



Mitcash



CHAMPIONING SUCCESSFUL INDEPENDENTS

ANNUAL REPORT 2020



MITRE 10 HUME & ISER, BENDIGO





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OUR VALUES



WE BELIEVE

That 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 PILLARS

FOOD



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

LIQUOR



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

HARDWARE



In Hardware, we support the largest independent hardware group in Australia and are a leader when it comes to servicing the Trade market. Under the Independent Hardware Group (IHG), we support the leading independent hardware brands Mitre 10 and Home Timber & Hardware along with Hardings, Thrifty-Link Hardware and True Value Hardware; we supply more than 1,500 stores nationwide.

ABOUT US

Metcash is Australia's leading wholesale distribution and marketing company with sales of over \$13 billion in FY20.

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

OUR PURPOSE

Championing Successful Independents

OUR VISION



Best Store in Town



Business partner of choice



Support thriving communities



Passionate about independents



A favourite place to work

CHAIRMAN'S REPORT

Welcome to Metcash's Annual Report for 2020, a year in which the Company delivered admirable results and clearly demonstrated its purpose of Championing Successful Independents.

EXTRAORDINARY EFFORTS

The FY20 financial year was one of the most challenging years we have experienced, with devastating bushfires severely affecting many of our retailers and local communities, particularly in rural and regional areas where our retailers are strongly represented. This was then followed by the COVID-19 pandemic which drove unprecedented spikes in demand, particularly in the Food pillar, resulting in extreme pressure on our supply chain.

During the bushfires, our teams went to extraordinary efforts to ensure our retailers were safe and were able to continue supporting their communities with supplies of essential items such as masks, generators, cleaning materials, food and water. We worked closely with government, Rural Fire Services and other essential services to ensure continuity of supply, including arranging air drop deliveries into some communities that became isolated by the bushfires.

Our people also contributed to the clean-up and rebuild through establishment of 'Tool Libraries' in affected communities. This initiative enabled impacted residents to have access to trade quality tools at no cost. In total, Metcash and our independent retailers donated more than \$1.3m to support those impacted by the devastating bushfires.

Not long after the bushfire crises had subsided, the spread of COVID-19 became a focus around the world. We recognised the critical role that we and our retailers would need to play in supporting communities through this crisis, particularly in regional and remote areas where our retailers are often the only store in town.

We quickly reset our priorities to protecting the health and wellbeing of our people; doing whatever was necessary to make sure we kept our supply chains running and distribution centres operating; and ensuring we remained in a strong financial position so that we could continue to supply and support our retailers.

While there were many outstanding efforts across all our Pillars during this period, I would like to make special mention of the speed in which we flexed our Food distribution centre operations to meet the surge in demand that commenced in March. Within a period of only two weeks, we were operating at the equivalent level of having added another mega distribution centre. This was achieved through hiring and training new staff, as well as overtime by our existing teams. To achieve this in such a short period of time, while also delivering an improvement in Group safety performance in the year, was really an extraordinary effort.

While COVID-19 trading restrictions had a positive impact on sales in our Food and Hardware pillars through March and April, our Liquor pillar was adversely affected by the shutdown of businesses, both in Australia and New Zealand, that represented approximately 20% of its total sales.

Overall, I am very proud of the way Metcash and our retailers rallied together during these periods of crisis and really delivered on our purpose of Championing Successful Independents. This enabled our retailers to do what they do so well, supporting their local communities.

STRENGTHENED FINANCIAL POSITION

In April, we completed a \$300m equity raising and secured an additional \$180m of short-term debt facilities in response to the high level of uncertainty associated with COVID-19. This provided us with additional financial flexibility to support impacted retailers during the COVID-19 restrictions, while also enabling us to continue to invest in growth opportunities across our three pillars.

In June, we announced the completion of two bolt-on acquisitions in Liquor and that we were well progressed on the acquisition of a large Hardware independent retailer. In Liquor, we acquired the Liquor Centre, which significantly expands our retail store network in New Zealand; and we also acquired the Kollaras private label brand portfolio which will enable us to accelerate our growth in the private label category.

In June, we also announced that we were in final negotiations to acquire a majority stake in Total Tools Holdings (Total Tools), the franchisor to the largest professional tool retail network in Australia with 81 stores nationwide and annual sales of over half a billion dollars. Total Tools is a great fit for us, and it will strengthen both our existing Independent Hardware Group and the Total Tools retail network. We are very excited about this opportunity.

RESULTS HIGHLIGHTS

Extraordinary demand in the Food pillar in March and April drove strong sales in FY20. Importantly, the underlying sales trajectory of Supermarkets wholesale sales (ex-tobacco) continued to strengthen during the year, with sales growth delivered for the first time since FY12, even excluding the spike in sales in the last two months of the year due to COVID-19 restrictions.

The success of our strategic initiatives to further improve the competitiveness of our retailer network, together with a shift to more local neighbourhood shopping during COVID-19 restrictions, resulted in market share gains for the IGA network.

Our Liquor pillar continued to perform well delivering its seventh consecutive year of sales growth despite our New Zealand operations and 'on-premise' customers in Australia being shut down in the last five weeks of FY20 due to COVID-19 restrictions.

In Hardware, the business returned to sales growth in the second half of the financial year with March and April sales benefiting from COVID-19 restrictions. Over the full financial year, total sales (including charge-through) were slightly below the prior year as an increase in demand in DIY categories was not sufficient to offset the impact of a slowdown in construction activity on Trade sales.

Group underlying EBIT (pre AASB16) was \$324.2m and Group underlying profit after tax (pre AASB16) was broadly in line with the prior year at \$209.7m. On a statutory basis, the Company reported a Group loss after tax of \$56.8m which includes an impairment to goodwill and other assets at the half year related to the 7-Eleven contract.



ROB MURRAY
CHAIRMAN

The Board declared a final dividend of 6.5 cents per share, which provides a total of 12.5 cents per share, fully franked, for the year.

SENIOR MANAGEMENT CHANGES

In January we announced that Mark Laidlaw would be retiring as CEO of our Hardware pillar and that Annette Welsh had been appointed to succeed him. Mark believed it was an appropriate time for him to step down with the Hardware business strong, diversified and well positioned as the second-largest player in the market. Mark was instrumental in the growth of this business and we sincerely thank him for his efforts. We have a strong management team and it was satisfying to appoint a quality internal candidate. Annette is well placed through her extensive experience and deep understanding of our Hardware business to continue its growth momentum.

In March we announced that our Group CFO, Brad Soller, had advised the Board of his intention to retire from the role. Brad's stewardship since joining Metcash in 2015 has been a key driver of the Company having a strong financial position. His extensive experience and financial acumen have been highly valued by the Board and we wish him all the best for the future. Brad has very kindly agreed to stay on through our process of appointing and inducting a successor.

BOARD UPDATE

In February we shared the profoundly sad news that Wai Tang had passed away after a short illness. Wai was appointed a Non-Executive Director in August last year and had been a valued contributor to the Board since joining. A search for an appropriate replacement is underway and will be announced in due course.

I am pleased to advise the appointment of Peter Birtles as Chair of the Audit, Risk and Compliance Committee (ARCC). Peter's appointment forms part of a planned transition from Tonianne Dwyer which concluded following completion of our FY20 financial reporting process.

Peter is well credentialed for the role having extensive experience as both a CEO and CFO in publicly listed companies. I would like to sincerely thank Tonianne for her significant efforts and oversight as Chair of the ARCC since her appointment in June 2018.

REMUNERATION

Last year I advised that a number of changes to our remuneration structure aimed at creating an even stronger link between executive and shareholder outcomes would commence in FY20. These included the deferral of a component of any STI earned to be delivered as equity, and the expansion of our minimum shareholding policy to include Key Management Personnel (KMP). These changes result in our KMP having the majority of on target, at risk remuneration delivered in equity.

In arriving at overall remuneration outcomes for FY20, the Board and management were cognisant of the wider economic challenges facing the community and many of our customers, agreeing that it would be inappropriate for executives to benefit unduly from COVID-19, including the trading outcomes in the last two months of the financial year. Reflecting this, the Board has deferred any increases to KMP fixed remuneration until the trading environment becomes more settled; has based STI awards and LTI vesting broadly on pre COVID-19 outcomes to avoid any undue benefit; and increased the deferral component of STI awards for greater shareholder alignment in these uncertain times. The Board believes this approach is fair to both executives and shareholders.

I am pleased to report that our achievements in gender pay parity have again been recognised with receipt of our second 'Employer of Choice' citation from the Workplace Gender Equality Agency. We have continued to narrow the gender pay gap, which at the end of FY20 was less than 1%.

GOING FORWARD

We have had a strong start to the 2021 financial year with sales growth across all three pillars in the first seven weeks of the year. We continue to see the shift to more local neighbourhood shopping across all pillars and we are now focused on ensuring the new and returning customers gained through the COVID-19 period are retained in our independent network.

Our MFuture program remains well supported by the quality, dedication and passion of our leadership team, the Board and our retailers and will be a key driver of further improving the competitiveness of our retailer network.

Despite the uncertainty ahead associated with COVID-19, we have a strong financial position that enables us to continue supporting the ongoing success of our independent retailers and invest in further growth opportunities.

In line with the change in our priorities related to COVID-19, the content of this year's Annual Report has been scaled back compared to what has been provided in recent years.

THANKS

To all our people, the Metcash leadership team, our partner independent retailers, suppliers and our shareholders, I would like to pass on my thanks, and that of the entire Board, for your ongoing support.

Finally, I would like to thank my fellow Directors for their commitment and contribution to Metcash over the past year, and for their ongoing support in what has been an unprecedented 12 months. I look forward to continuing to work together in the future.

Rob Murray
Chairman

JEFF ADAMS
GROUP CEO



CEO'S REPORT

As noted by the Chairman, we are extremely proud of the efforts made by our people and independent retailers in supporting local communities through the bushfires and the COVID-19 pandemic.

The important role our independent retailers play in their local communities has never been more evident, and we have truly lived our purpose of supporting them and championing their success through these difficult periods.

GROUP RESULTS¹

From a financial perspective, we delivered very credible results which, importantly, included improving the underlying sales trend, even excluding the positive impact of the COVID-19 restrictions on sales volumes. This reflects the positive impact of our MFuture initiatives across the Group.

Group revenue (including charge-through sales) increased 2.0% to \$14.9bn, with sales growth in both the Food and Liquor pillars partly offset by a decline in Hardware.

Group underlying EBIT decreased \$5.8m to \$324.2m, which reflects a decline in Food pillar earnings due to a lower contribution from the resolution of onerous leases and the impact of ceasing to supply Drakes Supermarkets in South Australia with effect from September 2019. After adjusting for these items, Group underlying EBIT increased by ~\$12m.

Group underlying profit after tax of \$209.7m was broadly in line with the prior year. Underlying earnings per share however increased 1.8% to 23.0 cents, reflecting the benefit of the Company's share buy-back in FY19.

The Company reported a statutory loss after tax of \$56.8m following the recognition of a \$237.4m (post tax) impairment of goodwill and other assets at the half year following advice from 7-Eleven that it will not be renewing its current supply agreement with Metcash following its conclusion in August 2020.

In April 2020, we took the prudent action of raising \$300m of equity and securing an additional \$180m of short-term debt facilities to strengthen our financial position given the high level of uncertainty associated with the COVID-19 pandemic. The associated Share Purchase Plan closed in May, raising a further ~\$14m of equity.

The Group was in a net cash position of \$86.7m at 30 April 2020 (FY19: net debt of \$35.5m).

1. In order to enable comparison to FY19, the financial results for FY20 have been reported on a pre AASB16 basis (unaudited). Refer Appendix A of the Financial Report for a further description of the impact of AASB16 Leases.

OPERATING PERFORMANCE¹

Food

Our Food pillar had a strong year with sales (including charge-through sales) up 3.5% to \$9.1bn. In Supermarkets, sales (including charge-through sales) increased 3.8% to \$7.5bn, which is an increase of 6.1% excluding the impact of Drakes.

Importantly, the sales trend in the Supermarkets business continued to improve, with growth reported in underlying wholesale sales (ex-tobacco) for the first time since FY12, even when the positive impact of COVID-19 restrictions in March and April is excluded. This confirms that our strategic initiatives under the MFuture program are delivering positive results.

Supermarkets underlying wholesale sales (ex-tobacco) were particularly strong in the second half of the financial year, increasing 12.3% buoyed by a significant lift in volumes in March and April.

There was a shift in consumer behaviour following the COVID-19 trading restrictions, most notably to more cooking at home, but also to more local neighbourhood shopping, which fits well with the positioning of our store network. Our stores reported seeing more new customers, as well as customers that they had not seen for some time. Many of our retailers received positive comments from returning customers, including that they were pleased with the improved ranges and more competitive prices across the store; and that they also liked our DSA or refreshed stores new 'look and feel'.

This improved sentiment was reflected in the performance of our IGA network with 'like for like' sales up 5.6% and market share gains for the independent network. Confidence across our retailer base has continued to build, and for the first time in several years there were more stores opened in the year than closed.

With more people staying home during the COVID-19 restrictions, we moved with speed to establish a network-wide online shopping solution. We launched 'IGA Priority Shop', which enabled essential food and grocery items to be delivered to the elderly or vulnerable customers, as well as essential service workers. Shortly after,

we extended the offer to all IGA customers and broadened the product range through the launch of 'IGA Shop Online'. This online solution is gaining momentum across the network and we anticipate further development and expansion of the offer over the coming year.

Total sales in our Convenience business increased 2.0% to \$1.59bn. The improvement was due to increased tobacco sales from our larger customers and an uplift in sales to regional and remote communities during March and April.

Food EBIT decreased \$5.2m to \$177.5m, however underlying EBIT improved by ~\$12m after adjusting for a decline in the contribution from the resolution of onerous lease obligations and the impact of ceasing to supply Drakes in South Australia.

Under our Brand Clarity initiative, we completed the small format store trial and started to apply the learnings from this trial to the IGA Xpress network. Our first large format Supa Valu trial store was recently opened in Doonside, New South Wales.

Our key focus under Brand Clarity is now the core IGA branded stores, including ensuring we have the right product range, pricing and store standards to further improve the competitiveness of our retailers and drive sales.

We accelerated our Diamond Store Accelerator (DSA) upgrade program in the year resulting in a further 124 stores being refreshed. IGA stores upgraded now represent ~40% of the network and we have plans to significantly lift this percentage. We continue to see good sales growth from these stores as well as positive customer feedback.

In Private Label, we launched additional new ranges under our Community Co brand, and these products continue to be well received by our retailers and their customers.

Good progress is being made on the construction of our new distribution centre in South Australia, and we and our retailers in South Australia are looking forward to us moving into the new facility before the end of this calendar year.

Liquor

Total Liquor sales (including charge-through sales) increased 0.3% to \$3.68bn, representing the seventh consecutive year of sales growth. This was achieved despite the last five weeks of the financial year being impacted by COVID-19 restrictions that shut down our New Zealand operations and 'on-premise' customers in Australia. These businesses represent ~20% of the Liquor pillars' total sales. Liquor sales had increased 2.2% in the 10 months to February 2020 (excludes the period impacted by the shutdowns), an improvement from the 1.7% increase delivered in 1H20.

Our IBA bannered retail stores experienced a short period of panic buying at the end of March when it was unclear what government restrictions would be implemented, and demand remained high in April following the shutdown of 'on-premise' businesses.

Like Food, our Liquor retailers benefited from an increased preference for more local neighbourhood shopping. This was reflected in a 3.2% increase in 'like for like' sales in our IBA banner group in the year.

The business accelerated the development of its online shopping offer 'Shop My Local' and launched it six months ahead of schedule to provide an option for customers not wanting to physically shop in-store. This was an outstanding effort by the Liquor team.

Significant efforts were made to assist many of our New Zealand and Australian 'on-premise' customers who found themselves in difficult situations due to the shutdowns. We received very positive feedback from these customers, and it is another great example of living our purpose of championing the success of our independent retailers.

From an earnings perspective, Liquor EBIT was broadly in line with the prior year at \$70.6m.

Further progress was made on our MFuture initiatives including continuing to invest in improving the quality of the network, which has been a key driver of sales.

CEO'S REPORT CONTINUED

We also continued to expand our private and exclusive label product range, and recently acquired 75 private label brands from Kollaras. Investment in private label is important to support our retailers in providing consumers with everyday value, particularly in the current economic environment.

Prior to the COVID-19 restrictions we were making good progress in our 'on-premise' initiatives with positive sales growth being achieved. These initiatives have however been put on hold and will be reviewed once we better understand the position of this market, which has been impacted by COVID-19 restrictions.

Hardware

Total Hardware sales (including charge-through sales) decreased 1.3% to \$2.08bn reflecting the impact of lower construction activity on Trade sales and the loss of a large Home Timber & Hardware customer in Queensland which I mentioned in last year's Report.

There was a significant improvement in the second half of the financial year with sales up 1.8%, buoyed by the positive impact of COVID-19 restrictions in March and April. This included strong demand in DIY categories and some forward buying in Trade, as it was unclear whether trading restrictions would be placed on hardware stores.

'Like for like' sales in our IHG retail banner group were up in the second half, increasing 1.6%. However, this did not fully offset the decline in the first half of the financial year with 'like for like' sales down 0.7% in FY20.

Our retailers reported seeing many first-time customers in their stores during March and April and our Hardware team and retailers are now focused on retaining these customers post the COVID-19 crisis.

Overall, I believe this was a solid sales performance for the Hardware pillar, particularly given the extent of the slowdown in construction activity.

Hardware EBIT was in line with the prior year at \$81.2m, with the impact of the sales decline being offset by a higher mix of DIY sales, and another year of very good cost control, as well as the benefit of some small acquisitions.

The Pillar continued to advance its leading Hardware digital offer, and it was pleasing to see online sales increase ~40% in the year, albeit off a relatively low base. We now have ~14,000 SKUs available online, which is a substantial step up from the ~3,000 SKUs that were available last year.

The Sapphire store upgrade program continued to be a key MFuture initiative for Hardware, driving further improvement to the competitiveness of our stores and delivering average sales growth for the retailer of more than 15%. We now have 90 stores that have completed the program and continue to receive strong interest from retailers wanting to invest in their stores.

We also made good progress against our target of having 40 'Trade Only' stores by 2022, with 19 of these stores now completed.

SAFETY

Pleasingly, we achieved another significant improvement in our safety performance with Total Recordable Injury Frequency Rate (TRIFR) reducing 16.6% to 26.80 in FY20.

Our 'Making Safety Simple' program continued to be a key driver of this improvement. This included advancement in safe work systems and safety documentation, as well as in employee communication, consultation and engagement. Our 'SaferMe, SaferMetcash' program, focused on encouraging the identification and adoption of safe habits, was also a contributor to the improvement.

We have good plans in place to continue improving our safety performance and help us move closer towards our goal of 'Zero Harm'.

OUTLOOK

When releasing our FY20 results in June, we announced that there had been a strong start to FY21 with sales growth in our Food, Liquor and Hardware pillars in the first seven weeks of the financial year. All our businesses continued to benefit from a change in consumer behaviour related to COVID-19 restrictions, including an increased preference for local neighbourhood shopping. There is, however, uncertainty over the extent to which this favourable change in consumer behaviour will continue. In addition, there is continuing uncertainty over the timing of further lifting of COVID-19 restrictions in Australia.

GROUP LEADERSHIP TEAM

As the Chairman mentioned, we recently appointed Annette Welsh as our new CEO of the Hardware pillar. I am also pleased to report that Chris Baddock, CEO of Liquor, Matt Havens, Chief Strategy and Transformation Officer and David Reeve, CIO have all settled in well to their new roles after joining us last year. We have a high quality and dedicated management team to drive our plans across the Group which are centred around the ongoing success of our independent retailers.

I would also like to personally thank Brad Soller, our Group CFO, for his dedication to the role and his advice and support to me over the last few years. Brad has advised the Board of his intention to retire from the role and will leave once we have recruited and inducted his replacement. The whole Metcash management team wish Brad all the best for the future.

THANKS

As a final word, I would like to extend my sincere thanks to our independent retailers and suppliers, and the entire Metcash team and Board, for their support and encouragement throughout the year. In a year of unprecedented events, I am very proud of the way that we all worked together to achieve our purpose of championing our independent retailers, and I am looking forward to building on these significant achievements into FY21.



Jeff Adams
Group CEO



FINANCIAL HIGHLIGHTS

\$13.0bn

Reported Sales Revenue

\$198.8m

Underlying Profit After Tax

\$117.5m

Operating Cash Flows

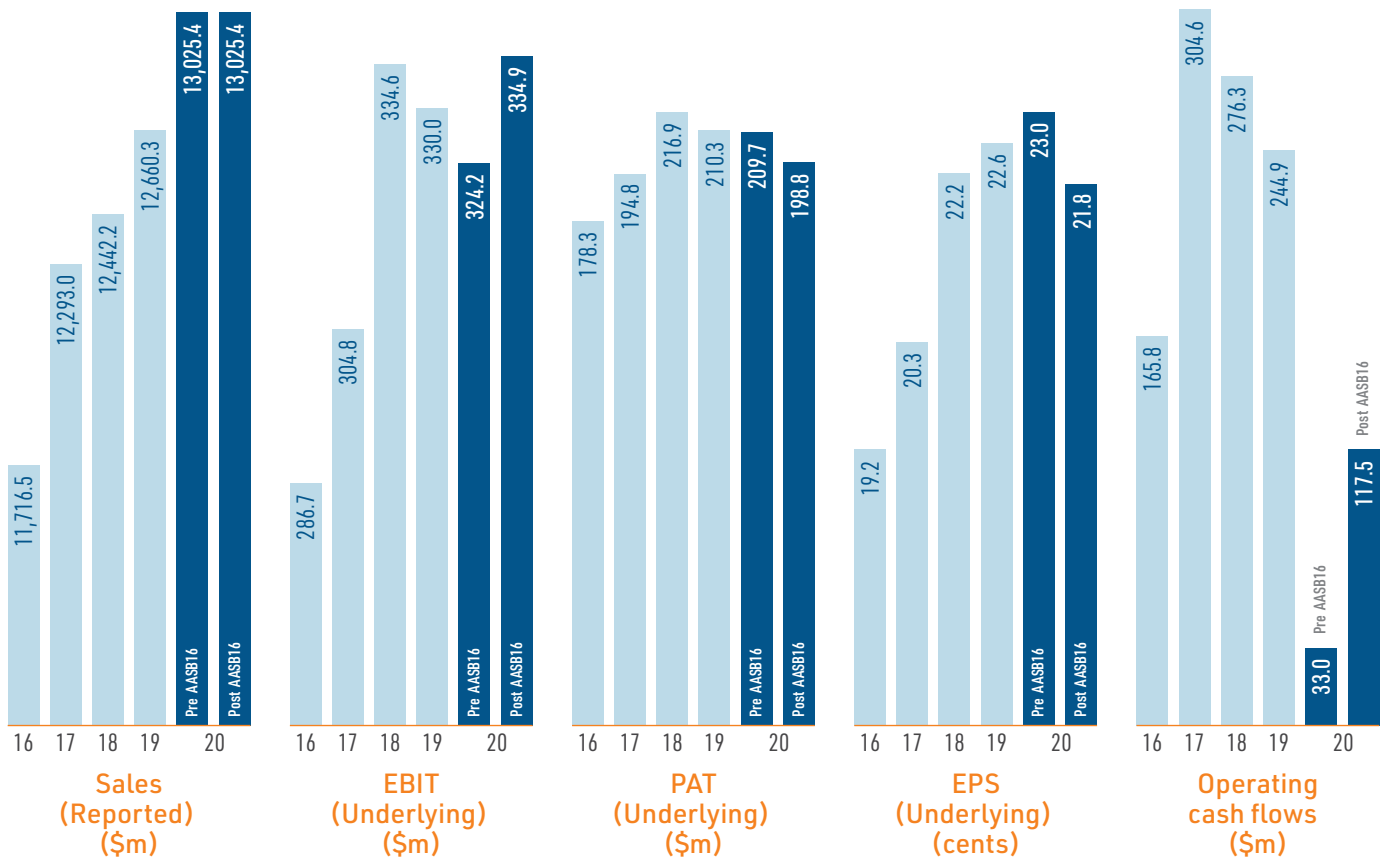
FIVE-YEAR REVIEW

	2020 (post AASB16)	2020 (pre AASB16)	2019 ¹	2018 ¹	2017 ¹	2016 ¹
Financial Performance						
Reported sales revenue (\$m)	13,025.4	13,025.4	12,660.3	12,442.2	12,293.0	11,716.5
Underlying EBIT (\$m)	334.9	324.2	330.0	334.6	304.8	286.7
Finance costs, net (\$m)	(52.0)	(25.9)	(28.9)	(26.4)	(33.6)	(38.3)
Underlying profit after tax (\$m)	198.8	209.7	210.3	216.9	194.8	178.3
Reported (loss)/profit after tax (\$m)	(56.8)	(45.9)	192.8	(148.2)	171.9	216.5
Operating cash flows (\$m)	117.5	33.0	244.9	276.3	304.6	165.8
Cash realisation ratio (%)	33%	12%	92%	101%	118%	70%
Financial Position						
Shareholders' equity (\$m)	1,371.6	NA	1,250.1	1,334.2	1,583.2	1,369.1
Net cash/(debt) (\$m)	86.7	NA	(42.9)	42.8	(80.8)	(275.5)
Gearing ratio (%)	(6.7%)	NA	3.3%	–	4.7%	16.8%
Return on funds employed (%)	24.9%	NA	27.7%	24.4%	19.0%	17.2%
Share Statistics						
Fully paid ordinary shares	1,016.4	1,016.4	909.3	975.6	975.6	928.4
Weighted average ordinary shares	910.1	910.1	928.6	975.6	958.8	928.4
Underlying earnings per share (cents)	21.8	23.0	22.6	22.2	20.3	19.2
Reported (loss)/earnings per share (cents)	(6.2)	(5.0)	20.8	(15.2)	17.9	23.3
Dividends declared per share (cents)	12.5	12.5	13.5	13.0	4.5	–
Dividend payout ratio (%)	57%	54%	60%	59%	22%	–
Other Statistics						
Number of employees (full-time equivalents)	6,400	6,400	6,378	6,378	6,708	5,807

1. Prior period have not been restated for the impact of AASB16.



IGA RITCHIES, ROWVILLE



CORPORATE SOCIAL RESPONSIBILITY

This financial year has been a very challenging one for all the communities in which we operate. Many had been suffering from the impact of ongoing drought conditions and then had to face one of the worst bushfire seasons in our history. From March, Metcash and its retailers had to manage the challenges associated with the spread of COVID-19 and related government restrictions. Metcash is proud of the way it helped our independent retailers support their local communities during these difficult times.

The Company also continued to advance its corporate responsibility with an increased focus on social and environmental initiatives within our operations and the supply chain.

DISASTER RELIEF

Drought

We recognise and embrace our ability to support those Australians impacted by natural disasters. In 2019, we partnered with Drought Angels and St Vincent de Paul (Vinnies) to provide much needed relief to communities across the country. Our retailer network and customers responded to help farming families, and through gold coin donations and the purchasing of \$2 Gift Tokens we were delighted to donate in excess of \$860,000 to Vinnies and Drought Angels, an organisation that assists farming families across Australia affected by natural disasters.

Bushfires

Our strong presence in regional Australia meant the severe bushfires in 2019/20 impacted many of our retailers and the communities in which they operate. Our initial response focused on ensuring our retailers were safe and able to continue to operate and provide essential food and other products to their local communities. This included working closely with government and emergency services to ensure deliveries were able to get through to the impacted stores. Metcash and its independent retailers raised an initial \$280,000 which was donated to Vinnies to provide emergency support to communities in Victoria and New South Wales that were most impacted by the bushfires.

Other assistance included:

- Financial support to impacted retailers and communities across New South Wales, Victoria and South Australia.
- Provision of water and other essential food and cleaning products.
- Logistics support to Foodbank in the distribution of food to those in need.
- Establishment of a Bushfire Appeal in IGA stores.
- Donation of fencing supplies.
- Establishment of 'Tool Libraries' where trade-quality tools could be accessed at no cost.

In total, more than \$1.3m of cash and product was provided to support those communities impacted by the bushfires.

Stories of extraordinary efforts by our retailers supporting their community are available at www.metcash.com.

COMMUNITY AND CHARITIES

The IGA Community Chest Program (CCP) supports a wide range of grassroots community groups, including sporting clubs and schools. In FY20, donations totalling \$3.1m were provided by the CCP to ~1,700 community groups across Australia. This brings total donations since inception of the CCP to ~\$90m.





~1,700

community groups supported through Community Chest in FY20

We also continue to support our national charities, the McGrath Foundation, Vinnies and Special Olympics Australia. In 2020, we celebrated 11 years of partnership with the McGrath Foundation and we are proud to have raised over \$2m to support this very important cause.

Through our partnership with Vinnies we have helped assist people experiencing poverty and inequality in local communities across Australia. Every year we sell \$2 Christmas Baubles in stores with 100% of profits donated to Vinnies. Our staff also participate in the annual Vinnies CEO Sleepout which is held at venues across Australia.

We continued to support Special Olympics Australia, a charity close to our heart, and one which we have supported for almost 30 years. This year we raised ~\$175,000 to empower people with intellectual disabilities to participate in sport, helping them to form lifelong friendships and develop important skills.

LABOUR STANDARDS IN OUR SUPPLY CHAIN

Metcash is committed to complying with relevant modern slavery legislation, including respecting and upholding human rights across our operations and supply chains.

We oppose any form of modern slavery such as slavery servitude, human trafficking and enforced labour, and we recognise that we can influence our supply chains and make positive changes to people’s lives. Our approach to human rights is underpinned by the United Nations Framework and Guiding Principles on Business and Human Rights and the eight international (ILO) fundamental conventions.

During the year, a risk assessment was undertaken to identify potential risk areas of modern slavery and human rights violation in our supply chain and operations. The assessment took into consideration risk by country of origin, industry, product and spend level with reference to the Social Hot Spots Database. This database is maintained by an independent body for the purpose of providing social risk ratings on goods and services. Further potential risk identification was provided through our membership with the Supplier Ethical Data Exchange (SEDEX), which also enables us to review the social audits of many of our suppliers that subscribe to this platform.

Using the findings of these assessments, Metcash commenced a targeted supplier engagement program to investigate areas identified as having elevated risk. Most of this work is scheduled to be carried out in FY21.

Further progress against Metcash’s plan for mitigating the risk of modern slavery included:

- Establishment of a governance process.
- Development of an Anti Slavery policy.
- Review of existing policies, supplier and service provider contractual documentation and procedures.
- Development of employee training and awareness programs.
- Establishment of procedures for remediation and assessing the effectiveness of our actions.

Further information will be provided in the Company’s first Modern Slavery Statement due for release later this year.

CONDOBOLIN SCHOOL

Through the IGA Drought Appeal and the generous donations of our IGA retailers and their customers, we were able to help Condobolin Public School (CPS) students perform alongside thousands of their peers from across New South Wales at the annual New South Wales Schools Spectacular.

The town, in the State’s Central West, is one of many in New South Wales that has been devastated by many years of continuous drought, with many farming families facing financial hardship.

“It’s the first year CPS has participated in Schools Spectacular and Drought Angels has helped make this possible for our students and their families,” Principal Jess Neilson said.

~\$860k

donated to Drought Angels and Vinnies

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

FOOD DONATION AND FOOD WASTE

We continued to expand our food rescue program at our Food warehouses and across our independent retailer network. This led to the amount of food being distributed by our partners Foodbank, OzHarvest and 'Food For Change' to those in need increasing 25% in FY20 to ~530 tonnes.

Our newly established partnership with 'Food For Change' is now operating in 60 IGA stores across New South Wales and Queensland and has resulted in over 120,000 meals being provided to those in need. The program includes the IGA store being provided with a customised app that connects the store to their local food relief agency. Further expansion of this program is expected in FY21.

We are continuing to collaborate with the NSW Environment Protection Authority (EPA) on programs to reduce food waste going to landfill. The collaboration includes staff education programs and transitioning certain stores in New South Wales to auto-ordering to minimise human error in stock management.

This collaboration includes the roll out of a national training program across the IGA network focused on food waste avoidance,

as well as the provision of education material for shoppers and members of the IGA Family Program. The education material includes a 'Food Waste Calculator' designed to provide a better understanding of the true cost of food waste using a life cycle assessment tool.

HEALTHIER CHOICES AND COMMUNITIES

To support healthy eating choices we range nutritious, tasty and affordable products, and provide education material for families looking to live healthier lifestyles.

Our range of healthier choice options under our Community Co label was expanded in the year. This included adding more snacking options as well as salads and conveniently packaged fresh vegetables. We proudly support local communities through the sale of Community Co product with a portion of each sale being donated to the IGA Community Chest program.

Through our IGA Family Program, shoppers are provided with free access to a range of educational resources on how to live a healthier lifestyle. This includes providing information on health and nutrition as well as recipes and fact sheets. There are currently ~40,000 families registered to the program which is operating in ~600 IGA stores across the IGA network.

FOODBANK

In addition to the significant amount of food donated to Foodbank, Metcash also contributed approximately \$250,000 of transport support to help deliver vital Foodbank supplies along the east coast of Australia to those in need.

Johanna was one of thousands who lost their income as a result of the impact of COVID-19. Fortunately, Foodbank was there to support her when faced with this challenge. *"I'm so grateful for Foodbank's support, I don't know where we would be without it."*

Rural Fire Service volunteer, Phillip, saw his own home burn to the ground during the summer bushfires. *"We're having difficulty just living because we've lost our homes,"* he said. *"Simple things like receiving food and clothing are an important part of rebuilding our lives."*



PEOPLE

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

Key developments in the year included:

- Introduction of flexible working arrangements including start and finish times, shift options, job sharing, and work from home.
- Establishment of a Women's Strategy to create an integrated and accountable culture that champions women in the workplace in a fair, respectful and inclusive manner.
- Introduction of a Diversity and Inclusion survey to better understand the diverse nature of our people and determine practices, programs and initiatives for further improvement.

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 FY20, our workforce was 32% female and 68% male supported by our equal opportunity hiring policies. The gender mix of the Metcash Board was 33% female and 67% male.

Group CEO, Jeff Adams, is a Gender Pay Equity Ambassador of the Workplace Gender Equality Agency (WGEA). Through this organisation, Metcash has pledged to drive gender pay equality. Further progress was made in the year with the gap narrowed to less than 1%.

Initiatives to drive gender equality included:

- Promoting an increase in paid parental leave for primary carers from 10 to 12 weeks and secondary carers from one to two weeks.
- Establishment of a Domestic and Family Violence policy that provides eligible employees access to paid and/or unpaid leave and support through our Employee Assistance program.
- Promotion of an additional week of annual leave for employees that meet eligibility criteria that is designed to encourage our people to balance work and home commitments.
- School holiday support for working parents through our Camp Metcash program.

For the second consecutive year, Metcash received an 'Employer of Choice' citation from the Workplace Gender Equality Agency.

COVID-19

The impact of the COVID-19 pandemic was immediate and felt by all Australians. To help support our communities through this unprecedented time we developed an online shopping service, 'IGA Priority Shop', to deliver essential groceries for the elderly, vulnerable, emergency service workers and those in isolation.

We also delivered grocery hampers to doctors and nurses at St Vincent's Hospital in Sydney through the peak of the pandemic, who were working incredibly long hours in attending to the health needs of their patients.

"We are so grateful for IGA's support, it has made a big difference to our frontline staff who are working round the clock to manage this challenging time," said Ashley Richardson, Corporate Partnerships Manager at St Vincent's Curran Foundation.



CORPORATE SOCIAL RESPONSIBILITY CONTINUED

SAFETY, HEALTH AND WELLBEING

We are committed to 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 is embedded in our safety aim of 'Zero Harm'. This year included another significant improvement in our safety performance with TRIFR reducing 16.6% to 26.80 in FY20.

Our 'Making Safety Simple' program continued to be a key driver of this improvement. This included advancement in safe work systems and safety documentation, as well as in employee communication, consultation and engagement. Our 'Safer Me, Safer Metcash' program, focused on encouraging the identification and adoption of safe habits, was also a contributor to the improvement.

The safety, health and wellbeing of our employees is at the top of our priorities at Metcash. The Company provides a range of benefits to support employee health and wellbeing including flu vaccinations, wellbeing leave days, flexible working arrangements, counselling services,

paid parental leave and allowing eligible employees to access an additional week of paid leave. The Company launched its 'HealthMet' program during the year to further support the health and wellbeing of employees. Under this program employees have access to a range of physical and mental health resources such as onsite gyms, mental health and resilience training and 24-hour mental health support.

RESPONSIBLE SOURCING

We remain committed to ensuring our range of Community Co private label products adheres to responsible sourcing principles. This includes working with our suppliers to ensure compliance with our requirements.

More broadly, all food products can only contain RSPO certified sustainable palm oil and must be free of genetically modified ingredients, artificial colours and flavours. We are committed to local and sustainable sourcing with our fresh beef, pork and poultry sourced locally, within Australia. We also stipulate that all our wood and paper based products must have Forest Stewardship Council certification.

ENVIRONMENT

Waste and recycling

We have continued to work with our contractors, building managers and our people to improve recycling and reduce material going to landfill. This year, more than 4,200 tonnes of waste was diverted from landfill.

Further progress was made in the year on reducing the use of plastic in our distribution centres. This was achieved through initiatives designed to minimise wastage by changing the type of wrap plastic used, as well as from the introduction of an automated wrapping process in our Queensland distribution centre.

We continue to assist our retailers to reduce single use plastic across our IGA store network, particularly in the produce, deli and perishable sections. We also participate in the Australian Packaging Covenant's Soft Plastic Working Group to collaborate with government and industry partners to reduce the use of soft plastics.

Safer Me
Safer Metcash

Developing Safe Habits.

Our commitment to
'Zero Harm',
preventing work-related
injury and illness.



5.7%

reduction in Metcash energy usage

Emissions and energy reduction

A continued focus on initiatives to drive energy efficiency led to a 5.7% decline in the Group's energy usage from 94,756 MWh in FY19 to 89,356 MWh in FY20. Total greenhouse gas emissions decreased 2.9% to 85,245 tonnes of CO2e.

Metcash exceeded its target of a 10% reduction in energy usage over the four years ended FY20 and has set a new target of a further 10% reduction in energy consumption by 2025.

Our distribution centres and warehouses are the largest users of energy across the Group and represent our greatest opportunity for further energy reduction. We are currently working with our landlords on the potential installation of solar panels in a number of our distribution centres which, if implemented, would reduce reliance on offsite electricity generation and further reduce greenhouse gas emissions.

Three of our larger distribution centres transitioned away from LPG-fuelled material handling equipment during the year to use all-electric models. This led to a decrease in pollutants and greenhouse gas emissions in these warehouses.

16.6%

reduction in TRIFR

Climate change risk and opportunities

Metcash acknowledges that the increasing volatility of weather events can present risks and opportunities to our business. To better understand climate change risk for Metcash, an assessment of both the perceived physical and transitional risks and opportunities was undertaken.

The key physical driver of climate change risk for Metcash was found to be an increase in the frequency and severity of acute climate change events such as bushfires, drought, floods, extreme storms and cyclones. The assessment concluded that the highest risk associated with these events is likely to be an increase in insurance premiums. Lower level risks included:

- Damage to facilities and equipment.
- A temporary increase in costs to service our retailers during these events.
- A temporary disruption to our supply chain and distribution network.
- Reduced availability and quality of fresh products.
- A decrease in the availability of timber products due to the impact of bushfires.

The major physical opportunity is expected to be an increase in demand for certain product categories such as water, water storage, long life groceries, generators, masks and fire protection equipment.

The assessment found there were medium level transitional risks for Metcash including potential reputational damage should the Company not meet stakeholder expectations on climate risk disclosure, and additional compliance costs should government introduce new greenhouse gas emission regulations or laws.

The Company continues to assess climate change risk and opportunities and plans to expand its disclosure in FY21. This will include reviewing our current climate-related management practices and disclosures against the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and peer disclosures, with further improvements being made as appropriate.



Grant Ramage, Metcash Food, Merchandise Director with the McGrath Foundation.

METCASH SUPPLIER OF THE YEAR AWARDS

The third annual Metcash Supplier of the Year Awards was held early in 2020 to recognise the ongoing commitment, passion and dedication that suppliers have shown in supporting our independent retailers.

As well as celebrating the success and achievements of suppliers, several key charities were supported at the event. Scott Marshall, Metcash Food CEO said:

"Through the generosity of those in attendance we were able to raise more than \$100,000 for each of our three long-term national partners – Special Olympics Australia."



OUR PEOPLE



Jeff Adams

BA, Business Administration and Management

Group CEO, Metcash Group

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

Brad Soller

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

Group CFO, Metcash Group

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

Scott Marshall

B.Business

CEO, Metcash Food

Scott began his career with Metcash in the ALM business over 27 years ago and was appointed CEO of ALM in December 2013. In March 2018 Scott was appointed CEO, Metcash Food. His areas of experience cover warehousing operations and management, sales, retail operations, State general management and marketing management.

Annette Welsh

CEO, Independent Hardware Group

Annette joined Metcash in 2010 and held the roles of GM of Operations and GM Merchandise prior to being appointed CEO of Independent Hardware Group in 2020. Annette has global experience across retail and wholesale and prior to joining Metcash worked for Marks & Spencer and IBM.

OUR BOARD



Robert Murray

MA Hons, Economics (Cantab)

Non-Executive Chairman

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

Jeff Adams

BA, Business Administration and Management

Group CEO, Executive Director

Peter Birtles

BCom (Hons)

Non-Executive Director

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

Tonianne Dwyer

BJuris Hons, LLB Hons, GAICD

Non-Executive Director

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

For Directors' biographies, please see pages 31 and 32 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.



Chris Baddock
GradCertBus, GAICD

CEO, Australian Liquor Marketers
Chris joined Metcash in July 2019 as CEO of Australian Liquor Marketers (ALM). Chris has over 30 years of experience in FMCG including Lion and Woolworths. Most recently Chris was Director of Pinnacle Drinks, a wholly owned subsidiary of the Woolworths Endeavour Drinks Group.

David Reeve

CIO, Metcash Group
David joined Metcash as Chief Information Officer in July 2019. He has over 20 years of experience gained across a wide spectrum of industries including Financial Services, Education, Defence and Airlines. Prior to joining Metcash David was CIO of Macquarie University. He was responsible for the delivery of technology capabilities that enhanced the lives of students and staff as well as the clinicians and patients at MQHealth.

Penny Coates
BA Hons, Chartered Fellow CIPD, GAICD

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

Matt Havens
BA Hons, MBA

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



Murray Jordan
MPA

Non-Executive Director
Member of the Audit, Risk and Compliance Committee, Member of the Nomination Committee, Member of the People and Culture Committee.

Helen Nash
BA Hons, GAICD

Non-Executive Director
Chair of the People and Culture Committee, Member of the Nomination Committee.

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

Company Secretary

FINANCIAL REPORT

For the year ended 30 April 2020

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DIRECTORS' REPORT

Your Directors submit their report of Metcash Limited (the 'Company') and its controlled entities (together the 'Group' or 'Metcash') for the financial year ended 30 April 2020 ('FY20').

Operating and Financial Review

1. Metcash's business model

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

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

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

2. Strategic objectives

Metcash's purpose is 'Championing Successful Independents'. Metcash's vision includes:

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

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

The Group commenced the *MFuture* program at the beginning of FY20. This five-year program spans all business pillars and support functions and adopts a balanced approach to revenue growth and cost out. The program has a strong focus on accelerating successful current initiatives, following the shopper into new growth areas, improving the Group's infrastructure to enable simpler and cheaper processes and ensuring a sustainable cost base into the future. The program aims to deliver competitive and successful independent retailer networks across all pillars and match store formats to customers shopping missions.

3. Key developments

COVID-19 pandemic

The COVID-19 pandemic created an uncertain economic environment causing significant volatility in the business during the last two months of FY20 and into FY21. Metcash has responded by changing its key priorities during the COVID-19 restrictions to focus on protecting the health and wellbeing of its people, keeping its supply chains open to ensure delivery of essential goods; and protecting its balance sheet.

Whilst all of the pillars (Food, Liquor and Hardware) continued to trade during the March and April COVID-19 period, restrictions significantly impacted the Liquor pillar and there was minor disruption in the Hardware pillar. There was a significant uplift in sales in the Food pillar in March and April 2020 reflecting the change in consumer behaviour related to COVID-19 restrictions. The earnings benefit from higher sales in March and April were marginally offset by increased costs to service the elevated demand and costs associated with managing health and safety risks. Sales in the Liquor pillar were negatively impacted by the shutdown of the New Zealand operations and the 'on premise' market in Australia, which together account for approximately 20% of total Liquor sales. In Hardware, there was a positive impact on sales in March and April across both the Trade and DIY segments. Metcash has invested in additional working capital to support its retailers through the COVID-19 uncertainty.

An impairment charge of \$15.6 million was recognised in FY20, primarily in relation to expected credit losses from specific groups of trade receivables impacted by the COVID-19 restrictions and the write off of prepaid commitments for events. This expense is presented separately within 'significant items' in the income statement.

DIRECTORS' REPORT CONTINUED

Equity raising

In April 2020, Metcash took the prudent action of raising \$300 million of equity and securing an additional \$180 million of short-term debt facilities to strengthen its financial position in light of the high level of uncertainty associated with the COVID-19 pandemic. A share purchase plan was also launched in April 2020 and closed in May 2020 raising an additional ~\$14 million of equity.

The increased financial flexibility has enabled Metcash to continue to support its independent retailer network through COVID-19, progress its *MFuture* growth program as well as invest in a number of bolt-on acquisitions, and also be well positioned to capitalise on potential growth opportunities that align with Metcash's strategic direction.

MFuture implementation costs, including South Australia Distribution Centre ('SADC')

The five-year *MFuture* program initiatives are focused on growth opportunities and maximising the effectiveness of the Group's cost of doing business ('CODB'). In FY20, the Group incurred ~\$10 million of implementation costs that are non-routine in nature, such as redundancies and restructuring costs. The program also includes costs associated with the move to a new distribution centre in South Australia (SADC), which is expected to occur by the end of calendar 2020.

MFuture costs are separately disclosed within significant items to enable a better understanding of the Group's results. The costs in relation to the program implementation team and other setup activities are included within each pillar's underlying EBIT.

Loss of 7-Eleven contract and impairment of goodwill and other assets

On 22 November 2019, Metcash advised the market that the 7-Eleven group of convenience stores had communicated their intention not to renew the current supply agreement with Metcash following its conclusion on 12 August 2020. Metcash was unable to reach an agreement with 7-Eleven, determining that changes to supply requirements and delivery routes would lead to supply being uneconomic for Metcash. Following this advice, the Group reassessed the recoverable amount of the Food business and recorded an impairment expense of \$242.4 million against the carrying value of goodwill and other assets at the half year. This expense is presented separately within 'significant items' in the income statement.

Changes in key management personnel (KMP)

As foreshadowed in the FY19 financial report, Chris Baddock was appointed Chief Executive Officer – Australian Liquor Marketers (CEO ALM) from July 2019.

Annette Welsh was appointed as Chief Executive Officer - Elect - Independent Hardware Group (CEO-Elect IHG) from 13 February 2020 following Mark Laidlaw's resignation from the role. Mr Laidlaw remained as CEO of IHG until 30 April 2020 to assist with Ms Welsh's transition into the role.

Peter Birtles and Wai Tang joined the Metcash Board as Non-executive Directors in August 2019 following the retirement of Fiona Balfour and resignation of Anne Brennan. Mr Birtles joined the Audit Risk & Compliance Committee from his appointment date while Ms Tang joined the People & Culture Committee from 1 August 2019. Sadly Ms Tang passed away after a short illness in February 2020 and a search is underway for her replacement.

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

Dividend declaration

The Board has determined to pay a fully franked final FY20 dividend of 6.5 cents, which together with the interim dividend of 6.0 cents, represent a full year dividend payout ratio of ~60% of Underlying Earnings Per Share.

4. Key financial measures

Warehouse earnings

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

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

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

DIRECTORS' REPORT CONTINUED

Cost of doing business

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

The *MFuture* program commenced in FY20 and includes initiatives aimed at both revenue growth and ensuring the Group has a sustainable cost base into the future.

Funds employed and return on capital

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

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

Impact of new accounting standards on key financial measures

In FY20, the Group applied AASB 16 *Leases* using the modified retrospective transition option. Accordingly, the comparative information in the FY20 financial report has not been restated. The Group has provided supplementary information in its FY20 full year results presentation to bridge the financial statements between the old and new standards. Whilst the FY20 financial report is subject to an audit by the Group's auditors, pre AASB 16 financial information contained within the report for FY20 is unaudited and has not been reviewed by the auditors. Appendix A to the financial report provides a description of the key changes arising from the new accounting standards and the impact of the application of AASB 16 *Leases*.

5. Review of financial results

Group overview

	FY20 as reported \$m	Less: AASB 16 impact \$m	Comparable financial information	
			FY20 pre AASB 16 (a) \$m	FY19 as reported (b) \$m
Sales revenue	13,025.4	-	13,025.4	12,660.3
Food	182.7	(5.2)	177.5	182.7
Liquor	72.8	(2.2)	70.6	71.2
Hardware	84.2	(3.0)	81.2	81.2
Corporate	(4.8)	(0.3)	(5.1)	(5.1)
Underlying earnings before interest and tax ('EBIT')	334.9	(10.7)	324.2	330.0
Net finance costs	(52.0)	26.1	(25.9)	(28.9)
Underlying profit before tax	282.9	15.4	298.3	301.1
Tax expense on underlying profit	(82.5)	(4.5)	(87.0)	(88.5)
Non-controlling interests	(1.6)	-	(1.6)	(2.3)
Underlying profit after tax ('UPAT') (c)	198.8	10.9	209.7	210.3
Significant items	(268.5)	-	(268.5)	(25.0)
Tax benefit attributable to significant items	12.9	-	12.9	7.5
Net (loss)/profit for the year attributable to members	(56.8)	10.9	(45.9)	192.8
Underlying earnings per share (cents) (d)	21.8	1.2	23.0	22.6
Reported (loss)/earnings per share (cents)	(6.2)	1.2	(5.0)	20.8

(a) Whilst the FY20 financial report is subject to an audit by the Group's auditors, pre AASB 16 financial information for FY20 is unaudited and is not reviewed by the auditors.

(b) The financial information for FY19 was not restated upon the adoption of AASB 16 *Leases* in FY20. The FY20 financial information is therefore not comparable to FY19. Comparable financial information is presented on a pre AASB 16 (unaudited) basis to bridge the financial statements between both standards. Refer Appendix A for a further description of the impact of AASB 16.

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

(d) Underlying earnings per share (EPS) is calculated by dividing UPAT by the weighted average shares outstanding during the year.

DIRECTORS' REPORT CONTINUED

Reported Group revenue, which excludes charge-through sales, increased 2.9% to \$13.0 billion (FY19: \$12.7 billion). Including charge-through sales, Group revenue increased 2.0% to \$14.9 billion (FY19: \$14.6 billion), with sales growth in the Food and Liquor pillars partly offset by a decline in Hardware.

Group underlying EBIT (pre AASB 16) decreased \$5.8 million (1.8%) to \$324.2 million (FY19: \$330.0 million), reflecting a lower contribution in the Food pillar where FY20 EBIT was negatively impacted by lower reported earnings from the resolution of onerous lease obligations and ceasing to supply Drakes Supermarkets in South Australia. After adjusting for these items, Group underlying EBIT increased by ~\$12 million.

Liquor EBIT (pre AASB 16) was only \$0.6 million lower than the prior year despite the closure of customers' 'on-premise' businesses in Australia and our New Zealand operations, which took effect from the last week of March 2020. These businesses account for approximately 20% of total Liquor sales.

In Hardware, an increase in higher margin DIY sales, cost savings and earnings from acquisitions helped offset the impact of a decrease in Trade sales and deliver earnings in line with last year (pre AASB 16).

Group underlying profit after tax (pre AASB 16) of \$209.7 million¹ was broadly in line with the prior year (FY19: \$210.3 million). Underlying earnings per share (pre AASB 16) increased 1.8% to 23.0 cents reflecting the benefit of the Company's share buy-back in FY19.

Group reported loss after tax (pre AASB 16) of \$45.9 million (FY19: Group reported profit after tax of \$192.8 million) includes the recognition of a \$237.4 million (post tax) impairment of goodwill and other assets in 1H20 following advice from 7-Eleven that it will not be renewing its current supply agreement with Metcash.

Segment results

	Segment revenue		Segment underlying EBIT		
	FY20	FY19	FY20	FY20	FY19
	\$m	\$m	as reported	pre AASB 16 (a)	(b)
Food	8,121.6	7,836.4	182.7	177.5	182.7
Liquor	3,670.3	3,658.8	72.8	70.6	71.2
Hardware	1,233.5	1,165.1	84.2	81.2	81.2
Corporate	-	-	(4.8)	(5.1)	(5.1)
Metcash Group	13,025.4	12,660.3	334.9	324.2	330.0

- a) Whilst the FY20 financial report is subject to an audit by the Group's auditors, pre AASB 16 financial information for FY20 is unaudited and is not reviewed by the auditors.
- b) The financial results for FY19 were not restated upon the adoption of AASB 16 *Leases* in FY20. The FY20 segment underlying EBIT is therefore not comparable to FY19. Comparable financial information is presented on a pre AASB 16 (unaudited) basis to bridge the financial statements between both standards. Refer Appendix A for a further description of the impact of AASB 16.

Food

Total Food sales (including charge-through sales) increased 3.5% to \$9.1 billion (FY19: \$8.8 billion).

In Supermarkets, total sales (including charge-through) increased 3.8% to \$7.5 billion (FY19: \$7.2 billion). Importantly, total sales for the 10 months to February (pre the positive benefit from COVID-19) increased 0.2%.

Wholesale sales (ex-tobacco) increased 3.9% (+6.3% ex Drakes impact²) in FY20 reflecting continued improvement in the sales trajectory for the 10 months to February together with a significant uplift in volumes in March and April related to COVID-19 restrictions. Wholesale sales (ex-tobacco) in the second half of the financial year increased 8.0% (+12.3% ex Drakes impact²) and were up 2.5% (ex Drakes impact²) in the four months to February 2020 (pre COVID-19 impact). This is the first year of underlying growth in wholesale sales (ex-tobacco) since FY12, and represents confirmation that the business's strategic initiatives are delivering positive results.

Our IGA retailer network also performed well with 'like for like' (LfL)³ retail sales up 5.6% (FY19: -0.5%). Strategic initiatives to further improve the competitiveness of the network and a shift in consumer behaviour to more local neighbourhood shopping during the COVID-19 restrictions delivered market share gains.

¹ Excludes significant items: Impairment of goodwill and other assets in 1H20 of \$237.4 million (post tax), COVID-19 related impairment of \$10.9 million (post tax), and MFuture restructure and South Australia DC costs of \$7.3 million (post tax).

² Metcash ceased to supply Drakes in South Australia from 30 September 2019. Sales growth has been calculated by removing Drakes sales from the prior period (1 October 2018 to 30 April 2019).

³ Scan data from 950 IGA stores.

DIRECTORS' REPORT CONTINUED

Supermarkets teamwork score continued to improve, increasing two percentage points to ~74%.

Convenience sales increased 2.0% to \$1.59 billion (FY19: \$1.56 billion) reflecting mainly higher tobacco sales from larger customers.

Food EBIT (pre AASB 16) decreased \$5.2 million (2.8%) to \$177.5 million (FY19: \$182.7 million). Underlying EBIT however improved by ~\$12 million after adjusting for the decline in the contribution from the resolution of onerous lease obligations and the impact of ceasing to supply Drakes in South Australia. The increase in underlying EBIT reflects the contribution from increased sales, particularly in March and April and improved earnings from joint ventures.

The EBIT margin⁴ for Food declined 20 basis points to 1.9% due to the additional cost to service customers as a result of COVID-19 restrictions and an investment in price, in part driven by higher volume rebates to retailers.

Reported EBIT of \$182.7 million includes a positive AASB 16 adjustment of \$5.2 million.

Liquor

Total Liquor sales (including charge-through sales) increased 0.3% to \$3.68 billion (FY19: \$3.67 billion), despite being adversely impacted by COVID-19 restrictions in March and April.

Total sales for the 10 months ended February 2020 (pre COVID-19 restrictions) increased 2.2%, reflecting value growth from the continuing 'premiumisation trend' and an increase in 'on-premise' sales.

Sales in March and April were adversely impacted by the government closure of customers' 'on-premise' businesses in Australia and our New Zealand operations which took effect from the last week of March. This was partly offset by an increase in volumes in the Australian retailer network reflecting increased buying in anticipation of government shutdowns, higher demand following the shutdown of the Australian 'on-premise' market and an increased consumer preference for local neighbourhood shopping.

LfL sales⁵ in the IBA banner group increased 3.2% supported by continued network investment and increased demand in March and April.

Liquor EBIT (pre AASB 16) decreased \$0.6 million to \$70.6 million reflecting the impact of COVID-19 restrictions on sales volumes in March and April, and additional costs associated with managing impacted Australian 'on-premise' and New Zealand customers and health and safety risks, partly offset by growth in the underlying business. Liquor EBIT margin was maintained at 1.9%.

Reported EBIT was \$72.8 million and includes a positive AASB 16 adjustment of \$2.2 million.

Hardware

Hardware sales (including charge-through sales) decreased 1.3% to \$2.08 billion (FY19: \$2.10 billion) reflecting the impact of the slowdown in construction activity on Trade sales and the loss of a large HTH customer in 1H19.

There was a significant improvement in 2H20 with sales up 1.8% (1H20: -4.2%) buoyed by the positive impact of COVID-19 restrictions in March and April. This included strong demand in DIY categories, particularly paint and garden, and some forward purchasing in March in anticipation of government restrictions.

Total sales decreased 2.8% for the 10 months ended February 2020 (pre COVID-19 impact), reflecting a decline in Trade sales and the loss of a large HTH customer in Queensland in 1H19.

Online sales continued to grow strongly, up 40% in the year, albeit from a relatively low base.

Total wholesale LfL⁶ sales to the IHG banner group were flat in 2H20 (1H20: -2.6%) resulting in a decline of 1.1% for the full year.

Retail sales⁷ in the IHG banner increased 1.6% in 2H20 on a LfL basis (1H20: -3.2%), and were down 0.7% in the full year.

Hardware EBIT (pre AASB 16) was in line with FY19 at \$81.2 million, reflecting the impact of the decline in Trade sales, offset by the higher contribution from an increase in the proportion of DIY sales, cost savings from further rationalisation of the business's distribution centre network and a contribution from acquisitions.

Hardware EBIT margin was maintained at 3.9%.

Reported EBIT was \$84.2 million and includes a positive AASB 16 adjustment of \$3.0 million.

⁴ Based on EBIT (pre AASB 16) and sales (including charge-through).

⁵ Based on scan data from 584 stores.

⁶ Includes sales to independent retailers and company-owned stores.

⁷ Based on a sample of 198 network stores that provide scan data (represents >50% of sales).

DIRECTORS' REPORT CONTINUED

Finance costs and tax

The FY20 reported net finance costs included the finance charge component of lease payments under AASB 16 of \$28.5 million. On a pre-AASB 16 basis, net finance costs decreased during the year reflecting lower interest rates.

Tax expense of \$82.5 million on underlying profit represents an effective tax rate of 29.2% (FY19: 29.4%).

Significant items

The FY20 significant items included an impairment expense of \$242.4 million, recorded in 1H20 against the carrying value of goodwill and other assets in the Food segment following the loss of the 7-Eleven contract. Significant items also included an allowance for impairment losses on receivables from customers and prepaid costs impacted by COVID-19 restrictions of \$15.6 million and costs related to the SADC and the *MFuture* program of \$10.5 million.

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

Refer note 3 of the financial report for further information.

Cash flows

	FY20 as reported \$m	FY20 pre AASB 16 (a) \$m	FY19 (b) \$m
Operating cash flows	117.5	33.0	244.9
Investing cash flows	(36.4)	(81.6)	(47.9)
Proceeds from equity raising, net of share issue costs	294.3	294.3	-
Share buyback	-	-	(150.3)
Dividends paid and other financing activities	(123.5)	(123.5)	(130.3)
Payments for lease liabilities	(129.7)	-	-
Reduction/(increase) in net debt	122.2	122.2	(83.6)

(a) Whilst the FY20 financial report is subject to an audit by the Group's auditors, pre AASB 16 financial information for FY20 is unaudited and is not reviewed by the auditors.

(b) The cash flows for FY19 were not restated upon the adoption of AASB 16 *Leases* in FY20, except net debt which has been revised to comply with AASB16. The FY20 cash flows are therefore not comparable to FY19. Comparable cash flows are presented on a pre AASB 16 (unaudited) basis to bridge the cash flows between both standards. Refer Appendix A for a further description of the impact of AASB 16.

In order to enable comparison to FY19, the results are compared on a pre AASB 16 basis.

Operating cash flows of \$33.0 million (pre AASB 16) were lower than the prior year reflecting the Group's strategic decision to increase investment in working capital to support the retailer network, including ~\$125 million related to the impact of COVID-19.

The Group had net investing outflows of \$81.6 million (pre AASB 16) of which \$61.5 million relates to capital expenditure and net \$20.1 million relates to acquisitions and disposals of businesses and loans repaid by other entities.

The Group raised \$294.3 million of equity (net of transaction costs) during the year to support the retail network through additional investment in working capital, provide financial flexibility during the current uncertain environment and position the Group for further investment in growth, including capitalising on potential opportunities.

The Group paid \$118.2 million (FY19: \$127.4 million) in dividends during the current financial year, largely reflecting the lower number of shares on issue following the share buy-back in FY19. Total dividends paid in FY20 was 13.0 cents per share (FY19: 13.5 cents per share).

DIRECTORS' REPORT CONTINUED

Financial position

	FY20 \$m	FY19 \$m
Trade receivables	1,559.0	1,472.5
Inventories	1,032.2	779.3
Trade payables and provisions	(2,181.9)	(2,051.5)
Net working capital	409.3	200.3
Intangible assets	581.8	793.5
Property, plant and equipment	214.0	218.0
Equity-accounted investments	77.6	87.7
Customer loans and assets held for sale	56.3	48.2
Total funds employed	1,339.0	1,347.7
Lease receivables	292.7	-
Right-of-use assets	485.4	7.8
Lease provisions	(58.1)	(159.0)
Lease liabilities	(886.1)	(7.4)
Lease balances	(166.1)	(158.6)
Net cash/(debt)	86.7	(35.5)
Tax, put options and derivatives	112.0	96.5
Net assets/equity	1,371.6	1,250.1

The financial position for FY19 was not restated upon the adoption of AASB 16 Leases in FY20. Refer Appendix A for a further description of the impact of AASB 16.

Net working capital increased by \$209.0 million to \$409.3 million, reflecting the Group's strategic decision to increase investment in working capital to support the retailer network.

Capital expenditure amounted to \$61.5 million during the year, which is broadly in line with depreciation and amortisation expense (excluding ROU assets) of \$54.1 million.

Following the equity raising, the Group ended the year in a positive net cash position of \$86.7 million (FY19: Net debt of (\$35.5 million)).

The Group raised \$294.3 million (net) of cash from new equity. Metcash had \$830.6 million in unused debt facilities and \$275.1 million of cash and equivalents available at the reporting date for immediate use.

COVID-19 uncertainty

The Group has incorporated judgements, estimates and assumptions specific to the impact of the COVID-19 pandemic in determining the amounts recognised in the financial statements based on conditions existing at balance date, recognising uncertainty still exists in relation to the duration of the COVID-19 pandemic-related restrictions, the anticipated government stimulus and regulatory actions.

Commitments, contingencies and other financial exposures

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 within a range, in accordance with treasury policy. At year end, 68% of gross debt was fixed. Further details are set out in note 15 of the financial statements.

DIRECTORS' REPORT CONTINUED

6. Outlook

In the Food pillar, sales in the first seven weeks of FY21 continued to benefit from a change in consumer behaviour with total Food sales up 9.3%, and Supermarkets wholesale sales ex tobacco (ex Drakes impact) up 16.7%. The earnings benefit from the increase in sales continues to be marginally offset by higher costs to service the elevated demand and manage health and safety risks.

As previously advised, there will be no sales to Drakes in South Australia in FY21 and there will be lower sales to 7-Eleven.

The business is continuing to progress its growth initiatives focused on further improving the competitiveness of its retailer network and has a strong focus on costs to help offset the impact of inflation and other cost pressures.

In the Liquor pillar, sales for the first seven weeks of FY21 increased 5.5% despite customers in New Zealand and 'on-premise' customers in Australia being impacted by COVID-19 trading restrictions. Trading restrictions were partially lifted in both New Zealand and Australia in May and early June, and all trading restrictions in New Zealand lifted on 9 June 2020.

The increase in sales for the first seven weeks of FY21, excluding those customers impacted by the trading restrictions, was ~15%.

The business is focused on managing through the changed external environment while also progressing its strategic initiatives including private label and accelerating the rollout of its new 'Shop My Local' online offer across the network.

In the Hardware pillar, sales for the first seven weeks of FY21 have increased 9.4% underpinned by continuing strong demand in DIY categories.

Weak indicators of future residential construction suggest further weakness in the Trade sector is likely from the second half of FY21. However, the government's recently announced stimulus package to boost residential construction and renovations activity is expected to help mitigate this weakness.

The business is continuing to progress its growth initiatives in Trade, DIY and digital, and has a strong focus on costs to help offset the impact of any reduction in sales volumes.

There is uncertainty over the timing of further lifting of COVID-19 restrictions in Australia and the extent that our businesses will continue to benefit from the favourable change in consumer behaviour.

DIRECTORS' REPORT CONTINUED

7. Material business risks

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

Strategic risks

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

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

COVID-19 risks

Metcash is currently monitoring the actual and potential impact of COVID-19 on the overall business of the Group, each business pillar and the broader economy. Given the high degree of uncertainty surrounding the extent and duration of COVID-19, it is not currently possible to assess the full impact of COVID-19 on the Group's business or the economy generally. However, a prolonged period of social distancing, quarantines, travel restrictions, work stoppages, health authority actions, lockdowns and other related measures within Australia and internationally, or an escalation of existing measures, may directly and indirectly impact a number of aspects of the Group's business.

Market risks

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

In its Food pillar, Metcash services a number of large customers known as Multiple Store Owners (MSOs). In addition, Metcash supplies Foodworks stores under a supply agreement that is terminable by either party without cause on 12 months' notice. If any one or more MSOs or Foodworks were to materially reduce or cease to source their inventory from Metcash for any reason, this would adversely impact Metcash's long-term performance and profitability. The Group's *M-Future* program objective is to ensure Metcash can serve customers in the most effective and efficient manner.

Tobacco sales represent a significant proportion of the products Metcash supplies to its independent retailers. The Australian government legislated for an annual 12.5% increase in customs and excise duties which, under the current legislation, will end in September 2020. Metcash's earnings include a revaluation gain based on the value of tobacco stock on hand at the time of the duty and related sales price increase that flows through to earnings as this stock is sold. If Metcash is unable to purchase tobacco at historical levels, or duty increases are not continued at historical levels or are removed, this could negatively impact Metcash's profitability. The current duty and related sales price increases are legislated to occur in September 2020, so any subsequent reduction or cessation of duty increases should not impact earnings until FY22. Metcash is in discussions with tobacco suppliers to determine revised trading terms should the annual customs and excise duty increase be reduced or cease in 2021.

The Group commenced the *MFuture* program in FY20. The program reflects a balanced approach to revenue growth and cost out. The strategy includes; accelerating successful current initiatives, following the shopper into new growth areas, improving the Group's infrastructure to enable simpler processes and ensuring a sustainable cost structure into the future. At the heart of Metcash's strategy is delivering competitive and successful independent retailer networks across all pillars.

Operational and compliance risks

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

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

DIRECTORS' REPORT CONTINUED

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

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

Financial risks

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

Funding and liquidity risk remain material to the Group due to the need to adequately fund business operations, growth initiatives and absorb potential loss events that may arise. Inability to adequately fund the Group's business operations and growth plans may lead to difficulty in executing the Group's strategy. Metcash maintains a prudent approach towards capital management, which includes optimising working capital, targeted capital expenditure, capital and asset recycling and careful consideration of its dividend policy. In addition, banking facilities are maintained with sufficient tenor, diversity and headroom to fund business operations. The Group's financial risk management framework is discussed in further detail in note 15 of the financial statements.

Information technology systems failure

Metcash's customer service relies on Metcash's ability to satisfactorily manage high turnover volumes and a large number of customers and suppliers. A severe disruption to the information technology systems may significantly impact the operations and value of Metcash.

With expanding information privacy and security regulations, and an increasingly hostile cyber environment, Metcash recognises information privacy and cyber security as an increasing risk. Any breach by Metcash of privacy and security regulations could expose Metcash to penalties (including financial penalties), which could adversely affect Metcash's financial position or cause reputational harm.

Climate change risks

Metcash's operations could be impacted by natural disasters, extreme weather events or other catastrophic events which could materially disrupt its operations and supply chain. There is also a risk that, with time, the frequency and intensity of natural disasters and extreme weather events may increase if climate change accelerates or worsens. While Metcash has in place insurances that it considers are sufficient for a business of its type and size there can be no assurance that the insurance would cover the relevant events, for example Metcash does not have specific pandemic insurance cover for business interruption.

People and culture

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

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

A strong emphasis is placed on the implementation of work health and safety standards, nonetheless the risk of injury remains possible. The Group's safety processes have been reviewed in light of COVID-19 and, where appropriate, additional processes and procedures implemented.

End of the Operating and Financial Review

DIRECTORS' REPORT CONTINUED

Board information

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

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

Independent Non-executive Chair

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

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

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

Rob is currently a non-executive director of Southern Cross Media Group Limited (since 2014), Advisory Chairman of Hawkes Brewing Company (since August 2019) and is a board member of the not-for-profit charity the Bestest Foundation.

JEFFERY K ADAMS (BA, Business Administration and Management)

Group Chief Executive Officer, Executive Director

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

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

TONIANNE DWYER (B Juris (Hons), LB (Hons), GAICD)

Independent Non-executive Director

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

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

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

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

MURRAY P JORDAN (MPA and MAICD)

Independent Non-executive Director

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

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

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

DIRECTORS' REPORT CONTINUED

HELEN NASH (BA Hons, GAICD)

Independent Non-executive Director

Helen was appointed to the Board on 23 October 2015. She is the Chair of the People and Culture Committee (since August 2019) and is also a member of the Nomination Committee.

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

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

Helen is currently a non-executive director of Southern Cross Media Group Limited (since April 2015) and Inghams Group Limited (since May 2017), and a former non-executive director of Blackmores Limited (2013 to 2019).

PETER BIRTLES (BCom (Hons))

Independent Non-executive Director

Peter was appointed to the Board on 1 August 2019. He is a member of the Audit, Risk and Compliance Committee and Nomination Committee.

Peter has over 30 years' experience in retail and consumer goods industries, including 18 years with Super Retail Group Limited where he was Managing Director and Chief Executive Officer from 2006 to early 2019, and therefore brings a strong FMCG lens to his role.

Peter's executive career also includes extensive experience in accounting and finance having previously held the position of Chief Financial Officer of Super Retail Group Limited, as well as other senior financial roles during his 12 years with The Boots Company in the UK and Australia.

Peter is a non-executive director of GWA Group Limited (since 2010), and also a director of APG & Co Pty Limited and Apparel Group Pty Limited (both since July 2019), as well as Good360 Australia Ltd (since August 2019). Peter was formerly a director of Auto Guru Limited (2015 to 2019).

FORMER DIRECTORS

Wai Tang was Non-Executive Director from 1 August 2019 to 14 February 2020.

Fiona Balfour retired from her role as Non-Executive Director on 28 August 2019.

Anne Brennan resigned from her role as Non-Executive Director on 28 August 2019.

COMPANY SECRETARY

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

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

Indemnification and insurance of Directors and Officers

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

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

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

	Appointed	Retired/Resigned	Meetings held	Meetings attended	Ordinary shares held at reporting date
Board of Directors					
Robert Murray (Chair)(a)	29 Apr 2015	-	9	9	84,005
Jeffery Adams	5 Dec 2017	-	9	9	-
Tonianne Dwyer	24 Jun 2014	-	9	9	60,000
Murray Jordan	23 Feb 2016	-	9	9	42,651
Peter Birtles	1 Aug 2019	-	8	8	40,000
Helen Nash	23 Oct 2015	-	9	9	37,431
Wai Tang	1 Aug 2019	14 Feb 2020	3	3	-
Anne Brennan	26 Mar 2018	28 Aug 2019	2	2	-
Fiona Balfour	16 Nov 2010	28 Aug 2019	2	2	-
Audit, Risk & Compliance Committee					
Tonianne Dwyer (Chair) (b)	24 Jun 2014	-	6	6	
Murray Jordan	23 Feb 2016	-	6	6	
Peter Birtles	1 Aug 2019	-	5	5	
Anne Brennan	26 Mar 2018	28 Aug 2019	2	2	
People & Culture Committee					
Helen Nash (Chair) (c)	23 Oct 2015	-	7	7	
Murray Jordan	31 Aug 2016	-	7	7	
Robert Murray	27 Feb 2020	-	4	4	
Wai Tang	1 Aug 2019	14 Feb 2020	2	2	
Fiona Balfour	16 Nov 2010	28 Aug 2019	2	1	
Nomination Committee					
Robert Murray (Chair)	29 Apr 2015	-	1	1	
Tonianne Dwyer	24 Jun 2014	-	1	1	
Murray Jordan	23 Feb 2016	-	1	1	
Peter Birtles	1 Aug 2019	-	0	0	
Helen Nash	23 Oct 2015	-	1	1	
Wai Tang	1 Aug 2019	14 Feb 2020	0	0	
Anne Brennan	26 Mar 2018	28 Aug 2019	1	1	
Fiona Balfour	27 Feb 2013	28 Aug 2019	1	1	

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

(b) Ms Dwyer was appointed Chair of the Audit, Risk & Compliance Committee on 1 July 2018.

(c) Ms Nash was appointed as Chair of the People & Culture Committee on 1 July 2019.

From time to time, additional Board committees or working groups are established, and meetings of those committees and working groups are held throughout the year, for example, to consider material transactions or material issues that may arise. The Board also holds regular calls with the Group CEO to stay abreast of current matters and further Board update calls have been held since March 2020 to monitor the evolving situation with respect to COVID-19 and business impacts. These committee/working group meetings and update calls are not included in the above table.

In addition, the Group holds a strategy session each year. In FY20, this strategy session was held in October 2019. All Board members in office at that time attended the FY20 strategy session.

DIRECTORS' REPORT CONTINUED

Remuneration Report

Dear Shareholder,

On behalf of the Board I am pleased to present our Remuneration Report for the financial year ended 30 April 2020. We believe the outcomes for the year are a fair reflection of the performance of Metcash, our businesses and key individuals.

Firstly, it is important to highlight the exceptional conditions in which we have continued to operate during the year, with the worst bushfire season for many years and the COVID-19 outbreak deeply affecting the communities we and our retailers serve. We have risen to these challenges, working exceptionally hard to protect the health and wellbeing of our people, deliver essential services by enabling our people to do whatever it takes to keep our supply chains open and making sure our business remains strong for all stakeholders, including you, our shareholders.

FY20 performance

I am pleased to report that we rose to these challenges with all pillars performing well. Our Food pillar, and to a lesser extent our Hardware pillar, benefited from increased demand in March and April related to the COVID-19 restrictions. Importantly, Food delivered sales growth pre the positive impact of COVID-19, with Supermarkets wholesale sales ex tobacco reporting underlying sales growth for the first time since FY12. Our Hardware pillar returned to growth in the second half, and our Liquor pillar delivered its seventh consecutive year of sales growth despite ~20% of its business being shutdown in the last five weeks of the financial year as a result of COVID-19. Progress on key initiatives to improve the quality and competitiveness of our retailer network have been key drivers of the improvement in our underlying business.

From an earnings perspective, Group Underlying EBIT (pre AASB 16) decreased 1.8% to \$324.2 million, but was ~\$12 million or 3.7% higher after adjusting for the loss of Drakes Supermarkets in South Australia from 30 September 2019, and a lower contribution from lease resolutions this year. Underlying profit after tax was broadly in line with the prior year at \$209.7 million, and was above the prior year after adjusting for the two items mentioned above. In November 2019, the company announced that 7-Eleven had advised that it would not renew its current supply contract with Metcash which concludes on 12 August 2020. Disappointingly, more onerous requirements by 7-Eleven made renewal of the contract uneconomic for Metcash, and therefore not in the interest of shareholders. This led to a non-cash impairment expense of \$242.4 million being made against goodwill and other assets in 1H20, resulting in a statutory loss for the year.

Going forward, we are well positioned with a strong balance sheet to continue to manage through the current uncertainties associated with COVID-19, while also investing in our growth opportunities.

Our framework

Metcash's Executive Remuneration Framework is designed to be market competitive in order to attract, motivate and retain high performing executives who deliver financial returns and create greater shareholder value.

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 rewards 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 have continued to listen and consider shareholders' perspectives on our pay mix and structure, which led to the Board undertaking a comprehensive review of the benchmarking approach during the year, in consultation with external independent advisers. Whilst the overall benchmarking approach was determined to be robust and statistically sound, the Board will apply the changes set out in section 3.1 of the remuneration report, with effect from FY21, including the replacement of the three-year with a one-year average market capitalisation metric and an adjusted benchmarking peer group.

Other key changes to executive remuneration for FY20 include:

- Reducing the cash component of any STI payments for KMP through a part deferral into performance rights. This will result in the majority of on-target 'at risk' remuneration being delivered in equity.
- Expanding the minimum shareholding policy to cover all KMP. This results in a greater alignment between executive reward and shareholder interests.
- Changing LTI hurdles to Return on Funds Employed (ROFE) and absolute TSR. ROFE replaces the previous EPS CAGR hurdle and reflects Metcash's strategic growth focus which includes significant investments under the new *MFuture* program.

We believe the above changes, which result in no overall increase to the total value of executive reward, provide an improved alignment between executive remuneration and shareholders' interest.

DIRECTORS' REPORT CONTINUED

Remuneration outcomes

In arriving at overall remuneration outcomes for FY20, the Board and management were cognisant of the wider economic challenges facing the community and many of our customers, agreeing that it would be inappropriate for executives to benefit unduly from the pandemic, including the trading outcomes in the last few weeks of the financial year. The Board wish to acknowledge the significant efforts made by management to trade through the housing downturn, the unprecedented bushfire season and the pandemic.

As outlined above, the Board also acknowledged that the business was on track to deliver a strong result prior to the COVID-19 outbreak, with the exception of the 7-Eleven group of convenience stores not renewing the current supply agreement with Metcash following its conclusion on 12 August 2020. Metcash was unable to reach an agreement with 7-Eleven, determining that changes to supply requirements and delivery routes would lead to supply being uneconomic for Metcash.

In arriving at remuneration outcomes that were fair to both executives and shareholders, the Board took the following approach:

- Increases to KMP fixed remuneration were deferred until the trading environment becomes more certain;
- STI awards and LTI vesting were broadly based on pre-pandemic outcomes to avoid any undue benefit;
- Deferrals were increased for this year's STI awards from 33% to 50% for the Group CEO and from 25% to 40% for other KMP, for greater shareholder alignment in these uncertain times; and
- Non-executive Directors (NED) fee increases were postponed until the trading environment becomes more certain.

Further details are outlined in the relevant section below.

Fixed remuneration

As part of the Aon Hewitt pay benchmarking review, it was noted that executive pay has continued to increase across our peer group, particularly at the Group CEO and CEO Food level.

Despite being below the market data peer group, Mr Adams chose to forgo any market increase in FY20. None of the Key Management Personnel ('KMP') were awarded fixed increases in FY20.

In addition, due to the uncertain nature of the current COVID-19 environment and as a precautionary measure, the Board chose to postpone remuneration increases for the Group CEO and KMP for FY21. This will be reviewed in the post COVID-19 environment.

Short term incentives

STI outcomes for KMP are based on pool and balanced scorecard results and, prior to any adjustments from the Board, ranged from 27% to 82% of maximum.

The Board gave very thoughtful consideration to KMP STIs in these unprecedented circumstances. Notwithstanding the significant efforts made by management, the Board applied discretion and reduced the STI awards for the Group CEO, CEO Food and CFO to avoid undue benefit from COVID-19 trading and to reflect the non-renewal of the 7-Eleven agreement. The STI awards for the CEO ALM and CEO IHG were adjusted to reflect pre COVID-19 outcomes. The adjusted STI awards ranged from 36% to 44% of maximum.

As foreshadowed in last year's financial report, KMP FY20 STI outcomes are subject to a one-year deferral component. The Board again applied discretion to the appropriate quantum of deferral and elected to temporarily increase the percentage deferral from the planned 33% up to 50% of earned STI deferred as Metcash performance rights for the Group CEO and from 25% up to 40% for all other KMP, subject to the executives remaining in employment until 15 April 2021. The shares will then be restricted from trading until the end of June 2021.

Long term incentive schemes

The FY18-20 LTI plan was subject to two equally-weighted performance hurdles, being relative total shareholder return (RTSR) and underlying earnings per share compound annual growth rate (UEPS CAGR), subject to the KMP being employed as at 15 August 2020.

The FY18-20 LTI results, which also included a positive impact from COVID-19, partially vested at 71.9%. Nevertheless, the Board again applied discretion to reduce the vesting to pre-COVID 19 outcomes at 67.4%.

The FY19-FY21 LTI and FY20-FY22 LTI plans are both currently expected to result in nil vesting, in part due to the impact of the loss of Drakes and 7-Eleven businesses on future earnings and our share price.

Given the challenges in setting meaningful FY21 targets for KMP in the current environment, the Board has tasked KMP with continuing to focus on the three COVID-19 priorities: protecting the health and wellbeing of our people; delivering essential services by enabling our people to do whatever it takes to keep our supply chains open; and making sure our business remains strong for all stakeholders. The Board will monitor the trading environment and establish FY21 performance scorecards in the coming few months. Targets will require monitoring over the FY21 financial year, to ensure their ongoing appropriateness.

DIRECTORS' REPORT CONTINUED

Group CEO Remuneration Outcomes

For Mr Adams' STI and LTI vesting (see below for details), the Board determined the following as a fair and balanced reflection of his contribution over FY20:

Scorecard component	Weighting	Outcome	% of maximum earned	STI earned	Discretion applied	STI awarded	% of maximum \$ awarded	FY18-20 LTI vesting earned	FY18-20 LTI vesting awarded
Financials	60%	Well above target							
Non-financials	40%	Slightly below target	71%	\$1.9 million	\$0.7 million	\$1.2 million (\$0.6 million cash, \$0.6 million deferral)	44%	71.9% or 336,351 shares	67.4% or 315,300 shares
Total*	100%	Above Target							

*behaviours were rated as successful, resulting in no change to the rating as Above Target.

Non-executive Director remuneration

In FY20, a comprehensive external review of Board performance and effectiveness was completed.

Board fees remained unchanged in FY20. The annual benchmarking exercise showed the current fees paid to the Board remain below benchmark. This can be attributed to fees remaining unchanged for three out of the last six years.

The review of Board fees for FY21 has been postponed and will be reviewed again in the post COVID-19 environment.

Key appointments

In FY20, Metcash was also delighted to welcome two new Non-executive Directors to the Metcash Board in Peter Birtles and Wai Tang, whose appointments maintain equal gender representation on the Metcash Board. Sadly, Wai Tang passed away after a short illness in February 2020 and a search is underway for her replacement.

Following Mark Laidlaw's retirement, advised to the market on 17 January 2020, I'm delighted with the appointment of Annette Welsh as our CEO, Hardware effective 1 May 2020. This key appointment is the result of prudent succession planning and our investment in developing our high performing key senior leaders. It strengthens our representation of females in key executive positions.

In FY20, we have also welcomed Chris Baddock as our new CEO, Liquor. To secure his appointment, Chris's executive incentives with his previous employer required a buy-out. The buy-out was at a rate lower than full value and was delivered as a mix of shares and performance rights, to create immediate alignment to shareholder interests. The performance rights were subject to the achievement of financial performance metrics in his first year as CEO, which he successfully delivered.

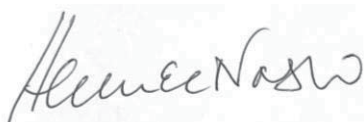
On 5 March 2020, the Group advised the market of Brad Soller's intention to retire from his role as Group Chief Financial Officer ('Group CFO'). The Group has commenced a search process for a new Group CFO including both internal and external candidates. Given the COVID-19 outbreak, Brad has kindly agreed to stay on through Metcash's process of considering, appointing and inducting a successor, which is expected to be completed before the end of FY21.

Employer of choice for gender equality citation

We have continued to improve gender pay parity over the last 12 months. The Workplace Gender Equality Agency has awarded Metcash the Employer of Choice citation two years in a row. Metcash is one of only a few organisations across Australia to receive the citation, which recognises employer commitment and best practice in promoting gender equality in Australian workplaces.

I believe our remuneration framework and outcomes for the year in a particularly challenging economic environment deliver a balanced and equitable outcome for all stakeholders.

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



Helen Nash
Chair, People and Culture Committee

DIRECTORS' REPORT CONTINUED

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Section 2.	Remuneration governance
Section 3.	Executive remuneration policy
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Section 7.	Statutory disclosures
Section 8.	Minimum shareholding guidelines

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 2020 ('FY20'). 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 FY20 are listed below.

Name	Position	Term as KMP in FY20
Non-executive Directors		
Robert Murray	Chair	Full year
Peter Birtles	Director	Commenced 1 August 2019
Tonianne Dwyer	Director	Full year
Murray Jordan	Director	Full year
Helen Nash	Director	Full year
Wai Tang	Director	1 August 2019 to 14 February 2020
Fiona Balfour	Director	1 May 2019 to 28 August 2019
Anne Brennan	Director	1 May 2019 to 28 August 2019
Executive Director		
Jeff Adams	Group Chief Executive Officer ('Group CEO')	Full year
Group Executives		
Brad Soller	Group Chief Financial Officer ('Group CFO')	Full year
Chris Baddock	Chief Executive Officer, Australian Liquor Marketers ('ALM')	Commenced 11 July 2019
Mark Laidlaw	Chief Executive Officer, Independent Hardware Group ('IHG')	Full year
Scott Marshall	Chief Executive Officer, Food	Full year
Annette Welsh	Chief Executive Officer-Elect, IHG	Commenced 13 February 2020

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

DIRECTORS' REPORT CONTINUED

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.

Independent advice

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.

In FY20, the following advisers have been appointed by the Committee in this capacity and have generated fees as set out below:

Independent consultant	Fees	Nature of advice
AON Hewitt	\$140,500	KMP-related advice including recommendations in relation to FY21 KMP remuneration, benchmarking market remuneration levels and provision of insights regarding competitive market positioning for senior leadership roles, including short-term (STI) and long-term incentives (LTI).
	\$12,200	Other people-related services
KPMG	\$30,000	KMP-related advice including review of the benchmarking methodology in relation to executive pay as established by Aon Hewitt implemented by the Board to ensure it was aligned to emerging contemporary practices and shareholder interests.

3. Executive remuneration policy

3.1. Overview

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

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

The Committee takes a considered, iterative and conservative approach to executive reward design. FY19 was the final year of the Group's five-year pay mix transition, and a review of the Group's remuneration structure was undertaken in which shareholder feedback and current market practice was considered.

External remuneration specialists at KPMG were commissioned by the Board to conduct the review, and a further opinion on the appropriateness of the FY20 executive pay redesign was provided by PWC in FY19. The scope of the review was broad and included exploring the emerging practice of a single variable reward scheme. This had some initial attractiveness, given the scheme typically results in a larger proportion of performance pay being delivered as equity. However, following shareholder feedback in relation to the practical application of these plans in other organisations, the Board determined that the objectives could be achieved through specific changes to the structure of the current STI and LTI plans.

Management has continued to listen and consider shareholders' perspectives on our pay mix and structure, which led to the Board undertaking a comprehensive review of the benchmarking approach during the year, in consultation with external independent advisers. This review tested the robustness and statistical validity of the correlation between executive pay and the financial metrics used to determine our benchmarking peer group of companies.

DIRECTORS' REPORT CONTINUED

The review found that Metcash’s current practice of using equally-weighted market capitalisation, total revenue and total assets remains statistically very sound given the size, shape and complexity of Metcash’s operations. However, Metcash will replace the use of a three-year average market capitalisation metric with a more contemporary measure of one-year average market capitalisation and also adopt a new benchmarking peer group of 24 companies, within which Metcash sits at the median for average size. The revised peer group benchmarks will be used to determine Board fees and executive remuneration with effect from FY21.

The key changes to executive remuneration for FY20 include:

- Reducing the cash component of any STI payments for KMP through a part deferral into performance rights. This will result in the majority of on-target ‘at risk’ remuneration being delivered in equity.
- Expanding the minimum shareholding policy to cover all KMP. This results in a greater alignment between executive reward and shareholder interests.
- Changing LTI hurdles to Return on Funds Employed (ROFE) and absolute TSR. ROFE replaces the previous EPS CAGR hurdle and reflects Metcash’s strategic growth focus which includes significant investments under the new *MFuture* program.

We believe the above changes, which result in no overall increase to the total value of executive reward, provide an improved alignment between executive remuneration and shareholders’ interest.

The table below shows the journey we have made with Executive Pay since FY15 and into FY21:

	FY15	FY16	FY17	FY18	FY19	FY20	FY21
LTI	<ul style="list-style-type: none"> • Financial performance 	<ul style="list-style-type: none"> • Market-aligned design • Financial performance and transformation progress • Stretch targets introduced to drive improved profit outcomes 	<ul style="list-style-type: none"> • STI pool funded through company financial performance and paid on participants Balanced Scorecard performance • Increased weighting in total remuneration mix 	<ul style="list-style-type: none"> • Participant behaviours introduced into STI • Reduced weighting in total remuneration mix 	<ul style="list-style-type: none"> • Introduction of Metcash behaviours as an equally-weighted determining factor • Reduced weighting in total remuneration mix 	<ul style="list-style-type: none"> • Market aligned part deferral of STI into performance rights • Majority of performance pay delivered in equity 	<ul style="list-style-type: none"> • No further amendments anticipated
LTI	<ul style="list-style-type: none"> • FY14 - FY16 grants consolidated into one three-year grant (Transformation incentive) 	<ul style="list-style-type: none"> • No new grants • Covered by Transformation Incentive 	<ul style="list-style-type: none"> • Resumption of annual grant program • Market-aligned design with TSR and earnings hurdles • Lower weighting in total remuneration mix 	<ul style="list-style-type: none"> • Increased weighting in total remuneration mix 	<ul style="list-style-type: none"> • Increased weighting in total remuneration mix • Minimum shareholding policy covering NEDs 	<ul style="list-style-type: none"> • Minimum Shareholding Policy expanded to cover all KMP • LTI FY20 – FY22 performance conditions: TSR and ROFE 	<ul style="list-style-type: none"> • LTI FY21 – FY23 performance conditions: TSR and ROFE

3.2. Remuneration components

3.2.1. Fixed remuneration

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

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

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

DIRECTORS' REPORT CONTINUED

Despite his fixed remuneration being below the market data peer group, Mr Adams chose to forgo any market increase in FY20. None of the KMP were awarded fixed increases in FY20. In addition, due to the uncertain nature of the current COVID-19 environment and as a precautionary measure, the Board chose to postpone remuneration increases for KMPs for FY21. This will be reviewed in the post COVID-19 environment.

3.2.2. Short Term Incentives

a) At-risk STI plan

The at-risk STI plan provides executives the opportunity to earn an incentive that is contingent upon performance against a combination of agreed financial and non-financial performance targets, which are set by the Board in consultation with the Group CEO at the start of each financial year.

The Group and pillar STI pool outcomes are 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 and behavioural outcomes, equally-weighted.

Challenging performance targets are set against each measure following a rigorous budget setting process that takes into account many factors including market conditions. This process includes draft budgets being initially prepared by state teams followed by pillar CEO and CFO reviews. Once these reviews are complete, including the pillar CEO and CFO being confident in them, these draft budgets are thoroughly reviewed and challenged by the Group CEO and Group CFO. Following satisfaction at this level, each pillar presents the draft budgets to the Board during a two-day process where they are challenged on all matters to ensure the Board is comfortable that the budgets are sufficiently challenging and achievable. The Board believes this is the most appropriate basis for setting STI performance targets for Metcash, particularly having regard to earnings for FY20 being impacted by various factors including the loss of Drakes from October 2019.

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

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

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

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

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

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

Behavioural ratings act to modify performance against scorecard objectives and can result in an increase for exceptional behaviour, a decrease for unacceptable behaviour or no change for successful behaviours in the overall performance rating.

In FY20, the Board introduced a deferred equity component within the Group's at-risk STI plan so that the majority of the KMP's performance pay is delivered in equity. Its purpose is to further incentivise senior executives to deliver performance outcomes aligned to shareholder interests.

For FY20, the Board also applied its discretion to temporarily increase the deferral percentage from the planned 33% to 50% (Group CEO) and from 25% to 40% (other KMP). This component of earned STI will be deferred as Metcash performance rights, subject to the executives remaining in employment until 15 April 2021. The number of performance rights will be calculated by dividing 50% (Group CEO) and 40% (other KMP) of the STI award dollar value by the volume weighted average price (VWAP) of Metcash ordinary shares over the 20 trading days ending 16 March 2020 of \$2.58 per share. The Board determined that it was appropriate to determine the VWAP during this pre-COVID 19 period.

DIRECTORS' REPORT CONTINUED

The STI Balanced Scorecard performance measures vary for each KMP based on the budgets and strategies for their respective pillars. The FY20 scorecards for KMP are set out below:

Balanced Scorecard	Weightings	Measure	Threshold	Target	Stretch
Financial Objectives					
<i>Deliver Financial Results</i>	60%	Sales	- 2.5% below budget	Budget	+ 2.5% above budget
		UPAT	- 5.0% below budget	Budget	+ 5.0% above budget
		EBIT	- 5.0% below budget	Budget	+ 5.0% above budget
		ROFE	- 4.3% below budget	Budget	+ 4.3% above budget
Non-financial Objectives					
Our Partners					
<i>Growth for Retailers</i>	5% to 10%			Target sales result across our retailers	
<i>Partner of Choice</i>				Delivery of target finance cost	
<i>Enterprise Financial Management</i>					
Our People					
<i>Stretch Engagement Target</i>	20% to 25%			Engagement and Leadership	
<i>Safety</i>					
Our Business					
<i>Top Growth Projects</i>	10% to 15%			Delivery of Strategic Growth Projects	
<i>Cost Centre Management</i>				Delivery of key financial objectives	

FY20 outcomes against these Balanced Scorecards are summarised below:

Balanced Scorecard Outcomes	J Adams Group CEO	B Soller Group CFO	C Baddock CEO ALM ¹	M Laidlaw CEO IHG ²	S Marshall CEO Food	A Welsh CEO IHG ³
Financial Objectives (60%)						
<i>Sales</i>	Above target	Above target	Minimum	Minimum	Stretch	Minimum
<i>UPAT</i>	Stretch	Stretch	N/A	N/A	N/A	N/A
<i>EBIT</i>	Above target	Above target	Below target	Below target	Stretch	Below target
<i>ROFE</i>	Stretch	Stretch	Not met	Minimum	Stretch	Minimum
Non-financial Objectives (40%)						
Our Partners						
<i>Growth for Retailers</i>	Stretch	N/A	On target	Below target	Stretch	Below target
<i>Partner of Choice</i>	N/A	N/A	N/A	N/A	Stretch	N/A
<i>Enterprise Financial Management</i>	N/A	Stretch	N/A	N/A	N/A	N/A
Our People						
<i>Stretch Engagement Target</i>	Not met	Not met	Below target	Not met	Not met	Not met
<i>Safety</i>	Above target	Above target	Stretch	Below target	Above target	Below target
Our Business						
<i>Top Growth Projects</i>	On target	Stretch	On target	On target	On target	On target
<i>Cost Centre Management</i>	N/A	On target	N/A	N/A	N/A	N/A
Behaviours						
	Strong	Strong	Strong	Strong	Exceptional	Strong
Overall rating						
	Above target	Stretch	Below target	Below target	Stretch	Below target
STI % maximum earned (unadjusted)	71%	79%	36%	27%	82%	27%
STI % maximum awarded	44%	44%	44%	36%	44%	36%

¹ Mr Baddock commenced employment and was appointed CEO ALM on 11 July 2019.

² Mr Laidlaw retired as CEO IHG on 30 April 2020.

³ Ms Welsh was appointed CEO-Elect IHG on 13 February 2020. The outcomes above reflect performance in the CEO Elect role only.

The Board gave very thoughtful consideration to KMP STIs. Notwithstanding the significant efforts made by management during the unprecedented bushfire season and the COVID-19 outbreak, the Board applied discretion and reduced the STI awards for the Group CEO, CEO Food and CFO to 44% of maximum to avoid undue benefit from COVID-19 trading and to reflect the non-renewal of the 7-Eleven agreement, which had become uneconomic for Metcash. The STI awarded at 44% of maximum equates to 100% of target, which is aligned to the pre-COVID 19 business results.

DIRECTORS' REPORT CONTINUED

The STI award for the CEO ALM was increased to reflect pre COVID-19 outcomes to avoid any undue negative impact from COVID-19 trading. Again, the STI awarded at 44% of maximum equates to 100% of target, which is aligned to the pre-COVID 19 business results.

In the case of the CEOs Hardware, to acknowledge the significant work done over the year to mitigate impacts from the housing downturn and the unprecedented bushfire season, 36% of maximum was awarded which equates to 80% of target, which is also aligned with pre-COVID 19 business results.

The STI opportunities as a percentage of TEC for KMP are outlined below, along with the FY20 STI awards as a percentage of the maximum STI opportunity:

Position	Below threshold	Threshold	Target	Maximum	FY20 STI cash awarded ¹	FY20 STI deferred equity awarded ²
	% of TEC	% of TEC	% of TEC	% of TEC	% of maximum STI	% of maximum STI
J Adams, Group CEO	0%	16.7%	66.7%	150.0%	22.2%	22.2%
B Soller, Group CFO	0%	15.0%	60.0%	135.0%	26.6%	17.8%
C Baddock, CEO ALM ³	0%	15.0%	60.0%	135.0%	26.6%	17.8%
S Marshall, CEO Food	0%	15.0%	60.0%	135.0%	26.6%	17.8%
M Laidlaw, CEO IHG ⁴	0%	15.0%	60.0%	135.0%	35.6%	-
A Welsh, CEO-Elect IHG ⁵	0%	15.0%	60.0%	135.0%	21.3%	14.3%

¹ 50% (Group CEO) to 60% (other KMP) of the STI reward amount is payable in cash in July 2020.

² 50% (Group CEO) to 40% (other KMP) of the STI reward is deferred and released through the issue of Metcash performance rights, conditional upon the executive being employed by the Company on 15 April 2021. Shares are issued to participants by 25 April 2021 and are then restricted from trading until 28 June 2021.

³ Mr Baddock commenced employment and was appointed CEO ALM on 11 July 2019.

⁴ Mr Laidlaw retired as CEO IHG on 30 April 2020. In line with Metcash's good leavers policy, the Board exercised its discretion not to defer 40% of Mr Laidlaw's FY20 STI.

⁵ Ms Welsh was appointed CEO-Elect IHG from 13 February 2020. The percentages disclosed above reflect Ms Welsh's STI opportunities for the period from 13 February 2020 to 30 April 2020 as KMP.

KMP STI rewards are subject to clawback for cause or material misstatement of the Group's financial statements. The maximum reward is only paid on achievement of 'stretch' outcomes, which include:

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

The vesting outcomes of the FY20 STI are disclosed in section 4.3 (a) of the Remuneration Report.

b) FY20 CEO ALM buy-out grant

To secure his appointment, Chris Baddock's executive incentives with his previous employer required a buy-out. Consequently, the following grant was awarded to him upon commencement of his employment at Metcash:

LTI grant	Grant date	Hurdle	Vesting date	No. of shares/ performance rights	Grant entitlement (% of TEC) ¹
Metcash shares	12 July 2019	Service condition	15 August 2019	147,600	57.1%
Performance rights	12 July 2019	Service condition ALM FY20 earnings	15 April 2020	73,800	28.6%

¹ The grant entitlement is expressed as a percentage of the face value of performance rights issued divided by the participants' annual TEC at grant date. The face value of the shares and performance rights were based on the VWAP of Metcash ordinary shares over the 20 trading days ended 30 April 2019 of \$2.71 per share.

DIRECTORS' REPORT CONTINUED

3.2.3. Long Term Incentives

The Group's LTIs are designed to enable Metcash to attract and retain key executives, whilst incentivising these executives to achieve challenging hurdles aligned to shareholder value. The Group had three active LTI plans in operation in FY20.

Current year LTI grant:

- FY20-FY22 LTI – this grant was issued to KMP during FY20 and is subject to two performance conditions: ROFE and TSR over a three-year period from 1 May 2019 to 30 April 2022.

Prior period LTI grants:

- FY19-FY21 LTI – this grant was issued to KMP during FY19 and is subject to two performance conditions: RTSR and UEPS CAGR over a three-year period from 1 May 2018 to 30 April 2021.
- FY18-FY20 LTI – this grant was issued to KMP during FY18 and is subject to two performance conditions: RTSR and UEPS CAGR over a three-year period from 1 May 2017 to 30 April 2020.

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

The FY18-FY20 LTI plan will partially vest on 15 August 2020 at 67.4%, subject only to the active participants remaining in employment until 15 August 2020. In line with Metcash's good leavers policy, certain participants are not subject to this service condition.

Other than the above, no other LTI plans vested in FY20.

a) Key terms of active LTIs

• FY20-FY22 LTI grant

The FY20-FY22 LTI is a Performance Rights grant (the right to acquire Metcash shares at no cost, subject to the satisfaction of performance and service conditions) and are subject to two equally weighted performance hurdles.

Return on Funds Employed ('ROFE')

ROFE is calculated as underlying EBIT divided by the average of funds employed at the beginning and end of the financial year. The overall ROFE result will be determined as the average of the individual ROFE result in respect of each of the three financial years over the performance period. The rights vest against this hurdle as follows:

ROFE vesting scale	Vesting %
Threshold	25%
Target	50%
Stretch	75%
Equal to or above maximum	100%

The Board has exercised its discretion to increase the ROFE vesting hurdles to align with AASB 16 *Leases* and also to reflect the 1H20 impairment of goodwill. Full vesting will only occur if Metcash achieves a ROFE of greater than 26% over the performance period.

Total Shareholder Returns ('TSR')

TSR is measured as the growth in share price over the performance period plus dividends paid to shareholders and assumes dividends are reinvested when they are paid. The opening and closing share prices used in the calculation are set with reference to the VWAP of Metcash shares over the 20 business days ended 30 April 2019 and ending 30 April 2022, respectively. The opening VWAP in relation to the FY20-FY22 LTI was set at \$2.71 per share. The Board may exercise its discretion to include other share capital transactions, including buybacks and otherwise adjust the calculation for capital transactions as deemed appropriate. The TSR result is expressed as a percentage and reported as the compound annual growth rate over the performance period.

The rights vest against this hurdle as follows:

TSR vesting scale	Vesting %
Threshold	25%
Target	50%
Stretch	75%
Equal to or above maximum	100%

Full vesting will only occur if Metcash achieves a TSR of greater than 10% or higher over the performance period.

DIRECTORS' REPORT CONTINUED

• FY19-FY21 LTI grant

The FY19-FY21 LTI grant is 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.

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

Full vesting will only occur if Metcash's RTSR is 10% or higher than the peer companies over the performance period. The opening VWAP in relation to the FY19-21 LTI was \$3.26 per share.

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

UEPS CAGR is calculated over the three-performance performance of the LTI against the base year UEPS at grant date.

The rights vest against the UEPS CAGR hurdle as follows:

UEPS CAGR	Vesting %
Threshold	25%
Target	50%
Stretch	75%
Equal to or above maximum	100%

Full vesting under each grant will only occur if Metcash achieves an UEPS CAGR of greater than 4.0% over the performance period.

• FY18-FY20 LTI grant

The FY18-FY20 LTI grant is 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:

RTSR vesting %	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 TSR is 10% or higher than the peer companies over the performance period. The opening VWAP in relation to the FY18-20 LTI was \$2.27 per share.

DIRECTORS' REPORT CONTINUED

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

The FY18-FY20 performance rights vest against the UEPS CAGR hurdle as follows:

UEPS CAGR vesting %	UEPS CAGR	Vesting %
Base year UEPS (cents per share)	20.3	
Threshold	2.0%	50%
Target	3.5%	63%
Stretch	5.0%	75%
Equal to or above maximum	6.5%	100%

¹ The FY18-FY20 LTI has been assessed against the actual UEPS result determined on a pre-AASB 16 Leases basis, consistent with the original grant calculations. The FY17 base year UEPS was set at 20.3 cents per share.

Vesting occurs on a straight-line basis between each hurdle, with nil vesting below threshold.

b) Grants to KMP during the financial year

The following FY20-FY22 LTI grant was made to KMP during FY20:

Participant	Grant date	Hurdle	Vesting date	No. of rights	Fair value per right \$	Grant entitlement (% of TEC) ¹
J Adams ²	2 September 2019	ROFE	15 August 2022	221,402	2.47	67%
		TSR	15 August 2022	221,402	1.14	
B Soller	16 July 2019	ROFE	15 August 2022	98,800	2.70	60%
		TSR	15 August 2022	98,800	1.25	
C Baddock	16 July 2019	ROFE	15 August 2022	77,491	2.70	60%
		TSR	15 August 2022	77,491	1.25	
S Marshall	16 July 2019	ROFE	15 August 2022	98,800	2.70	60%
		TSR	15 August 2022	98,800	1.25	
M Laidlaw ³	16 July 2019	ROFE	15 August 2022	83,026	2.70	60%
		TSR	15 August 2022	83,026	1.25	
A Welsh ⁴	16 July 2019	ROFE	15 August 2022	19,374	2.70	30%
		TSR	15 August 2022	19,374	1.25	

¹ The grant entitlement is expressed as a percentage of the face value of performance rights issued divided by the participants' annual TEC at grant date.

² The performance rights grant was approved by shareholders at the AGM in August 2019.

³ In FY20, Mr Laidlaw was issued 166,052 performance rights in relation to the FY20-FY22 LTI grant. Upon his retirement on 30 April 2020, Mr Laidlaw retained 55,350 FY20-FY22 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 30 April 2020. The balance of 110,702 performance rights were forfeited.

⁴ Ms Welsh was appointed CEO-Elect IHG on 13 February 2020. The above grant was issued to Ms Welsh in her previous role as General Manager – Merchandise IHG.

DIRECTORS' REPORT CONTINUED

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

Participant	Grant date	Hurdle	Vesting date	No. of rights	Fair value per right \$	Grant entitlement ¹ (% of TEC)
J Adams ²	29 August 2018	UEPS CAGR	15 August 2021	184,049	2.59	67%
		RTSR	15 August 2021	184,049	0.84	
B Soller	13 July 2018	UEPS CAGR	15 August 2021	91,257	2.16	70%
		RTSR	15 August 2021	91,257	0.70	
S Marshall	13 July 2018	UEPS CAGR	15 August 2021	91,257	2.16	70%
		RTSR	15 August 2021	91,257	0.70	
M Laidlaw ³	13 July 2018	UEPS CAGR	15 August 2021	80,521	2.16	70%
		RTSR	15 August 2021	80,521	0.70	
A Welsh ⁴	13 July 2018	UEPS CAGR	15 August 2021	20,221	2.16	40%
		RTSR	15 August 2021	20,221	0.70	

¹ The grant entitlement is expressed as a percentage of the face value of performance rights issued divided by the participants' annual TEC at grant date.

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

³ In FY19, Mr Laidlaw was issued 161,042 performance rights in relation to the FY19-FY21 LTI grant. Upon his retirement on 30 April 2020, Mr Laidlaw retained 107,360 FY19-FY21 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 30 April 2020. The balance of 53,682 performance rights were forfeited.

⁴ Ms Welsh was appointed CEO-Elect IHG on 13 February 2020. The above grant was issued to Ms Welsh in her previous role as General Manager – Merchandise IHG.

c) FY20 outcomes

• FY18-FY20 LTI grant

The FY18-FY20 LTI grant vesting results are set out below:

Performance condition	Weighting	Performance result	Vesting result (%)
UEPS CAGR	50%	UEPS CAGR performance over the three-year plan period was 4.3%	69.3%
RTSR	50%	RTSR performance over the three-year plan period was 4.9% above Index TSR	74.5%

Based on the above actual performance results, which includes the positive effects of COVID-19, the FY18-20 LTI would have partially vested at 71.9%, subject only to the KMP being employed as at 15 August 2020. However, whilst acknowledging the significant efforts made by management to deliver the increased business volume during the COVID-19 outbreak, the Board elected to apply pre COVID-19 UEPS CAGR financial results and the pre COVID-19 RTSR result to determine the final FY18-20 LTI award as follows:

Performance condition	Weighting	Performance result	Vesting result (%)
UEPS CAGR	50%	UEPS CAGR performance over the three-year plan period was 2.3%	52.7%
RTSR	50%	RTSR performance over the three-year plan period was 6.4% above Index TSR	82.1%

As a result, the FY18-FY20 LTI rights will partially vest at 67.4%, subject to the KMP remaining in employment until 15 August 2020.

DIRECTORS' REPORT CONTINUED

The vesting of the FY18-FY20 LTI rights will be as follows:

Participant	Hurdle	No. of rights held	No. of rights expected to vest	No. of rights expected to be forfeited
J Adams	UEPS CAGR	233,902	123,266	110,636
	RTSR	233,902	192,034	41,868
B Soller	UEPS CAGR	93,612	49,335	44,277
	RTSR	93,612	76,855	16,757
S Marshall	UEPS CAGR	79,846	42,079	37,767
	RTSR	79,846	65,554	14,292
M Laidlaw ¹	UEPS CAGR	77,464	40,824	36,640
	RTSR	77,464	63,598	13,866
A Welsh ²	UEPS CAGR	21,146	11,144	10,002
	RTSR	21,146	17,360	3,784

¹ Mr Laidlaw retired as CEO IHG on 30 April 2020. In line with Metcash's good leavers policy, Mr Laidlaw retained 154,928 FY18-FY20 performance rights of which 67.4% will be allocated to Mr Laidlaw on 15 August 2020.

² Ms Welsh was appointed CEO-Elect IHG on 13 February 2020. The above grant was issued to Ms Welsh in her previous role as General Manager – Merchandise IHG.

• FY19-FY21 LTI grant

The RTSR component is currently performing below threshold on the vesting scale. The interim performance of the RTSR component was assessed against the pre COVID-19 result up to 16 March 2020. In FY20, the Group provided nil for the UEPS CAGR component based on the expected performance being below threshold. As a result, the FY19-FY21 LTI plan is currently expected to result in nil vesting.

• FY20-FY22 LTI grant

The ATSR component is currently performing below threshold on the vesting scale. The interim performance of the ATSR component was assessed against the pre COVID-19 result up to 16 March 2020. In FY20, the Group provided nil for the ROFE component based on the expected performance being below threshold. As a result, the FY20-FY22 LTI plan is currently expected to result in nil vesting.

Performance rights that do not vest are forfeited and there is no re-testing performed.

3.2.4. Total remuneration mix

The chart below outlines the FY20 remuneration mix for KMP following the Board's discretion to defer 50% (Group CEO) and 40% (other KMP) of STI 'at risk' equity component. Each remuneration component is shown as a percentage of total remuneration measured at Target and at Maximum earnings opportunity. LTI values have been measured at grant date, based on the face value of incentives granted in FY20.

The KMP remuneration mix transition was completed in FY20 with the 'at risk' pay increasing as a proportion of total remuneration. Accordingly, the KMP remuneration weighting as a percentage of TEC during FY20 was as follows:

	Target				Maximum			
	TEC	STI cash and other	STI deferred equity	LTI	TEC	STI cash and other	STI deferred equity	LTI
J Adams	43%	14%	14%	29%	32%	24%	24%	20%
B Soller	45%	17%	11%	27%	34%	28%	18%	20%
C Baddock ¹	33%	40%	8%	19%	26%	44%	14%	16%
S Marshall	45%	17%	11%	27%	34%	28%	18%	20%
A Welsh ³	46%	15%	10%	29%	35%	26%	17%	22%
M Laidlaw ²	45%	28%	-	27%	34%	46%	-	20%

¹ Mr Baddock's STI cash and other reward includes his CEO ALM buy-out grant as set out in Section 3.2.2 (b).

² Mr Laidlaw retired as CEO IHG on 30 April 2020. In line with Metcash's good leavers policy, the Board exercised its discretion not to defer 40% of Mr Laidlaw's FY20 STI.

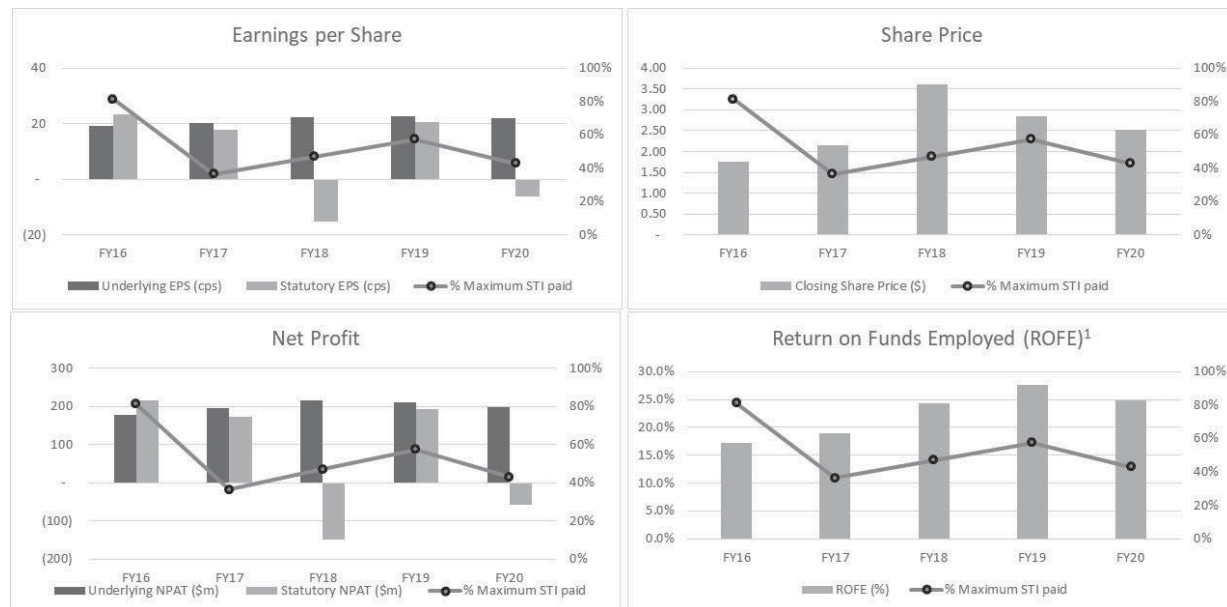
³ Ms Welsh was appointed CEO-Elect IHG on 13 February 2020. The percentages disclosed above reflect Ms Welsh's total remuneration mix as CEO-Elect IHG.

DIRECTORS' REPORT CONTINUED

4. FY20 performance and remuneration outcomes

4.1. Group performance and at-risk remuneration outcomes FY16-FY20

The charts below show Metcash's financial performance and percentage of maximum STI paid to KMP in the five-year period ended 30 April 2020.



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

Other Group performance metrics during this period were as follows.

Financial year	FY16	FY17	FY18	FY19	FY20
Revenue (\$b)	11.7	12.3	12.4	12.7	13.0
Gearing ratio (net hedged) (%) ¹	16.8%	4.7%	(3.2%)	3.3%	(6.7%)
Dividends declared per share (cents)	-	4.5	13.0	13.5	12.5
Average STI payments to KMP as a % of maximum	78.9%	36.0%	47.0%	57.5%	43.0%

¹ No prior periods have been restated for the impact of AASB 16 Leases.

STI payments in FY16 STI reflected improved profitability levels and a significant increase in share price during the year in comparison to FY15. In FY17, the Food pillar performed below threshold level, the Liquor pillar performed at target level and the Hardware pillar delivered earnings in excess of target. In FY18, Hardware and Corporate delivered EBIT results at or above the maximum hurdle. The Liquor pillar performed at target level and the Food pillar performed between threshold and target.

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

In FY20, whilst the Group and the Food pillar delivered strong EBIT results, the Board exercised its discretion to reduce the overall STI award to the 'on target' level. The Liquor pillar was determined to have performed 'on target' and the Hardware pillar 'below target'. Accordingly, the STI outcomes awarded to KMP ranged from 36% to 44% of maximum.

DIRECTORS' REPORT CONTINUED

4.2. Actual FY20 KMP remuneration

The table below reflects actual cash payments made or due to KMP in respect of performance during FY20. 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 cash ¹ \$	STI other ² \$	LTI ³ \$	Total \$
J Adams	1,800,000	600,000	-	813,474	3,213,474
B Soller	892,500	321,300	-	325,570	1,539,370
C Baddock	565,924	252,000	615,492	-	1,433,416
S Marshall	892,500	321,300	-	277,693	1,491,493
M Laidlaw ⁴	750,000	360,000	-	269,409	1,379,409
A Welsh ⁵	163,334	42,964	-	73,540	279,839

¹ Represents 50% (Group CEO) to 60% (other KMP) of the FY20 STI reward amount payable in cash in July 2020. The 50% (Group CEO) to 40% (other KMP) of the FY20 STI reward, being the deferred equity component is not presented above because the reward is conditional upon the executive being employed by the Company on 15 April 2021. Shares are issued to participants by 25 April 2021 and are then restricted from trading until 28 June 2021.

² Mr Baddock commenced employment and was appointed CEO ALM on 11 July 2019 with a fixed annual remuneration of \$700,000 from that date. Mr Baddock was awarded a buy-out grant in FY20, as set out in Section 3.2.2 (b) of the Remuneration Report.

³ The FY18-FY20 LTI will partially vest during FY20 at 67.4%, subject only to the KMP remaining in employment until 15 August 2020. The amounts presented above are based on the number of rights that will vest multiplied by the VWAP of Metcash shares over the 20 business days until 16 March 2020 of \$2.58 per share.

⁴ Mr Laidlaw retired as CEO IHG on 30 April 2020. In line with Metcash's good leavers policy, the Board exercised its discretion not to defer 40% of Mr Laidlaw's FY20 STI. In addition, Mr Laidlaw retained 154,928 FY18-FY20 performance rights of which 67.4% will be allocated to Mr Laidlaw on 15 August 2020.

⁵ Ms Welsh was appointed CEO-Elect IHG on 13 February 2020 with a fixed annual remuneration of \$700,000 from that date. The amount disclosed above reflects Ms Welsh's total fixed remuneration and actual STI and LTI awards for the period from 13 February 2020 to 30 April 2020 as KMP.

4.3. FY20 STI outcomes

a) At-risk STI plan

KMP	Target potential STI \$	Maximum potential STI \$	STI awarded % of maximum	STI cash ¹ \$	STI deferred ² \$	Maximum STI forfeited \$
J Adams	1,200,000	2,700,000	44.4%	600,000	600,000	1,500,000
B Soller	535,500	1,204,875	44.4%	321,300	214,200	669,375
C Baddock	420,000	945,000	44.4%	252,000	168,000	525,000
S Marshall	535,500	1,204,875	44.4%	321,300	214,200	669,375
M Laidlaw ³	450,000	1,012,500	35.6%	360,000	-	652,500
A Welsh ⁴	89,508	201,393	35.6%	42,964	28,643	129,787

¹ 50% (Group CEO) to 60% (other KMP) of the FY20 STI reward is payable in cash in July 2020.

² 50% (Group CEO) to 40% (other KMP) of the FY20 STI reward is deferred and released through the issue of Metcash performance rights, conditional upon the executive being employed by the Company on 15 April 2021. Shares are issued to participants by 25 April 2021 and are then restricted from trading until 28 June 2021.

³ Mr Laidlaw retired as CEO IHG on 30 April 2020. In line with Metcash's good leavers policy, the Board exercised its discretion not to defer 40% of Mr Laidlaw's FY20 STI.

⁴ Ms Welsh was appointed as CEO-Elect IHG on 13 February 2020. The amount disclosed above reflects Ms Welsh' target and maximum potential STI for the period from 13 February 2020 to 30 April 2020 as KMP.

b) FY20 CEO ALM buy-out grant

Mr Baddock has successfully delivered the performance hurdles for the FY20 CEO ALM buy-out grant as follows:

Buy-out grant	Hurdles	Vesting date	Outcome	Vesting %
Metcash shares	Service condition	15 August 2019	Completed	100%
Performance rights	Service condition ALM FY20 earnings	15 April 2020	Completed On target	100%

DIRECTORS' REPORT CONTINUED

5. KMP service agreements

Name	Agreement term	Executive notice	Metcash notice	Redundancy
J Adams ¹	Four years (based on current 457 visa limitations) ¹	12 months	12 months	12 months
B Soller	Ongoing unless notice given	3 months	6 months	6 months
C Baddock	Ongoing unless notice given	12 months	12 months	12 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
A Welsh ²	Ongoing unless notice given	12 months	12 months	12 months

¹ As Mr Adams' visa expires in August 2021, it is anticipated that Metcash will submit an application for a further temporary working visa in early 2021.

Metcash and Mr Adams will aim to ensure all the necessary requirements are fulfilled in order for a further visa to be issued by the Department of Home Affairs.

² Ms Welsh was appointed as CEO-Elect IHG on 13 February 2020.

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.

There were no fee increases in Non-executive Director fees in FY20. The Non-executive Director fees were last increased in FY19 based on a benchmarking process performed by Aon Hewitt. These fees are currently set at a level, on average, below the benchmarked market median. The review of Board fees for FY21 has been postponed and will be reviewed again in the post COVID-19 environment.

DIRECTORS' REPORT CONTINUED

6.4. Non-executive Director fee structure

	FY20 \$ ¹	FY19 \$ ¹
Board		
Chair	429,975	429,975
Non-executive Director	145,721	145,721
Committee		
Audit, Risk & Compliance		
Chair	34,817	34,817
Member	15,661	15,661
People & Culture		
Chair	34,817	34,817
Member	15,661	15,661
Nomination		
Chair	-	-
Member	-	-

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

6.5. Non-Executive Director remuneration

Name	Financial year	Fees \$	Superannuation \$	Total \$
R Murray	FY20	409,051	20,924	429,975
	FY19	409,523	20,452	429,975
P Birtles	FY20	110,536	10,501	121,037
	FY19	-	-	-
T Dwyer	FY20	164,875	15,663	180,538
	FY19	162,296	15,418	177,714
M Jordan	FY20	161,683	15,360	177,043
	FY19	161,683	15,360	177,043
H Nash	FY20	168,638	10,304	178,942
	FY19	147,381	14,001	161,382
W Tang (resigned)	FY20	85,972	8,167	94,139
	FY19	-	-	-
A Brennan (resigned)	FY20	49,127	4,667	53,794
	FY19	147,381	14,001	161,382
F Balfour (retired)	FY20	54,958	5,221	60,179
	FY19	164,875	15,663	180,538
P Allaway (retired)	FY20	-	-	-
	FY19	27,479	2,611	30,090
Total	FY20	1,204,840	90,807	1,295,647
	FY19	1,220,618	97,506	1,318,124

DIRECTORS' REPORT CONTINUED

7. Statutory disclosures

7.1. Fixed and at-risk remuneration

FY20	Fixed remuneration	STI cash ¹	STI deferred ²	STI other	Superannuation	Leave ³	LTI		Performance related
							(share-based payments)	Total	
J Adams	1,800,000	600,000	300,000	-	-	90,464	373,174	3,163,638	40.2%
B Soller	871,575	321,300	107,100	-	20,925	69,178	146,547	1,536,625	37.4%
C Baddock ⁴	548,421	252,000	84,000	615,492	17,503	43,253	28,880	1,589,549	61.7%
S Marshall	871,575	321,300	107,100	-	20,925	15,347	133,212	1,469,459	38.2%
M Laidlaw ⁵	729,075	360,000	-	-	20,925	18,855	152,199	1,281,054	40.0%
A Welsh ⁶	158,083	42,964	4,990	-	5,251	66,470	6,652	284,410	19.2%
Total	4,978,729	1,897,564	603,190	615,492	85,529	303,567	840,664	9,324,735	42.4%

¹ 50% (Group CEO) to 60% (other KMP) of the FY20 STI reward is payable in cash in July 2020.

² 50% (Group CEO) to 40% (other KMP) of the FY20 STI reward is deferred and released through the issue of Metcash performance rights, conditional upon the executive being employed by the Company on 15 April 2021. Shares are issued to participants by 25 April 2021 and are then restricted from trading until 28 June 2021. The fair value of the deferred share component is amortised over the two year vesting period.

³ Include changes in annual and long service leave entitlements.

⁴ Mr Baddock commenced employment and was appointed CEO ALM on 11 July 2019 with a fixed annual remuneration of \$700,000 from that date. Mr Baddock's STI included his CEO ALM buy-out grant as set out in Section 3.2.2 (b).

⁵ Mr Laidlaw retired as CEO IHG on 30 April 2020. In line with Metcash's good leavers policy, the Board exercised its discretion not to defer 40% of Mr Laidlaw's FY20 STI. In addition, Mr Laidlaw retained 154,928 FY18-FY20 performance rights of which 67.4% will be allocated to Mr Laidlaw on 15 August 2020 and 107,508 performance rights under the FY19-FY21 LTI plan and 55,502 performance rights under the FY20-FY22 LTI plan.

⁶ Ms Welsh was appointed CEO-Elect IHG on 13 February 2020, with a fixed annual remuneration of \$700,000 from that date. The amount disclosed above reflects Ms Welsh' total remuneration for the period from 13 February 2020 to 30 April 2020 as KMP.

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

¹ Include changes in annual and long service leave entitlements.

DIRECTORS' REPORT CONTINUED

7.2. KMP performance rights holdings

Name	Balance at 1 May 2019	Granted	Vested ¹	Forfeited	Balance at 30 April 2020	Balance at report date
J Adams	835,902	442,804	-	-	1,278,706	1,278,706
B Soller	555,676	197,600	(167,345)	(18,593)	567,337	567,337
C Baddock	-	228,782	(73,800)	-	154,982	154,982
S Marshall	500,800	197,600	(142,735)	(15,859)	539,806	539,806
M Laidlaw ²	469,834	166,052	(138,478)	(179,770)	317,638	317,638
A Welsh ³	115,336	38,748	(32,603)	(3,622)	117,859	117,859
Total	2,477,548	1,271,586	(554,961)	(217,844)	2,976,329	2,976,329

¹ As foreshadowed in the FY19 financial report, the FY17-FY19 LTI plan partially vested on 15 August 2019. The vested shares were acquired on market and allocated to the participants on 15 August 2019.

² As noted in section 3.2.3 (c), 104,422 performance rights are expected to be allocated to Mr Laidlaw on 15 August 2020. Mr Laidlaw will retain 162,710 performance rights in relation to the FY19-FY21 and FY20-FY22 LTI plans, which will remain on foot subject to existing performance hurdles and timeframes. The number of retained rights was determined on a pro-rata basis up to the date of Mr Laidlaw's retirement on 30 April 2020. The balance of 164,384 performance rights in relation to the FY19-FY21 and FY20-FY22 LTI plans were forfeited on 30 April 2020.

³ Ms Welsh was appointed CEO-Elect IHG on 13 February 2020. The above performance rights were issued to Ms Welsh in her previous role as General Manager – Merchandise IHG.

7.3. KMP shareholdings

Name	Balance at 1 May 2019	Acquired during the year ¹	Other adjustments ²	Balance at 30 April 2020	Balance at report date
Directors					
R Murray	84,005	-	-	84,005	84,005
J Adams	-	-	-	-	-
P Birtles	-	40,000	-	40,000	40,000
T Dwyer	60,000	-	-	60,000	60,000
M Jordan	42,651	-	-	42,651	42,651
H Nash	37,431	-	-	37,431	37,431
W Tang (resigned)	-	-	-	-	-
F Balfour (retired)	87,804	-	(87,804)	-	-
A Brennan (resigned)	21,000	-	(21,000)	-	-
Executives					
B Soller	17,582	167,345	-	184,927	184,927
S Marshall	53,978	142,735	-	196,713	196,713
C Baddock	-	221,400	-	221,400	221,400
A Welsh	-	32,603	-	32,603	32,603
M Laidlaw (retired)	157,752	138,478	(296,230)	-	-
Total	562,203	742,561	(405,034)	899,730	899,730

¹ Includes purchase of ordinary shares during FY20 and Metcash LTI plans.

² Reflects changes in KMP composition following retirement or resignation.

DIRECTORS' REPORT CONTINUED

8. Minimum shareholding guidelines

Minimum shareholding guidelines have been implemented for all KMP commencing as of the effective date specified below or upon the date of appointment as KMP, whichever occurs later. It is anticipated that these guidelines will be reviewed in FY21 to ensure the validity and likelihood of the KMP meeting the minimum shareholding guidelines.

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

This concludes the Remuneration Report.

DIRECTORS' REPORT CONTINUED

Other disclosures

Unissued shares under share options and performance rights

At the date of this report, there were 6,370,539 performance rights (6,370,539 at the reporting date). There were no share options on issue at the reporting date or at the date of this report. Refer to note 18 of the financial statements for further details regarding performance rights.

Shares issued as a result of options and performance rights

During the year, a total of 1,261,122 shares were acquired on market in relation to the vesting of the FY17-FY19 LTI grant and the FY20 CEO ALM buy-out grant and these shares were issued to employees and executives. Other than these, there were no other shares 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 2020 has been received and is included on page 98.

EY received or are due to receive \$213,000 for the provision of non-audit services relating to tax compliance and advisory.

Subsequent events

On 20 May 2020, Metcash announced the successful completion of its Share Purchase Plan ('SPP') which raised \$13.6 million and resulted in 5,963,215 new shares being issued at \$2.28 per share.

In June 2020, Metcash acquired the private label brand portfolio from Kollaras & Co, which is a key accelerator of the Liquor pillar's private label growth strategy.

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, 22 June 2020

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 April 2020

	Notes	FY20 \$m	FY19 ¹ \$m
Sales revenue	2	13,025.4	12,660.3
Cost of sales		(11,712.7)	(11,382.6)
Gross profit		1,312.7	1,277.7
Other income	3	30.9	97.1
Employee benefit expenses	3	(651.4)	(639.7)
Depreciation and amortisation	3	(157.2)	(56.4)
Lease expenses	3	(73.0)	(247.0)
Provisions for impairment, net of reversals	3	(28.3)	(15.9)
Other expenses		(98.8)	(85.8)
Finance costs, net	3	(52.0)	(28.9)
Significant items	3	(268.5)	(25.0)
Profit before income tax		14.4	276.1
Income tax expense	4	(69.6)	(81.0)
Net (loss)/profit for the year		(55.2)	195.1
Other comprehensive income/(loss) for the year, net of tax		0.7	(1.3)
Total comprehensive (loss)/income for the year		(54.5)	193.8
Net (loss)/profit for the year is attributable to:			
Equity holders of the parent		(56.8)	192.8
Non-controlling interests		1.6	2.3
		(55.2)	195.1
Total comprehensive (loss)/income for the year is attributable to:			
Equity holders of the parent		(56.1)	191.5
Non-controlling interests		1.6	2.3
		(54.5)	193.8
(Loss)/earnings per share attributable to the ordinary equity holders of the Company:			
Basic (loss)/earnings per share (cents)	21	(6.2)	20.8
Diluted (loss)/earnings per share (cents)	21	(6.2)	20.7

¹ The financial results for FY19 were not restated upon the initial adoption of AASB 16 Leases in FY20 as permitted by the standard. Refer Appendix A for a further description of the impact of AASB 16.

The above Statement of comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

As at 30 April 2020

	Notes	FY20 \$m	FY19 ¹ \$m
ASSETS			
Current assets			
Cash and cash equivalents		275.1	142.6
Trade receivables and loans	6	1,578.2	1,493.2
Lease receivables	7	55.6	-
Inventories		1,032.2	779.3
Assets held for sale		11.4	11.4
Other financial assets		1.5	0.4
Total current assets		2,954.0	2,426.9
Non-current assets			
Trade receivables and loans	6	25.7	16.1
Lease receivables	7	237.1	-
Equity-accounted investments	8	77.6	87.7
Net deferred tax assets	4	120.0	116.6
Property, plant and equipment	9	214.0	225.8
Right-of-use assets	7	485.4	-
Intangible assets	10	581.8	793.5
Total non-current assets		1,741.6	1,239.7
TOTAL ASSETS		4,695.6	3,666.6
LIABILITIES			
Current liabilities			
Trade and other payables		2,064.1	1,967.7
Interest bearing borrowings	11	-	1.9
Lease liabilities	7	173.4	-
Provisions	12	116.3	123.9
Income tax payable		1.7	13.6
Other financial liabilities		7.2	6.7
Total current liabilities		2,362.7	2,113.8
Non-current liabilities			
Interest bearing borrowings	11	188.4	183.6
Lease liabilities	7	712.7	-
Provisions	12	58.1	115.9
Other financial liabilities		2.1	3.2
Total non-current liabilities		961.3	302.7
TOTAL LIABILITIES		3,324.0	2,416.5
NET ASSETS		1,371.6	1,250.1
EQUITY			
Contributed equity	13	853.5	559.2
Retained earnings		505.5	682.1
Other reserves	13	(2.3)	(0.8)
Parent interest		1,356.7	1,240.5
Non-controlling interests		14.9	9.6
TOTAL EQUITY		1,371.6	1,250.1

¹ The Statement of financial position as at FY19 was not restated upon the initial adoption of AASB 16 Leases in FY20 as permitted by the standard. Refer Appendix A for a further description of the impact of AASB 16.

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 2020

	Notes	Contributed equity \$m	Retained earnings \$m	Other reserves \$m	Owners of the parent \$m	Non-controlling interests \$m	Total equity \$m
At 30 April 2019, as previously reported		559.2	682.1	(0.8)	1,240.5	9.6	1,250.1
Transition adjustment arising from adoption of AASB 16 Leases		-	(1.6)	-	(1.6)	-	(1.6)
At 1 May 2019, post transition		559.2	680.5	(0.8)	1,238.9	9.6	1,248.5
Total comprehensive (loss)/income, net of tax		-	(56.8)	0.7	(56.1)	1.6	(54.5)
Transactions with owners							
Proceeds from equity raising, net of costs	13	294.3	-	-	294.3	-	294.3
Dividends paid	5	-	(118.2)	-	(118.2)	(1.0)	(119.2)
Acquisition of a subsidiary		-	-	-	-	4.7	4.7
Shares issued to employees	18	-	-	(5.2)	(5.2)	-	(5.2)
Share-based payments expense		-	-	3.0	3.0	-	3.0
Balance at 30 April 2020		853.5	505.5	(2.3)	1,356.7	14.9	1,371.6
At 1 May 2018		600.0	726.2	(0.7)	1,325.5	8.7	1,334.2
Total comprehensive income/(loss), net of tax		-	192.8	(1.3)	191.5	2.3	193.8
Transactions with owners							
Dividends paid	5	-	(127.4)	-	(127.4)	(1.4)	(128.8)
Share buyback and related costs	13	(40.8)	(109.5)	-	(150.3)	-	(150.3)
Share-based payments expense		-	-	1.2	1.2	-	1.2
Balance at 30 April 2019¹		559.2	682.1	(0.8)	1,240.5	9.6	1,250.1

¹ The Statement of changes in equity for FY19 was not restated upon the initial adoption of AASB 16 Leases as permitted by the standard. Refer Appendix A for a further description of the impact of AASB 16.

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 2020

	Notes	FY20 \$m	FY19 ¹ \$m
Cash flows from operating activities			
Receipts from customers		16,149.7	15,852.4
Payments to suppliers and employees		(15,905.1)	(15,513.1)
Financing component of lease payments, net	7	(28.5)	-
Interest and dividends, net		(16.5)	(21.2)
Income tax paid, net of tax refunds		(82.1)	(73.2)
Net cash generated from operating activities	14	117.5	244.9
Cash flows from investing activities			
Proceeds from sale of business and assets		5.4	7.0
Payments for acquisition of business assets		(61.5)	(54.2)
Payments for acquisition of businesses, net of cash acquired		(29.7)	(11.8)
Receipts from subleases, excluding the financing component	7	45.2	-
Loans repaid by other entities, net		4.2	11.1
Net cash used in investing activities		(36.4)	(47.9)
Cash flows from financing activities			
Proceeds from equity raising, net of share issue costs	13	294.3	-
Proceeds from borrowings, net		9.3	63.5
Payment for off-market buyback of shares, net of costs	13	-	(150.3)
Payments for on-market purchase of shares		(3.3)	-
Payments for lease liabilities, excluding the financing component	7	(129.7)	-
Payment of dividends to owners of the parent		(118.2)	(127.4)
Payment of dividends to non-controlling interests		(1.0)	(1.4)
Net cash generated from/(used in) financing activities		51.4	(215.6)
Net increase/(decrease) in cash and cash equivalents		132.5	(18.6)
Add: opening cash and cash equivalents		142.6	161.2
Cash and cash equivalents at the end of the year		275.1	142.6

¹ The Statement of cash flows for FY19 was not restated for AASB 16 Leases as permitted by the standard. Refer Appendix A for a further description of the impact of AASB 16.

The above Statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate information

The financial statements of Metcash Limited (the 'Company') and its controlled entities (together the 'Group') for the year ended 30 April 2020 were authorised for issue in accordance with a resolution of the Directors on 22 June 2020.

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

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

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

Segment results

	Segment revenue		Segment results	
	FY20	FY19	FY20	FY19 ¹
	\$m	\$m	\$m	\$m
Food	8,121.6	7,836.4	182.7	182.7
Liquor	3,670.3	3,658.8	72.8	71.2
Hardware	1,233.5	1,165.1	84.2	81.2
Segment total	13,025.4	12,660.3	339.7	335.1
Corporate			(4.8)	(5.1)
Group underlying EBIT			334.9	330.0
Finance costs, net			(52.0)	(28.9)
Significant items (note 3)			(268.5)	(25.0)
Profit before income tax			14.4	276.1

¹ The segment results for FY19 were not restated upon the initial adoption of AASB 16 *Leases* in FY20. The FY20 segment results are therefore not comparable to FY19. Comparable financial information is presented on a pre AASB 16 basis in the FY20 full year results presentation to bridge the financial statements between both standards. Whilst the FY20 financial report is subject to an audit by the Group's auditors, pre AASB 16 financial information contained within the report for FY20 is unaudited and is not reviewed by the auditors. Refer Appendix A for a further description of the impact of AASB 16.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. Other income and expenses

	FY20 \$m	FY19 \$m
(i) Other income		
Lease income - rent	8.3	70.7
Lease income - outgoings recoveries	16.8	18.8
Share of profit from equity-accounted investments	5.3	4.7
Net gain from disposal of business and plant and equipment	0.5	2.9
	30.9	97.1
(ii) Employee benefit expenses		
Salaries and wages	561.4	552.9
Superannuation expense	42.3	41.4
Share-based payments expense	3.0	1.2
Other employee benefit expenses	44.7	44.2
	651.4	639.7
(iii) Depreciation and amortisation		
Depreciation of right-of-use assets	103.1	-
Depreciation of property, plant and equipment	26.4	29.3
Amortisation of software	23.0	22.4
Amortisation of other intangible assets	4.7	4.7
	157.2	56.4
(iv) Lease expenses		
Property rent	3.9	166.2
Property outgoings	58.6	59.5
Equipment and other leases	10.5	21.3
	73.0	247.0
(v) Provisions for impairment, net of reversals		
Trade receivables and loans	13.2	5.4
Inventories	22.2	21.6
Onerous contracts provisions	(9.3)	(13.3)
Other impairments (net)	2.2	2.2
	28.3	15.9
(vi) Finance costs, net		
Interest expense	16.9	17.4
Transaction fees in relation to customer charge cards (note 6)	5.4	7.4
Deferred borrowing costs	1.0	1.2
Finance component of lease payments, net	28.5	-
Finance costs from discounting of provisions	3.5	6.5
Interest income	(3.3)	(3.6)
	52.0	28.9

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. Other income and expenses (continued)

	FY20 \$m	FY19 \$m
(vii) Significant items		
Impairment of goodwill and other assets	242.4	-
COVID-19 impairments	15.6	-
<i>MFuture</i> implementation costs	10.5	5.6
Working Smarter restructuring costs	-	19.4
Total significant items before tax	268.5	25.0
Income tax benefit attributable to significant items	(12.9)	(7.5)
Total significant items after tax	255.6	17.5

Loss of 7-Eleven contract and impairment of goodwill and other assets

In November 2019, Metcash announced that 7-Eleven had advised that it would not be renewing its supply agreement with Metcash following its conclusion in August 2020. Metcash was unable to reach an agreement with 7-Eleven, determining that changes to supply requirements and delivery routes would lead to supply being uneconomic for Metcash. This advice was taken into account as part of the Group's review of the recoverable amount of the Food business, resulting in Metcash recording an impairment expense of \$225.6 million against the carrying value of goodwill and \$16.8 million against property, plant and equipment and software.

COVID-19 impairments

The COVID-19 pandemic has led to an increasingly uncertain economic environment which has caused significant volatility in the business in the last two months of FY20. While all pillars continued to trade, the Liquor pillar was impacted by the government shutdown of the Australian 'on-premise' market and its New Zealand operations. Certain customers in the Food pillar were also significantly impacted through lost sales. Travel restrictions also resulted in the cancellation of certain supplier events. These factors were taken into account in the Group's assessment of expected credit losses, resulting in an impairment charge of \$15.6 million being recorded against specific groups of trade receivables and prepaid costs impacted by COVID-19.

MFuture implementation costs, including SADC

The five-year *MFuture* program commenced in FY20 and includes initiatives aimed at growth and maximising the effectiveness of the Group's cost of doing business ("CODB"). In FY20, the Group incurred \$10.5 million of implementation costs which are incremental and only include costs specifically related to the program and are non-routine in nature, such as redundancies and restructuring costs. The program also includes costs associated with the move to a new distribution centre in South Australia (SADC), which is expected to occur by the end of calendar year 2020.

In FY19, the Group incurred \$5.6 million of transition costs associated with the SADC program, such as lease tail and make good provisions, redundancies and project management costs.

MFuture costs are separately disclosed within significant items to enable a better understanding of the Group's results. The costs in relation to the program implementation team and other setup activities are included within each pillar's underlying EBIT.

4. Income tax

	FY20 \$m	FY19 \$m
Major components of income tax expense		
Current income tax charge	70.7	73.0
Adjustments in respect of income tax of previous years	(1.3)	(1.0)
Deferred income tax relating to origination and reversal of temporary differences	0.2	9.0
Total income tax expense	69.6	81.0
Reconciliation of income tax expense		
Profit before income tax	14.4	276.1
At the Group's statutory income tax rate of 30% (FY19: 30%)	4.3	82.8
Impairment of goodwill not allowable for tax purposes	67.7	-
Other (non-assessable)/assessable amounts – net	(1.1)	(0.8)
Adjustments in respect of income tax of previous years	(1.3)	(1.0)
Income tax expense	69.6	81.0

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. Income tax (continued)

	FY20 \$m	FY19 \$m
Components of net deferred tax assets		
Provisions	121.9	126.7
Unutilised tax losses	0.1	1.1
Accelerated depreciation for accounting purposes	10.9	6.1
Other	12.5	9.5
Intangible assets	(25.4)	(26.8)
	120.0	116.6
Movements in net deferred tax assets		
Opening balance, as previously reported	116.6	123.6
Changes arising from the application of AASB 16	0.7	-
Opening balance, restated	117.3	123.6
Charged to net profit for the year	(0.2)	(9.0)
Credited to other comprehensive income for the year	(0.1)	0.3
Tax benefit associated with share issue costs – net	2.4	0.2
Adjustments related to business combinations	0.6	1.5
Closing balance	120.0	116.6

The Group has unrecognised gross capital losses of \$20.8 million (FY19: \$13.4 million) that are available indefinitely for offset against future capital gains.

Tax consolidation

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

Tax effect accounting by members of the tax consolidated group

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5. Dividends

	FY20 \$m	FY19 \$m
Dividends paid on ordinary shares during the year		
Final fully franked dividend for FY19: 7.0c (FY18: 7.0c)	63.6	68.3
Interim fully franked dividend for FY20: 6.0c (FY19: 6.5c)	54.6	59.1
	118.2	127.4
Dividends determined (not recognised as a liability as at 30 April)		
Final fully franked dividend for FY20: 6.5c (FY19: 7.0c)	66.1	63.7

On 22 June 2020, the Board determined to pay a fully franked FY20 final dividend of 6.5 cents per share, sourced from the profit reserve established by Metcash Limited (Parent Company), with a record date of 8 July 2020 and payable in cash on 5 August 2020. The Dividend Reinvestment Plan remains suspended with effect from 26 June 2017.

Franking credit balance of Metcash Limited

	FY20 \$m	FY19 \$m
Franking account balance as at the end of the financial year at 30% (FY19: 30%)	203.8	174.1
Franking credits that will arise from the payment of income tax payable at the reporting date	3.9	11.3
Franking credits on dividends determined but not distributed to shareholders during the year	(28.5)	(27.2)
	179.2	158.2

6. Trade receivables and loans

	FY20 \$m	FY19 \$m
Current		
Trade receivables	1,242.7	1,169.5
Allowance for impairment loss	(58.9)	(63.4)
Trade receivables	1,183.8	1,106.1
Customer charge cards agreement (a)	226.5	223.7
Other receivables and prepayments	148.7	142.7
Trade and other receivables	1,559.0	1,472.5
Customer loans	23.8	26.3
Allowance for impairment loss	(4.6)	(5.6)
Customer loans	19.2	20.7
Total trade receivables and loans – current	1,578.2	1,493.2
Non-current		
Customer loans	25.7	16.1
Total trade receivables and loans – non-current	25.7	16.1

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6. Trade receivables and loans (continued)

Movements in allowance for impairment loss

	FY20 \$m	FY19 \$m
Opening balance	69.0	68.1
Charged as an expense during the year	24.7	5.4
Accounts written off as non-recoverable	(31.4)	(3.8)
Related to acquisitions and disposals of businesses and other movements	1.2	(0.7)
Closing balance	63.5	69.0

Weighted average interest

Trade and other receivables are non-interest bearing and repayment terms vary by pillar. As at 30 April 2020, \$2.8 million (FY19: \$3.1 million) of customer loans are non-interest bearing and \$46.7 million (FY19: \$39.3 million) of customer loans have a weighted average annual interest rate of 7.4% (FY19: 8.6%).

Maturity of trade receivables

At 30 April 2020, 92.4% (FY19: 92.3%) of trade receivables are either due or required to be settled within 30 days, 7.0% (FY19: 7.4%) have terms extending from 30 to 60 days and 0.6% (FY19: 0.3%) have terms greater than 60 days.

Customer charge cards agreement

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

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

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

The customer charge cards agreement is presented as part of current trade and other receivables and a matching current liability of \$226.5 million (FY19: \$223.7 million) is included within trade and other payables, with no impact to the Group's net asset position.

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 an allowance for impairment loss is raised to cover any deficit in recoverability.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6. Trade receivables and loans (continued)

Ageing of unimpaired trade receivables and loans

Days overdue	Trade receivables (a)		Customer loans		Other receivables and prepayments	
	\$m	%	\$m	%	\$m	%
At 30 April 2020						
Neither past due nor impaired	1,262.3	89.5%	33.0	73.5%	148.7	100.0%
Less than 30 days	113.1	8.0%	0.4	0.9%	-	-
Between 30 and 60 days	16.4	1.2%	0.2	0.4%	-	-
Between 60 and 90 days	4.2	0.3%	0.3	0.7%	-	-
Between 90 and 120 days	7.9	0.6%	0.6	1.3%	-	-
More than 120 days	6.4	0.4%	10.4	23.2%	-	-
Total	1,410.3	100.0%	44.9	100.0%	148.7	100.0%
At 30 April 2019						
Neither past due nor impaired	1,228.2	92.4%	23.1	62.8%	142.7	100.0%
Less than 30 days	73.7	5.4%	0.4	1.1%	-	-
Between 30 and 60 days	12.0	0.9%	-	-	-	-
Between 60 and 90 days	7.4	0.6%	0.2	0.5%	-	-
Between 90 and 120 days	4.7	0.4%	0.2	0.5%	-	-
More than 120 days	3.8	0.3%	12.9	35.1%	-	-
Total	1,329.8	100.0%	36.8	100.0%	142.7	100.0%

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

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

7. Right-of-use assets, lease receivables and lease liabilities

Metcash adopted AASB 16 *Leases* on 1 May 2019, resulting in the recognition of right-of-use assets, lease receivables and lease liabilities. The following table sets out the carrying amounts of these items and the related movements during the year:

	Right-of-use assets (a)			Lease receivables (b)(c) \$m	Lease liabilities \$m
	Leasehold properties \$m	Motor vehicles and equipment \$m	Total \$m		
AASB 16 transition adjustments	575.1	26.4	601.5	335.3	(939.1)
Reclassifications of pre-existing balances	(54.8)	7.8	(47.0)	(19.3)	(7.4)
As at 1 May 2019, post-transition	520.3	34.2	554.5	316.0	(946.5)
New and modified leases	49.1	12.9	62.0	15.2	(77.2)
Leases exited	(12.0)	-	(12.0)	(6.1)	10.0
Lease remeasurements	2.9	-	2.9	(4.0)	(2.1)
Impairments, net	(1.2)	-	(1.2)	(0.9)	-
Depreciation	(89.0)	(14.1)	(103.1)	-	-
Reclassifications	(17.7)	-	(17.7)	17.7	-
Cash (receipts)/payments	-	-	-	(59.8)	172.8
Financing component of lease receipts/(payments)	-	-	-	14.6	(43.1)
As at 30 April 2020	452.4	33.0	485.4	292.7	(886.1)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7. Right-of-use assets, lease receivables and lease liabilities (continued)

(a) As at 30 April 2020, the cost and accumulated depreciation and impairment of the right-of-use assets are presented below:

	Right-of-use assets		Total \$m
	Leasehold properties \$m	Motor vehicles and equipment \$m	
Cost	561.3	55.5	616.8
Accumulated depreciation and impairment	(108.9)	(22.5)	(131.4)
Net carrying amount	452.4	33.0	485.4

(b) As at 30 April 2020, lease receivables include a gross carrying amount of \$314.7 million (FY19: nil) and allowance for impairment losses of \$22.0 million (FY19: nil).

(c) The future minimum rentals receivable under non-cancellable finance leases as at 30 April 2020 are as follows:

	FY20 \$m
Within one year	57.4
After one year but not more than two years	52.9
After two years but not more than three years	46.6
After three years but not more than four years	41.9
After four years but not more than five years	37.5
More than five years	150.9
	387.2
Unearned finance income	(72.5)
Impairment of receivables	(22.0)
	292.7

(d) The future minimum rentals receivable under non-cancellable operating leases as at 30 April 2020 are as follows:

	FY20 \$m
Within one year	3.1
After one year but not more than two years	2.5
After two years but not more than three years	2.1
After three years but not more than four years	1.5
After four years but not more than five years	1.4
More than five years	8.5
	19.1

(e) Lease cash receipts and payments are presented in the following lines of the statement of cash flows:

	FY20 \$m
Receipts from subleases, excluding the financing component	45.2
Payment for lease liabilities, excluding the financing component	(129.7)
Financing component of lease payments, net	(28.5)
Net cash payments	(113.0)

In addition, the Group recognised rent expense of \$14.4 million from short-term leases and variable lease payments during FY20.

The adoption of AASB 16 had no impact on the Group's banking covenants, which are based on financials excluding AASB 16. Refer Appendix A for a further description of the impact of AASB 16.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. 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 profit from equity-accounted investments during the year was \$5.3 million (FY19: \$4.7 million), which includes a \$1.5 million (FY19: \$1.4 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

The following table is based on investees' latest available financial information as at balance sheet date:

	FY20 \$m	FY19 \$m
Current assets	71.1	70.1
Non-current assets	151.8	130.2
Total assets	222.9	200.3
Current liabilities	105.3	123.7
Non-current liabilities	63.4	14.0
Total liabilities	168.7	137.7
Net assets	54.2	62.6

9. Property, plant and equipment

	Land & buildings \$m	Plant & equipment \$m	Total \$m
Year ended 30 April 2020			
Opening balance, as previously reported	37.6	188.2	225.8
Changes arising from the application of AASB 16	-	(7.8)	(7.8)
Opening balance, restated	37.6	180.4	218.0
Additions	0.5	56.0	56.5
Additions through business combinations	-	6.5	6.5
Disposals	-	(2.4)	(2.4)
Impairment	-	(15.7)	(15.7)
Reclassifications	-	(22.5)	(22.5)
Depreciation	(0.4)	(26.0)	(26.4)
Closing balance	37.7	176.3	214.0
At 30 April 2020			
Cost	44.8	378.5	423.3
Accumulated depreciation and impairment	(7.1)	(202.2)	(209.3)
Net carrying amount	37.7	176.3	214.0

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. Property, plant and equipment (continued)

	Land & buildings \$m	Plant & equipment \$m	Total \$m
Year ended 30 April 2019			
Opening balance	37.9	177.6	215.5
Additions	-	46.6	46.6
Additions through business combinations	-	3.2	3.2
Disposals	-	(3.5)	(3.5)
Reversals of impairment, net	-	0.5	0.5
Reclassifications	-	(6.9)	(6.9)
Depreciation	(0.3)	(29.3)	(29.6)
Closing balance	37.6	188.2	225.8
At 30 April 2019			
Cost	44.3	403.7	448.0
Accumulated depreciation and impairment	(6.7)	(215.5)	(222.2)
Net carrying amount	37.6	188.2	225.8

Additions to plant and equipment include \$41.7 million (FY19: \$23.8 million) of assets under construction. The closing balance of plant and equipment includes \$33.0 million (FY19: \$33.9 million) of assets under construction.

10. Intangible assets

	Software development costs \$m	Customer contracts \$m	Trade names and other \$m	Goodwill \$m	Total \$m
Year ended 30 April 2020					
Opening balance	55.0	49.0	40.3	649.2	793.5
Additions	5.0	-	-	-	5.0
Additions through business combinations	-	-	-	20.7	20.7
Adjustments to business combinations	-	-	-	1.2	1.2
Impairment	(1.6)	-	-	(225.6)	(227.2)
Disposals	(2.4)	-	-	(3.8)	(6.2)
Reclassifications	22.5	-	-	-	22.5
Amortisation	(23.0)	(4.7)	-	-	(27.7)
Closing balance	55.5	44.3	40.3	441.7	581.8
At 30 April 2020					
Cost	191.6	176.1	43.4	1,424.1	1,835.2
Accumulated amortisation and impairment	(136.1)	(131.8)	(3.1)	(982.4)	(1,253.4)
Net carrying amount	55.5	44.3	40.3	441.7	581.8

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10. Intangible assets (continued)

	Software development costs \$m	Customer contracts \$m	Trade names and other \$m	Goodwill \$m	Total \$m
Year ended 30 April 2019					
Opening balance	59.5	53.7	40.3	638.8	792.3
Additions	11.9	-	-	-	11.9
Additions through business combinations	-	-	-	8.4	8.4
Adjustments to business combinations	-	-	-	2.0	2.0
Impairment	(0.9)	-	-	-	(0.9)
Reclassifications	6.9	-	-	-	6.9
Amortisation	(22.4)	(4.7)	-	-	(27.1)
Closing balance	55.0	49.0	40.3	649.2	793.5
At 30 April 2019					
Cost	278.9	176.1	43.4	1,406.0	1,904.4
Accumulated amortisation and impairment	(223.9)	(127.1)	(3.1)	(756.8)	(1,110.9)
Net carrying amount	55.0	49.0	40.3	649.2	793.5

Impairment tests for goodwill and intangibles with indefinite useful lives

Description of cash generating units

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

Allocation to CGUs

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

Cash-generating units	Allocated goodwill		Trade names and other intangibles		Post-tax discount rates	
	FY20 \$m	FY19 \$m	FY20 \$m	FY19 \$m	FY20 %	FY19 %
Food	214.3	443.7	0.2	0.2	11.3%	11.3%
Liquor	120.3	119.7	12.9	12.9	10.1%	10.1%
Hardware	107.1	85.8	27.2	27.2	10.1%	10.1%
	441.7	649.2	40.3	40.3		

Assessment of recoverable amounts

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

Key assumptions used in assessment

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

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

Cash flow projections are based on risk-adjusted forecasts allowing for estimated changes in the business, the competitive trading environment, legislation and economic growth. The outlook for FY21 continues to be uncertain due to the timing of lifting of COVID-19 restrictions and any potential changes to consumer behaviour. The risk of a second wave of coronavirus and the uncertainties surrounding macroeconomic indicators such as unemployment and GDP growth and the timing and impact on the economy of the withdrawal of government support packages create future uncertainty over the Group's operating cash flows.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10. Intangible assets (continued)

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

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

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

Results of assessment

Food CGU

As described in note 3(vii), the loss of the 7-Eleven contract and reinvestment in working capital have resulted in changes in the forecast cash flows used in the Food CGU's impairment assessment, including the terminal year. As the headroom within the Food CGU was already limited, these changes resulted in an impairment in the 1H20 financial report of \$242.4 million, including \$225.6 million relating to goodwill. This expense is presented separately within 'significant items' in the income statement.

Sensitivity to changes in key assumptions

The recoverable amount of the Food CGU at balance date exceeded its carrying value by \$58.8 million. The recoverable amount reflects management's estimates and assumptions based on conditions at balance date. The risks and uncertainties associated with the impacts of the COVID-19 pandemic and the Australian and global economic environment could cause actual results to differ materially from management's projections used in the assessment.

The headroom is considered relatively low following the above 1H20 impairment charge. As a result, whilst the CGU assessment incorporates adjustments to address cash flow risk, the headroom remains limited and is sensitive to reasonably possible changes to key inputs. The following sensitivity changes to the Food CGU are deemed to be reasonably possible and would reduce headroom to nil, assuming all other assumptions are held constant:

- A 9.0% reduction in forecasted cash flows used in the CGU assessment across all projection years, including the terminal year, would reduce headroom to nil;
- An increase of 190 basis points in the post-tax discount rate to 13.2% would reduce headroom to nil; or
- A decrease of 170 basis points in the terminal growth rate would reduce headroom to nil.

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

Liquor and Hardware CGUs

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.

11. Interest bearing borrowings

	FY20 \$m	FY19 \$m
Current		
Finance lease obligations	-	1.9
	-	1.9
Non-current		
Bank loans – syndicated	190.0	180.0
Finance lease obligations	-	5.5
Bilateral loan	0.9	1.2
Deferred borrowing costs	(2.5)	(3.1)
	188.4	183.6

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11. Interest bearing borrowings (continued)

Financial covenants

See note 15 for details of the Group's core borrowing facilities. The core borrowings of the Group must comply with two primary covenants which apply to the syndicated bank facilities and the working capital facilities. These covenants are on a pre-AASB 16 basis and are defined in the facility agreements. They are summarised as follows: a Fixed Charges Cover Ratio (Underlying Earnings Before Interest, Tax, Depreciation, Amortisation and Net Rent (EBITDAR) divided by Total Net Interest plus Net Rent Expense) and a Senior Leverage Ratio (Total Group Debt divided by Underlying Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)). At the reporting date, there were no defaults or breaches on the Group's core borrowings.

Fair value

The carrying amounts of the Group's borrowings approximate their fair value. The weighted average effective interest rate on the syndicated and working capital loans, including interest rate swaps, at the end of the financial year was 2.8% (FY19: 3.4%). These rates exclude line fees on unutilised facility balances.

12. Provisions

	Employee entitlements \$m	Onerous contracts and other provisions \$m	Total \$m
30 April 2020			
Current	104.8	11.5	116.3
Non-current	11.5	46.6	58.1
	116.3	58.1	174.4
30 April 2019			
Current	101.9	22.0	123.9
Non-current	11.5	104.4	115.9
	113.4	126.4	239.8

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

Provisions are also recognised for obligations such as guarantees, property make-good 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 onerous contracts and other provisions

	FY20 \$m	FY19 \$m
Opening balance, as previously reported	126.4	145.4
Changes arising from the application of AASB 16 (a)	(41.4)	-
Opening balance, restated	85.0	145.4
Reversals during the year, net	(10.1)	(5.6)
Utilised during the year	(20.0)	(21.0)
Resulting from acquisitions of businesses	(0.2)	1.1
Finance cost discount rate adjustment	3.4	6.5
Closing balance	58.1	126.4

(a) Upon adoption of AASB 16, the Group applied the practical expedient permitted by the standard of relying on its assessment that the lease was onerous under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and adjusted the relevant right-of-use assets or back-to-back leases at 1 May 2019 by the provisions previously recognised for these onerous retail head lease obligations.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. Contributed equity and reserves

Contributed equity

	FY20		FY19	
	Number of shares	\$m	Number of shares	\$m
At 1 May	909,256,748	559.2	975,641,876	600.0
Issued under equity raising, net of share issue costs	107,142,858	294.3	-	-
Share buyback and related costs, net of tax	-	-	(66,385,128)	(40.8)
At 30 April	1,016,399,606	853.5	909,256,748	559.2

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

During April 2020, the Company issued 107,142,858 shares via an Institutional Placement at \$2.80 per share which raised \$294.3 million of equity (net of \$5.7 million transaction costs). The proceeds from the capital raising will position Metcash with the financial flexibility to continue to support independent retailers while also continuing to invest in the *MFuture* program and consider potential new growth opportunities that align with Metcash's strategic direction.

In August 2018, the Group completed an off-market buyback of 66,385,128 ordinary shares (6.8% of total shares on issue) for \$150.0 million. The ordinary shares were bought back at \$2.26 per share, which represented a 14% discount to the Metcash share price at that time. The buyback comprised a fully franked dividend of \$1.65 per share (\$109.5 million) and a capital component of \$0.61 per share (\$40.5 million). These amounts, along with \$0.3 million of transaction costs, were debited to the Company's profit reserve and share capital account, respectively. The shares bought back were subsequently cancelled.

Other reserves

	Share-based payments reserve \$m	Foreign currency translation reserve \$m	Cash flow hedge reserve \$m	Total other reserves \$m
At 1 May 2018	3.6	(4.4)	0.1	(0.7)
Total comprehensive income, net of tax	-	(0.4)	(0.9)	(1.3)
Share-based payments expense	1.2	-	-	1.2
At 30 April 2019	4.8	(4.8)	(0.8)	(0.8)
Movement in fair value of derivatives	-	-	1.3	1.3
Movement in foreign currency valuations	-	(0.2)	-	(0.2)
Tax impact of above movements	-	-	(0.4)	(0.4)
Total comprehensive income, net of tax	-	(0.2)	0.9	0.7
Shares issued to employees	(5.2)	-	-	(5.2)
Share-based payments expense	3.0	-	-	3.0
At 30 April 2020	2.6	(5.0)	0.1	(2.3)

Refer Appendix B for further details on the above reserves.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14. Reconciliation of cash flows from operating activities

	FY20 \$m	FY19 \$m
Net (loss)/profit for the year	(55.2)	195.1
<i>Adjustments for:</i>		
Depreciation and amortisation	157.2	56.4
Impairment losses and net lease provisions	286.3	15.9
Net profit on disposal of property, plant and equipment	(0.5)	(2.9)
Share-based payments expense	3.0	1.2
Other adjustments	7.6	0.8
<i>Changes in assets and liabilities:</i>		
Increase in trade and other receivables	(117.9)	(36.0)
Increase in inventories	(255.8)	(47.7)
(Increase)/decrease in tax balances	(12.5)	7.0
Increase in payables and provisions	105.3	55.1
Cash flows from operating activities	117.5	244.9

15. Financial risk management

Objectives and policies

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

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

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

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, the Group manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. The Group's primary source of debt funding is a syndicated facility and working capital loans, of which 20.0% (FY19: 21.0%) has been utilised at 30 April 2020. The Group monitors forecasts of liquidity reserves on the basis of expected cash flow.

Available credit facilities

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

	Total facility \$m	Debt usage \$m	Guarantees & other usage \$m	Facility available \$m
Syndicated facility	855.0	190.0	-	665.0
Working capital, including guarantees	185.0	-	19.4	165.6
Bilateral loan	0.9	0.9	-	-
	1,040.9	190.9	19.4	830.6
Cash and cash equivalents	-	-	-	275.1
	1,040.9	190.9	19.4	1,105.7

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. Financial risk management (continued)

- Syndicated facility**
 Syndicated bank loans are senior unsecured revolving facilities. The facilities are due to expire in April 2021 (\$180.0 million), August 2021 (\$225.0 million), May 2022 (\$150.0 million), May 2023 (\$200.0 million) and May 2024 (\$100.0 million). Interest is payable on the facilities based on BBSY plus a margin. The applicable margin is dependent upon an escalation matrix linked to the senior leverage ratio achieved. These bank loans are subject to certain financial undertakings as detailed in note 11.
- Working capital**
 Working capital bank loans are represented by two unsecured revolving facilities totalling \$185.0 million. These facilities mature in June 2020 (\$100.0 million) and February 2021 (\$85.0 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.

Maturity analysis of financial liabilities based on contracted date

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

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

	1 year or less \$m	1 - 5 years \$m	More than 5 years \$m	Total \$m
As at 30 April 2020				
Trade and other payables	2,064.1	-	-	2,064.1
Financial guarantee contracts	0.7	0.4	-	1.1
Put options written over non-controlling interests	6.1	-	-	6.1
Lease liabilities	177.7	500.3	408.3	1,086.3
Bank and other loans	3.5	196.3	-	199.8
Derivative liabilities – net settled	1.0	0.5	-	1.5
Derivative liabilities – gross settled:				
- Inflows	1.1	-	-	1.1
- Outflows	(1.1)	-	-	(1.1)
Net maturity	2,253.1	697.5	408.3	3,358.9

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

The Group has a put option with Ritchies Stores Pty Ltd (Ritchies), which is not included in the above maturity analysis table. This put option is recognised at a fair value of nil.

Metcash has a 26.0% ownership interest in Ritchies, which is recognised as an equity-accounted investment in the Group's balance sheet. 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. Financial risk management (continued)

The put options can be exercised annually during a prescribed period immediately following the approval of Ritchies' annual audited 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 2019, 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 2019, Metcash estimates that the consideration payable in respect of Ritchies' 2019 financial year would have been between \$140 million and \$155 million.

If the put options were to be exercised following June 2020, the exercise price will be determined with reference to Ritchies' results for the financial year ending June 2020, and the consideration payable would reflect those results. Metcash currently expects Ritchies' trading performance in the 2020 financial year to be stronger than the 2019 financial year, which would result in the put option consideration payable being higher than the above 2019 range.

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.

The Group has also recognised a liability of \$6.1 million (FY19: \$5.3 million) in respect of a further two put options written over non-controlling interests in non-wholly owned subsidiaries within the Hardware pillar. 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 2020, the principal hedged was \$130.0 million (FY19: \$90.0 million) with a weighted average hedge maturity of 0.9 years (FY19: 1.7 years) and a weighted average base interest rate of 1.5% (FY19: 2.3%). The Group considers these derivatives to be effective hedges in accordance with AASB 9 *Financial Instruments* and therefore treats them as cash flow hedges. These interest rate swap contracts are exposed to fair value movements based on changes to the interest rate curve.

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

	FY20 \$m	FY19 \$m
Financial assets		
Cash and cash equivalents	275.1	142.6
Financial liabilities		
Bank loans – syndicated	(190.0)	(180.0)
Bilateral loan	(0.9)	(1.2)
Less: Interest rate swaps notional principal value - designated as cash flow hedges	130.0	90.0
Gross exposure	(60.9)	(91.2)

The Group's treasury policy requires core debt to be hedged between a range over certain maturity periods. Core debt is defined as the minimum level of drawn debt which is expected to occur over the year. As at 30 April 2020, the interest rate swap hedges of \$130.0 million fell within the required range.

Sensitivity analysis

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. Financial risk management (continued)

Credit risk

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

Trade receivables and loans

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

Receivables and loans are monitored on an ongoing basis and a formal review of all balances occurs every six months to measure impairment losses. As identified in note 6, the current level of impairment provision represents 3.8% (FY19: 4.2%) of the Group's receivables and loans.

Lease receivables

The Group is exposed to credit risk on 'back-to-back' arrangements contained within its property leases where Metcash has subleased properties to retailers. The Group regularly reviews material lease arrangements on an ongoing basis and a formal review of all leases occurs every six months to measure impairment losses. Refer note 7 for further details.

Other

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

Foreign currency risk

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

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

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

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 invest in the business for future growth and otherwise return surplus capital to shareholders.

In April 2020, the Group successfully completed an equity raising which included a \$300 million institutional placement ('Placement') (refer to note 13). Subsequent to year end, in May 2020, the Group completed a share purchase plan ('SPP') of \$13.6 million. The Group also secured \$180 million of additional short-term committed debt facilities from existing lenders. The equity raising together with the new debt facilities further strengthens the Group's financial position, enhances liquidity and positions the Group to capitalise on potential growth opportunities that may arise.

On 22 June 2020, the Board determined to pay a fully franked FY20 final dividend of 6.5 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 2020 and 30 April 2019 were negative (6.7%) (negative representing a net cash position) and positive 2.8% respectively.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. Related party disclosures

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

Material transactions and balances with related parties – Group

	FY20 \$m	FY19 \$m
<i>Transactions with related parties – equity-accounted investments</i>		
Sales revenue	1,181.7	1,131.1
Lease and other charges	2.2	13.6
Acquisition of additional equity interest in joint ventures	12.0	3.7
Dividends received	2.5	2.4
Interest income from lease receivables	2.5	-
<i>Balances with related parties – equity-accounted investments</i>		
Trade receivables – gross	132.9	111.1
Provision for impairment loss	(0.5)	(4.4)
	132.4	106.7
Lease receivables – gross	55.7	-
Provision for impairment loss	-	-
	55.7	-

Transactions and balances with related parties – Parent entity

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

Compensation of key management personnel of the Group

	FY20 \$m	FY19 \$m
Short-term	9.3	8.6
Long-term	0.3	0.4
Post-employment	0.2	0.2
Share-based payments	0.8	0.5
	10.6	9.7

Other transactions with key management personnel

Mr Rob Murray is a director of Southern Cross Media Group Limited, Advisory Chairman of Hawkes Brewing Company and was a former director of Linfox Logistics Pty Ltd. Ms Tonianne Dwyer is a director of Dexus Property Group. Ms Helen Nash is a director of Inghams Group Limited, Southern Cross Media Group Limited and was a former director of Blackmores Limited. Mr Peter Birtles is a director of GWA Group Limited.

Metcash has business relationships with the above entities, including supply and purchase of trading goods and services, property leases and property management.

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

18. Share-based payments

Description of share-based payment arrangements

In FY20, the Group had the following share-based incentive schemes for employees:

Scheme name	Description
Short-term incentives (STI schemes)	
FY20 at-risk STI plan – deferred component	The FY20 at-risk STI plan includes a 50% (Group CEO) and 40% (other KMP and senior executives) deferred component which will be released through the issue of performance rights conditional upon the executives remaining employed by the Company until 15 April 2021.
FY20 CEO ALM buy-out grant	To secure his appointment, Chris Baddock’s executive incentives with his previous employer required a buy-out. Consequently, Mr Baddock was awarded this grant upon commencement of his employment at Metcash. This grant includes: <ol style="list-style-type: none"> 1) Metcash shares issued to Mr Baddock to retain his services up to 15 August 2019; and 2) Performance rights issued to Mr Baddock to achieve Liquor’s FY20 earnings target and to retain his services up to 15 April 2020.
Long-term incentives (LTI schemes)	
FY20-FY22 LTI grant	This grant was issued to KMP and senior executives during FY20 and is subject to two performance conditions: Return on Funds Employed (‘ROFE’) and Total Shareholder Returns (‘TSR’) over a three-year period from 1 May 2019 to 30 April 2022.
FY19-FY21 LTI grant	This grant was issued to KMP and senior executives during FY19 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 2018 to 30 April 2021.
FY18-FY20 LTI grant	This grant was issued to KMP and senior executives during FY18 and is subject to two performance conditions: RTSR and UEPS CAGR over a three-year period from 1 May 2017 to 30 April 2020.

The FY20 at-risk STI plan and LTI schemes are also subject to service conditions, usually from grant date to the date of the allocation of shares.

The FY20 CEO ALM buy-out grant fully vested upon Mr Baddock successfully meeting the service and performance conditions during the year. A total of 221,400 shares were acquired on market and thereafter, issued to Mr Baddock.

The FY18-20 LTI partially vested at 67.4%. These vested performance rights will be converted to shares and allocated to the participants under the Rights plan on 15 August 2020.

As foreshadowed in FY19, the FY17-FY19 LTI plan partially vested on 15 August 2019 at 90% which was equivalent to 1,706,103 performance rights. Each performance right entitled the participant to one Metcash share. Metcash acquired 1,039,722 shares on market and allocated these to the participants on 15 August 2019. The balance relating to good leavers was settled in cash.

Measurement of fair values

FY20 at-risk STI plan – deferred component

The 50% (Group CEO) and 40% (other KMP and senior executives) components of the FY20 at-risk STI plan will be deferred and released through the issue of Metcash performance rights conditional upon the executive remaining employed by the Company until 15 April 2021. The number of performance rights will be calculated by dividing 50% (Group CEO) and 40% (other KMP and senior executives) of the STI award dollar value by the volume-weighted average price (VWAP) of Metcash ordinary shares over the 20 trading days ended 16 March 2020 of \$2.58 per share. The Board determined that it was appropriate to determine the VWAP during this pre-COVID-19 period. The fair value per grant will then be determined in accordance with AASB 2 *Share-based payments* at grant date.

FY20 CEO ALM buy-out grant – Metcash shares

The fair value of the 147,600 Metcash shares issued in relation to the FY20 CEO ALM buy-out grant was based on Metcash share price at grant date.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18. Share-based payments (continued)

FY20 CEO ALM buy-out grant and LTI performance rights

The weighted average inputs to the valuation of the FY20 CEO ALM buy-out grant and LTI performance rights valued at grant date using the Black-Scholes option pricing model are as follows:

	FY20 CEO ALM buy-out grant Performance Rights	LTI FY20 – FY22 (ROFE)	LTI FY19 – FY21 (UEPS)	LTI FY18 – FY20 (UEPS)
Dividend yield	3.1%	4.8%	5.2%	3.0%
Risk free rate	1.0%	1.0%	2.0%	1.9%
Expected volatility	38.0%	31.0%	37.0%	42.0%
Days to vesting	294	1,121	1,121	1,120
Share price at grant date	\$2.81	\$2.81	\$2.56	\$2.51
Fair value at grant date	\$2.74	\$2.66	\$2.23	\$2.33

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

	LTI FY20 – FY22 (TSR)	LTI FY19 – FY21 (RTSR)	LTI FY18 – FY20 (RTSR)
Dividend yield	4.8%	5.2%	3.0%
Risk free rate	1.0%	2.0%	1.9%
Expected volatility	31.0%	37.0%	42.0%
Days to vesting	1,121	1,121	1,120
Share price at grant date	\$2.81	\$2.56	\$2.51
Fair value at grant date	\$1.23	\$0.72	\$1.55

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

Reconciliation of outstanding performance rights

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

	FY20 Number	FY19 Number
Outstanding at the beginning of the year	6,532,863	4,660,076
Granted during the year – LTI	2,656,799	2,519,004
Vested during the year – LTI	(1,779,903)	-
Expired/forfeited during the year – LTI	(1,039,220)	(646,217)
Outstanding at the end of the year	6,370,539	6,532,863

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18. Share-based payments (continued)

The outstanding balance of performance rights as at 30 April 2020 is represented by:

Scheme name	Vesting date	Total outstanding (number)	Exercisable (number)	Remaining contractual life
LTI FY20 – FY22	15 August 2022	2,284,199	-	2 years 4 months
LTI FY19 – FY21	15 August 2021	1,892,306	-	1 year 4 months
LTI FY18 – FY20 (a)	15 August 2020	2,194,034	-	4 months
Total outstanding at the reporting date		6,370,539	-	

(a) The FY18-FY20 LTI performance rights plan is expected to partially vest on 15 August 2020 at 67.4% subject only to the employees remaining in employment until 15 August 2020. These vested performance rights will be converted to shares and allocated to the participants under the Rights plan on 15 August 2020.

Key terms and conditions

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

The key terms of the LTI plans include:

1. 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 the contractual life of the rights;
2. Performance rights which do not vest are forfeited;
3. Performance rights are offered at no cost to participants;
4. 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;
5. Ordinarily, in the event of cessation of employment, unvested performance rights will lapse; however, this is subject to Board discretion, which may be exercised in circumstances including death and disability, retirement, redundancy or special circumstances;
6. 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;
7. 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
8. If there is a change in control of the Group, the Board retains full discretion to vest or lapse some or all performance rights.

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

	FY20 \$m	FY19 \$m
Statement of financial position		
Current assets – amounts receivable from subsidiaries	1,432.8	1,259.0
Net assets	1,432.8	1,259.0
Contributed equity (note 13)	853.5	559.2
Accumulated losses	(1,265.4)	(1,265.4)
Profit reserve	1,842.2	1,960.4
Share-based payments reserve	2.5	4.8
Total equity	1,432.8	1,259.0
Statement of comprehensive income		
Dividends received from subsidiaries	-	1,121.4
Net profit for the year	-	1,121.4
Total comprehensive income for the year, net of tax	-	1,121.4

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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

Investment in subsidiary and dividend income

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

Profit reserve

The Parent Company established a profit reserve in FY17 within its separate financial statements, in accordance with the Company's constitution. During the current financial year, the FY19 final dividend of \$63.6 million and the FY20 interim dividend of \$54.6 million were sourced and paid from the profit reserve.

Closed Group

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

Contingent liabilities

The contingent liabilities in relation to the Parent Company are disclosed in note 22.

20. Auditors remuneration

	FY20 \$	FY19 \$
Amounts received or due and receivable by the auditor of the Parent Company and any other entity in the Group for:		
- Auditing the statutory financial report of the Parent Company covering the Group and the statutory financial report of any controlled entities	2,100,000	1,780,000
- Fees for other assurance and agreed-upon procedure services	36,000	-
- Fees for tax and other services	177,000	318,000
	2,313,000	2,098,000

21. Earnings per share

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

	FY20 \$m	FY19 \$m
Earnings used in calculating basic and diluted EPS		
Net (loss)/profit attributable to ordinary equity holders of Metcash Limited	(56.8)	192.8

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

	FY20 Number	FY19 Number
Weighted average number of ordinary shares used in calculating basic EPS	910,139,794	928,588,681
Effect of dilutive securities	-	3,338,690
Weighted average number of ordinary shares used in calculating diluted EPS	910,139,794	931,927,371

At the reporting date, 6,370,539 performance rights (FY19: 6,532,863) were outstanding, of which 6,370,539 (FY19: 3,194,173) were not included in the calculation of diluted EPS as they are not dilutive for the periods presented. Refer note 18 for more details about performance rights.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

22. Commitments and Contingent liabilities

Commitments

Capital operating expenditure and operating lease commitments

The Group had no material commitments for capital expenditure at 30 April 2020.

Contingent liabilities

	FY20 \$m	FY19 \$m
Bank guarantees to third parties in respect of property lease obligations	16.6	16.8
Bank guarantees in respect of Work Cover	2.7	2.7

Financial guarantee contracts

The Group has granted a financial guarantee contract relating to the bank loan of a joint venture, Adcome Pty Ltd. Under the contract, the bank has the right to require Metcash to repay the debt under certain prescribed circumstances of default. The estimate of the maximum amount payable in respect of the guarantee, if exercised, is \$46.5 million (FY19: \$46.5 million).

Had the guarantee been exercised at 30 April 2020, the amount payable would have been \$39.1 million (FY19: \$43.6 million). The fair value of the financial guarantee contract at the reporting date was \$1.1 million (FY19: \$1.8 million) and is recognised as a financial liability.

Put options

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

23. Subsequent events

On 20 May 2020, Metcash announced the successful completion of its Share Purchase Plan ('SPP') which raised \$13.6 million and resulted in 5,963,215 new shares being issued at \$2.28 per share.

In June 2020, Metcash acquired the private label brand portfolio from Kollaras & Co, which is a key accelerator of the Liquor pillar's private label growth strategy.

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

Appendix A - Financial reporting changes from the initial application of AASB 16 Leases

On 1 May 2019, the Group initially applied AASB 16 *Leases* using the modified retrospective transition option. Accordingly, the comparative information in this financial report has not been restated. The Group has provided supplementary information in the FY20 full year results presentation to bridge the financial statements between both standards. Whilst the FY20 financial report is subject to an audit by the Group's auditors, pre AASB 16 financial information for FY20 is unaudited and not reviewed by the auditors.

a) Types of leases held by the Group

Metcash-occupied properties

Leasehold properties occupied by the Group primarily include distribution centres, warehouses, corporate stores and offices. For these properties, the balance sheet now includes a depreciating right-of-use asset and an associated lease liability. The lease liability is measured at the net present value of future payables under the lease, including renewal periods where the Group has assessed that the probability of exercising the renewal is reasonably certain. On transition, the asset was measured at the value of the financial liability, adjusted for any prepayments or accruals existing at transition date.

Back-to-back leases

In addition, Metcash has a portfolio of '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 resulted in the recognition of an additional financial asset and lease liability, representing the present value of future cash flows on the sublease and the head lease, respectively. The value of the financial asset and the lease liability is broadly equivalent.

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

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

b) Reconciliation of operating lease commitments to lease liabilities as at transition date

The following table reconciles the Group's operating lease commitments at 30 April 2019 to the lease liabilities recognised upon transition at 1 May 2019:

	\$m
Operating lease commitments at 30 April 2019	1,499.3
Commitments related to leases contracted but not commenced	(152.0)
Commitments related to outgoings and similar service costs	(148.3)
Commitments related to short-term leases and other lease payments	(26.0)
Impact of discounting (weighted average rate of 5.0%)	(233.9)
Lease liabilities as at 1 May 2019	939.1

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Appendix A - Financial reporting changes from the initial application of AASB 16 *Leases*

c) Summarised balance sheet on transition date

The following summarised balance sheet shows the adjustments recognised for each individual line item upon transition as at 1 May 2019.

	30 April 2019 as reported \$m	AASB 16 adjustments \$m	1 May 2019 post transition \$m
ASSETS			
Trade receivables and loans	1,493.2	-	1,493.2
Lease receivables	-	56.2	56.2
Other current assets	933.7	-	933.7
Current assets	2,426.9	56.2	2,483.1
Lease receivables	-	259.8	259.8
Net deferred tax assets	116.6	0.7	117.3
Property, plant and equipment	225.8	(7.8)	218.0
Right-of-use assets	-	554.5	554.5
Other non-current assets	897.3	-	897.3
Non-current assets	1,239.7	807.2	2,046.9
TOTAL ASSETS	3,666.6	863.4	4,530.0
Trade and other payables	1,967.7	(32.7)	1,935.0
Interest bearing borrowings	1.9	(1.9)	-
Provisions	123.9	(5.9)	118.0
Lease liabilities	-	152.6	152.6
Other current liabilities	20.3	-	20.3
Total current liabilities	2,113.8	112.1	2,225.9
Interest bearing borrowings	183.6	(5.5)	178.1
Provisions	115.9	(35.5)	80.4
Lease liabilities	-	793.9	793.9
Other liabilities	3.2	-	3.2
Total non-current liabilities	302.7	752.9	1,055.6
TOTAL LIABILITIES	2,416.5	865.0	3,281.5
NET ASSETS	1,250.1	(1.6)	1,248.5
EQUITY			
Contributed and other equity	559.2	-	559.2
Retained earnings	682.1	(1.6)	680.5
Other reserves	(0.8)	-	(0.8)
Parent interest	1,240.5	(1.6)	1,238.9
Non-controlling interests	9.6	-	9.6
TOTAL EQUITY	1,250.1	(1.6)	1,248.5

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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 29 April 2019 and ended on 26 April 2020. The prior financial year comprised the 52-week period that commenced on 30 April 2018 and ended on 28 April 2019.

2. STATEMENT OF COMPLIANCE

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

(a) Changes in accounting policy

In FY20, the Group initially applied AASB 16 *Leases*. The nature and effect of this restatement is outlined in Appendix A.

Several other amendments and interpretations apply for the first time in FY20, but do not have an impact on the financial report of the Group. These are as follows:

- AASB 2017-7 *Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures*
- AASB Interpretation 23 *Uncertainty over Income Tax Treatments*
- Amendments to AASB 9 *Prepayment Features with Negative Compensation*
- Annual AASB Improvement Process
 - AASB 3 *Business Combinations – Previously-held interest in a joint operation*
 - AASB 11 *Joint Arrangements – Previously-held interest in a joint operation*
 - AASB 112 *Income Taxes – Income tax consequences of payments on financial instruments classified as equity*
 - AASB 123 *Borrowing Costs – Borrowing costs eligible for capitalisation*

(b) Australian Accounting Standards issued but not yet effective

A number of new accounting standards (including amendments and interpretations) have been issued but were not effective as at 30 April 2020. Certain amendments were made to the definition of materiality, which were applicable to AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and consequential amendments to other AASBs, which: i) use a consistent definition of materiality throughout AASBs and the Conceptual Framework for Financial Reporting; ii) clarify when information is material; and iii) incorporate some of the guidance in AASB 101 about immaterial information. These amendments are in issue but are applicable to the Group in future financial periods.

The following are other pronouncements that the Group has elected not to early adopt in these financial statements:

- Conceptual Framework for Financial Reporting
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*
- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business*
- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*
- AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*
- AASB 2019-5 *Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*

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 2020. Refer Appendix C for a list of 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 acquisition method of accounting. The acquisition 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Appendix B – Summary of significant accounting policies

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

Separate financial statements

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

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

The Group has incorporated judgements, estimates and assumptions specific to the impact of the COVID-19 pandemic in determining the amounts recognised in the financial statements based on conditions existing at balance date, recognising uncertainty still exists in relation to the duration of the COVID-19 pandemic-related restrictions, the anticipated government stimulus and regulatory actions.

(a) Significant accounting judgements

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

Charge-through sales

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

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

Assessment of control and joint control

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

Supplier income

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

Purchase price allocation

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

Valuation of put options written over non-controlling interest

Determining the Ritchies put option consideration and maturity date.

Determination of lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

After initial recognition, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

(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 10.

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 property make-good, restructuring and other costs. These estimates are determined using assumptions on property-related costs, redundancy and other closure or restructure costs.

Impairment of equity-accounted investments

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

Provision for expected credit losses of trade and other receivables

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Appendix B – Summary of significant accounting policies

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

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

5. TRADE AND OTHER RECEIVABLES

Trade receivables are measured at the transaction price determined under Appendix B.18.

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

6. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

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

Cash flow hedge reserve

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

Current versus non-current classification

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

7. EQUITY-ACCOUNTED INVESTMENTS

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

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

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

8. INVENTORIES

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Appendix B – Summary of significant accounting policies

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:

	FY20	FY19
Freehold buildings	25-40 years	25-40 years
Plant and equipment	2-20 years	2-20 years

Derecognition

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

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

10. INTANGIBLE ASSETS

Recognition and measurement

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

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

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

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

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

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:

	FY20	FY19
Customer contracts	15 years	15 years
Software development costs	5-10 years	5-10 years
Other	10 years	10 years

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

11. IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

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

Impairment losses are recognised in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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. PROVISIONS

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

If the effect of the time value of money is material, provisions are measured at the net present value of the expected future cash outflows using a current pre-tax rate that reflects the risks specific to the liability. During each period the provision is increased by an amount that is equal to the provision multiplied by the discount rate. This increment, including any change in the value of the provision as a result of a change in discount rate, is treated as a finance cost.

The Group assesses obligations for onerous contracts, lease guarantees, property make-good, restructuring and other costs. These estimates are determined using assumptions on property related costs, redundancy and other closure or restructure costs.

15. RIGHT-OF-USE ASSETS, LEASE RECEIVABLES AND LEASE LIABILITIES

The following significant accounting policies are effective from 1 May 2020:

Group as a lessee

Right-of-use assets

The Group recognises right-of-use assets at the commencement of a lease (i.e., the date the underlying asset is available for use). The initial measurement of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are subsequently measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment assessments under AASB 136 *Impairment of Assets*.

Depreciation

Depreciation is provided on a straight-line basis on all right-of-use assets. Major depreciation periods are:

	FY20
Leasehold properties	1 -30 years
Motor vehicles and other equipment	4-5 years

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

Lease liabilities

At the commencement of a lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable and amounts expected to be paid under residual value guarantees. The lease payments also include renewal periods where the Group is reasonably certain to exercise the renewal option. Outgoings and other variable lease payments that do not depend on an index or a rate are recognised as incurred.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Appendix B – Summary of significant accounting policies

Group as a lessor

The Group enters into back-to-back lease agreements with independent retailers where the terms of the lease transfer substantially all the risks and rewards of ownership to the sublessee and these are classified as a finance lease.

Amounts due from finance leases are recognised as lease receivables at the amount of the Group's net investment in the lease. Lease receivables are subsequently remeasured if there is a change in the lease term. Finance lease income is allocated to reporting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

All other leases are classified as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Short-term leases and leases of low-value assets

The Group applies a recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies a recognition exemption to leases that are considered of low value. Lease payments and rental income from short-term and low-value leases are recognised on a straight-line basis over the lease term.

16. LEASES

The following accounting policy was applicable to Metcash until 30 April 2019:

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.

17. SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

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

Share-based payments reserve

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

18. REVENUE RECOGNITION

Sale of goods

The Group's revenue principally arises from the sale of goods within its wholesale distribution and retail operations, as outlined in note 2. Sales revenue is recognised when the Group has delivered goods to its customers, and it is probable that consideration will be collected in exchange. Revenue is measured based on the consideration expected to be received, net of volumetric and other trade rebates.

Charge-through sales

The Group operates a charge-through platform whereby goods are delivered directly to the Group's customers by suppliers. The Group retains the credit risk associated with these transactions; however, the Group does not bear any material inventory risk or exercise any material discretion in establishing prices. Charge-through transactions are therefore reported on an agency or net 'commission' basis.

19. 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Appendix B – Summary of significant accounting policies

20. INCOME TAX

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

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.
- The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

21. 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.

22. COMPARATIVE INFORMATION

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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.

	FY20 %	FY19 %
Entities within the Closed Group¹		
Action Holdings Pty Ltd	100	100
Action Supermarkets Pty Ltd	100	100
Australian Asia Pacific Wholesalers Pty Ltd	100	100
Australian Hardware Distributors Pty. Limited	100	100
Australian Hardware Support Services Pty Ltd	100	100
Australian Liquor Marketers (QLD) Pty Ltd	100	100
Australian Liquor Marketers (WA) Pty Ltd	100	100
Australian Liquor Marketers Pty. Limited	100	100
Big Bargain Bottleshops Australia Pty Ltd	100	100
Capeview Hardware Pty Ltd	100	100
City Ice & Cold Storage Company Proprietary Limited	100	100
Clancy's Food Stores Pty Limited	100	100
Composite Buyers Finance Pty Ltd	100	100
Composite Buyers Pty Limited	100	100
Community Co Australia Pty Ltd	100	100
Danks Holdings Pty Limited	100	100
Davids Foodservices Pty Ltd	100	100
Davids Group Staff Superannuation Fund Pty. Ltd.	100	100
Echuca Hardware Pty Ltd	100	100
Foodland Properties Pty Ltd	100	100
Foodland Property Holdings Pty Ltd	100	100
Franklins Pty Ltd	100	100
Franklins Supermarkets Pty Ltd	100	100
Fresco Supermarket Holdings Pty Ltd	100	100
Garden Fresh Produce Pty Ltd	100	100
G Gay Hardware Pty Ltd (a)	100	49
Global Liquor Wholesalers Pty Limited	100	100
Hammer Hardware Stores Pty Ltd	100	100
Hardings Hardware Pty Ltd	100	100
Himaco Pty Ltd	100	100
Home Hardware Australasia Pty Ltd	100	100
Home Timber & Hardware Group Pty Ltd	100	100
Homestead Hardware Australasia Pty Ltd	100	100
HTH Events Pty Ltd	100	100
HTH Stores Pty Limited	100	100
Hudson Building Supplies Pty Limited	100	100
IGA Community Chest Limited	100	100
IGA Distribution (SA) Pty Limited	100	100
IGA Distribution (Vic) Pty Limited	100	100
IGA Distribution (WA) Pty Limited	100	100
IGA Fresh (Northern Queensland) Pty Limited	100	100
IGA Fresh (NSW) Pty Limited	100	100
IGA Retail Services Pty Limited	100	100
Independent Brands Australia Pty Limited	100	100
Independent Hardware Group Pty Ltd	100	100
Independent Solutions Pty Ltd	-	100
Interfrank Group Holdings Pty Ltd	100	100
Jewel Food Stores Pty Ltd	100	100
JV Pub Group Pty Ltd	100	100

	FY20 %	FY19 %
K&B Timber and Hardware Pty Ltd. (previously Banner 10 Pty Ltd)	100	100
Keithara Pty Ltd	100	100
Liquor Traders Pty Ltd	100	100
Liquorsmart Pty Ltd	100	100
M-C International Australia Pty Limited	100	100
Mega Property Management Pty Ltd	100	100
Mermaid Tavern (Trading) Pty Ltd	100	100
Metcash Food & Grocery Convenience Division Pty Limited	100	100
Metcash Food & Grocery Pty Ltd	100	100
Metcash Holdings Pty Ltd	100	100
Metcash Management Pty Limited	100	100
Metcash Services Proprietary Limited	100	100
Metcash Storage Pty Limited	100	100
Metcash Trading Limited	100	100
Metro Cash & Carry Pty Limited	100	100
Mirren (Australia) Pty Ltd	100	100
Mitre 10 Australia Pty Ltd	100	100
Mitre 10 Mega Pty Ltd	100	100
Mitre 10 Pty Ltd	100	100
Narellan Hardware Pty Ltd	100	100
National Retail Support Services Pty Ltd	100	100
Payless Superbarn (N S W) Pty Ltd	100	100
QIW Pty Limited	100	100
Queensland Independent Wholesalers Pty Limited	100	100
Quickstop Pty Ltd	100	100
Roma Hardware Pty Ltd	100	100
Scanning Systems (Fuel) Pty Ltd	-	100
SE Hardware Pty Limited	100	100
Smart IP Co Pty Ltd	-	100
South Coast Operations Pty Ltd	100	100
South West Operations Pty Ltd	100	100
SSA Holding Pty Ltd	-	100
Thrifty-Link Hardware Pty Ltd	100	100
Timberten Pty Ltd	100	100
UIAL NSW/ACT Pty Ltd	100	100
UIAL Tasmania Pty Ltd	100	100
Wavn No 3 Pty Ltd	100	100
W.A. Hardware Services Pty. Ltd	100	100
Entities outside of the Closed Group		
Central Timber 10 Pty Ltd	50	-
Faggs Geelong Pty Ltd	90	90
Foodland Property Unit Trust	100	100
Gympie Property Investment Pty Ltd	84.7	84.7
Hardware Property Trust	100	100
IGA Retail Network Limited	100	100
Keith Hardware Pty Ltd	100	-
Metoz Holding Limited (incorporated in South Africa)	100	100
Mitre 10 Mega Property Trust	100	100
NFRF Developments Pty Ltd	51	51
Northern Hardware Group Pty Ltd	84.7	84.7
Nu Fruit Pty. Ltd.	51	51
Produce Traders Trust	100	100
Rainbow Unit Trust	100	100

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Appendix C – Information on subsidiaries

	FY20 %	FY19 %
Rainfresh Vic Pty Ltd	51	51
Retail Merchandise Services Pty Limited	100	100
Sunshine Hardware Pty Ltd	84.7	84.7
Tasman Liquor Company Limited (incorporated in New Zealand)	100	100
Tasmania Hardware Pty Ltd	80	80
Timber and Hardware Exchange Pty Ltd	68.42	68.42
Wimbledon Property Trust	100	100

a) During the year, G Gay Hardware Pty Ltd became a wholly-owned subsidiary following the Group's acquisition of its remaining 51% equity interest.

1. Entities within the closed group as at 30 April 2020

Certain controlled entities of Metcash Limited, collectively referred to as the 'Closed Group', are party to a Deed of Cross Guarantee which meets the requirements of *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785* (Instrument). Pursuant to the Instrument, entities within the Closed Group that have lodged an opt-in notice with ASIC within the requisite time limits are granted relief from standalone financial reporting and audit requirements of the Corporations Act 2001. Under the Deed of Cross Guarantee, the entities within the Closed Group, including Metcash Limited, have guaranteed to pay any outstanding debts or claims in the event of a winding up of any other entity within the Closed Group.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Appendix C – Information on subsidiaries

Summary Statement of Comprehensive Income of the Closed Group

	FY20 \$m	FY19 \$m
Distributions from subsidiaries outside the Closed Group	3.9	1,302.4
Other transactions with subsidiaries outside the Closed Group	-	(33.0)
Other net income/(expense)	265.3	281.8
Significant items	(268.5)	(25.0)
Profit before income tax	0.7	1,526.2
Income tax expense	(66.2)	(78.0)
Net (loss)/profit for the year	(65.5)	1,448.2

Summary Statement of Financial Position of the Closed Group

	FY20 \$m	FY19 \$m
Assets		
Cash and cash equivalents	251.8	130.3
Trade receivables and loans	1,528.3	1,435.6
Lease receivables	55.6	-
Inventories	976.3	721.0
Other current assets	12.1	11.0
Total current assets	2,824.1	2,297.9
Investments	189.0	177.1
Lease receivables	239.1	-
Property, plant and equipment	185.8	199.1
Net deferred tax assets	115.8	111.6
Intangible assets and goodwill	520.1	741.0
Right-of-use assets	457.7	-
Other non-current assets	25.7	16.1
Total non-current assets	1,733.2	1,244.9
Total assets	4,557.3	3,542.8
Liabilities		
Trade and other payables	1,986.4	1,885.6
Lease liabilities	165.4	-
Interest-bearing borrowings	-	1.9
Income tax payable	1.8	11.6
Provisions and other current liabilities	116.2	123.6
Total current liabilities	2,269.8	2,022.7
Interest-bearing borrowings	188.4	183.6
Lease liabilities	690.9	-
Amounts due to related parties	41.6	18.7
Provisions and other non-current liabilities	58.7	117.4
Total non-current liabilities	979.6	319.7
Total liabilities	3,249.4	2,342.4
Net assets	1,307.9	1,200.4
Equity		
Contributed and other equity 1 May	559.2	559.2
Equity raised, net of costs	294.3	-
Contributed and other equity, 30 April	853.5	559.2
Other reserves	(2.3)	(0.8)
Retained profits/(accumulated losses)		
Opening balance, 30 April (as previously stated)	642.0	(514.9)
Changes from the initial adoption of the new accounting standards	(1.6)	(54.4)
Opening balance, 1 May (restated)	640.4	(569.3)
Net (loss)/profit for the year	(65.5)	1,448.2
Share buyback, net of costs	-	(109.5)
Dividends paid	(118.2)	(127.4)
Closing balance	456.7	642.0
Total equity	1,307.9	1,200.4

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Appendix D – Equity-accounted investments

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

The principal place of business for all of the Group's equity-accounted investments is Australia, with the exception of Metcash Export Services Pty Ltd, which primarily deals with customers in China.

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

Investee	Principal activities	Reporting date	FY20 %	FY19 %
Associates				
Ritchies Stores Pty Ltd	Grocery retailing	30 June	26.0	26.0
Dramet Holdings Pty Ltd	Grocery retailing	30 June	26.0	26.0
Metcash Export Services Pty Ltd	Grocery retailing	30 April	15.0	15.0
Joint ventures				
Adcome Pty Ltd	Grocery retailing	30 April	45.0	45.0
Lecome Pty Ltd	Grocery retailing	30 April	-	50.0
BMS Retail Group Holdings Pty Ltd	Grocery retailing	30 June	49.0	49.0
Progressive Trading Pty Ltd	Grocery retailing	30 April	-	58.8
Waltock Pty Limited	Hardware retailing	30 June	49.0	49.0
G Gay Hardware Pty Ltd (a)	Hardware retailing	30 June	-	49.0
LA United Pty Ltd (b)	Liquor wholesaling	30 June	75.3	75.3
Liquor Alliance Pty Ltd (b)	Liquor wholesaling	30 June	66.7	66.7

(a) During the year, G Gay Hardware Pty Ltd became a wholly-owned subsidiary following the Group's acquisition of its remaining 51% equity interest.

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

DIRECTORS' DECLARATION

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 the consolidated entity's financial position as at 30 April 2020 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 2020.
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, 22 June 2020



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Auditor's Independence Declaration to the Directors of Metcash Limited

As lead auditor for the audit of the financial report of Metcash Limited for the financial year ended 30 April 2020, 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

Christopher George
Partner
22 June 2020



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Independent Auditor's Report to the Members of Metcash Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Metcash Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 April 2020, 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 2020 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

Key Audit Matters

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

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



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Impairment assessment for goodwill and other intangible assets

Why significant

At 30 April 2020 the Group's consolidated statement of financial position includes goodwill and other intangible assets with a carrying value of \$581.8 million, representing 12.4% of total assets. The Group recognised an impairment charge of \$226 million during the first half of the year.

The Directors have assessed goodwill and other intangible assets for impairment at 30 April 2020. As disclosed within Note 10 to the financial statements, the assessment of the impairment of the Group's goodwill and other intangible assets incorporated significant judgments and estimates, based upon conditions existing as at 30 April 2020, specifically concerning factors such as forecast cashflows, discounts rates and terminal growth rates.

The estimates and assumptions relate to future performance, market and economic conditions.

At 30 April 2020 the Group's performance and the economy as a whole, were impacted by the restrictions and economic uncertainty resulting from the COVID-19 pandemic. Significant assumptions used in the impairment testing referred to above are inherently subjective and in times of economic uncertainty the degree of subjectivity is higher than it might otherwise be. Changes in certain assumptions can lead to significant changes in the recoverable amount of these assets

In this situation the disclosures in the financial report provide particularly important information about the assumptions made in the impairment testing and the market conditions at 30 April 2020. As a result, we consider the impairment testing of goodwill and other intangible assets and the related disclosures in the financial report to be particularly significant to our audit. For the same reasons we consider it important that attention is drawn to the information in Note 10.

How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ Assessed the Group's determination of the cash generating units (CGUs) used in the impairment model, based on our understanding of the nature of the Group's business and the economic environment in which the segments operate. We also considered internal reporting of the Group's results to assess how earnings and goodwill are monitored and reported
- ▶ Assessed the cash flow forecasts, assumptions and estimates used by the Group, as outlined in Note 10 to the financial statements, by considering the reliability of the Group's historical cash flow forecasts, our knowledge of the business and corroborating data with external information where possible
- ▶ Evaluated the appropriateness of discount and terminal growth rates applied with involvement from our valuation specialists
- ▶ Tested the mathematical accuracy of the impairment testing models including the consistency of relevant data with latest Board approved forecasts
- ▶ Performed sensitivity analysis on key assumptions including discount rates, terminal growth rates and EBIT forecasts for each of the Group's CGUs
- ▶ Assessed the adequacy of the financial report disclosures contained in Note 10.



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Accounting for rebates

Why significant

Appendix B.8 of the financial report outlines the Group's accounting policy relating to supplier rebates, or supplier income as they are referred to in the Financial report.

The Group receives rebates and other similar incentives from suppliers which are determined based upon a number of measures which can include volumes of inventory purchased, sold, and the performance of promotional activities.

We considered this to be a key audit matter as supplier rebates contributed significantly to the Group's results, there are a large number of specific agreements in place and some of the arrangements require judgment to be applied in determining the timing of rebate recognition and the appropriate classification within the consolidated statement of comprehensive income based upon the terms of the agreement.

How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ Evaluated the Group's processes and design of controls relating to the recognition and valuation of amounts recognised and classified within the consolidated statement of comprehensive income
- ▶ Assessed the operating effectiveness of relevant controls in place relating to the recognition and measurement of volumetric, purchase value and sales value related rebates
- ▶ Selected a sample of supplier rebates including non-volumetric supplier rebates, received and accrued for during the year and tested whether the income was correctly calculated and recognised in the correct period
- ▶ Considered the impact of supplier claims during and subsequent to year end on amounts recognized
- ▶ Inquired of management and the Directors as to the existence of any non-standard agreements or side arrangements.

Adoption of Australian Accounting Standard AASB 16 – Leases

Why significant

The 30 April 2020 financial year was the first year of adoption of Australian Accounting Standard AASB 16 - *Leases* ("AASB 16"). The Group holds a significant volume of leases by number and value over distribution centres (as lessee) and retail sites (as both lessor and lessee). A large proportion of those leases involve sub-leases to the Group's retail customers, on mirrored term.

Given the financial significance to the Group of its leasing arrangements, the complexity and judgements involved in the application of AASB16, and the transition requirements of the standard, this was considered to be a key audit matter.

Appendix A describes the accounting for the transition and Appendix B.15 describes the accounting policy for leases on an ongoing basis.

How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ Considered whether the Group's new accounting policies as set out in Appendix B.15, satisfied the requirements of AASB 16 including the adoption of any practical expedients selected by the Group available in AASB16 as part of the transition process
- ▶ Assessed the integrity of the Group's AASB 16 lease calculation model used, including the accuracy of the underlying calculation formulas
- ▶ For a sample of leases, we agreed the Group's inputs in the AASB 16 lease calculation model in relation to those leases, such as, key dates, fixed and variable rent payments, renewal options and incentives, to the relevant terms of the underlying signed lease agreements
- ▶ We considered the group's assumptions in relation to the group's treatment of lease renewal options.
- ▶ Assessed whether the Group had included all of its leases taking into consideration the modified retrospective



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Why significant

Upon transition a lease liability of \$946.5m, right of use asset of \$554.5m and lease receivable of \$316.0m were recognised on the balance sheet. The volume of leases and the quantitative impact of the transition adjustments make the impact of this new standard significant to the financial statements of the Group.

In addition, the complexity in the modelling of the accounting for the leases including the calculation of the incremental borrowing rate and the judgement involved in the treatment of renewal options is significant.

Accordingly, we considered this to be a key audit matter.

How our audit addressed the key audit matter

transition approach and practical expedients adopted by the Group by:

- Review of the reconciliation of the operating lease commitments disclosure in the prior year financial report to the transition disclosures; and
- Inspecting relevant expense accounts for routine payments during the year to identify the existence of leases not included in the Group's listing of leases

- ▶ We involved our valuation specialists to assist with the assessment of the rates used to discount future lease payments to present value
- ▶ Assessed the adequacy of the financial report disclosures contained in Note 7.

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 2020 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

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

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

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

Responsibilities of the Directors for the Financial Report

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



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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.



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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.



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Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 37 to 54 of the Directors' report for the year ended 30 April 2020.

In our opinion, the Remuneration Report of Metcash Limited for the year ended 30 April 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

A handwritten signature in black ink that reads 'EY + Yoy'.

Ernst & Young

A handwritten signature in black ink, appearing to be 'C George'.

Christopher George
Partner
Sydney
22 June 2020

ASX INFORMATION

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 2020:

DISTRIBUTION OF EQUITY SECURITIES

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

Size of holding	Number of shareholders
1 – 1,000	5,805
1,001 – 5,000	8,667
5,001 – 10,000	3,051
10,001 – 100,000	2,607
100,001 – 9,999,999,999	109
Total	20,239

There were 1,120 shareholders holding less than a marketable parcel of Metcash ordinary shares.

SUBSTANTIAL SHAREHOLDERS

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

	Number of Shares
Allan Gray Australia Pty Ltd	113,708,631
Pendal Group Limited	104,312,290
Lazard Asset Management	54,685,760
The Vanguard Group, Inc	45,474,228

VOTING RIGHTS

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

ASX INFORMATION CONTINUED

TWENTY LARGEST HOLDERS OF QUOTED SHARES

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

Name	Number of Shares	Percentage of Shares
HSBC CUSTODY NOMINEES	394,444,123	38.58%
J P MORGAN NOMINEES AUSTRALIA	188,071,452	18.40%
CITICORP NOMINEES PTY LIMITED	123,468,866	12.08%
NATIONAL NOMINEES LIMITED	101,090,997	9.89%
BNP PARIBAS NOMINEES PTY LTD	49,710,015	4.86%
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	13,785,407	1.35%
NAVIGATOR AUSTRALIA LTD <SMA ANTARES INV DV BUILD A/C>	5,105,075	0.50%
BUTTONWOOD NOMINEES PTY LTD	4,832,415	0.47%
CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C>	3,039,239	0.30%
UBS NOMINEES PTY LTD	2,151,818	0.21%
UBS NOMINEES PTY LTD	1,659,750	0.16%
POWERWRAP LIMITED <SCHEME - IML TRADES A/C>	1,478,079	0.14%
WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C>	1,326,639	0.13%
NAVIGATOR AUSTRALIA LIMITED <ANTARES EX-20 SMA A/C>	1,085,847	0.11%
BRISLOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	1,031,965	0.10%
SARGON CT PTY LTD <METCASH EMPLOYEE SHARE PLAN>	893,998	0.09%
AMP LIFE LIMITED	792,541	0.08%
NATIONAL NOMINEES LIMITED <DB A/C>	741,223	0.07%
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	692,941	0.07%
CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	651,479	0.06%
Total	896,053,869	87.65%

CORPORATE INFORMATION

DIRECTORS

Robert Murray (Chair)
Jeff Adams (Group CEO)
Peter Birtles
Tonianne Dwyer
Murray Jordan
Helen Nash

COMPANY SECRETARY

Julie Hutton

SHARE REGISTER

Boardroom Pty Limited
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Freecall: 1800 655 325
Telephone: 61 2 9290 9600

AUDITOR

Ernst & Young
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Telephone: 61 2 9248 5555

METCASH LIMITED

ABN 32 112 073 480
1 Thomas Holt Drive
Macquarie Park NSW 2113
PO Box 557
Macquarie Park NSW 1670
Telephone: 61 2 9741 3000

Metcash Supermarkets & Convenience (Head Office)

1 Thomas Holt Drive
Macquarie Park NSW 2113
PO Box 557
Macquarie Park NSW 1670
Telephone: 61 2 9741 3000

Australian Liquor Marketers (Head Office)

1 Thomas Holt Drive
Macquarie Park NSW 2113
PO Box 557
Macquarie Park NSW 1670
Telephone: 61 2 9741 3000

Independent Hardware Group (Head Office)

19 Corporate Drive
Heatherton VIC 3202
Telephone: 1300 880 440

CORPORATE GOVERNANCE

A copy of the Corporate Governance Statement can be found on our website.
Visit www.metcash.com/corporateinformation/corporate-governance

FOOD



LIQUOR



HARDWARE



