.7	41.8
Adjustments from business combinations (Note 23)	-	4.1	4.1
Disposals	-	(0.5)	(0.5)
Impairment	-	(3.4)	(3.4)
Reclassifications	-	(8.9)	(8.9)
Depreciation	(0.1)	(38.4)	(38.5)
Closing balance	37.9	198.8	236.7
<b>At 30 April 2018</b>			
Cost	44.3	428.2	472.5
Accumulated depreciation and impairment	(6.4)	(229.4)	(235.8)
Net carrying amount	37.9	198.8	236.7
<b>Year ended 30 April 2017</b>			
Opening balance	26.4	225.5	251.9
Additions	0.6	37.9	38.5
Additions through business combinations (Note 23)	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
<b>At 30 April 2017</b>			
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

Additions to plant and equipment include \$18.8 million (FY17: \$14.8 million) of assets under construction. The closing balance of plant and equipment includes \$23.0 million (FY17: \$16.2 million) of assets under construction.

The carrying value of assets held under finance leases and hire purchase contracts at 30 April 2018 is \$6.0 million (FY17: \$6.1 million).

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 9. Intangible assets and goodwill

	Software development costs \$m	Customer contracts \$m	Trade names and other \$m	Goodwill \$m	Total \$m
<b>Year ended 30 April 2018</b>					
Opening balance	66.5	88.5	40.8	956.9	1,152.7
Additions	7.9	2.4	-	-	10.3
Additions through business combinations (Note 23)	-	-	-	4.9	4.9
Adjustments to business combinations (Note 23)	(0.7)	-	-	(7.8)	(8.5)
Impairment	(1.6)	(3.0)	(0.2)	(315.2)	(320.0)
Disposal	(0.4)	-	-	-	(0.4)
Reclassifications	8.9	-	-	-	8.9
Amortisation	(20.5)	(8.7)	(0.3)	-	(29.5)
Closing balance	60.1	79.2	40.3	638.8	818.4
<b>At 30 April 2018</b>					
Cost	261.6	234.0	43.4	1,395.6	1,934.6
Accumulated amortisation and impairment	(201.5)	(154.8)	(3.1)	(756.8)	(1,116.2)
Net carrying amount	60.1	79.2	40.3	638.8	818.4
<b>Year ended 30 April 2017</b>					
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 23)	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
<b>At 30 April 2017</b>					
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

#### 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.

##### Allocation to CGUs

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

Cash-generating units	Allocated goodwill		Trade names and other intangibles		Post-tax discount rates	
	FY18 \$m	FY17 \$m	FY18 \$m	FY17 \$m	FY18 %	FY17 %
Food & Grocery	440.9	756.1	0.2	0.7	11.3%	11.3%
Liquor	117.4	112.5	12.9	12.9	10.1%	10.1%
Hardware	80.5	88.3	27.2	27.2	10.1%	10.1%
	638.8	956.9	40.3	40.8		

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 9. Intangible assets and goodwill (continued)

#### Assessment of carrying values

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

#### Key assumptions used in assessment

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

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

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

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

The calculation of WACC is market-driven and key inputs include target capital structure, equity beta, market risk premium, risk-free rate of return and debt risk premium. Pre-tax equivalents of the adopted discount rates are derived iteratively and differ based on the timing and extent of tax cash flows. Pre-tax rates were 16.3% for Food & Grocery, 14.3% for Liquor and 14.2% 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

As described in note 3(vii), the loss of the Drakes supply commitment, and the intensifying economic and competitive environment, particularly in Western Australia, have resulted in changes to the forecast cash flows used in the impairment assessment, including the terminal year. As the headroom within the Food & Grocery CGU was already limited due to a previous impairment expense recognised in FY15, these changes resulted in an impairment of \$315.2 million to the goodwill allocated to the CGU. The recoverable amount of the Food & Grocery CGU was \$763 million.

#### Sensitivity to changes in key assumptions

As a result of the impairment noted above, the recoverable amount of the Food & Grocery CGU is now in line with the current carrying value of this CGU. Any future events that result in adverse changes to forward assumptions would accordingly result in further impairment.

The following sensitivity changes to the Food & Grocery CGU are deemed to be reasonably possible and would increase the impairment charge, assuming all other assumptions are held constant:

- A 10% reduction in forecasted EBIT across all projection years, including the terminal year, would cause an additional impairment charge of \$79.7 million.
- An increase of 50 basis points in the post-tax discount rate to 11.8% would cause an additional impairment charge of \$34.5 million; or
- A decrease of 50 basis points in the terminal growth rate to 1.0% would cause an additional impairment charge of \$24.3 million.

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

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

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 10. Customer charge cards agreement

#### Key terms

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

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

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

#### Financial reporting changes

The Group revised its presentation of the customer charge cards agreement, which was disclosed as a contingent liability in previous financial years. This revision resulted in the presentation of a current trade receivable (note 6) and a matching current payable (note 10) of \$274.0 million (FY17: \$276.0 million), with no impact to the Group's net assets.

As a consequence, net transaction costs of \$8.4 million (FY17: \$8.1 million) in relation to this agreement have been reclassified from administrative expense to finance costs. In the statement of cash flows, settlements received from Amex are reported within operating activities under 'receipts from customers'.

### 11. Interest bearing borrowings

	FY18 \$m	FY17 \$m
<b>Current</b>		
Finance lease obligations	1.9	3.0
	1.9	3.0
<b>Non-current</b>		
Bank loans – syndicated	90.0	150.0
US private placement (USPP)	33.9	36.1
Finance lease obligations	3.5	3.5
Bilateral loan	1.2	-
Deferred borrowing costs	(1.5)	(2.5)
	127.1	187.1

#### Core borrowing facilities

See note 15 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 4.2% (FY17: 4.9%). Certain lease liabilities are secured by a charge over the leased asset.

#### 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 defined in the facility agreements and are summarised as follows: a fixed charges cover ratio (Underlying Earnings Before Interest, Tax, Depreciation, Amortisation and Net Rent (EBITDAR) divided by Total Net Interest plus Net Rent Expense), 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.

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 11. Interest bearing borrowings (continued)

#### 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 4.7% (FY17: 4.5%).

### 12. Provisions

	Employee entitlements \$m	Property lease and onerous contracts provisions \$m	Total \$m
<b>30 April 2018</b>			
Current	107.4	19.0	126.4
Non-current	11.2	126.4	137.6
	118.6	145.4	264.0
<b>30 April 2017</b>			
Current	109.2	30.5	139.7
Non-current	8.8	132.6	141.4
	118.0	163.1	281.1

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

	FY18 \$m	FY17 \$m
Opening balance	163.1	147.8
Expense arising during the year, net	7.0	1.6
Utilised during the year	(18.1)	(18.0)
Reclassifications and other transactions	-	2.9
Resulting from acquisitions of businesses	(13.5)	20.5
Finance cost discount rate adjustment	6.9	8.3
Closing balance	145.4	163.1

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 13. Contributed equity and reserves

#### Contributed and other equity

	FY18		FY17	
	Number of shares	\$m	Number of shares	\$m
At 1 May	975,641,876	2,485.2	928,357,876	2,391.9
Issued under equity raising	-	-	47,284,000	94.6
Share issue costs net of tax	-	-	-	(1.3)
Capital reduction (Note 20)	-	(1,119.3)	-	-
At 30 April – contributed equity	975,641,876	1,365.9	975,641,876	2,485.2
Other equity	-	(765.9)	-	(765.9)
Total contributed and other equity	975,641,876	600.0	975,641,876	1,719.3

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

In FY17, 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 'Other equity' account was used to record the reverse acquisition in 2005 in accordance with AASB 3 *Business Combinations*. Refer Appendix B.3 for further details. During FY18, an adjustment was recorded in relation to a capital reduction transaction to eliminate the difference in share capital between the Group and the Parent Company. The 'other equity' account will consequently not be reported separately in future reporting periods. Refer note 20 for further details on the capital reduction transaction.

#### Other reserves

	Share-based payments reserve \$m	Foreign currency translation reserve \$m	Cash flow hedge reserve \$m	Total other reserves \$m
At 1 May 2016	0.8	(5.2)	(1.2)	(5.6)
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)
Settlements during the year	-	-	2.6	2.6
Movement in fair value of derivatives	-	-	(1.6)	(1.6)
Movement in foreign currency valuations	-	0.2	-	0.2
Tax impact of above movements	-	-	(0.3)	(0.3)
Total comprehensive income, net of tax	-	0.2	0.7	0.9
Transfers to retained earnings	(0.9)	-	-	(0.9)
Share-based payments expense	2.3	-	-	2.3
At 30 April 2018	3.6	(4.4)	0.1	(0.7)

Refer Appendix B for further details on the above reserves.

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 14. Statement of cash flows

#### Reconciliation of cash flows from operating activities

	FY18 \$m	FY17 \$m
Net profit for the year	(146.7)	173.7
<i>Adjustments for:</i>		
Depreciation and amortisation	68.0	63.5
Impairment losses and net lease provisions (Note 3)	372.6	54.4
Net profit on disposal of property, plant and equipment	(4.4)	(5.8)
Share-based payments	2.3	1.4
Other adjustments	3.8	1.4
<i>Changes in assets and liabilities</i>		
(Increase) in trade and other receivables	(64.6)	(61.9)
Decrease/(increase) in other current assets	1.9	(2.6)
(Increase) in inventories	(46.9)	(5.2)
Decrease in tax balances	7.3	1.7
Increase in payables and provisions	95.3	84.0
Cash from operating activities	288.6	304.6

### 15. 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 B.

#### Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, the Group manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. The Group has three sources of primary debt funding, of which 16% has been utilised at 30 April 2018. The Group monitors forecasts of liquidity reserves on the basis of expected cash flow.

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 15. 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	575.0	90.0	-	485.0
US private placement	23.3	23.3	-	-
Securitisation facility	100.0	-	-	100.0
Working capital, including guarantees	150.0	-	22.3	127.7
Bilateral loan	1.2	1.2	-	-
	849.5	114.5	22.3	712.7
Cash and cash equivalents	-	-	-	161.2
	849.5	114.5	22.3	873.9

- Syndicated facility**  
 Syndicated bank loans are senior unsecured loan note subscription facilities. The facilities are due to expire in June 2019 (\$125.0 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 11.
- 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 \$33.9 million (FY17: \$36.1 million), as presented in note 11. 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 11.
- 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 \$769.4 million (FY17: \$744.6 million) had been securitised, with nil (FY17: 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 two unsecured revolving facilities totalling \$150.0 million. These facilities will expire in May 2019 (\$50.0 million) and June 2019 (\$100.0 million). Interest payable on any loans drawn under these facilities is based on BBSY or the RBA cash rate plus a margin. These bank loans are subject to certain financial undertakings as detailed in note 11.

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 15. Financial risk management (continued)

*Maturity analysis of financial liabilities based on contracted date*

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

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

	1 year or less*	1 - 5 years	More than 5 years	Total
	\$m	\$m	\$m	\$m
<b>Year ended 30 April 2018</b>				
Trade and other payables	1,629.6	-	-	1,629.6
Customer charge cards agreement	274.0	-	-	274.0
Finance lease obligations	2.6	2.9	-	5.5
Financial guarantee contracts	1.5	-	-	1.5
Put options written over non-controlling interests	5.3	-	-	5.3
Bank and other loans	2.3	98.4	20.4	121.1
Derivative liabilities – net settled	0.7	0.7	-	1.4
Derivative liabilities – gross settled:				
- Inflows	(6.5)	-	-	(6.5)
- Outflows	6.6	-	-	6.6
Net maturity	1,916.1	102.0	20.4	2,038.5
<b>Year ended 30 April 2017</b>				
Trade and other payables	1,524.3	-	-	1,524.3
Customer charge cards agreement	276.0	-	-	276.0
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	1,821.2	175.4	19.7	2,016.3

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

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

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

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

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

The determination of the put option consideration and 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.

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 15. Financial risk management (continued)

Metcash has also provided a put option to co-investors in a Hardware joint venture for their ownership interest in an equity-accounted investment. The holders of this put option have the right to put this investment back to the Group under certain prescribed circumstances. The put option purchase price is defined within the option deed and is active until April 2022. The put option consideration is estimated to be \$9.2 million (FY17: \$10.9 million).

In addition to the above contingent put options, the Group has recognised a liability of \$5.3 million (FY17: \$7.7 million) in respect of two put options written over non-controlling interests in non-wholly owned subsidiaries within the Hardware segment. These put option arrangements allow minority shareholders to sell their equity interests to Metcash, subject to specific terms and conditions. These put options are measured at the present value of the redemption amount under the option as set out in the above maturity table.

#### Interest rate risk

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

Metcash manages this risk by entering into interest rate swap contracts with various major Australian banks. At 30 April 2018, the principal hedged was \$90.0 million with a weighted average hedge maturity of 2.4 years and a weighted average base interest rate of 2.3%. 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:

	FY18 \$m	FY17 \$m
<b>Financial assets</b>		
Cash and cash equivalents	161.2	96.5
<b>Financial liabilities</b>		
Bank loans – syndicated	(90.0)	(150.0)
US private placement	(23.3)	(23.3)
Bilateral loan	(1.2)	-
Less: Interest rate swaps notional principal value - designated as cash flow hedges	90.0	150.0
	(24.5)	(23.3)
Net exposure	136.7	73.2

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 2018, the interest rate swap hedges of \$90.0 million fell within the required range.

#### Sensitivity analysis

A 0.25% change in interest rates is estimated to result in a \$0.2 million (FY17: \$0.3 million) change in the Group's net profit after tax and a \$0.4 million (FY17: \$0.6 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 5.1% (FY17: 6.0%) of the Group's receivables and loans.



## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 15. Financial risk management (continued)

#### 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 12 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 2018, the mark-to-market position of derivative financial assets is \$10.7 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 respect of business units in New Zealand and China. 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 11).

### 16. 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 surplus capital to shareholders.

On 25 June 2018, the Board determined to pay a fully franked FY18 final dividend of 7.0 cents per share. Consistent with the Board's communicated target, this represents a full year dividend payout ratio of ~60% of Underlying Earnings Per Share.

The Board and management set out to maintain appropriate Statement of Financial Position ratios. Certain Statement of Financial Position ratios are also imposed under the Group's banking facilities (refer to note 11).

Management monitor capital through the gearing ratio (net debt / net debt plus total equity). The gearing ratios at 30 April 2018 and 30 April 2017 were (3.2)% (negative representing a net cash position) and 4.7% 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.

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 17. 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:

	FY18 \$m	FY17 \$m
Within 1 year	207.0	210.5
After 1 year but not more than 5 years	602.5	642.3
More than 5 years	563.6	638.9
Aggregate lease expenditure contracted for at reporting date	1,373.1	1,491.7

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

	FY18 \$m	FY17 \$m
Within 1 year	77.7	78.6
After 1 year but not more than 5 years	249.2	259.9
More than 5 years	252.0	278.5
Aggregate lease income contracted for at the reporting date	578.9	617.0

#### Capital expenditure commitments

The Group had no material commitments for capital expenditure at 30 April 2018.

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 18. Related party disclosures

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

#### Material transactions and balances with related parties - Group

	FY18 \$m	FY17 \$m
<i>Transactions with related parties – Equity-accounted investments</i>		
Sales revenue	1,278.6	1,272.9
Lease charges	15.7	13.1
Acquisition of shares in joint ventures and associates	3.4	-
Dividends received	1.1	5.2
<i>Balances with related parties – Equity-accounted investments</i>		
Trade receivables – gross	115.5	106.1
Provision for impairment	(4.8)	(3.8)
	110.7	102.3
<i>Loans receivable – gross</i>		
Loans receivable – gross	6.5	6.8
Provision for impairment	(5.5)	(6.8)
	1.0	-

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

#### Transactions and balances with related parties – Parent entity

Details of key related party transactions and balances in the accounts of the parent entity are set out in note 20.

#### Compensation of key management personnel of the Group

	FY18 \$m	FY17 \$m
Short-term	9.8	9.6
Long-term	0.8	0.2
Post-employment	0.2	0.2
Termination benefits	-	-
Share-based payments	0.5	1.0
	11.3	11.0

#### Other transactions with key management personnel

Mr Patrick Allaway is a director of Fairfax Media Limited. Ms Fiona Balfour is a former director of Salmat Limited and TAL (Dai-ichi Life Australia) Limited. Ms Tonia Dwyer is a director of Dexus Property Group. Mr Rob Murray is a director of Southern Cross Media Group Limited and was a former director of Linfox Logistics Pty Ltd. Ms Helen Nash is a director of Inghams Enterprises Pty Limited, Blackmores Limited and Southern Cross Media Group Limited; and a former director of Pacific Brands Group Limited. Ms Anne Brennan is a director of Rabobank Australia Limited and Charter Hall Limited.

Metcash has business relationships with the above entities, including supply of trading goods and services, interest-bearing borrowings and derivatives, property leases, and property management and development. The Rabobank Group provides a working capital facility, a syndicated bank facility and derivative financial instruments to Metcash.

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

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 19. Share-based payments

#### Description of share-based payment arrangements

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

At 30 April 2018, there are two outstanding grants under the LTI scheme, the LTI (FY17- FY19) and LTI (FY18- FY20), representing two different three-year performance periods.

The Additional Transformation Incentive ('ATI') was granted to the former Group CEO and the Group CFO in FY15. During the current year, the participants voluntarily requested that the Board cancel the plan, which was accepted by the Board. This resulted in the plan being cancelled and the acceleration of the remaining accounting expense in FY18.

The Board applied its discretion not to keep the CEO Supermarkets & Convenience Commencement Grant issued in FY16 to Mr Cain on foot upon Mr Cain's resignation. The plan included 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. Accordingly, this forfeiture resulted in the reversal of the expense recognised for years FY16 and FY17 of \$0.7 million in FY18.

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

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

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

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 19. Share-based payments (continued)

#### Reconciliation of outstanding performance rights

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

	FY18 Number	FY17 Number
Outstanding at the beginning of the year	8,192,019	12,497,505
Granted during the year – LTI	3,410,670	3,405,652
Expired/forfeited during the year – LTI	(6,942,613)	(7,711,138)
Outstanding at the end of the year	4,660,076	8,192,019

The outstanding balance of performance rights as at 30 April 2018 is represented by:

Scheme name	Vesting date	Total outstanding (number)	Exercisable (number)	Remaining contractual life
LTI FY17 – FY19	15 August 2019	2,133,960	-	1 year 4 months
LTI FY18 – FY20	15 August 2020	2,526,116	-	2 year 4 months
<b>Total outstanding at the reporting date</b>		<b>4,660,076</b>	-	

#### 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 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.

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 20. 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.

	FY18 \$m	FY17 \$m
<b>Statement of financial position</b>		
Current assets – amounts receivable from subsidiaries	1,535.5	1,633.9
Non-current assets – investments in subsidiaries	941.1	941.1
Total assets	2,476.6	2,575.0
Current liabilities – loans payable to subsidiaries	(2,062.5)	(2,089.1)
Net assets	414.1	485.9
Contributed equity	600.0	3,151.1
Accumulated losses	(1,265.4)	(3,817.4)
Profit reserve	1,075.9	1,150.0
Share-based payments reserve	3.6	2.2
Total equity	414.1	485.9
<b>Statement of comprehensive income</b>		
Dividends received from subsidiaries	28.3	1,155.1
Other transactions	-	-
Net profit for the year	28.3	1,155.1
Total comprehensive income for the year, net of tax	28.3	1,155.1

#### Profit reserve

During FY17, the Parent Company established a profit reserve within its separate financial statements, in accordance with the Company's constitution. During the current financial year, the FY17 final dividend of \$43.9 million and FY18 interim dividend of \$58.5 million were paid and sourced from the profit reserve. Prior to the end of the current financial year, \$28.3 million of the profit generated in FY18 was credited into the profit reserve.

#### Capital reduction

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

#### Closed Group

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

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 21. Auditors remuneration

	FY18 \$	FY17 \$
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	2,033,000	1,620,000
- other assurance related services	-	-
	2,033,000	1,620,000
Other services in relation to the entity and any other entity in the Group		
- tax compliance and advisory services	472,000	597,000
- other advisory services	207,000	818,000
	679,000	1,415,000
	2,712,000	3,035,000

### 22. Earnings per share

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

	FY18 \$m	FY17 \$m
<b>Earnings used in calculating basic and diluted EPS</b>		
Net (loss)/profit attributable to ordinary equity holders of Metcash Limited	(149.5)	171.9

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

	FY18 Number	FY17 Number
Weighted average number of ordinary shares used in calculating basic EPS	975,641,876	958,778,523
Effect of dilutive securities	2,212,796	1,248,511
Weighted average number of ordinary shares used in calculating diluted EPS	977,854,672	960,027,034

At the reporting date, 4,660,076 performance rights (FY17: 8,192,019) were outstanding, of which 2,447,280 (FY17: 5,513,143) were not included in the calculation of diluted EPS as they are not dilutive for the periods presented. Refer note 19 for more details about performance rights.

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 23. Business combinations

#### Home Timber & Hardware ('HTH')

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

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

	Total \$m
<b>Purchase consideration</b>	
Cash consideration	193.5
Less: Cash and bank balances acquired	(14.8)
Net cash outflow on acquisition, before transaction costs	178.7
<b>Net assets acquired</b>	
Trade receivables and loans	170.1
Inventories	100.7
Property, plant and equipment and software	31.5
Goodwill	8.9
Deferred tax assets	4.2
Trade payables and provisions	(136.7)
<b>Net assets, at acquisition date fair value</b>	<b>178.7</b>

The acquisition date fair values ascribed to net assets in the FY17 annual report were based on a preliminary accounting assessment. During the current financial year, fair values have been adjusted mainly for an increase of \$3.4 million in property, plant and equipment and software development costs and a reduction of \$13.1 million in trade payables and provisions. This was partly offset by a reduction of \$5.3 million in inventories and \$5.5 million in deferred tax assets. This resulted in a decrease of \$7.8 million in goodwill. There were no significant changes to the post-acquisition period income statement included within the FY17 annual report.

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

#### 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 \$15.3 million, including \$10.1 million of cash consideration, of which \$4.9 million was allocated to goodwill.

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### 24. Contingent assets and liabilities

	FY18 \$m	FY17 \$m
Bank guarantees to third parties in respect of property lease obligations	19.4	16.7
Bank guarantees in respect of Work Cover	2.9	11.3

#### Financial guarantee contracts

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

Had the guarantee been exercised at 30 April 2018, the amount payable would have been \$43.6 million (FY17: \$43.9 million). The fair value of the financial guarantee contract at the reporting date was \$1.5 million (FY17: \$3.7 million) and is recognised as a financial liability.

#### Put options

Refer note 15 for details of put options outstanding at balance sheet date.

### 25. Subsequent events

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

## Notes to the financial statements (continued)

For the year ended 30 April 2018

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

#### (a) AASB 15 Revenue from Contracts with Customers

AASB 15 *Revenue from Contracts with Customers* is applicable to the Group effective FY19 and will supersede all current revenue recognition requirements under Australian Accounting Standards. The Group plans to apply the full retrospective method in adopting the new standard, resulting in the restatement of certain FY18 comparative information presented in this financial report.

The Group has not concluded its assessment of the impact upon adoption of AASB 15. However, the key financial effects of the Group's adoption of the new standard are expected to be as follows:

##### (a) Charge-through sales

From time to time, the Group's customers enter into contracts to acquire goods that are delivered directly from suppliers. In these arrangements, Metcash provides procurement and settlement services through its charge-through platform and, in some cases, cross-docking facilities. The Group is considering whether it is primarily responsible for fulfilling the customer orders under these arrangements and whether it bears material inventory risk before or after the goods have been transferred to the customer.

Under the current accounting policy, charge-through transactions are reported within revenue primarily on the basis that the Group retains full exposure to credit risk on these transactions. Under AASB 15, Metcash is considering whether it is an 'agent' in these transactions, with respect to the degree of control exercised over the goods before they are transferred to the customer.

Accordingly, upon adoption of AASB 15, charge-through sales may be reported on a net "commission" basis, which would result in a reduction of approximately \$2 billion of revenue. This presentation change will have no impact on gross profit or net income.

##### (b) Other changes

There may be other classification and presentation changes between revenue and other lines within gross profit. These presentation changes are not expected to have a significant impact on gross profit or net income.

#### (b) AASB 9 Financial Instruments

In December 2014, the AASB issued AASB 9 *Financial Instruments* which is applicable to the Group effective FY19. AASB 9 will replace the requirements of AASB 139 *Financial Instruments: Recognition and Measurement* and bring together the classification, measurement, impairment and hedge accounting requirements for financial instruments.

The Group has performed a preliminary impact assessment of AASB 9. Overall, the Group expects no significant impact on its statement of financial position and equity, except for the effect of applying the impairment requirements of AASB 9. The Group expects an increase in the loss allowance in receivables resulting in a negative impact on equity. In addition, the Group may implement changes in classification of certain financial instruments.

#### (c) AASB 16 Leases

AASB 16 *Leases* is applicable to the Group effective FY20 and will supersede current accounting requirements in relation to leases under Australian Accounting Standards. The Group has not concluded its assessment of the impact upon adoption of AASB 16. However, the new standard 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 and other leases (see note 17).

The key financial effects of the Group's adoption of the new standard are expected to be as follows:

##### (a) Metcash-occupied properties

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

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.

##### (b) Back-to-back leases

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

For back-to-back leases, the adoption of AASB 16 will result in the recognition of a financial asset and financial liability, representing the present value of future cash flows on the sublease and the head lease, respectively. Both categories of financial instruments are expected to generate interest (income and expense, respectively) resulting from the unwinding of the discount over the lease term. The impact of interest income and expense is expected to materially offset within the income statement.

The recoverability of the financial asset will be assessed at least at each reporting date.

# Notes to the financial statements (continued)

For the year ended 30 April 2018

## Appendix B – Summary of significant accounting policies

### 1. BASIS OF ACCOUNTING

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

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

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

The current financial year comprises the 52 week period that commenced on 1 May 2017 and ended on 29 April 2018. The prior financial year comprises the 53 week period that commenced on 25 April 2016 and ended on 30 April 2017.

### 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.

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

#### (a) Australian Accounting Standards issued but not yet effective

A number of new accounting standards (including amendments and interpretations) have been issued but were not effective as at 30 April 2018. The Group has elected not to early adopt any of these new standards in these financial statements.

Appendix A outlines the expected impact of AASB 15, AASB 9 and AASB 16 on the Group's financial statements in the respective years of their initial application. Other standards in issue that are applicable to the Group in future financial periods as follows:

- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*;
- AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investments Property, Annual Improvements 2014-2016 Cycle and Other Amendments*;
- AASB Interpretation 22 *Foreign Currency Transactions and Advance Consideration*;
- AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation*;
- AASB 2017-7 *Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures*;
- Annual Improvements to IFRS Standards 2015-2017 Cycle;
- AASB Interpretation 23 *Uncertainty over Income Tax Treatments*; and

- AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*.

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

### 3. BASIS OF CONSOLIDATION

#### Controlled entities

The financial statements comprise the consolidated financial statements of Metcash Limited and its controlled entities for the year ended 30 April 2018. Refer Appendix C for a list of significant controlled entities.

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

#### Business combinations

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

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

#### Consolidation procedures

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

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

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

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

# Notes to the financial statements (continued)

For the year ended 30 April 2018

## Appendix B – Summary of significant accounting policies

#### 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.

#### 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 B.7); and where the Group exercises control, the acquisitions are accounted for as business combinations (refer Appendix B.3).

##### Supplier income

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

##### Purchase price allocation

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

##### 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 12 for further discussion). In measuring these provisions, assumptions are made about future retail sales, rental costs and in determining the appropriate discount rate to be used in the cash flow calculations.

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

#### Impairment of equity-accounted investments

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

### 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.

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

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### Appendix B – Summary of significant accounting policies

#### Fair value hedges

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

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

#### Cash flow hedges

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

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

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

#### Cash flow hedge reserve

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

#### Current versus non-current classification

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

#### 7. EQUITY-ACCOUNTED INVESTMENTS

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

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

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

#### 8. INVENTORIES

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:

	FY18	FY17
Freehold buildings	25-50 years	25-50 years
Plant and equipment	2-20 years	2-20 years

##### Derecognition

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

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the period the item is derecognised.

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### Appendix B – Summary of significant accounting policies

#### 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 B.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 contracts are recognised as intangible assets when the criteria specified in AASB 138 *Intangible Assets* have been met. Customer contracts are valued by applying a discounted cash flow valuation methodology with consideration given to customer retention and projected future cash flows to the end of the contract period. 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.

##### Derecognition

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

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

##### Useful lives

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

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

	FY18	FY17
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.

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### Appendix B – Summary of significant accounting policies

#### 12. EMPLOYEE LEAVE BENEFITS

*Wages, salaries, annual leave and sick leave*

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

*Long service leave*

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

#### 13. INTEREST-BEARING BORROWINGS

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

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

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

#### 14. LEASES

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

*Operating leases - Group as a lessee*

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

*Operating leases - Group as a lessor*

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

#### 15. PROVISIONS

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

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 19.

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 19 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.

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### Appendix B – 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.

Refer Appendix A for information relating to the Group's adoption of AASB 15 *Revenue from Contracts with Customers*.

#### 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.



## Notes to the financial statements (continued)

For the year ended 30 April 2018

### Appendix B – 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

The Group revised its presentation of the customer charge cards agreement, which was disclosed as a contingent liability in previous financial years. This revision resulted in the presentation of a current trade receivable (note 6) and a matching current payable (note 10) of \$274.0 million (FY17: \$276.0 million), with no impact to the Group's net assets.

As a consequence, net transaction costs of \$8.4 million (FY17: \$8.1 million) in relation to this agreement have been reclassified from administrative expense to finance costs. In the statement of cash flows, settlements received from Amex are reported within operating activities under 'receipts from customers'.

Further information is provided in note 10.

Otherwise, certain comparative information was amended in these financial statements to conform to the current year presentation. These amendments do not impact the Group's financial results and do not have any significant impact on the Group's balance sheet.

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### Appendix C – Information on subsidiaries

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

	FY18 %	FY17 %
Action Holdings Pty Ltd <sup>1</sup>	100	100
Action Supermarkets Pty Ltd <sup>1</sup>	100	100
Anzam (Aust.) Pty Ltd <sup>1</sup>	100	100
Arrow Pty Limited	-	100
Australian Asia Pacific Wholesalers Pty Ltd <sup>1</sup>	100	100
Australian Hardware Distributors Pty. Limited <sup>1</sup>	100	100
Australian Hardware Support Services Pty Ltd <sup>1</sup>	100	100
Australian Liquor Marketers (QLD) Pty Ltd <sup>1</sup>	100	100
Australian Liquor Marketers (WA) Pty Ltd <sup>1</sup>	100	100
Australian Liquor Marketers Pty. Limited <sup>1</sup>	100	100
Big Bargain Bottleshops Australia Pty Ltd <sup>1</sup>	100	100
Capeview Hardware Pty Ltd.	100	80
City Ice & Cold Storage Company Proprietary Limited <sup>1</sup>	100	100
Clancy's Food Stores Pty Limited <sup>1</sup>	100	100
Community Co Australia Pty Ltd	100	100
Composite Buyers Finance Pty. Ltd. <sup>1</sup>	100	100
Composite Buyers Pty Limited <sup>1</sup>	100	100
Danks Holdings Pty Limited <sup>1</sup>	100	100
Davids Foodservices Pty Ltd <sup>1</sup>	100	100
Davids Group Staff Superannuation Fund Pty. Ltd. <sup>1</sup>	100	100
Denham Bros. Pty Limited	-	100
DIY Superannuation Pty Ltd <sup>1</sup>	100	100
Drumstar V 2 Pty Ltd	-	100
Echuca Hardware Pty Ltd <sup>1</sup>	100	100
Faggs Geelong Pty Ltd	90	90
Foodland Properties Pty Ltd <sup>1</sup>	100	100
Foodland Property Holdings Pty. Ltd.	-	100
Foodland Property Unit Trust	100	100
Franklins Bass Hill Pty Ltd	-	100
Franklins Blacktown Pty Ltd	-	100
Franklins Bonnyrigg Pty Ltd	-	100
Franklins Casula Pty Ltd	-	100
Franklins Liverpool Pty Ltd	-	100
Franklins Merrylands Pty Limited	-	100
Franklins Moorebank Pty Limited	-	100
Franklins Penrith Nepean Pty Ltd	-	100
Franklins Penrith Plaza Pty Ltd	-	100
Franklins Pty Ltd <sup>1</sup>	100	100
Franklins Singleton Pty Ltd	-	100
Franklins Supermarkets Pty Ltd <sup>1</sup>	100	100
Franklins Wentworthville Pty Ltd	-	100
Fresco Supermarket Holdings Pty Ltd <sup>1</sup>	100	100
Garden Fresh Produce Pty. Ltd. <sup>1</sup>	100	100
Global Liquor Wholesalers Pty Limited <sup>1</sup>	100	100
Gympie Property Investment Pty Ltd	84.7	84.7
Hammer Hardware Stores Pty. Ltd. <sup>1</sup>	100	100
Handyman Stores Pty Ltd <sup>1</sup>	100	100
Hardings Hardware Pty. Ltd. <sup>1</sup>	100	100
Hardware Property Trust	100	100
Himaco Pty Ltd <sup>1</sup>	100	100
Home Hardware Australasia Pty. Ltd. <sup>1</sup>	100	100
Home Timber & Hardware Group Pty Ltd <sup>1</sup>	100	100
Homestead Hardware Australasia Pty Ltd <sup>1</sup>	100	100
HTH Events Pty Ltd <sup>1</sup>	100	100
HTH Stores Pty Limited <sup>1</sup>	100	100
Hudson Building Supplies Pty Limited <sup>1</sup>	100	100
IGA Community Chest Limited	100	100
IGA Distribution (SA) Pty Limited <sup>1</sup>	100	100
IGA Distribution (Vic) Pty Limited <sup>1</sup>	100	100
IGA Distribution (WA) Pty Limited <sup>1</sup>	100	100
IGA Fresh (Northern Queensland) Pty Limited <sup>1</sup>	100	100
IGA Fresh (NSW) Pty Limited <sup>1</sup>	100	100
IGA Retail Network Limited	100	100
IGA Retail Services Pty Limited <sup>1</sup>	100	100
Independent Brands Australia Pty Limited <sup>1</sup>	100	100
Independent Hardware Group Pty Ltd <sup>1</sup>	100	100
Independent Solutions Pty Ltd <sup>1</sup>	100	100
Interfrank Group Holdings Pty Ltd <sup>1</sup>	100	100
Jewel Food Stores Pty. Ltd. <sup>1</sup>	100	100
JV Pub Group Pty Ltd <sup>1</sup>	100	100
Keithara Pty. Ltd. <sup>1</sup>	100	100
Liquorsmart Pty Ltd	100	-
Liquor Traders Pty. Ltd. <sup>1</sup>	100	100
M-C International Australia Pty Limited <sup>1</sup>	100	100
Mega Property Management Pty. Ltd. <sup>1</sup>	100	100
Mermaid Tavern (Freehold) Pty Ltd	-	100
Mermaid Tavern (Trading) Pty Ltd <sup>1</sup>	100	100
Metcash Asia Limited (incorporated in China)	100	100
Metcash Export Services Pty Ltd <sup>1</sup>	100	100
Metcash Food & Grocery Convenience Division Pty Limited <sup>1</sup>	100	100
Metcash Food & Grocery Pty Ltd <sup>1</sup>	100	100
Metcash Holdings Pty Ltd <sup>1</sup>	100	100
Metcash Management Pty Limited <sup>1</sup>	100	100
Metcash Services Proprietary Limited <sup>1</sup>	100	100
Metcash Storage Pty Limited <sup>1</sup>	100	100
Metcash Trading Limited <sup>1</sup>	100	100
Metoz Holding Limited (incorporated in South Africa)	100	100
Metro Cash & Carry Pty Limited <sup>1</sup>	100	100
Mirren (Australia) Pty. Ltd. <sup>1</sup>	100	100
Mitre 10 Australia Pty Ltd <sup>1</sup>	100	100
Mitre 10 Mega Property Trust	100	100
Mitre 10 Mega Pty Ltd <sup>1</sup>	100	100
Mitre 10 Pty Ltd <sup>1</sup>	100	100
Narellan Hardware Pty Ltd <sup>1</sup>	100	100
National Retail Support Services Pty Ltd <sup>1</sup>	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 <sup>1</sup>	100	100
Produce Traders Trust	100	100
QIW Pty Limited <sup>1</sup>	100	100
Queensland Independent Wholesalers Pty Limited <sup>1</sup>	100	100
Quickstop Pty Ltd <sup>1</sup>	100	100
Rainbow Unit Trust	100	100
Rainfresh Vic Pty. Ltd.	51	51

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### Appendix C – Information on subsidiaries

	FY18 %	FY17 %		FY18 %	FY17 %
Retail Merchandise Services Pty. Limited	100	100	Sunshine Hardware Pty Ltd	84.7	84.7
Retail Stores Development Finance Pty Limited	-	100	Tasman Liquor Company Limited (incorporated in New Zealand)	100	100
Rockblock Pty. Ltd.	-	100	Tasmania Hardware Pty Ltd	80	80
Roma Hardware Pty Ltd <sup>1</sup>	100	100	Thrifty-Link Hardware Pty. Ltd. <sup>1</sup>	100	100
Scanning Systems (Fuel) Pty Ltd <sup>1</sup>	100	100	Timber and Hardware Exchange Pty Ltd	68.42	68.42
Smart IP Co Pty Ltd <sup>1</sup>	100	100	Timberten Pty Ltd <sup>1</sup>	100	100
Soetensteeg 2 61 Exploitatiemaatschappij BV (incorporated in Netherlands)	100	100	UIAL NSW/ACT Pty Ltd <sup>1</sup>	100	100
South Coast Operations Pty Ltd <sup>1</sup>	100	100	UIAL Tasmania Pty Ltd <sup>1</sup>	100	100
South West Operations Pty Ltd <sup>1</sup>	100	100	Vawn No 3 Pty. Ltd. <sup>1</sup>	100	100
SSA Holding Pty Ltd <sup>1</sup>	100	100	W.A. Hardware Services Pty. Ltd <sup>1</sup>	100	100
Stonemans (Management) Proprietary Limited	-	100	Wickson Corporation Pty Limited <sup>1</sup>	100	100
			Wimbledon Property 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 (or were during FY18) issued pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785. Under the Instrument, entities within the Closed Group entities that have lodged an option notice with ASIC within four months of the end of the financial year are granted relief from standalone financial reporting and audit requirements of the Corporations Act 2001. Under the Deed of Cross Guarantee, the entities within the Closed Group, including Metcash Limited, have guaranteed to pay any deficiency in the event of winding up of any other entity within the Closed Group.

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### Appendix C – Information on subsidiaries

#### Summary Statement of Comprehensive Income of the Closed Group

	FY18 \$m	FY17 \$m
Distributions from subsidiaries outside the Closed Group	28.3	1,155.1
Other transactions with subsidiaries outside the Closed Group	(190.0)	(1,559.9)
Other net income/(expense)	(91.6)	224.8
<b>Loss before income tax</b>	<b>(253.3)</b>	<b>(180.0)</b>
Income tax expense	(69.1)	(52.9)
<b>Net loss for the year</b>	<b>(322.4)</b>	<b>(232.9)</b>

#### Summary Statement of Financial Position of the Closed Group

	FY18 \$m	FY17 \$m
<b>Assets</b>		
Cash and cash equivalents	137.8	70.1
Trade receivables and loans	1,150.4	1,095.6
Trade receivables – customer charge cards agreement	274.0	276.0
Inventories	727.5	710.5
Other current assets	11.1	31.5
<b>Total current assets</b>	<b>2,300.8</b>	<b>2,183.7</b>
Investments	1,132.4	1,145.4
Property, plant and equipment	211.9	210.0
Net deferred tax assets	98.5	108.1
Intangible assets and goodwill	764.5	1,091.4
Other non-current assets	30.2	29.1
<b>Total non-current assets</b>	<b>2,237.5</b>	<b>2,584.0</b>
<b>Total assets</b>	<b>4,538.3</b>	<b>4,767.7</b>
<b>Liabilities</b>		
Trade and other payables	1,549.3	1,464.8
Customer charge cards agreement	274.0	276.0
Interest-bearing borrowings	1.9	3.0
Income tax payable	24.1	5.6
Provisions and other current liabilities	127.5	144.5
<b>Total current liabilities</b>	<b>1,976.8</b>	<b>1,893.9</b>
Interest-bearing borrowings	127.1	187.1
Amounts due to related parties	2,212.6	2,034.8
Provisions and other non-current liabilities	137.4	145.9
<b>Total non-current liabilities</b>	<b>2,477.1</b>	<b>2,367.8</b>
<b>Total liabilities</b>	<b>4,453.9</b>	<b>4,261.7</b>
<b>Net assets</b>	<b>84.4</b>	<b>506.0</b>
<b>Equity</b>		
Contributed and other equity	600.0	1,719.3
Other reserves	(0.7)	(3.0)
Retained profits/(accumulated losses)		
Opening balance	(1,210.3)	(977.4)
Capital reduction (Note 20)	1,119.3	-
Net loss for the year	(322.4)	(232.9)
Dividends paid	(102.4)	-
Other movements	0.9	-
Closing balance	<b>(514.9)</b>	<b>(1,210.3)</b>
<b>Total equity</b>	<b>84.4</b>	<b>506.0</b>

## Notes to the financial statements (continued)

For the year ended 30 April 2018

### Appendix D – Equity-accounted investments

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

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

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

Investee	Principal activities	Reporting date	FY18 %	FY17 %
<b>Associates</b>				
Abacus Independent Retail Property Trust	Retail property investment	30 June	-	25.0
Ritchies Stores Pty Ltd	Grocery retailing	30 June	26.0	26.0
Dramet Holdings Pty Ltd	Grocery retailing	30 June	26.0	26.0
<b>Joint ventures</b>				
Adcome Pty Ltd	Grocery retailing	30 April	45.0	45.0
Lecome Pty Ltd	Grocery retailing	30 April	50.0	50.0
BMS Retail Group Holdings Pty Ltd	Grocery retailing	30 June	49.0	25.1
Progressive Trading Pty Ltd	Grocery retailing	30 April	52.2	52.2
Metfood Pty Limited	Merchandise services	30 April	-	50.0
Waltock Pty Limited	Hardware retailing	30 June	49.0	49.0
Banner 10 Pty Ltd	Hardware retailing	30 June	49.0	49.0
G Gay Hardware Pty Ltd	Hardware retailing	30 June	49.0	49.0
LA United Pty Ltd (a)	Liquor wholesaling	30 June	75.3	63.0
Liquor Alliance Pty Ltd (a)	Liquor wholesaling	30 June	66.7	50.0

(a) The Group has a direct ownership of 26.0% in LA United Pty Ltd and an indirect ownership of 49.3% (FY17: 37.0%) via its interest in Liquor Alliance Pty Ltd. While the Group has beneficial ownership of more than 50% of the entity, key operating and financial decisions require the unanimous consent of other joint venture partners. Accordingly, LA United Pty Ltd and Liquor Alliance Pty Ltd are accounted for as joint arrangements.

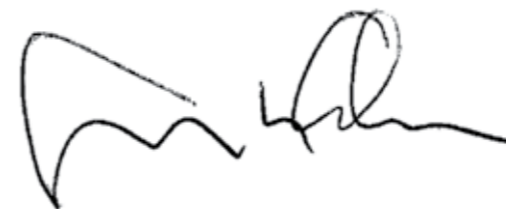
## Directors' declaration

For the year ended 30 April 2018

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 2018 and of its performance for the year ended on that date; and
    - ii. Complying with Accounting Standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001*;
  - b. The financial statements and notes also comply with *International Financial Reporting Standards* as disclosed in Appendix B.2; and
  - c. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 April 2018.
3. In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Appendix C will be able to meet any obligation or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board



**Jeff Adams**  
Director  
Sydney, 25 June 2018



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Sydney NSW 2000 Australia  
GPO Box 2646 Sydney NSW 2001

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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 2018, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Ernst & Young

Renay Robinson  
Partner  
25 June 2018

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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 2018, 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 2018 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.

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

1. Impairment assessment for goodwill and other intangible assets

Why significant	How our audit addressed the key audit matter
<p>At 30 April 2018 the Group's consolidated statement of financial position included goodwill and other intangible assets amounting to \$818.4 million, representing 22% of total assets.</p> <p>The directors have assessed goodwill and other intangible assets for impairment at 30 April 2018. Due to the continued intense competition in the Australian food and grocery industry and the impact of changes to customer supply arrangements, as noted in Note 3(vii) and Note 9 to the financial statements, the Group has recognised an impairment charge of \$318.4 million in respect of the Food and Grocery cash generating unit ("CGU").</p> <p>The assessment of impairment for these assets involves estimates and assumptions concerning future performance, including forecast cash flows, discount rates and terminal growth rates.</p> <p>These estimates and assumptions are impacted by future performance, market and economic conditions. Minor changes in certain assumptions can lead to significant changes in the recoverable amount of these assets.</p> <p>Accordingly, we considered this to be a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>▪ 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;</li> <li>▪ Assessed the cash flow forecasts, assumptions and estimates used by the Group, as outlined in Note 9 to the financial statements, by considering the reliability of the Group's historical cash flow forecasts, our knowledge of the business and corroborating data with external information where possible;</li> <li>▪ Evaluated the appropriateness of discount and terminal growth rates applied with involvement from our valuation specialists;</li> <li>▪ Tested the mathematical accuracy of the impairment testing models including the consistency of relevant data with latest Board approved forecasts;</li> <li>▪ Performed sensitivity analysis on key assumptions including discount rates, terminal growth rates and EBIT forecasts for each of the Group's CGUs; and</li> <li>▪ Assessed the adequacy of the financial report disclosures contained in Note 9 in respect of the carrying value of intangible assets and impairment testing.</li> </ul>

2. Accounting for supplier rebates

Why significant	How our audit addressed the key audit matter
<p>Appendix B.17 of the financial report outlines the Group's accounting policy relating to supplier rebates, or supplier income as they are referred to in the Financial report.</p> <p>The Group receives rebates and other similar incentives from suppliers which are determined based upon a number of measures which can include volumes of inventory purchased, sold, purchase value thresholds and the performance of promotional activities.</p> <p>We considered this to be a key audit matter as supplier rebates contributed significantly to the Group's results, there are a large number of varied agreements in place and some of the arrangements require judgment to be applied in determining the timing of recognition and the appropriate classification within the consolidated statement of comprehensive income, based upon the terms of the agreement.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>▪ Evaluated the Group's processes and controls relating to the recognition and valuation amounts recognised through and classified within the consolidated statement of comprehensive income;</li> <li>▪ Assessed the operating effectiveness of relevant controls in place relating to the recognition and measurement of volumetric, purchase value and sales value related rebates;</li> <li>▪ Selected a sample of supplier rebates received and accrued for during the year and tested whether the income was correctly calculated and recognised in the correct period;</li> <li>▪ 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;</li> <li>▪ Considered the impact of supplier claims during and subsequent to year end on amounts recognised; and</li> <li>▪ Inquired of management and the Directors as to the existence of any non-standard agreements or side arrangements.</li> </ul>

### 3. Onerous contracts

#### Why significant

As set out in Note 12 to the financial statements, various controlled entities within the Group are the head lessee on a number of retail stores the Group sub-leases to independent retailers.

As disclosed within Appendix B.4(b) to the financial statements, the assessment of when these arrangements are onerous contracts which require provisions to be recognised, 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.

#### How our audit addressed the key audit matter

Our audit procedures included the following:

- Considered whether the Group identified relevant onerous contracts requiring provision recognition.
- Tested the valuation of the onerous contract provisions by evaluating whether appropriate judgments and assumptions had been applied in determining the unavoidable costs of meeting the obligation and the estimate of the expected benefits to be received under the contract.

#### Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's 2018 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report.

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

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

#### Responsibilities of the Directors for the Financial Report

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

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

#### Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

## Report on the Audit of the Remuneration Report

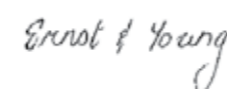
### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 40 to 56 of the directors' report for the year ended 30 April 2018.

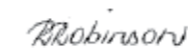
In our opinion, the Remuneration Report of Metcash Limited for the year ended 30 April 2018, complies with section 300A of the Corporations Act 2001.

### Responsibilities

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



Ernst & Young



Renay Robinson  
Partner  
Sydney  
25 June 2018

# ASX Information

Year ended 30 April 2018

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 2018:

## Distribution of Equity Securities

The number of shareholders, by size of holding, in each class of share is:

Size of Holding	Number of Shareholders	Size of Holding	Number of Shareholders
1-1,000	6,063	10,001-100,000	2,852
1,001-5,000	10,501	100,001-9,999,999,999	124
5,001-10,000	3,619	<b>Total</b>	<b>23,159</b>

There were 1,198 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	425,505,351	43.613%
J P MORGAN NOMINEES AUSTRALIA	180,758,415	18.527%
CITICORP NOMINEES PTY LIMITED	114,578,322	11.744%
NATIONAL NOMINEES LIMITED	38,723,184	3.969%
BNP PARIBAS NOMINEES PTY LTD	16,755,344	1.717%
BNP PARIBAS NOMS PTY LTD	15,176,973	1.556%
CITICORP NOMINEES PTY LIMITED	8,196,662	0.840%
WOODROSS NOMINEES PTY LTD	3,918,000	0.402%
AMP LIFE LIMITED	3,562,258	0.365%
HSBC CUSTODY NOMINEES	3,058,254	0.313%
HSBC CUSTODY NOMINEES	3,055,785	0.313%
BAINPRO NOMINEES PTY LIMITED	2,509,931	0.257%
HSBC CUSTODY NOMINEES	1,771,207	0.182%
BAINPRO NOMINEES PTY LIMITED	1,725,000	0.177%
UBS NOMINEES PTY LTD	1,689,908	0.173%
BOND STREET CUSTODIANS LIMITED	1,665,193	0.171%
BNP PARIBAS NOMINEES PTY LTD	1,340,730	0.137%
POWERWRAP LIMITED	1,280,416	0.131%
BNP PARIBAS NOMS PTY LTD	884,611	0.091%
MR SONDAL MEHMET BENSAN	750,000	0.077%
<b>Total</b>	<b>826,905,544</b>	<b>84.755%</b>

## Substantial Shareholders

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

	Number of Shares
Pendal Group Ltd	136,089,796
Allan Gray Australia Pty Ltd	102,226,130
UBS Group AG	60,025,971
Dimensional Entities	58,693,611

## 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)  
 Jeff Adams (Group CEO)  
 Fiona Balfour  
 Anne Brennan  
 Tonianne Dwyer  
 Murray Jordan  
 Helen Nash

## Metcash Food & Grocery (Head Office)

1 Thomas Holt Drive  
 Macquarie Park NSW 2113

☎ 61 2 9741 3000

✉ PO Box 557  
 Macquarie Park NSW 1670

## Company Secretary

Julie Hutton

## Australian Liquor Marketers (Head Office)

1 Thomas Holt Drive  
 Macquarie Park NSW 2113

☎ 61 2 9741 3000

✉ PO Box 557  
 Macquarie Park NSW 1670

## Share Register

Boardroom Pty Limited  
 GPO Box 3993  
 Sydney NSW 2001

☎ 1300 737 760  
 61 2 9290 9600

## Auditor

Ernst & Young  
 200 George Street  
 Sydney NSW 2000 Australia

☎ 61 2 9248 5555

## Independent Hardware Group (Head Office)

19 Corporate Drive  
 Heatherton VIC 3202

☎ 1300 880 440

## National Office

1 Thomas Holt Drive  
 Macquarie Park NSW 2113

✉ PO Box 557  
 Macquarie Park NSW 1670

☎ 61 2 9741 3000

🌐 [www.metcash.com](http://www.metcash.com)

## Corporate Governance

A copy of the Corporate Governance Statement can be found on our website. Visit [www.metcash.com/corporate-information/corporate-governance](http://www.metcash.com/corporate-information/corporate-governance)



# Metcash



[www.metcash.com](http://www.metcash.com)