Metcash Limited
ABN 32 112 073 480
1 Thomas Holt Drive
Macquarie Park
NSW 2113 Australia

For personal use only

25 July 2016

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

Dear Sir/Madam

Metcash Limited 2016 Annual Report

In accordance with ASX Listing Rule 4.7, please find enclosed a copy of the Metcash Limited 2016 Annual Report.

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

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

Yours faithfully

Julie Hutton
Company Secretary

Metcash

Annual Report 2016

Metcash Limited
ABN 32 112 073 480

For personal use only

Contents

About Us	**4**
Chairman's Report	**7**
CEO's Report	**8**
Financial Highlights	**12**
Operational Highlights	**14**
Corporate Social Responsibility	**16**
Board of Directors	**19**
Financial Report	**20**
Directors' Report	**21**
Financial Statements	**47**
Notes to the Financial Statements	**51**
Directors' Declaration	**90**
Auditor's Independence Declaration	**91**
Independent Auditor's Report	**92**
ASX Additional Information	**94**
Corporate Information	**95**

For personal use only

For personal use only

Metcash is Australia's leading wholesaler and distributor, supplying and supporting more than 10,000[1] Independent Retailers across the food, grocery, liquor and hardware industries.

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

[1] *Number of Independent Retail customers*

About Us

For personal use only

Our Model

DELIVERING VALUE

Our Values

Integrity is the foundation of our values:

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

Our Vision

- Business Partner of choice for Suppliers and Independents
- Best store in every town
- Passionate about Independents
- Thriving communities, giving shoppers choice

Food & Grocery

Liquor

Hardware

Our retail brands

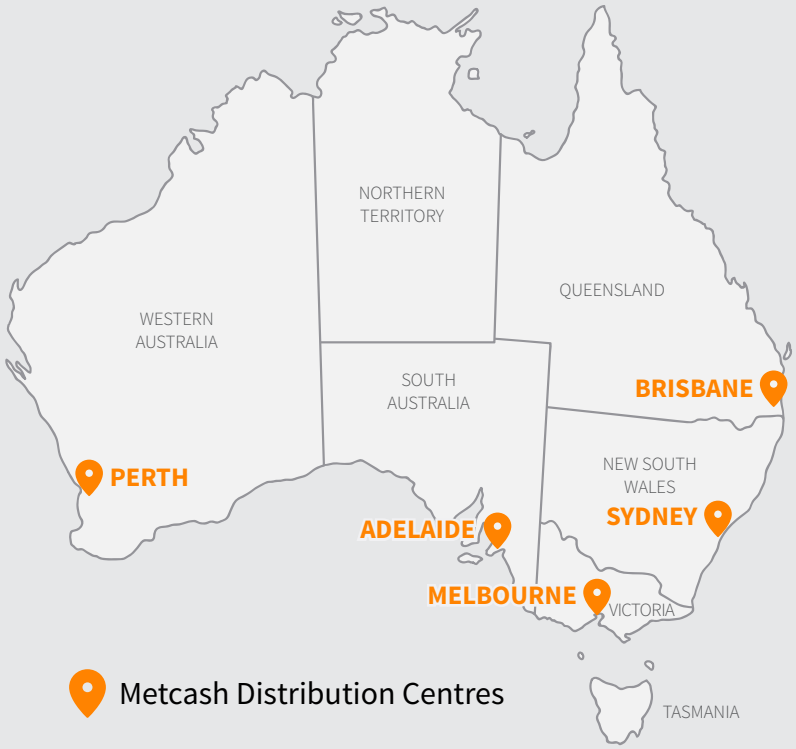
IGA · SUPA IGA · Campbells · Cellarbrations · MIGHTY HELPFUL MITRE 10 · IGA X-press · FOODLAND THE MIGHTY SOUTH AUSSIES · FRIENDLY GROCER · the Bottle-O · IGA LIQUOR · TRUE VALUE HARDWARE

For personal use only

Our Distribution Network

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

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



Our Retail Footprint

	Number of retail stores	Number of wholesale customers
Supermarkets	1,678	~1,000
Convenience	18	~90,000
Hardware	378	~370
Liquor	8,479[1]	~4,800

[1] *Includes 5,805 Cellarbrations on-premise customers*

Metcash's five major distribution centres occupy ~500,000m² - the equivalent of 400 Olympic sized swimming pools.

Two trucks leave one of our distribution centres every minute, distributing products to customers all over Australia.

For personal use only

Rob Murray

Chairman's Report

For personal use only

Key Highlights

- Solid financial position
- Progress towards customer focused model
- Board renewal to strengthen expertise
- Sale of Automotive business and non-core assets

I feel privileged to have been appointed Chairman of Metcash at this time of significant change and opportunity.

I am committed to ensuring the successful implementation of the Group's strategic plan, which is focused on supporting a healthy and thriving Independent Retail network.

We have now completed two years of our five year turnaround and I am heartened to see solid progress across all areas of the business, with many of the Transformation Initiatives gaining momentum and generating positive results.

As a Board, we acknowledge the importance a supportive and collaborative culture has in the organisation's success. The Board is committed to leading an organisation where behaviours are as important as results.

In order to drive a performance culture, the Group needs to ensure we have the right capabilities and experience to support our growth ambitions. In the past year we have seen both Board and senior management renewal, bringing an added depth of experience and diversity to the business. I welcome our two most recent Director appointments, Helen Nash and Murray Jordan, to the Board, both of whom have extensive experience in grocery retailing and fast moving consumer goods.

Neil Hamilton will retire by rotation at the AGM in August and has advised that he does not intend to stand for re-election. Michael Butler has also advised that he intends to retire from the Board following the AGM. I would like to thank them both for the significant contribution they have made to the Group during their time on the Board.

We continue to focus on our customers by developing a model that supports them across all areas of their business. We are enormously proud of the ~105,000* retail and wholesale customers across the food, grocery, liquor and hardware sectors. These independently owned and operated businesses are an integral part of the Australian economy. Our purpose remains to provide them with merchandising, operational and marketing support through our strong collection of retail brands to enable them to thrive in an increasingly competitive environment.

Turning to our financial performance, the Group's performance for Financial Year 2016 (FY16) was satisfying with a reported profit after tax of $216.5m, which includes $38.2m relating to profit from the sale of our Automotive business. Our underlying profit after tax was $178.3m with growth in earnings from the Liquor and Hardware businesses and lower finance cost offsetting the expected lower contribution from Food & Grocery.

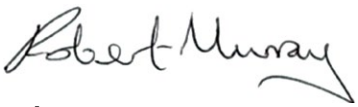
Importantly, we have built a strong financial foundation with net debt reduced by $392.3m over the year to $275.5m and gearing reduced significantly to 16.8%.

While our Transformation Initiatives such as Competitive Pricing, Network Investment and Core Ranging are gaining momentum, our markets - particularly food and grocery - continue to be characterised by deflation and increased competition. I am confident the ongoing implementation of our Transformation Initiatives, together with cost-saving measures, will support us in meeting these challenges and enable us to invest for growth over the medium-term.

Shareholder return remains a priority for the Board and I thank our investors for their support as we implement the Transformation Plan. The Board believes the strengthened balance sheet and lower debt levels enable the recommencement of half-yearly dividend payments in FY17. However, given the uncertainty of potential capital transactions, the Board has decided it would be prudent not to recommence dividend payments until the FY17 final dividend when we believe there will be greater certainty.

Through the leadership of your Board and senior management team we are well positioned to continue the momentum in our business into FY17, and believe we will see further traction across the network from our initiatives underway.

On behalf of the Board, I would like to take this opportunity to thank our people, the leadership team, all of our retailers, suppliers and our shareholders for your continued support as we navigate this process of change for the long-term success of the Group.



Rob Murray
Chairman

**Approximate figures based on total active retail and wholesale customers for FY16*

Ian Morrice

CEO's Report

For personal use only

Key Highlights

- Continued growth in revenues
- Values-driven culture to support business strategy
- Balance Sheet strengthened
- Senior management team renewal to strengthen expertise

I am encouraged by the substantial progress in Financial Year 2016 (FY16) towards delivering sustainable growth in revenues and earnings, as the Transformation of our business continues to deliver tangible results.

As Metcash completes the second year of its five year Transformation Plan we are committed to investing in growth initiatives and to building a culture of collaboration and engagement that supports our people, our suppliers and our Independent Retailers across our businesses.

I am satisfied with the results achieved over the past financial year with sales improvements, underlying profit stabilised, strong cashflows and a significant reduction in debt. In FY17 we will continue to simplify our business operations and reduce inefficiencies. At the heart of everything we do and how we do it, is our purpose – **Supporting Successful Independents.**

Independent Retailers are at the very core of our communities, providing choice and a viable alternative to the larger scale retailers across the food, grocery, liquor and hardware sectors. Their origins are rich in history and their contributions to our diverse communities are far greater than just the products and services they provide. Our focus is to build and strengthen relationships with our customers to enable the growth of these iconic businesses through our expertise in merchandising, operational and marketing support.

I am inspired by the strong connections our retailers have established within their local communities and the contributions they make through local employment, local suppliers and involvement in their communities. Over the past year the IGA network has contributed more than $2m through IGA Community Chest to assist schools, clubs and charity organisations across Australia.

This year we recognised the achievements of the Frewville Foodland IGA in South Australia, winner of an IGA International Retailer of the Year Excellence Award at the International IGA Conference. This is just one example of the very high calibre of Independent Retailers we support within our network, who continue to offer great value to consumers, through their entrepreneurial spirit, willingness to re-invest in their business and recognition of the superior in-store experience for their customers.

I am humbled by the support that exists within the Metcash network and proud of our team's commitment to our customers and their businesses. When our Huntingwood distribution facility was damaged by hail in April 2015, our business continuity planning and capability came to the fore with the network being able to re-commence supply to NSW customers from our Queensland and Victorian facilities within a matter of days. This is testimony to the strength of our relationships with our suppliers and our customers, and the commitment of our people. I am pleased to note that Huntingwood is now operational again, having been out of action for 12 months.

We continue to make progress to reduce our environmental impact and recognise there is more to be done. The introduction of our Energy Council provides a focal point for initiatives and a process for evaluation of investments to be implemented across the Metcash Group. During the year we exceeded our target for waste diversion from landfill by 25% - testimony to our continual process improvement and strong leadership.

Health and safety remains a high priority and significant progress has been made over the past three years, with Lost Time Injury Frequency Rates* almost halved to 8.5 over this period. This improvement has been achieved through leadership, behavioural and cultural initiatives implemented across the Group.

I am a firm believer that our people are fundamental to the success of our business and that of our retailers, and recognise the critical role a strong, collaborative, values-driven culture plays in the sustainability of an organisation. The way in which we work is as important as what we do. We have begun the process to align our values and culture to support and deliver on our customer-focused strategy. As a leadership team, we recognise we have a way to go and will continue to update shareholders on our progress.

Over the course of the year we've reviewed our leadership capabilities and strengthened our Group Leadership Team with the appointments of Steven

*Number of lost time injuries per million hours worked

For personal use only

Underlying Profit after Tax of **$178.3m**

Up 2.7% from FY15

Cain as CEO of Supermarkets and Convenience, Penny Coates as Chief Human Resources Officer and Mark Hewlett, Executive General Manager, New Channels. These appointments, together with the renewal of other senior leadership roles, give me confidence that we have the right people and experience to deliver for all our stakeholders.

In 2014 we set out an ambitious turnaround plan for the Metcash business. This plan recognised the need to focus on delivering value to the end consumer and the need to instil confidence in our customers, suppliers and investors. In this regard we are focused on delivering a wide range of initiatives across all Pillars including the implementation of competitive pricing, the development of a compelling offer and investment in our store networks. We have made significant progress on our plan.

Overview of Group Results

In FY16 Group revenue was $13.5b, up 1.3% on the previous year and underlying profit after tax was $178.3m, up 2.7% on the previous year.

The Liquor and Hardware businesses continue to perform in line with our expectations and both delivered top line and earnings growth. In the Food & Grocery business we have made good progress in stabilising revenue in Supermarkets, however the Convenience business underperformed in the year.

As part of our Working Smarter program and simplifying of our business operations, we have now brought the Supermarkets and Convenience businesses together under one leadership team. The Working Smarter program is expected to contribute efficiency savings of ~$100m across all businesses over the next three years, with expected gross savings of ~$35m in FY17. This will help offset the ongoing inflationary pressure in our cost base.

The Group has a much improved financial position with net debt now at $275.5m and gearing reduced to 16.8%. This provides a strong foundation to support the Transformation Initiatives and allows the Group flexibility in assessing future growth opportunities.

While we continue our Transformation we are also looking to our future growth opportunities, with a focus on innovation and new markets. In FY16 we introduced New Channels – an incubator for new and emerging market opportunities that can leverage Metcash's capabilities and deliver increased value. During the year the team has focused on developing our exporting opportunities, testing an on-line presence in China and a new Convenience format to be piloted in the second half of 2016.

Food & Grocery

Metcash's Food & Grocery Pillar recorded revenue of $9.3b during FY16, an increase of 0.5% on the previous year result. Supermarkets revenue was up 0.5% to $7.7b with the Convenience business increasing sales by 0.4% to $1.6b. Food & Grocery EBIT was down 17.0% to $179.9m reflecting planned incremental price investment and the underperformance of the Convenience business.

The Convenience business results reflect a challenging business environment impacted by an accelerated decline in the Campbells reseller business (particularly in tobacco), and margin pressure from major Convenience Store Distribution contracts that was not offset by growth in the Food Services offering.

The Price Match program is now rolled out across the network and in ~960 stores, and the Diamond Store rollout is now in ~150 stores. Diamond Stores have continued to deliver approximately 16% improvement in retail sales post investment. We also continue to

For personal use only

CEO's Report

Group Revenue
$13.5b
Up 1.3% on the previous year

introduce new Private Label offers into the network and now have 200 mid-tier lines available.

The culmination of these initiatives has enabled the Supermarkets business to arrest the decline in underlying revenues as well as maintain EBIT in the second half of the financial year, with 2H16 profit in line with 1H16. This is a solid achievement in the face of strong competitor headwinds and a continued deflationary price environment.

Overall, our IGA retailers have now experienced sales growth over four consecutive half year reporting periods, a positive indicator of improved health within the Independent network.

In FY17 we will focus on our Core Ranging Initiative with a trial currently underway across a small number of stores. This will allow the business and retailers to benefit from higher stock turn on existing categories and add new consumer-focused growth categories such as health foods, meal solutions and well-being. It is anticipated this initiative will be progressively rolled out across the network in FY17.

Liquor
The Liquor business continued its successful strategy of providing a full range of services to more independent businesses and migrating customers to our Independent Brands Australia (IBA) banners of Cellarbrations and The Bottle-O. Revenue in FY16 has increased 3.7% to $3.2b while EBIT increased 7.8% to $62.1m, a solid result in a competitive marketplace.

A further net ~100 stores have been incorporated under the IBA banner, while category management has enabled us to meet consumer demand for more premium products. This includes expanding our Private Label offering and working closely with key branded suppliers to support their marketing efforts. We have also undertaken approximately 85 store 'refreshes' and 220 cool room upgrades, which are two key initiatives being undertaken by the Pillar as part of the Transformation Plan.

Hardware
Hardware revenues were maintained while improving the quality of retailers in our network. Revenues in FY16 held at $1.1b while EBIT improved 9.0% to $32.8m. EBIT margins improved to 3.1%, reflecting strong trade performance and improved contributions from joint ventures.

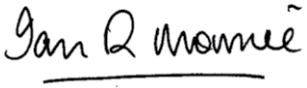
During the year, 12 stores were completed under the Sapphire Store Initiative, generating an average retail sales uplift of 17%, and 45 stores completed Core Ranging Initiatives.

Outlook
Metcash continues to face highly competitive trading conditions in all our markets, with the additional impact from increased Food and Grocery competition in both the South Australian and Western Australian markets. The Food and Grocery business continues to face headwinds from deflation and a rising cost base.

The Group will continue to progress the Transformation Plan (including Working Smarter) in FY17. We expect further consolidation and positive momentum in the Liquor and Hardware Pillars.

The Group's solid financial position underpins our intention to recommence half yearly dividend payments with effect from the FY17 final dividend, subject to capital requirements.

I would like to thank our retailers, suppliers and our people for their invaluable support during the year. We continue to make progress towards sustainable growth in revenue and earnings to deliver long-term value to our shareholders.



Ian Morrice
Chief Executive Officer

For personal use only

Our Independent Retailers are an integral part of the community – contributing more than just the products and services they provide.

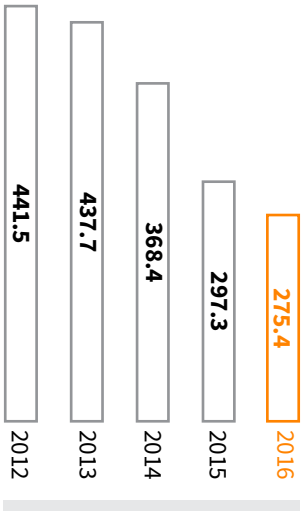
For personal use only

Financial Highlights

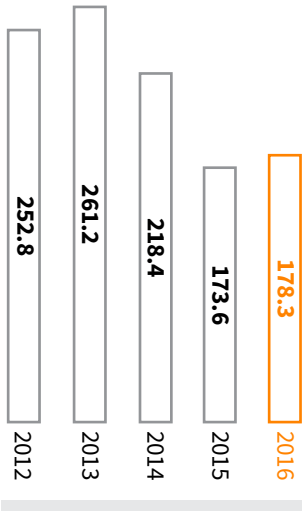
Five Year Review

Sales ($m)

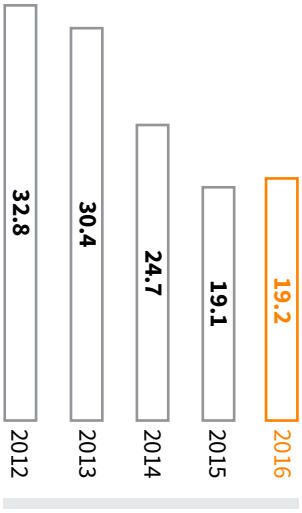
EBIT (Underlying) ($m)



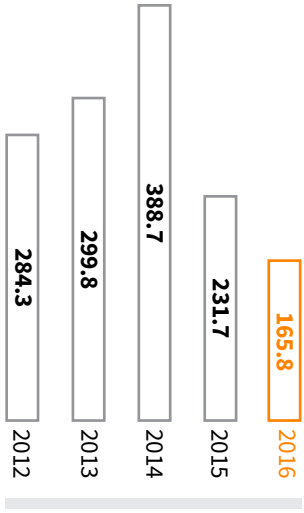
PAT (Underlying) ($m)



EPS (Underlying) ($m)



Operating cash flows ($m)



For personal use only

Financial Performance

	2016	2015	2014	2013	2012
Sales ($m)	13,541.3	13,369.8	13,175.0	12,893.1	12,501.1
Underlying EBIT ($m)	275.4	297.3	368.4	437.7	441.5
Finance costs, net ($m)	27.0	55.1	57.3	61.7	67.6
Underlying profit after tax ($m)	178.3	173.6	218.4	261.2	252.8
Reported profit after tax ($m)	216.5	(384.2)	169.2	206.0	90.0
Operating cash flows ($m)	165.8	231.7	388.7	299.8	284.3
Cash realisation ratio (%) [1]	69.5%	96.5%	137.1%	94.2%	92.5%

Financial Position

Shareholder equity ($m)	1,369.1	1,156.6	1,594.0	1,624.2	1,335.1
Net debt (hedged) ($m)	275.5	667.8	766.9	719.8	910.4
Gearing ratio (net hedged) (%)	16.8%	36.6%	32.5%	30.7%	40.5%
Return on funds employed (%)	16.6%	14.4%	15.8%	19.6%	20.6%

Share Statistics

Fully paid ordinary shares	928,357,876	928,357,876	888,338,048	880,704,786	771,345,864
Weighted average ordinary shares	928,357,876	907,012,053	882,676,013	859,742,607	770,441,432
Underlying earnings per share (cents)	19.2	19.1	24.7	30.4	32.8
Reported earnings per share (cents)	23.3	(42.4)	19.2	24.0	11.7
Dividends declared per share (cents)	-	6.5	18.5	28.0	28.0

Other Statistics

Number of employees (full-time equivalents)	5,807	6,398	6,174	5,794	5,166

[1] Cash flow from operations/Underlying NPAT plus Depreciation and Amortisation (depreciation and amortisation not tax effected).

For personal use only

Operational Highlights

Metcash has continued to focus on the strategic priorities that will underpin the long-term sustainable growth of our Independent network. Key initiatives introduced as part of our Transformation Plan have continued to gain momentum, with each of the Pillars recording positive results. These initiatives have contributed to a growth in sales revenues of 1.3% to $13.5b in FY16.

Food & Grocery

Metcash is focused on achieving sustainable growth in the Food & Grocery Pillar through the implementation of key initiatives such as Competitive Pricing, Network Investment and Core Ranging. These initiatives have helped to deliver sales growth in the Food & Grocery Pillar and importantly, generated sales growth for our Independent Retailers over the past two financial years.

Price Match has gained traction with customers

- ~960 stores participating in Price Match Program
- Retailers have achieved positive and sustained sales uplift
- Consumer price perception for IGA improved over five consecutive survey periods

Investment in store network through Diamond Store (DSA) roll-out

- Target of ~150 Diamond Stores achieved
- Retail sales uplift of 16%
- Wholesale sales uplift of 16%
- Sales uplift maintained over growing number of stores

Private Label range, offering customers more choice

- Over 175 mid-tier products added to our Private Label range
- Wholesale sales growth of 9.7% for Black & Gold products
- Core Ranging “Mini DSA” and “Community Co” developed
- Improved catalogue and promotional program

Focus on Fresh

- ‘Your Kitchen’ modules installed in ~200 stores and specialist cheese counters now in ~125 stores
- Fresh retail growth of ~25% maintained in Diamond Stores
- Improved customer perception in Diamond Stores

For personal use only

Liquor

The Liquor business supports the large and diverse independent liquor market across Australia. The focus during the year has been on converting wholesale customers to the IBA bannered network and investment to improve the quality of the retail network. The Liquor business achieved sales growth of 3.7% and EBIT growth of 7.8%.

Investment to improve shopper experience

- Coolroom upgrade – category managed cool rooms in ~220 stores
- Store refresh – ~85 stores upgraded
- Further Private Label brands launched

Focus on growing the banner group

- Net conversion of ~100 stores to the IBA banner network
- IBA wholesale sales growth of 13%

Hardware

The Hardware business supports a network of ~380 Independent Retailers under the Mitre 10 and True Value brands. During the year the business delivered EBIT growth of 9% through a strong performance in our trade business and joint venture stores as well as significant cost reductions.

Investment in store network through Sapphire Store roll-out

- 12 Sapphire Stores completed, with average sales uplift of 17%
- 350 stores on e-learning platform

Implemented Core Ranging, offering customers more choice

- 45 stores implemented Core Ranging Initiatives with focus on power tools, hand tools and paint

Corporate Social Responsibility

For personal use only

Donations to Communities
$2 million
this financial year

Our Commitment
We recognise the importance of our role in the community and the impact our business operations can have in the communities where we work and live.

As a business, we are serious about improving our engagement with our suppliers, customers and people, and supporting the communities in which they operate.

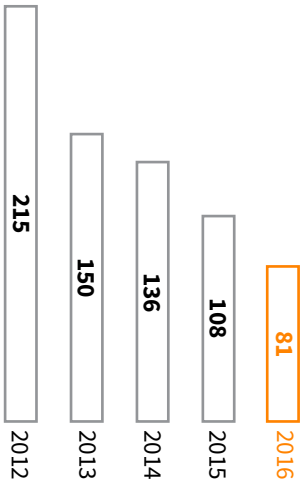
We acknowledge responsibility for the impact our business operations may have on the environment. We are always looking for ways we can contribute positively across all Metcash locations and are in the process of developing an holistic approach to our engagement.

Our long-term view is to have an integrated approach to community initiatives, partnering with our customers, suppliers and our people to strengthen our level of engagement. Elements of this will include volunteering and supporting community initiatives that resonate with our customers and supporting charities through employee donations.

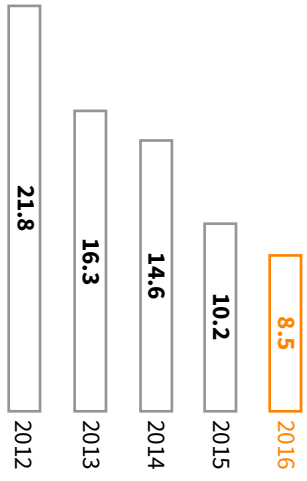
Our People
At Metcash, we are focused on developing a culture that encourages diversity and inclusiveness. We also place high priority on the health and safety, wellbeing and development of our people.

Health and Safety
The safety and health of our ~6,400 employees remains our top priority. A safe working environment for our people, suppliers and customers is a fundamental, non-negotiable commitment to everyone we work with. We have seen substantial reductions in Lost Time Injuries (down 25%), Lost Time Injury Frequency Rates (down 17%) and Workers Compensation Claims (down 20%) during the year. These reductions have been achieved through ongoing leadership as well as behavioural and cultural initiatives that have been implemented across the business.

We also have a strong focus on early intervention. In the event of any injury, we have a case management program to support and to facilitate the return of injured workers to the workplace as soon as possible. We will continue to implement automation technology into distribution centres that reduces the risk of manual handling injuries and improves productivity. Queensland is the next State to receive automated infrastructure.



Lost Time Injuries down 25% during the year



Lost Time Injury Frequency Rate* down 17% during the year

*Number of lost time injuries per million hours worked

For personal use only

Work Culture

We are focused on aligning our values and culture. Recognising and developing our people to their potential plays a key role in culture change. We also recognise the importance of employee feedback, with annual surveys conducted across all areas of the business.

Metcash continues to increase its investment in developing the capabilities and potential of our people. In FY16 we invested across a range of development initiatives, including leadership and management coaching, technical training, Work Health and Safety and role-specific training programs.

All Metcash employees have the opportunity to highlight areas for change through the annual Employee Opinions surveys. This provides us with a robust benchmark for continued work and improvement. The most recent Employee Opinions survey also shows that a majority of respondents believe that at Metcash we live by our values, providing a strong foundation for the work we have begun and continue to do, in growing a strong, collaborative, values-driven culture.

As part of our commitment to support Successful Independents and drive retail excellence, Metcash launched the Metcash Training Academy (MTA) in 2015. This enables retailers to effectively induct new employees, increase in-store compliance and build the right technical and leadership capabilities to improve commercial results. To date, the majority of ALM and Mitre 10 stores and more than 30% of IGA stores have signed up to MTA, with more than 19,000 registered participants across the three Pillars.

Diversity

Metcash is an inclusive organisation that encourages diversity with targets aligned to the Workplace Gender Equality Agency indicators. The Metcash workforce is currently comprised of approximately 34% females, with 30% of leadership roles currently held by women. Women now make up 38% of the Board, placing Metcash ahead of the ASX 200 average.

We will continue our focus on gender diversity and will also turn our attention to improvements in cultural and workplace flexibility in FY17 and subsequent years.

Our Environment

Metcash is committed to an integrated partnership with the community and recognises that our business operations do have an impact on the environment.

The Group has set up an internal Energy Council to assist in identifying initiatives that can be implemented across our multiple brands and operations.

We also continue to work with our people, suppliers and customers to identify simple programs that we can implement and support to reduce our environmental impact.

Energy & Emissions

Metcash has achieved a 7.8% reduction in electricity emissions across our major distribution centres over the past three years. We are still working towards our 10% target, however substantial improvements have been made and we will continue to strive for maximum emission reductions.

Electricity Emissions

7.8%

down over the past three years

Materials

Metcash takes the stewardship of materials, including paper, packaging and transport containers seriously. We continue to look at ways in which the use of these materials can be reduced. Some of the many initiatives implemented in FY16 include:

- Introduction of 100% recyclable PET plastic meat trays into the Queensland fresh produce warehouse, thereby taking 400,000 non-recyclable trays out of the marketplace each year and reducing non-recyclable landfill;
- Deployment of re-usable plastic totes to deliver orders to Convenience customers in metro NSW and WA – resulting in 75,300 less cardboard cartons each year; and
- Centralised, secure printing at all head offices resulting in the reduction of more than 6 million sheets of paper each year.

For personal use only

Corporate Social Responsibility

Total Waste Diverted from Landfill

34%

this financial year

Waste

Approximately 3,100 tonnes, or ~34% of total waste, has been diverted from landfill as a result of recycling initiatives this year. This is significantly ahead of our 2010 goal of diverting 9% of waste from landfill, and a testament to our ongoing process improvements and employee awareness.

Water

Measures to reduce water usage in Metcash's Western Australian operations have recently been recognised by that State's Water Corporation. We have also consolidated our Sydney office footprint into a 5 Star Green Star rated building that will contribute to significant energy and water savings.

Product Responsibility

Metcash is aware of our supply chain responsibilities surrounding labour rights and has an ethical sourcing program for Asian-sourced Metcash branded products. This includes the establishment of a direct-sourcing team based in China who are responsible for quality assurance and compliance of Asian-sourced products, giving the Company greater visibility and control of product lifecycle from source to shelf.

We have met our commitment to use only sustainable tuna by 2015. We no longer source any products containing threatened tuna species or those fished using aggregation devices.

Our Community

Engaging and supporting our communities and our customers remains an integral part of who we are.

We continue to administer the IGA Community Chest Program whereby IGA stores raise funds to distribute to groups within their local communities. In FY16, approximately $2m was donated nationally and distributed to local schools, clubs and charities, taking total donations to more than $72m since the program's inception in the late 1990s.

Throughout the organisation a number of charities are supported by both the business and our employees, including the McGrath Foundation, St Vincent de Paul Society, the Royal Children's Hospital Melbourne, and the Cancer Council National Breast Cancer Foundation.

Metcash also has a partnership with Foodbank, a national not-for-profit organisation that re-distributes non-saleable but usable food to food relief charities. During FY16, a total of 236 tonnes of usable but not saleable packaged food was donated by Metcash, resulting in 314,425 meals being made available to those in need. This is the equivalent of a $5.4 million social return on investment as calculated by Foodbank.

236
Tonnes
USABLE FOOD DONATED

=

314,000
Meals
PROVIDED TO THOSE IN NEED

Board of Directors

ROBERT A MURRAY
MA HONS, ECONOMICS

Non-executive Chairman
Member of the Nomination Committee

TONIANNE DWYER
BJURIS (HONS)/LLB (HONS)

Non-executive Director
Member of the Audit, Risk & Compliance Committee, Member of the Nomination Committee

IAN R MORRICE
MBA

CEO Metcash Group of Companies

NEIL D HAMILTON
LLB

Non-executive Director
Member of the Remuneration Committee, Member of the Nomination Committee

PATRICK N J ALLAWAY
BA/LLB

Non-executive Director
Member of the Audit, Risk & Compliance Committee, Member of the Nomination Committee

MURRAY P JORDAN
MPA

Non-executive Director
Member of the Audit, Risk & Compliance Committee, Member of the Nomination Committee

FIONA E BALFOUR
BA (Hons), MBA, GRAD DIP IM, FAICD

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

HELEN NASH
BA (Hons)

Non-executive Director
Member of the Remuneration Committee, Member of the Nomination Committee

MICHAEL R BUTLER
B SC, MBA, FAICD

Non-executive Director
Chairman of the Audit, Risk & Compliance Committee, Member of the Nomination Committee

BRAD SOLLER
BCOMM BACC MCOMM CA (SA)

Company Secretary

For Directors' biographies, please see page 29 of the Annual Report. For more information on Board evaluation, please refer to the Corporate Governance page on our website: **www.metcash.com/investor-centre/corporate-information**

For personal use only

Financial Report

For the year ended 30 April 2016

For personal use only

Directors' Report	**21**
Statement of Comprehensive Income	**47**
Statement of Financial Position	**48**
Statement of Changes in Equity	**49**
Statement of Cash Flows	**50**
Notes to the Financial Statements	**51**
Directors' Declaration	**90**
Auditor's Independence Declaration	**91**
Independent Auditor's Report	**92**

Directors' Report

For the year ended 30 April 2016

For personal use only

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 2016 ('FY16').

Operating and Financial Review

1. Metcash's business model

Metcash is Australia's leading wholesaler and distributor, supplying and supporting more than 10,000 independent retailers and approximately 90,000 other businesses across the food, grocery, liquor and hardware industries. Metcash's retail customers operate some of Australia's leading independent brands including: IGA, Mitre 10 and Cellarbrations.

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

The Group employs over 5,800 people and supports more than one million people via its network of *Successful Independents*.

2. Strategic objectives

Metcash's strategic vision is to:

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

The strategic vision is supported by several key programs and initiatives aimed at developing shopper-led retail brands. Key strategic programs are the *Transformation Plan* and *Working Smarter*.

Transformation Plan

The *Transformation Plan* was announced in March 2014 and is aimed at transforming the Supermarkets and Convenience division through programs that cover competitive pricing, product ranging and investment in the independent store network, as well as enhancing the Group's world class supply chain with the aim of supporting independent retailers.

Working Smarter

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

The program spans all business pillars and support functions and includes optimisation of organisational and cross-pillar structures; buying, promotions and pricing models; supply chain and non-trade procurement. The program is targeting a gross savings run rate of $100 million by FY19. This will help offset the onoing inflationary pressure on the Group's cost base.

For personal use only

3. Key developments

Establishing a solid financial foundation

During the year, Metcash took a number of steps to ensure the Group has a strong financial foundation to support the Transformation Plan and allow the Group flexibility to invest in future growth opportunities.

A focus on tight cash management and capital recycling resulted in a $392.3 million reduction in net debt during the year.

On 31 July 2015, the Group sold its entire holding in Metcash Automotive Holdings Pty Ltd ('MAH' or 'Automotive') to Bursons Group Limited (ASX:BAP) for a total sale consideration of $285.4 million. The transaction generated net cash flows of $242.1 million (before tax) to the Group. The proceeds were largely applied against the Group's interest-bearing borrowings. The sale resulted in a net gain of $34.5 million after tax.

Metcash generated a further $57.3 million from the disposal of surplus retail properties, interests in joint ventures and other retail assets.

Metcash used these funds to buy back US$200 million of US Private Placement (USPP) notes. In addition, the debt securitisation and other facility limits were reduced by $126.7 million. At the end of the year, Metcash had $1,184.6 million (2015: $1,498.1 million) in total facilities.

In line with the Board's previous announcement, a final dividend was not paid for FY15 and no interim or final dividend was declared for FY16.

Huntingwood Distribution Centre hail damage

Metcash's distribution centre at Huntingwood NSW suffered significant damage as a result of a hail storm in April 2015. This resulted in the closure of the dry grocery/liquor warehouse.

Following the closure of Huntingwood, the Group's business continuity plans were immediately activated. Metcash was able to quickly re-establish supply to NSW customers from the Victorian, Queensland and ACT distribution centres. Temporary warehouses were also established at Silverwater, Wetherill Park and Eastern Creek in NSW. Whilst the Huntingwood warehouse has now been reoccupied, the automated section is not expected to be fully operational until later in FY17.

Metcash's insurance policy is expected to cover the hail event for material damage and consequential loss. Metcash recovered $57.0 million in cash from insurers and has recognised a receivable of $29 million at the end of the year.

Changes in key staff

Metcash's leadership capabilities were renewed and strengthened during the year.

Mr Steven Cain was appointed as CEO Supermarkets on 1 August 2015. Mr Mark Hewlett was appointed as Executive General Manager – New Channels on 12 August 2015 and Ms Penny Coates was appointed as Chief Human Resources Officer on 7 September 2015.

Mr Peter Struck, former CEO Convenience ceased employment on 29 January 2016. The Convenience business was integrated with Supermarkets from that date, with Mr Cain appointed as CEO Supermarkets and Convenience on 18 January 2016.

Mr Greg Watson, former General Counsel and Company Secretary, ceased employment on 31 January 2016. Ms Julie Hutton assumed the role of General Manager Legal and Company Secretary on 6 June 2016. Mr Brad Soller, Chief Financial Officer, temporarily assumed the role of Company Secretary in the interim period.

For personal use only

4. Key financial measures

Warehouse earnings

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

In addition to warehouse revenue, earnings are impacted by product category mix and the proportion of the Group's products sold through 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.

The Transformation Plan is a key strategic program aimed at sustainable growth in warehouse earnings.

Cost of doing business

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

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

Funds employed and return on capital

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

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

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

For personal use only

5. Review of financial results

Group overview

	2016 $m	2015 $m
Sales revenue	**13,541.3**	**13,369.8**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	335.7	363.7
Depreciation and amortisation	(60.3)	(66.4)
Earnings before interest and tax (EBIT)	**275.4**	**297.3**
Net finance costs	(27.0)	(55.1)
Underlying profit before tax	248.4	242.2
Tax expense on underlying profit	(68.4)	(67.2)
Non-controlling interests	(1.7)	(1.4)
Underlying earnings (i)	**178.3**	**173.6**
Significant items expense	-	(638.8)
Tax benefit on significant items	-	61.6
Net profit/(loss) for the year from continuing operations	178.3	(403.6)
Net profit after tax for the year from discontinued operations	38.2	19.4
Net profit/(loss) for the year	**216.5**	**(384.2)**
Underlying earnings per share (cents) (ii)	**19.2**	**19.1**
Reported earnings/(loss) per share (cents)	23.3	(42.4)

(i) Underlying earnings represents reported profit after tax from continuing operations attributable to equity holders of the parent, excluding significant items after tax.

(ii) Underlying earnings per share (EPS) is calculated by dividing underlying earnings by the weighted average shares outstanding during the period.

The Group generated sales revenue of $13.5 billion, up 1.3% against the prior year comparative period.

Group EBIT for the year declined 7.4% to $275.4 million (FY15: $297.3 million). There was continued improvement in both the Liquor and Hardware pillars, which was however, more than offset by the decline in Food & Grocery, reflecting the planned investment in price by the Supermarkets business and a deterioration in the performance of the Convenience business.

Reported profit after tax (including discontinued operations) was $216.5 million (FY15: Loss of $384.2 million). There was an improvement in underlying profit after tax which increased to $178.3 million (FY15: $173.6 million) reflecting the lower finance costs in FY16, partly due to a $9.6 million gain resulting from the restructure of finance facilities.

As noted in the 'Key developments' section, the Automotive business was sold during the current financial year. The results of this business, including comparatives have been reclassified to discontinued operations. Refer note 24 of the financial report for further details on the Automotive sale.

For personal use only

Segment results

	Segment revenue		Earnings before interest and tax (EBIT)	
	2016 $m	2015 $m	2016 $m	2015 $m
Food & Grocery	9,265.4	9,217.8	179.9	216.8
Liquor	3,219.3	3,103.6	62.1	57.6
Hardware	1,056.6	1,048.4	32.8	30.1
Corporate	-	-	0.6	(7.2)
Metcash Group	**13,541.3**	**13,369.8**	**275.4**	**297.3**

Food & Grocery

Total Food & Grocery sales increased by 0.5% to $9.3 billion (FY15: $9.2 billion). Supermarkets sales were up 0.5%, however adjusting for the estimated impact of disruption from damage to the NSW distribution centre sales would have been up 0.9%. Importantly, the trend in underlying Supermarkets sales (excluding tobacco) continues to improve.

IGA stores like for like ('LfL') retail sales increased 1.4% representing the fourth reporting period of sales growth. This demonstrates the improving underlying health of the retail network and the positive impact of the Group's Transformation initiatives.

Convenience sales increased by 0.4% to $1.6 billion (FY15: $1.6 billion). The growth in C-Store Distribution (CSD) revenues was, however, largely offset by a decline in Campbells reseller revenues.

Food & Grocery EBIT declined 17.0% to $179.9 million (FY15: $216.8 million). Supermarkets EBIT declined by ~$21 million primarily reflecting the foreshadowed incremental price investment during the year. Supermarkets earnings in the second half were in line with the first half, reflecting the cost of price investment now being cycled in the earnings base.

Convenience EBIT declined by ~$16 million reflecting the challenging business environment impacted by an accelerated decline in the Campbells reseller business (particularly in tobacco), and margin pressure from major CSD contracts that was not offset by growth in Food Services.

Liquor

Total sales increased by 3.7% to $3.2 billion (FY15: $3.1 billion), reflecting the strong performance of the IBA network and the continued conversion of customers to Metcash's banner group. Sales through the IBA bannered network increased 13.0% on the prior year.

EBIT increased by 7.8% to $62.1 million (FY15: $57.6 million) reflecting conversion of stores to the IBA bannered network and a strong focus on cost control.

Hardware

Hardware sales increased 0.8% to $1.06 billion (FY15: $1.05 billion). Wholesale LfL sales were up 2.5%, representing a solid performance from both the trade business and joint ventures.

EBIT for the pillar was up 9.0% to $32.8 million (FY15: $30.1 million) driven by improved performance of the joint venture stores, supply chain efficiencies and tight cost control.

Corporate

The Corporate result included a one-off $14.4 million profit on sale of surplus retail properties, partly offset by a restructuring expense of $9.1 million.

For personal use only

Finance costs and tax

Net finance costs include $9.6 million in credit value adjustments and gains related to the finance facility restructure. Excluding this positive impact, net finance costs reduced by 34% mainly due the proceeds from the sale of the Automotive business, tight working capital management, prudent capital expenditure and lower cost of debt. Refer note 3 of the financial report for further details on the finance facility restucture.

Tax expense on underlying profit of $68.4 million represents an effective tax rate of 27.5%, marginally lower than the prior year rate of 27.7% due to the application of capital tax losses and research & development allowances.

Cash flows

	2016 $m	2015 $m
Operating cash flows	165.8	231.7
Investing cash flows	237.4	(74.9)
Dividends paid and other financing activities	(10.9)	(57.7)
Reduction in net debt	**392.3**	**99.1**

The reduction in operating cash flows primarily reflects the lower underlying profit and an increase in working capital. Working capital was impacted by the Huntingwood hail insurance claim receivable of $29 million. The prior year operating cash flows included the trading results of the Automotive business, which was sold in July 2015.

Cash inflows from investing activities primarily reflects $242.1 million from the sale of the Automotive business and $57.3 million in proceeds from the sale of surplus properties and other assets.

As a result of the above cash flows, Metcash applied $392.3 million towards the repayment of debt.

Financial position

	2016 $m	2015 $m
Trade receivables and prepayments	967.7	989.1
Inventories	673.6	712.5
Trade payables and provisions	(1,632.0)	(1,695.4)
Net working capital	**9.3**	**6.2**
Intangible assets	1,127.5	1,284.5
Property, plant and equipment	251.9	276.0
Equity accounted investments	102.9	102.1
Customer loans and assets held for sale	72.5	90.6
Total funds employed	**1,564.1**	**1,759.4**
Net debt	(275.5)	(667.8)
Tax, put options and derivatives	80.5	65.0
Net assets/equity	**1,369.1**	**1,156.6**

The key change in the balance sheet relates to the sale of the Automotive division, resulting in a reduction of $208.8 million in funds employed, including $57.8 million in net working capital. Excluding the impact of Automotive business, net working capital increased $60.9 million, including the hail insurance receivable.

Metcash generated $57.3 million in cash from the disposal of surplus retail properties, interests in joint ventures and other retail assets. Together with the $242.1 million in proceeds from the disposal of the Automotive business, this facilitated a $392.3 million reduction in net debt, resulting in gearing of 16.8% (FY15: 36.6%).

Metcash had $850.5 million in unused debt facilities available at the reporting date for immediate use.

For personal use only

Commitments, contingencies and other financial exposures

Metcash's operating lease commitments, which predominantly relate to warehouse and retail stores, reduced from $1,791.9 million to $1,557.0 million. The reduction is primarily due to current year lease payments and commitments transferred with the sale of the Automotive business. Further details of lease commitments are presented in note 18 of the financial statements.

The Group is exposed to a contingent liability in relation to an agreement with American Express to offer credit facilities to the Group's retail network. Put options, including in relation to Ritchies Stores Pty Ltd, are detailed along with other contingent liabilities in note 16 of the financial statements.

Metcash has a relatively low exposure to interest rate risk and minimal foreign exchange exposures. Variable interest rate exposures on core debt are hedged in accordance with the Treasury Policy between a minimum and maximum range. At year end 59% of debt was fixed. Further details are set out in note 16 of the financial statements.

6. Outlook

Metcash continues to face highly competitive trading conditions in all its markets, with the additional impact from increased Food and Grocery competition in both the South Australian and Western Australian markets. The Food & Grocery business continues to face headwinds from deflation and a rising cost base.

The Group will continue to progress the Transformation Plan (including Working Smarter) in FY17. The Group expects further consolidation and positive momentum in the Liquor and Hardware pillars.

The Group's solid financial position underpins its intention to recommence half yearly dividend payments with effect from the FY17 final dividend, subject to capital requirements.

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. Furthermore changes to the regulatory environment may impact trading conditions both at the retailer and wholesale level.

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

Market risks

Adverse market conditions including increased competition from new and existing competitors, a decline in economic activity, the sustainability of the independent retail network, continuing price deflation, and adverse interest rate and foreign exchange movements may lead to a decline in sales and profitability. The Group strategy is focused on ensuring the independent retail sector offers a compelling value proposition to consumers.

Metcash is well progressed in a number of business transformation programs aimed at establishing a strong shopper-led product range, reducing cost of doing business and making it easier for suppliers and customers to engage with the Group.

For personal use only

Operational and compliance risks

Metcash is undergoing a number of business transformation programs, including the *Working Smarter* initiative, which are aimed at strengthening business processes and reducing the cost of doing business. There is a risk that these transformation programs fail to deliver the expected benefits. Metcash has in place governance frameworks to manage these change programs to ensure projects are delivered in line with plans and are able to adapt as required.

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

Inefficiency or failure within the supply chain or in key support systems (including technology) could also impact the Group's ability to deliver on its strategic objectives. Metcash has comprehensive business continuity plans in place to address significant business interruptions and failures within operational systems.

Financial risks

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

Funding and liquidity risk remain material to the Group due to the need to adequately fund business operations, future growth and absorb any loss events that may arise. Inability to adequately fund business operations and growth plans may lead to difficulty in executing the Group's strategy. Metcash maintains a prudent approach towards capital management, which includes optimising working capital, targeted capital expenditure, capital and asset recycling and careful consideration of its dividend policy. In addition, banking facilities are maintained with sufficient tenor, diversity and headroom to fund business operations. The Group's financial risk management framework is discussed in further detail in note 16 of the financial statements.

People and culture

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

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

End of the Operating and Financial Review

For personal use only

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)

Non-executive Chairman

Robert (Rob) is currently a Non-executive Director of Southern Cross Austereo. He is a member of the not-for-profit charity Board of the Bestest organisation.

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

IAN R MORRICE (MBA)

Chief Executive Officer, Executive Director

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

PATRICK N J ALLAWAY (BA/LLB)

Non-executive Director

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

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

FIONA E BALFOUR (BA (Hons), MBA, GRAD DIP INFORMATION MANAGEMENT, FAICD)

Non-executive Director

Fiona is an independent Non-executive Director of Salmat Limited, TAL (Dai-ichi Life Australia) Limited and Airservices Australia. She is a Fellow of the Australian Institute of Company Directors and Monash University and a Member of Chief Executive Women.

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

MICHAEL R BUTLER (BSC, MBA, FAICD)

Non-executive Director

Michael is currently Chairman of N.M. Superannuation Pty Limited and Adairs Limited.

Following an executive career in investment banking and private equity at Bankers Trust, he has been a professional non-executive company director since 1999 and acted as director, Non-executive Director and chairman of various listed public companies, including AMP Superannuation Limited, Ausdoc Group Limited, Freightways Express Limited, Hamilton Island Limited, Verticon Group Limited, Members Equity Bank Pty Limited, AXA Asia Pacific Holdings Limited and APN Property Group Limited.

TONIANNE DWYER (BJuris (Hons)/LLB (Hons))

Non-executive Director

Tonianne is an independent Non-executive Director of Dexus Property Group, Dexus Wholesale Property Fund and Queensland Treasury Corporation. She is a member of the Senate of the University of Queensland and a member of Chief Executive Women.

Ms Dwyer has over 20 years experience in investment banking and real estate in the UK and is a graduate of the Australian Institute of Company Directors. She was previously a Non-executive Director of Cardno Limited.

Directors' Report

For the year ended 30 April 2016

For personal use only

NEIL D HAMILTON (LLB)

Non-executive Director

Neil is Chairman of OZ Minerals Limited and is a senior advisor to UBS Australia.

He has over 30 years' experience in senior management positions and on boards of public companies across law, funds management, investment, insurance and resources. He is the former Chairman of Challenge Bank Limited, Western Power Corporation, Mount Gibson Iron Limited and Iress Market Technology Limited and was a Director of Insurance Australia Group Limited and Miclyn Express Offshore Limited.

MURRAY P JORDAN (MPA)

Non-executive Director

Murray is a Non-executive Director of Chorus Limited, New Zealand.

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

HELEN E NASH (BA Hons, GAIDC)

Non-executive Director

Helen is currently a Non-executive Director of Blackmores Limited, Pacific Brands Limited, and Southern Cross Media Group.

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

FORMER DIRECTORS

Peter L Barnes, former Non-executive Chairman and Chairman of the Nomination Committee retired on 27 August 2015.

Edwin M Jankelowitz, former Non-executive Director, Member of the Audit, Risk & Compliance Committee and Member of the Nomination Committee retired on 27 August 2015.

Mick P McMahon, former Non-executive Director, Member of the People & Culture Committee and Member of the Nomination Committee retired on 23 June 2015.

COMPANY SECRETARY

BRAD SOLLER (BComm, BAcc MComm, CA(SA))

Chief Financial Officer

Brad brings a wealth of corporate experience and acumen to Metcash. Prior to joining Metcash, Brad was the Chief Financial Officer of David Jones and prior to that, Group Chief Financial Officer of Lendlease. His other senior financial roles have included Chief Financial Officer at BAA McArthur Glen Limited in the UK and Director of Finance at UK listed electrical retailer, Thorn plc. Brad is a Chartered Accountant having worked with PwC in both London and Johannesburg.

Greg Watson, former Company Secretary, retired on 31 January 2016. **Julie Hutton** assumed the role of Company Secretary on 6 June 2016.

Indemnification and insurance of Directors and Officers

The Constitution of the Company permits the grant of an indemnity (to the maximum extent permitted by law) in favour of each Director, the Company Secretary, past Directors and Secretaries, and all past and present Executive Officers. This indemnity is against any liability to third parties (other than related Metcash companies), by such officers unless the liability arises out of conduct involving a lack of good faith. The indemnity also includes costs or expenses incurred by an officer in unsuccessfully defending proceedings relating to that person's position.

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.

For personal use only

The following table presents information relating to Company's Board of Directors and Board sub-committees during the financial year and up to the date of this report. Information relating to meetings held reflects those meetings the respective Director was eligible to attend during the year.

	Appointed	Retired	Meetings held	Meetings attended	Ordinary shares held at reporting date
Board of Directors					
Robert A Murray (Chairman)(a)	29 Apr 2015	-	8	7	44,005
Peter L Barnes (former Chairman)	18 Apr 2005	27 Aug 2015	4	4	N/A
Ian R Morrice	12 Jun 2012	-	8	8	297,517
Patrick N J Allaway	7 Nov 2012	-	8	8	206,786
Fiona E Balfour	16 Nov 2010	-	8	8	82,804
Michael R Butler	8 Feb 2007	-	8	7	60,749
Tonianne Dwyer	24 Jun 2014	-	8	7	40,000
Neil D Hamilton	7 Feb 2008	-	8	7	121,318
Edwin M Jankelowitz	18 Apr 2005	27 Aug 2015	4	3	N/A
Murray P Jordan	23 Feb 2016	-	2	2	-
Mick P McMahon	27 Nov 2013	23 Jun 2015	2	2	N/A
Helen E Nash	23 Oct 2015	-	4	4	32,431
Audit, Risk & Compliance Committee					
Michael R Butler (Chairman)	8 Feb 2007	-	6	6	
Patrick N J Allaway	7 Nov 2012	-	6	6	
Tonianne Dwyer	24 Jun 2014	-	6	6	
Edwin M Jankelowitz	26 Feb 2014	27 Aug 2015	2	2	
Murray P Jordan	23 Feb 2016	-	1	1	
People & Culture Committee					
Fiona E Balfour (Chair)	16 Nov 2010	-	11	11	
Neil D Hamilton	7 Feb 2008	-	11	11	
Mick P McMahon	27 Nov 2013	23 Jun 2015	3	3	
Robert A Murray	3 Aug 2015	23 Oct 2015	1	1	
Helen E Nash	23 Oct 2015	-	5	5	
Nomination Committee					
Robert A Murray (Chairman)	29 Apr 2015	-	4	4	
Peter L Barnes (former Chairman)	27 Feb 2013	27 Aug 2015	1	1	
Patrick N J Allaway	27 Feb 2013	-	4	4	
Fiona E Balfour	27 Feb 2013	-	4	4	
Michael R Butler	27 Feb 2013	-	4	4	
Tonianne Dwyer	24 Jun 2014	-	4	4	
Neil D Hamilton	27 Feb 2013	-	4	4	
Edwin M Jankelowitz	27 Feb 2013	27 Aug 2015	1	1	
Murray P Jordan	23 Feb 2016	-	-	-	
Mick P McMahon	27 Nov 2013	23 Jun 2015	1	1	
Helen E Nash	23 Oct 2015	-	2	2	

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

From time to time, additional Board committees are established and meetings of those committees are held throughout the year, for example, to consider material transactions, or to consider material issues that may arise. These committee meetings are not included in the above table. In addition, the Group holds a strategy session each year. In FY16, this strategy session was held in October 2015. All Board members attended the FY16 strategy session.

For personal use only

Remuneration report

Message from the Chair of the People and Culture Committee

Dear Shareholder

I am pleased to present the Remuneration Report for the year ended 30 April 2016 ('FY16'). During the year, the Committee changed its name to the People and Culture Committee to reflect the broader scope of its remit which includes culture, diversity and inclusion and safety.

The Group's transformation plan has been thoroughly documented since it began in 2014. In my introduction to last year's Remuneration Report, I indicated that the Board was examining options for attracting and retaining key talent during this period. During such a transformation, getting the balance right in executive remuneration is critical to the success of the plan until the transformation initiatives have been fully implemented and the business is back on an improved and sustainable trajectory.

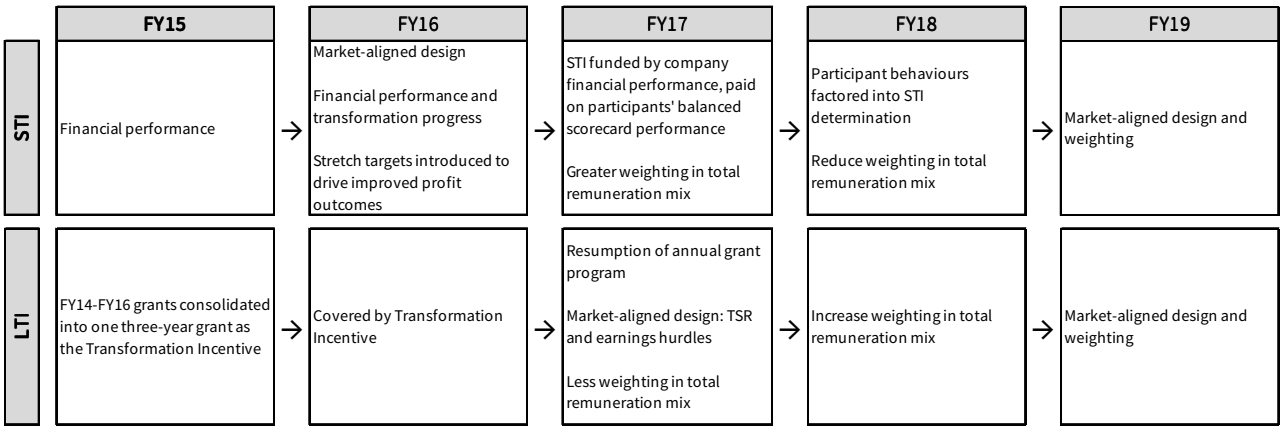
Aligning remuneration strategy with business strategy

Prior to FY16, incentive structures for Metcash executives, both short and long-term, emphasised operational delivery by utilising revenue and profit measures as the primary drivers of reward. During the year, the Board concluded that the Group's prevailing remuneration framework would not be effective in a period of change and transformation, during which the Supermarkets and Convenience Pillars would also be facing significant headwinds. In addition, forecasting long-term business results would be less certain during this period. The Board was particularly concerned that most Group and Supermarkets key executives and senior managers had not been materially rewarded for the progress made over 2014 and 2015 and believed it was not in shareholders' interests if this continued in subsequent years. Furthermore, as I note below, all performance rights under the Group's long-term incentive scheme for FY15 to FY17, the Transformation Incentive, lapsed at the end of FY16.

The Board endorsed the following principles to guide executive remuneration during the remaining transformation period:

- short-term revenue and profit should still be strongly incentivised;
- interim delivery of transformation plan business objectives should be recognised even if returns don't flow immediately;
- total remuneration should be temporarily reweighted towards short-term incentives ('STI'), including in FY16 during which specific additional stretch incentives were used to drive profit growth, over long-term incentives ('LTI'), in order to bring further focus to the current-year execution;
- LTI opportunity should still be significant enough to ensure business improvements are sustainable; and
- there should be a systematic return to a market-aligned remuneration framework when the transformation program is complete and the business transitions to a sustainable growth trajectory.

Below is an outline of the steps the Board authorised to put these principles into action. The Board is confident that this is a responsible and appropriate path to take to support management endeavours in positioning the Group for the future.



For personal use only

Overview of Key Management Personnel ('KMP') remuneration in FY16

Fixed remuneration of KMP

Acting on the Committee's recommendation, the Board increased the Group Chief Executive Officer's ('Group CEO') fixed remuneration to $1.8m effective 1 May 2015. This was the first increase to Mr Morrice's fixed remuneration since his appointment in March 2013. Prior to making its recommendation, the Committee considered the results of a benchmarking study conducted by Aon Hewitt, validated the results of this study with HayGroup data and consulted with its independent advisor PricewaterhouseCoopers.

Other executive KMP who were in their roles for the full year received fixed remuneration increases averaging 6.9%. These increases were also based on the results of a previous benchmarking study conducted by Aon Hewitt and, where appropriate, advice was sought from PricewaterhouseCoopers.

STI

The Group CEO's target STI opportunity was increased from 50% to 83%, following the inclusion of stretch targets.

STI payments awarded to KMP in FY16 ranged from 63.9% to 92.0% of maximum, reflecting strong business and personal performance and the achievement of stretch objectives designed to improve profit outcomes.

The Board decided to discontinue partial deferral of STI payments to KMP from FY16, replacing it with provisions enabling payments to be clawed back for cause or material misstatement of the Group's financial statements.

Details of the FY16 STI plan and payments are provided in Sections 3.2.2 and 4.3.

LTI

Performance rights issued under the Group's LTI scheme for FY15 to FY17, the Transformation Incentive, were subject to a 13% Return On Funds Employed ('ROFE') threshold for each of FY15, FY16 and FY17. The Group's FY16 underlying ROFE was 12.5% and as a consequence 7,539,193 rights held by KMP and 40 other participants have lapsed.

With the exception of Mr Cain, no new performance rights were issued in FY16. Performance rights were issued to Mr Cain on his appointment to the CEO Supermarkets position in August 2015. Mr Cain's remuneration on commencement was weighted in favour of LTI to ensure retention during the remaining Transformation period, given the significant contribution his role would make to the achievement of sustainable business outcomes.

Further details of the Group's LTI schemes in FY16 are provided in Section 3.2.3.

Board remuneration

There were several appointments to and retirements from the Board in FY16 which are detailed in Section 1 of the Remuneration Report.

The Chairman Mr Murray was appointed to the Board in April 2015 and became Chairman after the August 2015 AGM. Following a study of Non-executive Director remuneration by Aon Hewitt, there were two changes to the Chairman's remuneration. Firstly, consistent with ASX 150 practice, the Chairman is now paid a fixed annual fee instead of a Board fee plus a Chair fee. Secondly, as at the date of Mr Murray's appointment to the Chair, the Chairman's fee was increased from $309,565 p.a. (Board plus Chair fees) to $390,000 p.a. These fees reflect the market median for Chairman roles of similar size and complexity.

There were no other changes to Board remuneration during the year.

On behalf of the Committee, I invite you to review Metcash's FY16 Remuneration Report.

Fiona Balfour
Chair, People and Culture Committee

Directors' Report

For the year ended 30 April 2016

For personal use only

Contents

1. Overview of the Remuneration Report
2. Remuneration governance
3. Executive remuneration policy
4. FY16 performance and remuneration outcomes
5. KMP service agreements
6. Non-executive Director remuneration
7. Statutory disclosures

1. Overview of the Remuneration Report

The Directors of Metcash Limited present the Remuneration Report for the Company and its controlled entities (the 'Group') for the year ended 30 April 2016 ('FY16'). This report forms part of the Directors' Report and has been audited in accordance with section 308(3C) of the Corporations Act 2001 and 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 FY16 are listed below.

Name	Position
Non-executive Directors	
Robert Murray	Chairman – Director for the full financial year, Chairman from 27 August 2015
Patrick Allaway	Director
Fiona Balfour	Director
Michael Butler	Director
Tonianne Dwyer	Director
Neil Hamilton	Director
Helen Nash	Director – appointed 23 October 2015
Murray Jordan	Director – appointed 23 February 2016
Peter Barnes	Chairman – retired 27 August 2015
Edwin Jankelowitz	Director – retired 27 August 2015
Mick McMahon	Director – retired 23 June 2015
Executive Director	
Ian Morrice	Group Chief Executive Officer
Group Executives	
Brad Soller	Chief Financial Officer ('CFO')
Steven Cain	Chief Executive Officer, Supermarkets – from 1 August 2015 Chief Executive Officer, Supermarkets and Convenience – from 18 January 2016
Mark Laidlaw	Chief Executive Officer, Hardware
Scott Marshall	Chief Executive Officer, ALM

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

For personal use only

2. Remuneration governance

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

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

In FY16, the Committee engaged PricewaterhouseCoopers ('PwC') to advise on the quantum and structure of the CEO Supermarkets' remuneration, the quantum and structure of the Group CEO's remuneration and to review the Group-wide remuneration framework proposed by management. No remuneration recommendations were provided in this advice. In addition, PwC also provided taxation advice, consulting services and advisory services to Metcash management.

During the year the Group also commissioned remuneration benchmarking reports from Aon Hewitt and legal advice from Herbert Smith Freehills. Neither contained remuneration recommendations.

3. Executive remuneration policy

3.1. Policy

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

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

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

- short-term revenue and profit will still be strongly incentivised;
- interim delivery of the remaining transformation plan will be recognised even if returns don't flow immediately;
- total remuneration will be temporarily reweighted towards STI over LTI in order to bring an even greater focus to current-year execution, including in FY16 redirecting part of the annual STI pool into funding stretch objectives to deliver improved profit outcomes in key businesses;
- LTI opportunity will still be significant enough to ensure business initiatives are sustainable; and
- there will be a return to a market-aligned remuneration framework when the transformation program is complete and the business transitions to a sustainable growth trajectory.

3.2. Remuneration Components

3.2.1. Fixed remuneration

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

TEC levels are set according to the nature and scope of the executive's role as well as his/her performance and experience. To benchmark its executive remuneration, Metcash references mainly ASX-listed companies of a comparable size and complexity.

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

During FY16 the Group CEO's fixed remuneration was increased in line with the market median. Other KMP who were in their roles for the full year received fixed remuneration increases averaging 6.9%. These increases were based on the results of a previous benchmarking study conducted by Aon Hewitt, the results of which were additionally validated with the use of HayGroup data and, where necessary, independently assessed by PricewaterhouseCoopers.

For personal use only

3.2.2. STI

The Group's STI plan is an at-risk, cash-based component of total remuneration. Its purpose is to incentivise senior executives to deliver annual performance outcomes aligned to shareholder interests. It is based on the achievement of predetermined performance measures including financial performance targets and individual performance objectives, relevant to the executive's role.

FY16 STI arrangements for KMP summarised below are in accordance with the Group's business transformation remuneration policy as outlined in Section 3.1.

Key result area	Group CEO	CFO	CEO Supermarkets and Convenience, CEO Hardware and CEO ALM
Group revenue and Underlying Profit Before Tax ('UPBT')	✓	✓	✓
Pillar revenue and Earnings Before Interest and Tax ('EBIT')	✗	✗	✓
Role-specific financial and non-financial objectives (including stretch objectives)[1]	✓	✓	✓

[1] For the role-specific component to be payable to the Group CEO and CFO, Group UPBT must be at least 75% of budget; and for it to be payable to the CEOs of Supermarkets and Convenience, Hardware and ALM, Pillar EBIT must be at least 75% of budget. In total, 81 key business people at Metcash were eligible to participate in stretch incentives as part of the redistribution of the existing STI pool to drive improved outcomes, including four KMP (Group CEO, CFO, CEO Hardware and CEO ALM).

The target and maximum STI opportunities as a percentage of TEC for KMP are outlined below and include reward for the achievement of of stretch objectives:

Position	Target	Maximum
Group CEO	83%	104%
CFO	50%	150%
CEO Supermarkets and Convenience	50%	100%
CEO Hardware	50%	150%
CEO ALM	50%	150%

For FY16, KMP STI earnings will be paid in full and be subject to a clawback for cause or material misstatement of the Group's financial statements.

3.2.3. LTI

No performance rights issued under the Group's LTI plans vested in FY16. In addition, all other performance rights in operation prior to FY16 completed their performance periods at the end of FY15 and lapsed without vesting.

The Group had three LTI plans in operation in FY16, namely:

- Transformation Incentive – this plan was established in FY15 and aimed to provide an incentive to senior management to deliver the Transformation Plan over the period 1 May 2014 to 30 April 2017;
- Additional Transformation Incentive – this was granted to the Group CEO and CFO recognising the impact these roles have on shareholder returns; and
- CEO Supermarkets and Convenience Commencement Grant – this was granted to Mr Cain on commencement of his employment at Metcash. The plan is based on the performance of the Supermarkets and Convenience business over a five year period from 1 May 2015 to 30 April 2020.

Other than the CEO Supermarkets and Convenience Commencement Grant no executives were granted any performance rights in FY16, due to the three-year horizon of the Transformation Incentive.

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

For personal use only

Transformation Incentive

The purpose of the Transformation Incentive was to provide an incentive for senior management to successfully execute the Transformation Plan over the FY15, FY16 and FY17 financial years.

All KMP, except the CEO Supermarkets and Convenience, plus 75 other senior Metcash employees participated in this scheme.

The Transformation Incentive ran from 1 May 2014 to 30 April 2016, after which it lapsed with one year remaining in its performance period. The Incentive was a Performance Rights grant (the right to acquire Metcash shares at no cost, subject to the satisfaction of performance and service conditions) and was subject to two performance hurdles:

- Minimum Metcash Return on Funds Employed ('ROFE') of 13% in FY15, FY16 and FY17. If this hurdle was not met for any of FY15, FY16 or FY17, the rights lapse; and
- if the ROFE hurdle was met for each of these years, vesting would be subject to Group Sales Revenue and Underlying Earnings Per Share ('UEPS') performance in FY17.

For participants other than the CFO, shares for 67% of vested rights would be allocated on 15 August 2017 and the remaining 33% on 15 April 2018. For the CFO, shares for 50% of vested rights would be allocated on 15 August 2017 and the remaining 50% on 15 April 2018.

Rights which have not vested would be forfeited. There was no re-testing.

The following grants were made to KMP:

Participant	Grant date	Vesting date	No. of rights	Fair value per right
Group CEO	17 October 2014	15 August 2017	854,093	$2.23
	17 October 2014	15 April 2018	427,046	$2.16
CFO	11 February 2015	15 August 2017	170,819	$1.27
	11 February 2015	15 April 2018	170,819	$1.23
CEO Hardware	17 October 2014	15 August 2017	291,625	$2.23
	17 October 2014	15 April 2018	145,813	$2.16
CEO ALM	17 October 2014	15 August 2017	246,619	$2.23
	17 October 2014	15 April 2018	123,310	$2.16

As the Group's underlying ROFE was below 13% in FY16 the required ROFE hurdle had not been met and all performance rights under the Transformation Incentive Plan have lapsed.

Additional Transformation Incentive

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

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

- Relative Total Shareholder Returns ('RTSR') from 1 May 2014 to 30 April 2018 relative to ASX 100 companies excluding financial services companies, mining companies and Real Estate Investment Trusts ('REITs'); and

  RTSR from 1 May 2014 to 30 April 2019 relative to ASX 100 companies as at 1 May 2014 excluding financial services companies, mining companies and REITs. The rights vest against this hurdle as follows:

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

For personal use only

- Metcash ROFE for FY18 and for FY19. The rights vest against this hurdle as follows:

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

As Metcash policy is not to provide market guidance, ROFE percentages will be disclosed after the test date.

Rights which have not vested are forfeited. There is no re-testing.

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

Participant	Grant date	Hurdle	Vesting date	No. of rights	Fair value per right
Group CEO	17 October 2014	RTSR 1	15 August 2018	266,904	$1.28
		ROFE 1	15 August 2018	266,904	$2.10
		RTSR 2	15 August 2019	533,808	$1.25
		ROFE 2	15 August 2019	533,808	$1.98
CFO	11 February 2015	RTSR 1	15 August 2018	85,410	$0.09
		ROFE 1	15 August 2018	85,410	$1.20

CEO Supermarkets and Convenience Commencement Grant

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

- Sign-on and Retention – Performance Rights which vest if Mr Cain has continuous service in Metcash until the third anniversary of his commencement of employment in Metcash (1 August 2018). In the event of a takeover or change of control or event reasonably considered should be treated the same way as a change in control, the rights will vest and be satisfied by an early allocation of shares.
- Performance – Performance Rights tested against Metcash Supermarkets EBIT Compound Annual Growth Rate ('CAGR') from 1 May 2015 to 30 April 2020, providing Metcash Supermarkets ROFE averages at least 13.5% over this period.

  The rights vest against this hurdle as follows:

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

As Metcash policy is not to provide market guidance, CAGR percentages will be disclosed after the test date.

For personal use only

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

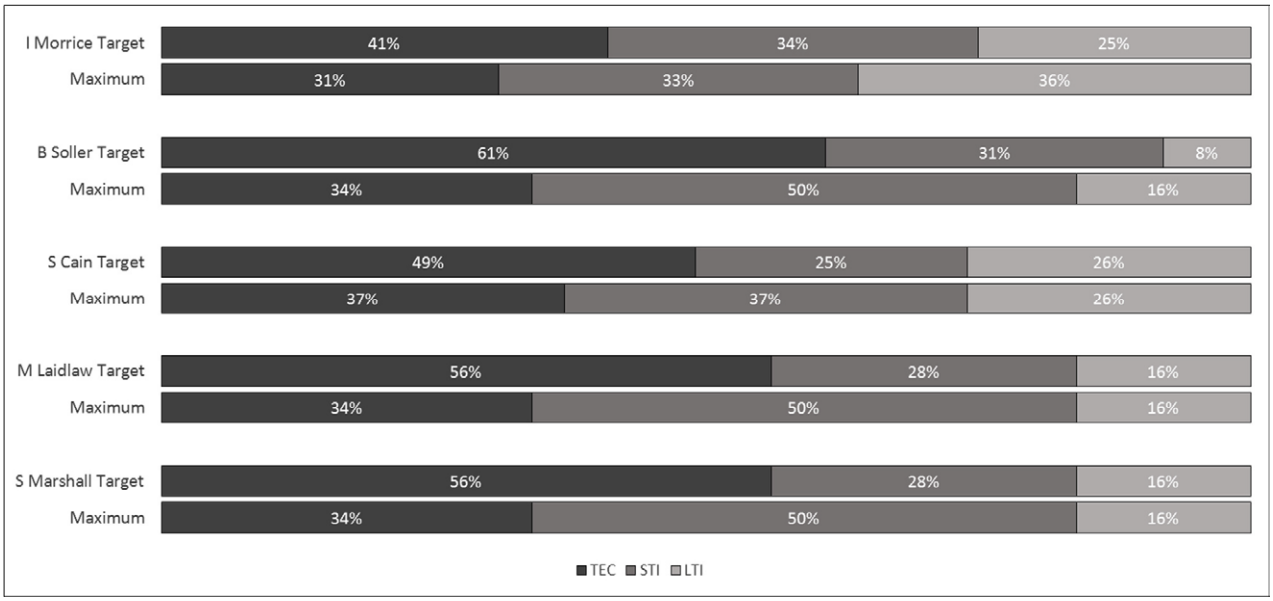
Rights which have not vested are forfeited. There is no re-testing.

The following grants were made to Mr Cain:

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

3.2.4. Total remuneration mix

The chart below outlines the FY16 remuneration mix for total remuneration for KMP. Each remuneration component is shown as a percentage of total remuneration for at target outcomes and for maximum earnings opportunity.



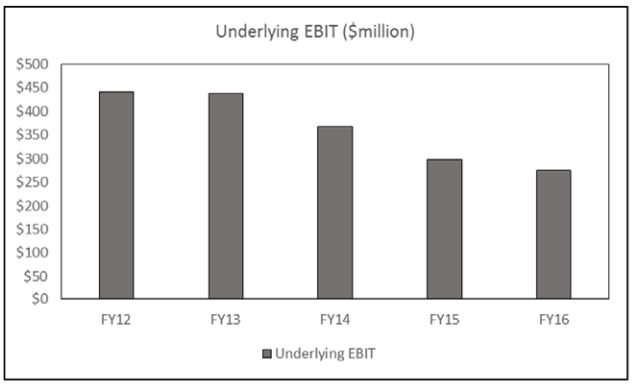
The fair and face values of equity rights issued were used to estimate target and maximum LTI values respectively.

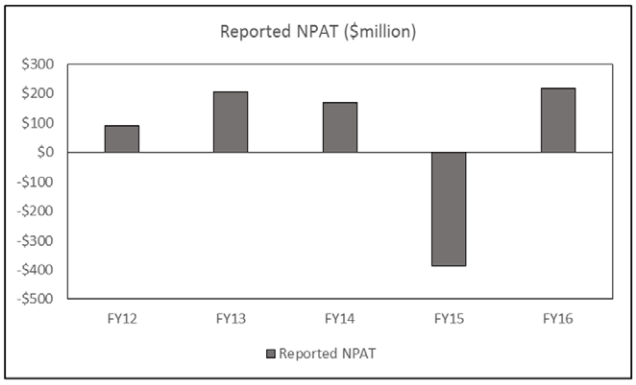
For personal use only

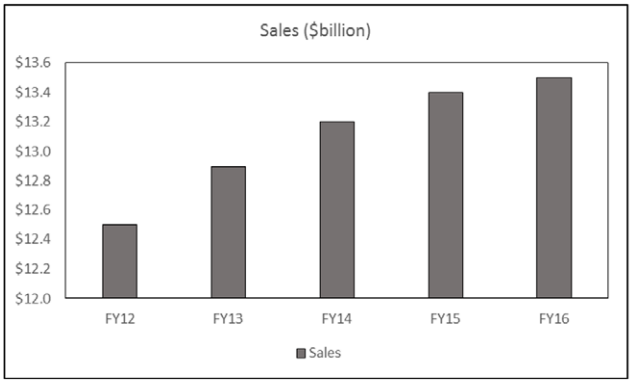
4. FY16 performance and remuneration outcomes

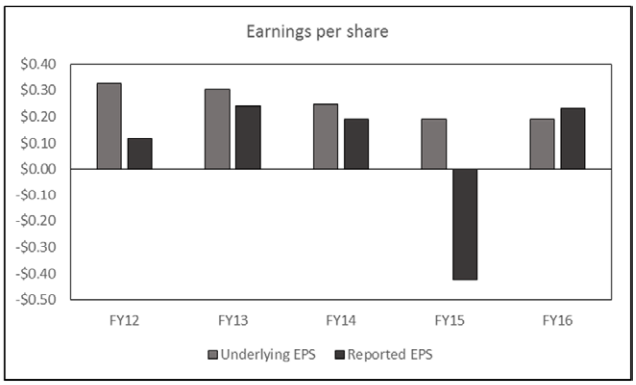
4.1. Group performance and at-risk remuneration outcomes FY12-FY16

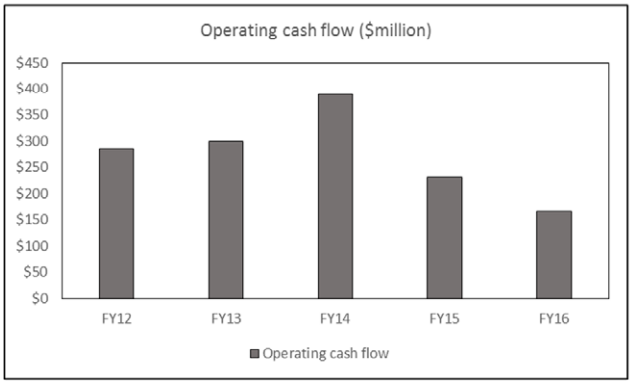
The charts below show Metcash financial performance in the five-year period from 1 May 2011 to 30 April 2016.

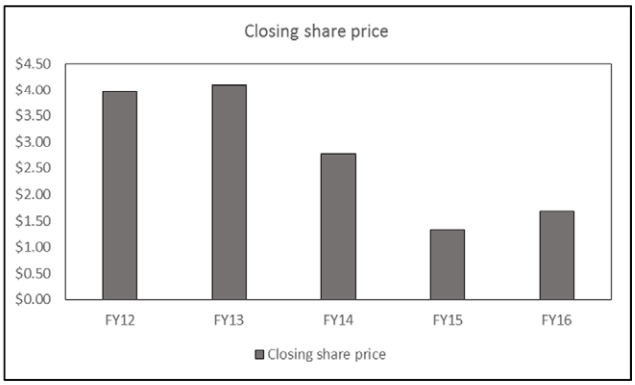












Note: the opening share price in FY2012 was $4.08

STI paid to KMP during this period was as follows.

Financial year	FY12	FY13	FY14	FY15	FY16
% of maximum STI paid	43.5%	75.6%	11.9%	17.1%	78.9%

STI payments in FY14 and FY15 were low as Supermarkets did not meet its sales and EBIT targets, resulting in nil payment to the Group CEO and the incumbents of the CEO Supermarkets position during those years.

There was no vesting of performance rights under the LTI program during this period.

For personal use only

4.2. Actual FY16 KMP remuneration

The table below is captured in non-IFRS format to enable ease of interpretation:

Name	Total Employment Cost $	STI $	Share-based payments[1] $	Termination $	Other $	Total $
I Morrice	1,800,000	1,725,000	-	-	-	3,525,000
B Soller	839,811	1,115,000	29,538	-	-	1,984,349
S Cain	937,500	600,000	-	-	-	1,537,500
M Laidlaw	699,963	785,000	171,570	-	-	1,656,533
S Marshall	637,917	750,000	90,683	-	-	1,478,600

[1] The value of deferred rights issued under the FY15 STI plan which vested into shares on 15 April 2016, calculated as the number of vested shares multiplied by the closing share price on 15 April 2016 of $1.68.

4.3. FY16 STI outcomes

Name	Components	Target STI $	Maximum STI $	STI awarded % of maximum	STI awarded[2] $	Maximum STI forfeited $
I Morrice	Group UPBT[1]	750,000	750,000	100%	750,000	-
	Role-specific objectives	750,000	1,125,000	87%	975,000	150,000
B Soller	Group UPBT	212,500	425,000	75%	318,750	106,250
	Role-specific objectives	212,500	850,000	94%	796,250	53,750
S Cain	Pillar EBIT/Group UPBT	351,884	703,768	61%	428,858	274,910
	Role-specific objectives	117,295	234,590	73%	171,142	63,448
M Laidlaw	Pillar EBIT/Group UPBT	175,844	351,689	61%	214,310	137,379
	Role-specific objectives	175,844	703,377	81%	570,690	132,687
S Marshall	Pillar EBIT/Group UPBT	162,500	325,000	56%	182,813	142,187
	Role-specific objectives	162,500	650,000	87%	567,187	82,813

[1] For the Group CEO the UPBT STI target and maximum amounts were set at the same level.

[2] The 81 key business people who participated in the stretch incentive achieved 61% of their objectives. The Group CEO achieved three out of five stretch objectives and other eligible KMP (B Soller, M Laidlaw and S Marshall) achieved each of their stretch objectives.

In all cases, FY16 Group UPBT and Pillar EBIT exceeded 75% of budget hence enabling payment of the role-specific component. For all KMP except Mr Cain, this component included payment for meeting additional stretch targets, which were specifically designed to deliver improved profit results.

5. KMP service agreements

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

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

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

For personal use only

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

Except for legacy entitlements detailed in Section 6.5, Non-executive Director remuneration is structured as follows:

- all Non-executive Directors are paid a fixed annual fee;
- commencing with the appointment of Mr Murray to the position on 27 August 2015, the Board Chairman is paid a fixed annual fee which is inclusive of all Board, Chair and Committee work;
- except for the Board Chairman, additional fees are paid to Non-Executive Directors who chair or participate in Board Committees;
- Non-executive Directors are not entitled to participate in the Group's short or long-term incentive schemes; and
- no additional benefits are paid to Non-executive Directors upon retirement from office.

6.3. Aggregate fee limit

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

The Remuneration Committee is responsible for reviewing and recommending Non-executive Director fees. External data is sought before any changes are made to fee levels.

6.4. FY16 fee structure

Board	Fee p.a. $[1]
Chair	390,000
Non-executive Director	129,703
Committee	
Audit, Risk and Compliance	
Chair	31,580
Member	12,970
People and Culture	
Chair	31,580
Member	12,970
Nomination	
Chair	-
Member	-

[1] Including superannuation.

For personal use only

6.5. FY16 Non-executive Director remuneration

Name	Financial Year	Fees $	Post-employment (Superannuation) $	Other $	Total $
R Murray	2016	322,496	18,697	-	341,193
	2015	910	96	-	1,006
F Balfour	2016	147,290	13,993	-	161,283
	2015	139,577	13,206	-	152,783
M Butler	2016	147,290	13,993	-	161,283
	2015	147,290	13,931	-	161,221
P Allaway	2016	130,295	12,378	-	142,673
	2015	130,295	12,324	-	142,619
T Dwyer	2016	130,295	12,378	-	142,673
	2015	111,085	10,547	-	121,632
N Hamilton	2016	130,295	12,378	-	142,673
	2015	138,008	13,049	-	151,057
M Jordan	2016	24,222	2,301	-	26,523
	2015	n/a	n/a	n/a	n/a
H Nash	2016	68,155	6,475	-	74,630
	2015	n/a	n/a	n/a	n/a
P Barnes	2016	93,999	6,261	211,619[1]	311,879
	2015	294,757	18,615	-	313,372
E Jankelowitz	2016	42,095	3,999	-	46,094
	2015	130,863	12,376	-	143,239
M McMahon	2016	21,716	2,063	-	23,779
	2015	130,295	12,324	-	142,619
Total	2016	1,258,148	104,916	211,619	1,574,683
	2015	1,223,080	106,468	-	1,329,548

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

For personal use only

7. Statutory disclosures

7.1. Fixed and at-risk remuneration

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

1. These amounts represent 100% of the amounts payable under the FY16 STI plan.
2. Including changes in long service leave entitlement.
3. These amounts represent the FY16 expense of the deferred component of the FY15 STI plan that was settled in shares in FY16.
4. Mr Cain commenced employment in Metcash on 1 August 2015 on fixed remuneration including superannuation of $1,250,000 p.a. The amounts disclosed above are in respect of Mr Cain's remuneration from 1 August 2015 to 30 April 2016.

FY15	Fixed remuneration $	STI (cash)[1] $	Other benefits $	Post-employment benefits – superannuation $	Termination benefits $	Leave[2] $	LTI (share based payments) $	STI (share based payments)[1] $	Total $	Performance related %
I Morrice	1,491,911	-	-	18,615	-	-	977,813	-	2,488,339	39.3%
B Soller[3]	182,519	-	67,328[4]	4,070	-	-	26,792	-	280,709	32.0%
A Gratwicke[5]	614,428	-	-	13,919	663,750	-	-	-	1,292,097	0.0%
F Collins[6]	754,183	-	12,833	17,050	650,250	17,864	70,668	32,022	1,554,870	6.6%
M Laidlaw	651,231	355,316	-	18,615	-	15,662	182,103	154,353	1,377,280	50.2%
S Marshall	557,708	182,725	-	18,615	-	19,251	153,999	60,908	993,206	40.0%
Total	4,251,980	538,041	80,161	90,884	1,314,000	52,777	1,411,375	247,283	7,986,501	28.3%

1. The STI (Cash) reward amount included in the table represents 75% of the total reward amount under the FY15 plan, which is payable in cash in July 2015. The STI (Share Based Payments) reward amount represents the current year expense in relation to the 25% component of the FY15 plan and FY14 plan total reward amounts that are deferred and settled in shares. These components are recognised in the financial results over the performance and forfeiture periods, which together are referred to as the 'service period'. The service period for the FY15 plan commenced on 1 May 2014 and concludes on 15 April 2016 and the service period for the FY14 plan commenced on 1 May 2013 and concluded on 15 April 2015.
2. This includes the movement in long service leave entitlement.
3. Mr Soller commenced as CFO on 11 February 2015 with his annual fixed remuneration set at $800,000. The amounts disclosed above reflect Mr Soller's remuneration from 11 February 2015 to 30 April 2015.
4. Mr Soller was not eligible for the FY15 STI scheme. Mr Soller received an individual performance bonus of $79,355 (FY15 expense: $63,161) for achievement of specific objectives in FY15. Consistent with the Executive STI scheme 75% of the bonus is payable in cash in July 2015 with the remainder deferred, settled in shares and recognised over the service period from 11 February 2015 to 15 April 2016.
5. Mr Gratwicke was CFO from 1 May 2014 to 31 January 2015 and ceased employment on 30 April 2015. The amounts disclosed above reflect Mr Gratwicke's remuneration from 1 May 2014 to 31 January 2015 as KMP and his termination payment in lieu of a notice period. In addition, Mr Gratwicke received remuneration of $212,500 between 1 February 2015 and his cessation of employment on 30 April 2015. All amounts paid to Mr Gratwicke were in accordance with his contractual entitlements.
6. Mr Collins was CEO, Supermarkets MFG from 1 May 2014 to 1 April 2015 and ceased employment on 1 July 2015. The amounts disclosed above reflect Mr Collins' remuneration from 1 May 2014 to 1 April 2015 as KMP and his termination payment in lieu of a notice period. In addition, Mr Collins received fixed remuneration of $216,750 between 1 April 2015 and his cessation of employment on 1 July 2015. All amounts paid to Mr Collins were in accordance with his contractual entitlements.

For personal use only

7.2. KMP performance rights holdings

Name	Balance at 1 May 2015	Granted during the year	Vested during the year	Changed, forfeited or lapsed during the year	Balance at 30 April 2016	Balance at report date[1]
I Morrice	2,882,563	-	-	-	2,882,563	1,601,424
B Soller	512,458	17,582	(17,582)	-	512,458	170,820
S Cain	-	3,186,068	-	-	3,186,068	3,186,068
M Laidlaw	518,677	102,125	(102,125)	(81,239)	437,438	-
S Marshall	395,079	53,978	(53,978)	(25,150)	369,929	-
Total	4,308,777	3,359,753	(173,685)	(106,389)	7,388,456	4,958,312

[1] The difference between the balances as at 30 April 2016 and as at the report date were due to the cancellation of Transformation Incentive performance rights as noted in Section 3.2.3.

7.3. KMP shareholdings

Name	Balance at 1 May 2015	Granted as remuneration[1]	On market trade	Other adjustments[2]	Balance at 30 April 2016	Balance at report date
Directors						
R Murray	-	-	44,005	-	44,005	44,005
I Morrice	117,517	-	180,000	-	297,517	297,517
P Allaway	106,786	-	100,000	-	206,786	206,786
F Balfour	32,804	-	50,000	-	82,804	82,804
M Butler	60,749	-	-	-	60,749	60,749
T Dwyer	40,000	-	-	-	40,000	40,000
N Hamilton	121,318	-	-	-	121,318	121,318
M Jordan	-	-	-	-	-	-
H Nash	-	-	32,431	-	32,431	32,431
P Barnes	201,243	-	-	(201,243)	-	-
E Jankelowitz	320,000	-	-	(320,000)	-	-
M McMahon	30,000	-	-	(30,000)	-	-
Executives						
B Soller	-	17,582	-	-	17,582	17,582
S Cain	-	-	100,000	-	100,000	100,000
M Laidlaw	55,627	102,125	-	-	157,752	157,752
S Marshall	-	53,978	-	-	53,978	53,978
Total	1,086,044	173,685	506,436	(551,243)	1,214,922	1,214,922

[1] Shares granted as remuneration reflect the 25% component of the FY15 STI plan total reward amount that was deferred and issued as shares on 15 April 2016. These shares are restricted from trading until 15 August 2016.
[2] Reflecting changes in KMP composition.

This concludes the remuneration report.

For personal use only

Other disclosures

Unissued shares under share options and performance rights

At the date of this report, there were 4,958,312 unissued ordinary shares under performance rights (12,497,505 at the reporting date). There were no unissued ordinary shares under option at the reporting date or at the date of this report. Refer to note 20 of the financial statements for further details of the performance rights.

Shares issued as a result of options and performance rights

In April 2016, 173,685 shares were issued to executives, which represented the 25% deferred component of the FY15 STI reward (refer note 20). No other shares in the Company were issued to employees and executives during or since the end of the financial year in respect of the exercise of options or performance rights.

Non-audit services

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

The auditor's independence declaration for the year ended 30 April 2016 has been received and is included on page 51.

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

Tax compliance and advisory services	$397,000
Assurance and other advisory services	$557,000

Subsequent events

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

Rounding

The amounts contained in this report and in the financial statements have been rounded to the nearest $100,000 (where rounding is applicable) under the option available to the Company under Australian Securities and Investments Commission (ASIC) Class Order 98/0100. The Company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the Directors.

Ian Morrice
Director
Sydney, 20 June 2016

Statement of Comprehensive Income

For the year ended 30 April 2016

For personal use only

	Notes	2016 $m	2015 $m
Sales revenue		13,541.3	13,369.8
Cost of sales		(12,412.3)	(12,211.5)
Gross profit		**1,129.0**	**1,158.3**
Other income	3	138.4	134.0
Distribution costs		(475.2)	(449.0)
Administrative costs		(509.8)	(540.6)
Share of profit of equity-accounted investments	8	7.1	3.1
Significant items	3	-	(638.8)
Finance costs	3	(41.1)	(63.6)
Profit/(loss) from continuing operations before income tax		**248.4**	**(396.6)**
Income tax expense from continuing operations	4	(68.4)	(5.6)
Net profit/(loss) for the year from continuing operations		**180.0**	**(402.2)**
Net profit after tax for the year from discontinued operations	24	38.2	19.4
Net profit/(loss) for the year		**218.2**	**(382.8)**
Net profit/(loss) for the year is attributable to:			
Equity holders of the parent		**216.5**	**(384.2)**
Non-controlling interests		1.7	1.4
		218.2	(382.8)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustments		(1.0)	0.3
Cash flow hedge adjustment		1.6	(5.5)
Income tax (expense)/benefit		(0.6)	1.8
Other comprehensive income/(loss) for the year, net of tax		**-**	**(3.4)**
Total comprehensive income/(loss) for the year		**218.2**	**(386.2)**
Total comprehensive income/(loss) for the year is attributable to:			
Equity holders of the parent		216.5	(387.6)
Non-controlling interests		1.7	1.4
		218.2	**(386.2)**
Earnings per share attributable to the ordinary equity holders of the Company			
From continuing operations for the year			
- basic earnings per share (cents)	23	19.2	(44.5)
- diluted earnings per share (cents)	23	19.2	(44.5)
From discontinued operations for the year			
- basic earnings per share (cents)	23	4.1	2.1
- diluted earnings per share (cents)	23	4.1	2.1
From net profit/(loss) for the year			
- basic earnings per share (cents)	23	23.3	(42.4)
- diluted earnings per share (cents)	23	23.3	(42.4)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes. The comparatives have been restated to reclassify the Automotive business to discontinued operations.

Statement of Financial Position

As at 30 April 2016

For personal use only

	Notes	2016 $m	2015 $m
ASSETS			
Current assets			
Cash and cash equivalents		26.4	83.3
Trade receivables and loans	6	981.4	1,014.5
Inventories		673.6	712.5
Assets held for sale		32.1	26.1
Derivative financial instruments	7	-	0.2
Prepayments and other assets		10.8	13.5
Total current assets		**1,724.3**	**1,850.1**
Non-current assets			
Derivative financial instruments	7	12.1	104.2
Trade receivables and loans	6	15.9	25.6
Equity-accounted investments	8	102.9	102.1
Property, plant and equipment	9	251.9	276.0
Net deferred tax assets	4	113.5	124.4
Intangible assets and goodwill	10	1,127.5	1,284.5
Total non-current assets		**1,623.8**	**1,916.8**
TOTAL ASSETS		**3,348.1**	**3,766.9**
LIABILITIES			
Current liabilities			
Trade and other payables		1,356.9	1,419.1
Interest bearing borrowings	11	15.7	63.2
Derivative financial instruments	7	1.8	0.8
Provisions	12	140.4	127.6
Income tax payable		15.8	9.1
Other financial liabilities	13	13.6	22.3
Total current liabilities		**1,544.2**	**1,642.1**
Non-current liabilities			
Interest bearing borrowings	11	299.4	794.8
Provisions	12	123.8	144.4
Derivative financial instruments	7	3.9	6.3
Other financial liabilities	13	7.7	22.7
Total non-current liabilities		**434.8**	**968.2**
TOTAL LIABILITIES		**1,979.0**	**2,610.3**
NET ASSETS		**1,369.1**	**1,156.6**
EQUITY			
Contributed and other equity	14	1,626.0	1,626.0
Retained earnings/(accumulated losses)		(259.6)	(475.8)
Other reserves	14	(5.6)	(1.3)
Parent interest		1,360.8	1,148.9
Non-controlling interests		8.3	7.7
TOTAL EQUITY		**1,369.1**	**1,156.6**

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 2016

For personal use only

	Contributed and other equity $m	Retained earnings/ (accumulated losses) $m	Other reserves $m	Owners of the parent $m	Non-controlling interests $m	Total equity $m
At 1 May 2015	**1,626.0**	**(475.8)**	**(1.3)**	**1,148.9**	**7.7**	**1,156.6**
Total comprehensive income, net of tax	-	216.5	-	216.5	1.7	218.2
Transactions with owners						
Dividends paid (Note 5)	-	-	-	-	(1.4)	(1.4)
Share-based payments	-	-	(4.3)	(4.3)	-	(4.3)
Transfers and other adjustments	-	(0.3)	-	(0.3)	0.3	-
At 30 April 2016	**1,626.0**	**(259.6)**	**(5.6)**	**1,360.8**	**8.3**	**1,369.1**
At 1 May 2014	**1,542.2**	**47.1**	**(2.9)**	**1,586.4**	**7.6**	**1,594.0**
Total comprehensive income, net of tax	-	(384.2)	(3.4)	(387.6)	1.4	(386.2)
Transactions with owners						
Dividends paid including DRP (Note 5)	84.1	(138.7)	-	(54.6)	(1.3)	(55.9)
Share issue costs net of tax	(0.3)	-	-	(0.3)	-	(0.3)
Share-based payments	-	-	5.0	5.0	-	5.0
At 30 April 2015	**1,626.0**	**(475.8)**	**(1.3)**	**1,148.9**	**7.7**	**1,156.6**

Refer note 14 for details on equity and reserves.

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

Statement of Cash Flows

For the year ended 30 April 2016

For personal use only

	Notes	2016 $m	2015 $m
Cash flows from operating activities			
Receipts from customers		14,864.6	14,945.9
Payments to suppliers and employees		(14,620.8)	(14,601.3)
Dividends received		2.8	5.4
Interest received		4.5	8.5
Interest gain on finance facility restructure		9.5	-
Finance costs		(31.1)	(43.6)
Income tax paid, net of tax refunds		(63.7)	(83.2)
Net cash generated by operating activities	15	**165.8**	**231.7**
Cash flows from investing activities			
Proceeds from sale of discontinued operations		242.1	-
Proceeds from sale of business assets		57.3	41.0
Payments for acquisition of business assets		(64.9)	(85.9)
Payment on acquisition of businesses and equity-accounted investments		(15.6)	(42.0)
Proceeds from loans repaid by other entities		30.2	28.2
Loans to other entities		(11.7)	(16.2)
Net cash from/(used in) investing activities		**237.4**	**(74.9)**
Cash flows from financing activities			
Share issue costs, including share based payments	14	(0.6)	(0.4)
Repayments of borrowings, net		(449.5)	(37.1)
Payment of dividends on ordinary shares	5	-	(54.6)
Payment of dividends to non-controlling interests		(5.8)	(1.6)
Repayment of finance lease principal		(4.2)	(4.5)
Net cash used in financing activities		**(460.1)**	**(98.2)**
Net increase/(decrease) in cash and cash equivalents		**(56.9)**	**58.6**
Add opening cash and cash equivalents		83.3	24.7
Cash and cash equivalents at the end of the year		**26.4**	**83.3**

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

Notes to the Financial Statements

For the year ended 30 April 2016

For personal use only

1. Corporate information

The financial statements of Metcash Limited (the 'Company') and its controlled entities (together the 'Group') for the year ended 30 April 2016 were authorised for issue in accordance with a resolution of the Directors on 20 June 2016.

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

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

2. Segment information

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

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

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

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

The selling price between segments is at normal selling prices and is paid under similar terms and conditions as other customers of the Group. Segment results exclude results from discontinued operations. The comparative segment results have been restated to reclassify the Automotive pillar to discontinued operations. Refer to note 24 for further details.

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

Segment results

	Segment revenue		Segment profit before tax	
	2016 $m	2015 $m	2016 $m	2015 $m
Food & Grocery	9,265.4	9,217.8	179.9	216.8
Liquor	3,219.3	3,103.6	62.1	57.6
Hardware	1,056.6	1,048.4	32.8	30.1
Segment results	13,541.3	13,369.8	274.8	304.5
Corporate			0.6	(7.2)
Group earnings before interest and tax ('EBIT')			275.4	297.3
Net finance costs			(27.0)	(55.1)
Significant items (refer note 3(b))			-	(638.8)
Net profit/(loss) before tax from continuing operations			248.4	(396.6)

For personal use only

3. Revenue and expenses

	2016 $m	2015 $m
(i) Other income		
Lease income – rent	81.6	92.9
Lease income – outgoings recoveries	26.5	30.9
Interest from other persons/corporations	4.5	8.5
Other interest income – credit value adjustments and finance facility restructure (a)	9.6	-
Net gain from disposal of surplus property	14.4	-
Net gain from disposal of other property, plant and equipment	1.8	1.7
	138.4	134.0
(ii) Operating lease expenses		
Property rent – stores	84.9	91.4
Property rent – warehouse and other properties	81.5	84.1
Property outgoings	37.9	41.2
Equipment and other leases	21.8	22.0
	226.1	238.7
(iii) Employee benefit expenses		
Salaries and wages	480.1	453.9
Defined contribution plan expense	37.1	38.3
Share based payments	(3.7)	5.1
Working Smarter restructure expense	9.1	-
Other employee benefit expenses	42.0	46.0
	564.6	543.3
(iv) Depreciation and amortisation		
Depreciation of property, plant and equipment	35.3	35.8
Amortisation of software	16.0	16.3
Amortisation of other intangible assets	9.0	14.3
	60.3	66.4
(v) Provisions for impairment, net of reversals		
Trade receivables and loans	18.7	20.7
Inventories	18.9	15.2
Property, plant and equipment	8.3	-
	45.9	35.9
(vi) Significant items (b)		
Impairment of goodwill, other assets and related charges	-	640.0
Acquisition and restructure costs	-	7.0
Automotive put option re-measurement gain (Note 13)	-	(8.2)
Total significant items expense before tax	-	638.8
Income tax benefit attributable to these items	-	(61.6)
Total significant items expense after tax	-	577.2
(vii) Finance costs		
Interest expense	31.0	52.7
Deferred borrowing costs	1.1	0.8
Finance costs from discounting of provisions	9.0	10.1
	41.1	63.6

For personal use only

3. Revenue and expenses (continued)

(a) Finance facility restructure

During the year, Metcash bought back US$200 million of US Private Placement (USPP) notes, leaving a residual USPP debt and facility of US$25 million. In addition, US$200 million of cross currency interest rate swap contracts were terminated and $425.0 million of interest rate swap contracts were closed out by an offsetting interest rate swap contract. The buyback of the notes and termination of swaps resulted in a net gain of $9.6 million during the year, including the reversal of credit value adjustments against the swaps. Other facility limits were also reduced by $126.7 million. Refer note 16 for further details of the Group's borrowing facilities.

(b) Significant items

During the prior year, the Group recognised $638.8 million in impairments and related charges within 'significant items'. These expenses arose as a consequence of a highly competitive trading environment (particularly in relation to Food & Grocery) and a rationalisation of the retail store network, resulting in store closures.

The impairment charge primarily included $506.7 million relating to intangible assets (note 10) and $39.5 million relating to property and investments (notes 8 and 9).

4. Income tax

	2016 $m	2015 $m
Major components of income tax expense		
Current income tax charge	76.3	70.2
Adjustments in respect of income tax of previous years	(4.8)	(2.8)
Deferred income tax relating to origination and reversal of temporary differences	10.3	(53.4)
Total income tax expense	81.8	14.0
Classification of income tax expense		
Income tax attributable to significant items in profit from continuing operations before tax	-	(61.6)
Income tax attributable to other continuing operations	68.4	67.2
Total income tax expense attributable to continuing operations	68.4	5.6
Income tax expense attributable to discontinued operations	13.4	8.4
Total income tax expense	81.8	14.0

Reconciliation of income tax expense from continuing operations

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

Accounting profit/(loss) from continuing operations before income tax	248.4	(396.6)
At the Group's statutory income tax rate of 30% (2015: 30%)	74.5	(119.0)
Expenditure not allowable for income tax purposes – continuing operations	4.8	0.8
Expenditure not allowable for income tax purposes – significant items	-	130.0
Other amounts assessable for income tax purposes	0.6	-
Other amounts not assessable for income tax purposes	(2.9)	(1.3)
Other amounts allowable for income tax purposes	(3.8)	(2.1)
Adjustments in respect of income tax of previous years	(4.8)	(2.8)
Income tax expense attributable to continuing operations	68.4	5.6

For personal use only

4. Income tax (continued)

	2016 $m	2015 $m
Components of deferred tax assets		
Provisions	131.7	147.0
Unutilised tax losses	2.5	5.0
Accelerated depreciation for accounting purposes	4.8	7.2
Other	8.9	8.0
Intangible assets (set off of deferred tax liabilities)	(34.4)	(42.8)
	113.5	124.4
Movements in deferred tax assets		
Opening balance	124.4	70.4
Credited/(charged) to net profit for the year	(10.3)	53.4
Credited/(charged) to other comprehensive income for the year	(0.6)	1.8
Adjustments related to business combinations	-	(1.2)
Closing balance	113.5	124.4

The Group has unrecognised gross capital losses of $12.6 million (2015: $16.6 million) that are available indefinitely for offset against future capital gains.

Tax consolidation

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

Tax effect accounting by members of the tax consolidated group

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

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

For personal use only

5. Dividends paid and proposed

Dividends paid and declared on ordinary shares during the year

	2016 $m	2015 $m
Dividends paid on ordinary shares during the year		
Final fully franked dividend for 2015: nil (2014: 9.0c)	-	80.0
Interim fully franked dividend for 2016: nil (2015: 6.5c)	-	58.7
Dividends declared during the year	-	138.7
Shares issued under the DRP	-	(38.2)
Shares issued under DRP underwriting agreement	-	(45.9)
Cash dividends paid on ordinary shares during the year	-	54.6
Dividends declared (not recognised as a liability as at 30 April)		
Final fully franked dividend for 2016: nil (2015: nil)	-	-

In line with the Board's previous announcement, a final dividend was not paid for FY15 and no interim or final dividend was declared in relation to FY16.

Under the Dividend Reinvestment Plan (DRP), eligible shareholders may elect to reinvest all or part of their dividends in acquiring additional Metcash shares. The full terms and conditions of the DRP were announced on 2 December 2013 and amended on 19 May 2014.

Franking credit balance of Metcash Limited

	2016 $m	2015 $m
Franking account balance as at the end of the financial year at 30% (2015: 30%)	129.7	62.8
Franking credits that will arise from the payment of income tax payable at the reporting date	15.2	9.1
Franking credits on dividends declared but not distributed to shareholders during the year	-	-
	144.9	71.9

Tax rates

Dividends paid and declared in 2015 were fully franked at the rate of 30%.

For personal use only

6. Trade receivables and loans

	2016 $m	2015 $m
Current		
Trade receivables - securitised (Note 16)	732.6	744.3
Trade receivables - non-securitised	186.3	200.9
Allowance for impairment loss	(45.0)	(54.3)
	873.9	890.9
Marketing and other receivables	82.1	82.6
Trade and other receivables	956.0	973.5
Customer loans	33.1	61.4
Allowance for impairment loss	(7.7)	(20.4)
Customer loans	25.4	41.0
Total trade receivables and loans - current	981.4	1,014.5
Non-current		
Customer loans	21.8	23.5
Allowance for impairment loss	(6.8)	-
Customer loans	15.0	23.5
Other receivables	0.9	2.1
Total trade receivables and loans – non-current	15.9	25.6

Movements in allowance for impairment loss

	2016 $m	2015 $m
Opening balance	74.7	68.6
Charged as an expense during the year	18.7	49.4
Accounts written off as non-recoverable	(32.7)	(44.2)
Related to acquisitions and disposals of businesses	(1.2)	0.9
Closing balance	59.5	74.7

Weighted average interest

Trade receivables, marketing and other receivables are non-interest bearing and repayment terms vary by business unit. As at 30 April 2016, $5.1 million (2015: $5.0 million) of customer loans are non-interest bearing and $49.8 million (2015: $79.9 million) of customer loans have a weighted average annual interest rate of 8.9% (2015: 9.2%).

Maturity of trade receivables

At 30 April 2016, 77.8% of trade receivables are either due or required to be settled within 30 days (2015: 77.4%), 21.5% have terms extending from 30 to 60 days (2015: 21.9%) and 0.7% have terms greater than 60 days (2015: 0.7%).

Customer loan security

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

For personal use only

6. Trade receivables and loans (continued)

Ageing of unimpaired trade receivables and loans

Days overdue	Trade receivables $m	Trade receivables %	Customer loans $m	Customer loans %	Marketing and other receivables $m	Marketing and other receivables %
At 30 April 2016						
Neither past due nor impaired	837.2	95.8%	31.0	76.7%	50.9	61.3%
Less than 30 days	32.8	3.8%	-	-	30.6	36.9%
Between 30 and 60 days	2.8	0.3%	0.3	0.7%	0.5	0.6%
Between 60 and 90 days	0.8	0.1%	-	-	0.5	0.6%
Between 90 and 120 days	0.2	-	1.6	4.0%	0.1	0.1%
More than 120 days	0.1	-	7.5	18.6%	0.4	0.5%
Total	873.9	100%	40.4	100.0%	83.0	100.0%
At 30 April 2015						
Neither past due nor impaired	818.1	91.8%	55.7	86.4%	56.5	66.7%
Less than 30 days	61.2	6.9%	0.8	1.2%	26.2	30.9%
Between 30 and 60 days	8.1	0.9%	0.2	0.3%	0.3	0.4%
Between 60 and 90 days	3.5	0.4%	2.1	3.3%	0.9	1.1%
Between 90 and 120 days	-	-	0.5	0.7%	0.1	0.1%
More than 120 days	-	-	5.2	8.1%	0.7	0.8%
Total	890.9	100.0%	64.5	100.0%	84.7	100.0%

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

7. Derivative financial instruments

	2016 $m	2015 $m
Current assets		
Foreign currency forward contracts	-	0.2
	-	0.2
Non-current assets		
Cross currency interest rate swaps – US Private Placement (Note 16)	12.0	104.2
Interest rate swap contracts	0.1	-
	12.1	104.2
Current liabilities		
Interest rate swap contracts	0.7	0.6
Foreign currency forward contracts	1.1	0.2
	1.8	0.8
Non-current liabilities		
Interest rate swap contracts	3.9	6.3
	3.9	6.3

For personal use only

8. Equity-accounted investments

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

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

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

Investee	Principal activities	Reporting date	2016 %	2015 %
Associates				
Abacus Independent Retail Property Trust	Retail property investment	30 June	25.0	25.0
Ritchies Stores Pty Ltd	Grocery retailing	30 June	26.0	26.0
BMS Retail Group Holdings Pty Ltd	Grocery retailing	30 June	25.1	25.1
Dramet Holdings Pty Ltd	Grocery retailing	30 June	26.0	26.0
Joint ventures				
Adcome Pty Ltd	Grocery retailing	30 April	45.0	45.0
Lecome Pty Ltd	Grocery retailing	30 April	50.0	50.0
Progressive Trading Pty Ltd	Grocery retailing	30 April	52.2	52.2
Metfood Pty Limited	Merchandise services	30 April	50.0	50.0
Northern Hardware Group Pty Ltd	Hardware retailing	30 June	-	49.9
Timberten Pty Ltd	Hardware retailing	30 June	-	40.0
Waltock Pty Limited	Hardware retailing	30 June	49.0	49.0
Banner 10 Pty Ltd	Hardware retailing	30 June	49.0	49.0
BRJ Pty Ltd	Hardware retailing	30 June	-	36.0
G Gay Hardware Pty Ltd	Hardware retailing	30 June	49.0	49.0
Woody's Timber & Hardware Pty Ltd	Hardware retailing	30 June	46.0	46.0
LA United Pty Ltd	Liquor retailing and hospitality	30 June	26.0	26.0
Mermaid Tavern (Trading) Pty Ltd	Liquor retailing and hospitality	30 April	-	50.0
Sunshine Coast Hotels Pty Ltd	Liquor retailing and hospitality	30 June	-	50.0
Queens Arms Hotel New Farm Pty Ltd	Liquor retailing and hospitality	30 April	-	50.0
Queens Arms Freehold Pty Ltd	Property investment	30 April	-	50.0

During the year, the Group acquired controlling equity interests in Northern Hardware Group Pty Ltd, Timberten Pty Ltd and Mermaid Tavern (Trading) Pty Ltd. Refer Appendix B for further information related to controlled entities.

Contingent liabilities and commitments

Refer notes 13 and 16 for details of the Group's contingent liabilities in relation to equity-accounted investments.

Share of investees' profit

At the reporting date, the equity-accounted investments are not individually material to the Group. In aggregate, the Group's share of income from equity-accounted investments was $7.1 million (FY15: 3.1 million) during the year, which includes a $3.1 million (FY15: $1.3 million) share of income tax expense incurred by the investees.

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

For personal use only

8. Equity-accounted investments (continued)

Share of investees' net assets

	2016 $m	2015 $m
Current assets	69.9	89.9
Non-current assets	123.7	145.6
Total assets	193.6	235.5
Current liabilities	(94.8)	(114.8)
Non-current liabilities	(35.8)	(45.6)
Total liabilities	(130.6)	(160.4)
Net assets	63.0	75.1

9. Property, plant and equipment

	Land & buildings $m	Plant & equipment $m	Total $m
Year ended 30 April 2016			
Opening balance	45.9	230.1	276.0
Additions	-	57.1	57.1
Disposal of Automotive (Note 24)	-	(9.8)	(9.8)
Other disposals	(6.4)	(5.2)	(11.6)
Assets classified as held for sale	(11.8)	(3.8)	(15.6)
Impairments	(1.0)	(7.3)	(8.3)
Depreciation	(0.3)	(35.6)	(35.9)
Closing balance	26.4	225.5	251.9
At 30 April 2016			
Cost	32.7	380.1	412.8
Accumulated depreciation and impairment	(6.3)	(154.6)	(160.9)
Net carrying amount	26.4	225.5	251.9
Year ended 30 April 2015			
Opening balance	88.0	220.4	308.4
Additions	2.3	65.1	67.4
Disposals	(14.7)	(4.2)	(18.9)
Assets classified as held for sale	(16.7)	(5.4)	(22.1)
Impairments	(12.3)	(6.9)	(19.2)
Depreciation	(0.7)	(38.9)	(39.6)
Closing balance	45.9	230.1	276.0
At 30 April 2015			
Cost	83.2	525.6	608.8
Accumulated depreciation and impairment	(37.3)	(295.5)	(332.8)
Net carrying amount	45.9	230.1	276.0

Additions to plant and equipment include $30.8 million (2015: $27.4 million) of assets under construction. The closing balance of plant and equipment includes $41.6 million (2015: $16.7 million) of assets under construction.

The carrying value of assets held under finance leases and hire purchase contracts at 30 April 2016 is $8.2 million (2015: $9.7 million).

For personal use only

10. Intangible assets and goodwill

	Software development costs $m	Customer contracts $m	Trade names and other $m	Goodwill $m	Total $m
Year ended 30 April 2016					
Opening balance	71.1	140.2	80.4	992.8	1,284.5
Additions	7.9	-	0.3	1.9	10.1
Disposal of Automotive (Note 24)	(1.6)	(29.0)	(34.5)	(71.7)	(136.8)
Other disposals	(0.5)	-	-	(0.6)	(1.1)
Reclassifications	-	-	(4.7)	1.3	(3.4)
Amortisation	(16.0)	(9.5)	(0.3)	-	(25.8)
Closing balance	60.9	101.7	41.2	923.7	1,127.5
At 30 April 2016					
Cost	223.2	234.4	43.5	1,365.3	1,866.4
Accumulated amortisation and impairment	(162.3)	(132.7)	(2.3)	(441.6)	(738.9)
Net carrying amount	60.9	101.7	41.2	923.7	1,127.5
Year ended 30 April 2015					
Opening balance	81.3	201.5	60.2	1,422.7	1,765.7
Reclassifications	(0.8)	(1.8)	0.6	2.0	-
Additions	19.6	2.8	-	-	22.4
Arising from business combinations	-	5.2	20.4	9.7	35.3
Impairments	(12.6)	(52.5)	-	(441.6)	(506.7)
Amortisation	(16.4)	(15.0)	(0.8)	-	(32.2)
Closing balance	71.1	140.2	80.4	992.8	1,284.5
At 30 April 2015					
Cost	217.4	278.3	86.5	1,434.4	2,016.6
Accumulated amortisation and impairment	(146.3)	(138.1)	(6.1)	(441.6)	(732.1)
Net carrying amount	71.1	140.2	80.4	992.8	1,284.5

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 & Grocery, Liquor and Hardware. Indefinite life intangibles primarily comprise trade names and licences.

Current year assessment

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

For personal use only

10. Intangible assets and goodwill (continued)

Allocation of CGUs

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

	Allocated goodwill		Trade names and other intangibles		Post-tax discount rates	
Cash-generating units	2016 $m	2015 $m	2016 $m	2015 $m	2016 %	2015 %
Food & Grocery	756.1	756.7	1.0	1.1	11.3%	11.3%
Liquor	100.1	98.8	13.0	17.6	10.1%	10.1%
Hardware	67.5	65.6	27.2	27.2	10.1%	10.1%

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 past experience.

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

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

  The calculation of WACC is market-driven and key inputs include target capital structure, equity beta, market risk premium, risk-free rate of return and debt risk premium. Pre-tax equivalents of the adopted discount rates are derived iteratively and differ based on the timing and extent of tax cash flows. Pre-tax rates were 15.5% for Food & Grocery, 14.0% for Liquor and 14.3% 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 of 1.5% was applied to all CGUs. In the prior year a terminal growth rate of 1.0% was applied to the Hardware CGU and 1.5% for all other CGUs.

Results of assessment

Based on the current assessment, no impairment of goodwill was identified in any of the Group's CGUs. In the prior year, an impairment of $422.1 million in Food & Grocery and $19.5 million in Hardware were recorded.

Sensitivity to changes in key assumptions

The following items are reasonable sensitivity changes to key assumptions that will cause an impairment. These sensitivities assume that the specific assumption moves in isolation, while other assumptions are held constant.

- Food & Grocery CGU – The recoverable amount of the CGU exceeded its carrying amount by $21.7 million. This difference would have been nil if (a) the forecasted EBIT for all projection years (including the terminal year) was 1.6% lower; or (b) the post-tax discount rate was 16 basis points higher; or (c) the terminal growth rate was 23 basis points lower.

- Hardware CGU - The recoverable amount of the CGU exceeded its carrying amount by $31.9 million. This difference would have been nil if the post-tax discount rate was 113 basis points higher. At the assessment date, no reasonably possible change in other key assumptions would cause the carrying amount of the CGU to exceed its recoverable amount.

- Liquor CGU - At the assessment date, no reasonably possible change in key assumptions would cause the carrying amount of the Liquor CGU to exceed its recoverable amount.

For personal use only

11. Interest bearing borrowings

	2016 $m	2015 $m
Current		
Bank overdrafts	11.3	-
Bilateral loans	0.6	58.6
Finance lease obligations	3.8	4.6
	15.7	63.2
Non-current		
Bank loans – syndicated	200.0	475.0
US private placement (USPP)	36.6	317.0
Bank loans - working capital	61.0	-
Finance lease obligations	4.8	5.3
Bilateral loans	-	2.2
Deferred borrowing costs	(3.0)	(4.7)
	299.4	794.8

Core borrowing facilities
See note 16 for details of the Group's core borrowing facilities.

Finance lease obligations
Finance leases have an average lease term of 4 years with the option to purchase the asset at the completion of the lease term for the asset's market value. The weighted average interest rate implicit in the lease is 5.3% (2015: 6.5%). Certain lease liabilities are secured by a charge over the leased asset.

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

Fair value
The carrying amounts of the Group's borrowings approximate their fair value. The weighted average effective interest rate on the syndicated, working capital loans and the USPP debt, after taking into account cross currency and interest rate swaps, at the end of the financial year was 4.2% (2015: 4.7%).

For personal use only

12. Provisions

	Employee entitlements $m	Rental subsidy $m	Onerous arrangements $m	Other $m	Total $m
30 April 2016					
Current	109.4	6.9	24.1	-	140.4
Non-current	7.0	74.9	41.9	-	123.8
	116.4	81.8	66.0	-	264.2
30 April 2015					
Current	94.9	7.8	21.8	3.1	127.6
Non-current	5.6	85.7	53.1	-	144.4
	100.5	93.5	74.9	3.1	272.0

Rental subsidy provision

The rental subsidy provision represents the value of certain retail store lease obligations recognised as part of the FY12 acquisition of Franklins. The provision was initially recognised at the acquisition date fair value and subsequently utilised to settle the obligations. The provision related to an individual lease is derecognised when the Group has met its obligations in full under that lease.

Onerous arrangements provision

The provision represents the present value of various obligations which are deemed to be onerous. These obligations include onerous retail head lease exposures, property make-good, restructuring and other costs. Depending on the nature of these obligations, they are expected to be settled over the term of the lease, at the conclusion of the lease or otherwise when the obligation vests.

Movements in significant provisions (other than employee entitlements)

	Rental subsidy $m	Onerous arrangements $m	Total $m
1 May 2015	93.5	74.9	168.4
Expense arising/(released) during the year	(8.0)	9.0	1.0
Disposal of Automotive (Note 24)	-	(1.1)	(1.1)
Utilised during the year	(10.5)	(19.0)	(29.5)
Finance cost discount rate adjustment	6.8	2.2	9.0
30 April 2016	81.8	66.0	147.8
1 May 2014	112.7	26.0	138.7
Expense arising/(released) during the year	(9.1)	55.3	46.2
Arising from business combinations	-	0.6	0.6
Utilised during the year	(17.2)	(7.5)	(24.7)
Finance cost discount rate adjustment	7.1	0.5	7.6
30 April 2015	93.5	74.9	168.4

For personal use only

13. Other financial liabilities

	Put options over NCI $m	Financial guarantee contracts $m	Lease incentives $m	Other $m	Total $m
30 April 2016					
Current	10.4	2.3	0.2	0.7	13.6
Non-current	-	3.7	0.9	3.1	7.7
	10.4	6.0	1.1	3.8	21.3
30 April 2015					
Current	21.4	0.7	0.2	-	22.3
Non-current	19.3	-	1.1	2.3	22.7
	40.7	0.7	1.3	2.3	45.0

Put options over non-controlling interests (NCI)

Certain put option arrangements allow minority shareholders to sell their equity interests to Metcash, subject to specific terms and conditions. The Group has recognised a liability of $10.4 million (2015: $40.7 million) in respect of these put options, measured at the present value of the redemption amount under the option.

The liability at the end of the financial year relates to put options over three subsidiaries within the Hardware segment. The sale of the Automotive business (refer note 24 for further details) resulted in a reduction of $29.0 million in the value of these put options during the year.

Financial guarantee contracts

The Group has granted a financial guarantee contract relating to the bank loan of a joint venture, Adcome Pty Ltd. Under the contract, the bank has the right to require Metcash to repay the debt under certain prescribed circumstances of default. The estimate of the maximum amount payable in respect of the guarantee, if exercised, is $47.5 million (2015: $47.5 million). Had the guarantee been exercised at 30 April 2016, the amount payable would have been $43.8 million (2015: $42.6 million). The fair value of the financial guarantee contract at the reporting date was $6.0 million (2015: $0.7 million) and is recognised as a financial liability.

14. Contributed equity and reserves

Contributed and other equity

	2016		2015	
	Number of shares	$m	Number of shares	$m
At 1 May	928,357,876	2,391.9	888,338,048	2,308.1
Shares issued under the DRP/underwritten	-	-	40,019,828	84.1
Share issue costs net of tax	-	-	-	(0.3)
At 30 April – contributed equity	928,357,876	2,391.9	928,357,876	2,391.9
Less: other equity		(765.9)		(765.9)
Total contributed and other equity	928,357,876	1,626.0	928,357,876	1,626.0

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

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

For personal use only

14. Contributed equity and reserves (continued)

Other reserves

	Share-based payments reserve $m	Foreign currency translation reserve $m	Cash flow hedge reserve $m	Total other reserves $m
At 1 May 2014	0.1	(4.5)	1.5	(2.9)
Total comprehensive income, net of tax	-	0.3	(3.7)	(3.4)
Share-based payments expense	5.1	-	-	5.1
Share-based payments exercised	(0.1)	-	-	(0.1)
At 30 April 2015	5.1	(4.2)	(2.2)	(1.3)
Total comprehensive income, net of tax	-	(1.0)	1.0	-
Share-based payments expense	(3.7)	-	-	(3.7)
Share-based payments exercised	(0.6)	-	-	(0.6)
At 30 April 2016	0.8	(5.2)	(1.2)	(5.6)

Share-based payments reserve

This reserve is used to record the value of equity benefits provided to executives as part of their remuneration. Refer to note 20 for further details of these plans. Once a performance right has lapsed the Group no longer has any obligation to convert these performance rights into share capital. The amount transferred to retained earnings represents the value of share based payments previously recognised as an expense through the Statement of Comprehensive Income that have now lapsed.

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.

Cash flow hedge reserve

This reserve records the portion of the unrealised gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. The cash flow hedge reserve movements through comprehensive income are as follows:

	2016 $m	2015 $m
Opening balance	(2.2)	1.5
Settled during the year	2.3	(1.8)
Movement in fair value of derivatives	(0.7)	(3.7)
Tax impact of above movements	(0.6)	1.8
Closing balance	(1.2)	(2.2)

For personal use only

15. Cash flows from operating activities

	2016 $m	2015 $m
Net profit/(loss) for the year	218.2	(382.8)
Adjustments for:		
Depreciation and amortisation	61.7	71.8
Impairment losses (non-significant items)	40.8	35.9
Net profit on disposal of property, plant and equipment	(16.1)	(1.7)
Net gain on disposal of discontinued operations	(34.5)	-
Share based payments	(3.7)	5.1
Credit value adjustments (Note 16)	-	3.5
Other adjustments	(4.6)	3.4
Significant items not related to operating activities	-	638.8
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	(40.7)	17.5
(Increase)/decrease in other current assets	0.9	11.1
(Increase)/decrease in inventories	(36.7)	16.1
(Increase)/decrease in tax balances	5.5	(68.4)
Increase/(decrease) in payables and provisions	(25.0)	(118.6)
Cash from operating activities	165.8	231.7

Non-cash financing and investing activities include $2.3 million (2015: $4.2 million) of assets acquired under finance leases.

16. Financial risk management

Objectives and policies

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

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

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

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, the Group manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. The Group has three sources of primary debt funding, of which 28% has been utilised at 30 April 2016. The Group monitors forecasts of liquidity reserves on the basis of expected cash flow.

For personal use only

16. Financial risk management (continued)

Available credit facilities

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

	Total facility $m	Debt usage $m	Guarantees & other usage $m	Facility available $m
Syndicated facility	775.0	200.0	-	575.0
US private placement	23.3	23.3	-	-
Securitisation facility	100.0	-	-	100.0
Bank guarantee facility	10.7	-	10.7	-
Bilateral loans	0.6	0.6	-	-
Working capital/guarantees	150.0	11.3	27.2	111.5
Working capital	125.0	61.0	-	64.0
	1,184.6	296.2	37.9	850.5
Cash and cash equivalents				26.4
	1,184.6	296.2	37.9	876.9

- Syndicated facility
  Syndicated bank loans are senior unsecured loan note subscription facilities. The facilities are due to expire in June 2018 ($200.0 million), June 2019 ($225.0 million) and June 2020 ($350.0 million). Interest payable on the facilities is based on BBSY plus a margin and interest rate resets are monthly. The applicable margin is dependent upon an escalation matrix linked to the senior leverage ratio achieved. These bank loans are subject to certain financial undertakings as detailed in note 11.

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

  The debt was revalued at the reporting date to $36.6 million (2015: US$225.0 million to $317.0 million), as presented in note 11. The fair value of the associated cross currency interest rate swaps are separately disclosed within derivative financial instruments (note 7). The USPP debt is subject to certain financial undertakings as detailed in note 11.

- Securitisation facility
  Under the $100.0 million debt securitisation facility, an equitable interest has been granted in certain trade receivables to a special purpose trust, which is managed by a major Australian bank. The facility is subject to the periodic renewal of the facility agreement and is currently committed until May 2018. Interest payable on the facility is based on BBSY plus a margin.

  The terms of the facility require that, at any time, the book value of the securitised receivables must exceed by at least a certain proportional amount, the funds drawn under the facility. At the end of the financial year, trade receivables of $732.6 million (2015: $744.3 million) had been securitised, with nil (2015: nil) funds drawn under the facility. Accordingly, the resultant security margin exceeded the minimum required at that time.

  The facility may be terminated by the trust manager at short notice in the event of an act of default, which includes the insolvency of any of the individual companies securitising trade receivables, failure of the Group to remit funds when due, or a substantial deterioration in the overdue proportion of certain trade receivables. The Group considers that it does not control the special purpose trust as it does not have power to determine the operating and financial policies of the trust, nor is the Group exposed to the risks and benefits of the trust. Accordingly, the Group does not consolidate the trust in its financial statements.

- Working capital
  Working capital bank loans are represented by three unsecured revolving facilities totalling $275.0 million, one of which expires in May 2017 ($75.0 million) and two of which expire in June 2017 (total of $200.0 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.

For personal use only

16. Financial risk management (continued)

Maturity analysis of financial liabilities based on contracted date

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

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

	1 year or less $m	1 - 5 years* $m	More than 5 years $m	Total $m
Year ended 30 April 2016				
Trade and other payables	1,356.9	-	-	1,356.9
Finance lease obligations	3.9	5.1	-	9.0
Financial guarantee contracts	2.3	3.7	-	6.0
Put options written over non-controlling interests	10.4	-	-	10.4
Bank and other loans	22.8	278.3	20.6	321.7
Derivative liabilities – net settled	0.7	3.9	-	4.6
Derivative liabilities – gross settled				
- Inflows	(24.3)	-	-	(24.3)
- Outflows	25.4	-	-	25.4
Net maturity	1,398.1	291.0	20.6	1,709.7
Year ended 30 April 2015				
Trade and other payables	1,419.1	-	-	1,419.1
Finance lease obligations	4.7	6.5	-	11.2
Financial guarantee contracts	0.7	-	-	0.7
Put options written over non-controlling interests	21.4	19.3	-	40.7
Bank and other loans	85.7	623.0	184.6	893.3
Derivative liabilities – net settled	3.6	3.3	-	6.9
Derivative liabilities – gross settled				
- Inflows	(21.5)	-	-	(21.5)
- Outflows	21.7	-	-	21.7
Net maturity	1,535.4	652.1	184.6	2,372.1

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

Two of these put options relate to the acquisition of retail supermarkets and another relates to the acquisition by Mitre 10 from co-investors of an additional ownership interest in an equity-accounted investment. The holders of these put options have the right to put these assets back to the Group under certain prescribed circumstances. The put option purchase prices are defined within the option deeds and are active until April 2022. The put option consideration is estimated to be $17.0 million (2015: $17.8 million).

In addition, Metcash has a 26.0% ownership interest in Ritchies Stores Pty Ltd (Ritchies), which is recognised as an equity accounted investment in the Group's balance sheet (refer note 8). During the year ended June 2015, Ritchies generated sales revenue of $850 million.

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

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

For personal use only

16. Financial risk management (continued)

Based on the last 5 years reported results, Ritchies has not achieved the hurdle required to enable the shareholders to exercise their put options, including the financial year ended June 2015 (the latest available audited results). Accordingly, Metcash had previously assessed the probability of the option being exercised as remote.

Ritchies recently acquired a large retail group and, following this acquisition, it is possible that Ritchies future performance may improve to a level where the hurdle could be exceeded. Whilst Metcash does not expect Ritchies to achieve the hurdle during fiscal 2016, it is now considered possible that Ritchies may achieve the hurdle required to permit the shareholders to exercise their put option in a future financial period.

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

As the hurdle was not achieved in 2015, 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 2015, Metcash estimates that the consideration payable in respect of the Ritchies 2015 financial year would have been between $85m to $125m.

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.

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 2016, the principal hedged was $175.0 million with a weighted average hedge maturity of 3.0 years and a weighted average base interest rate of 2.1%. The Group considers these derivatives to be effective hedges in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* and therefore treats them as cash flow hedges. These interest rate swap contracts are exposed to fair value movements based on changes to the interest rate curve.

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

	2016 $m	2015 $m
Financial assets		
Cash and cash equivalents	26.4	83.3
Financial liabilities		
Bank loans - working capital, including bank overdrafts	(72.3)	-
Bilateral loans	(0.6)	(58.3)
Bank loans – syndicated	(200.0)	(475.0)
US private placement	(23.3)	(210.1)
Less: Interest rate swaps notional principal value - designated as cash flow hedges	175.0	525.0
	(121.2)	(218.4)
Net exposure	(94.8)	(135.1)

The Group's treasury policy requires core debt to be hedged between a minimum and maximum range over certain maturity periods. Core debt is defined as the minimum level of drawn debt which is expected to occur over the year. As at 30 April 2016, the interest rate swap hedges of $175.0 million fell within the required range.

For personal use only

16. Financial risk management (continued)

Sensitivity analysis

A 0.25% change in interest rates is estimated to result in a $0.2 million (2015: $0.2 million) change in the Group's net profit after tax and a $0.8 million (2015: $1.2 million) change in the Group's other comprehensive income. The movements in profit are due to higher/lower interest costs from variable rate bank debt and other loans net of interest rate derivatives that hedge core debt. The movement in other comprehensive income is due to cash flow hedge fair value adjustments on interest rate swap contracts.

These movements have been selected as they are considered reasonable, given the current economic climate and the current levels of short and long term Australian interest rates. It is assumed within this calculation that all other variables have been held constant. It also includes the impact of the Group's interest rate derivatives that hedge core debt.

Credit risk

Trade receivables and loans

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

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

As identified in note 6, the current level of impairment provision represents 5.6% (2015: 6.7%) of the Group's receivables and loans.

Leases

The Group is exposed to credit risk on 'back-to-back' arrangements contained within its property leases. Material lease arrangements are regularly reviewed and appropriate provisions are established when such arrangements are deemed to be onerous. Refer note 12 for further details.

Derivative financial instruments

The Group's derivative financial instruments are with financial institutions with credit ratings of AA- to A and at 30 April 2016, the mark-to-market position of derivative financial assets is $12.1 million. This valuation includes a credit valuation adjustment of $1.5 million attributable to derivatives counterparty default risk. The changes in counterparty risk had no material effect in the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.

Other

The Group has granted a financial guarantee relating to the bank loan of its associate, Adcome Pty Ltd, refer to note 13 for details.

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

Foreign currency risk

The Group is exposed to foreign exchange fluctuations on transactions and balances in New Zealand dollars in respect of the Tasman Liquor business unit. These operations represent less than 2% of total sales and total profit after tax, and as such the exposure is minimal.

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

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

The Group's exposure to foreign exchange risk on principal and interest payments in relation to the US$25.0 million USPP facility have been hedged using cross currency interest rate swaps (see note 11).

For personal use only

17. Capital management

For the purpose of the Group's capital management, capital includes all accounts classified as equity on the statement of financial position.

The Board's intention is to retain adequate funds within the business to reinvest in future growth opportunities and otherwise return earnings to shareholders. In line with the Board's previous announcement, a final dividend was not paid for FY15 and no interim or final dividend was declared in relation to FY16.

The Board and management set out to maintain appropriate Statement of Financial Position ratios. Certain Statement of Financial Position ratios are imposed under the Group's banking facilities, as summarised in note 11.

Management monitor capital through the gearing ratio (net debt / net debt plus total equity). The gearing ratios at 30 April 2016 and 30 April 2015 were 16.8% and 36.6% respectively.

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

18. Commitments

Operating leases

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

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

	2016 $m	2015 $m
Within 1 year	201.2	222.8
After 1 year but not more than 5 years	651.0	741.7
More than 5 years	704.8	827.4
Aggregate lease expenditure contracted for at reporting date	1,557.0	1,791.9

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

	2016 $m	2015 $m
Within 1 year	83.2	98.1
After 1 year but not more than 5 years	274.5	326.6
More than 5 years	284.6	339.5
Aggregate lease income contracted for at the reporting date	642.3	764.2

Capital expenditure commitments

At 30 April 2016, the Group had no material commitments for capital expenditure.

For personal use only

19. Related party disclosures

A list of the Group's subsidiaries is included in Appendix B and a list of joint ventures and associates is included in note 8.

Transactions and balances with related parties - Group

	2016 $m	2015 $m
Transactions with related parties - Joint ventures and associates		
Sales revenue	1,308.1	1,338.1
Lease charges	15.5	18.7
Dividends received	2.8	5.4
Sale of businesses and assets	3.1	8.3
Balances with related parties - Joint ventures and associates		
Trade receivables – gross	100.5	100.6
Provision for impairment	(6.3)	(18.4)
	94.2	82.2
Loans receivable – gross	9.8	11.0
Provision for impairment	(7.1)	(3.3)
	2.7	7.7

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 21.

Compensation of key management personnel of the Group

	2016 $m	2015 $m
Short-term	11.1	6.1
Long-term	0.1	0.1
Post-employment	0.2	0.2
Termination benefits	0.2	1.3
Share-based payments	(0.3)	1.7
	11.3	9.4

Other transactions with key management personnel

Mrs Balfour is a director of Salmat Limited and TAL (Dai–ichi Life Australia) Limited. Mr Butler was Chairman of AMP Superannuation Ltd. Ms Dwyer is a director of Dexus Property Group. Mr Murray was a former director of Dick Smith Holdings Ltd and Linfox Logistics Pty Ltd. Ms Nash is a director of Pacific Brands Group Limited, Blackmores Ltd and Southern Cross Media Group. All organisations are suppliers to the Group under normal commercial terms and conditions. The total level of purchases from all companies is less than 1.0% of Metcash's annual purchases and is not considered material.

For personal use only

20. Share-based payments

Description of share-based payment arrangements

The Group currently has two active share-based payment incentive schemes for employees and three legacy schemes that are no longer active – as summarised in the following table.

Scheme name	Description
Additional Transformation Incentive (ATI) – active scheme	
ATI (FY15 - FY18)	Performance rights issued to incentivise the Group CEO and CFO to achieve or exceed a specified Return on Funds Employed (ROFE) and Relative Total Shareholder Return (RTSR) target in FY18. Scheme minimum, target and stretch hurdles were based on the Group's Transformation Plan. Both ROFE and RTSR are independently and separately tested.
ATI (FY16 - FY19)	Performance rights issued to incentivise the Group CEO to achieve or exceed a specified ROFE and RTSR target in FY19. Scheme minimum, target and stretch hurdles were based on the Group's Transformation Plan. Both ROFE and RTSR are independently and separately tested.
CEO MFG Commencement Grant – active scheme	
CEO MFG Retention	Performance rights issued to incentivise Mr Cain, CEO Supermarkets & Convenience ('CEO MFG'), to retain his services for at least three years from commencement of employment.
CEO MFG Performance	Performance rights issued to incentivise Mr Cain to successfully execute the Metcash Supermarkets business turnaround. The grant requires MFG Supermarkets to achieve a specified EBIT by FY20. Should this EBIT be achieved by FY18 or FY19 60% of these rights are eligible, at Mr Cain's discretion, for early vesting, with the remainder deferred until 31 July 2020. All performance rights not elected for early vesting are assessed against FY20 MFG Supermarkets EBIT and are due for vesting on 15 August 2020.
Legacy plans – expired as at the reporting date	
STI program	Prior to FY16, 25% of the financial year STI was deferred for Group Executives for 15 months and released through the issue of Metcash ordinary shares, conditional upon the executive being employed by the Group on 15 April of the year subsequent to the performance year. The Board decided to discontinue partial deferral of STI payments from FY16 onwards, replacing it with provisions enabling payments to be clawed back for cause or material misstatements of the Group's financial statements.
Legacy LTI - Tranche 3 (FY13-FY15)	Tranche 3 of the Legacy LTI scheme was issued in December 2012 and required achievement of compounded UEPS growth targets, adjusted upwards or downwards for the effects of actual year-on-year inflation/deflation, over a three-year vesting period. Tranche 3 failed to meet award conditions and has lapsed with expiry of all related performance rights.
Legacy plans – expired subsequent to the reporting date	
Transformation Incentive (TI)	The TI was introduced specifically to incentivise senior management to successfully execute the Transformation Plan, which was announced on 21 March 2014. The TI was comprised of two tranches, one due for vesting on 15 August 2017 (TI 67%) and the other on 15 April 2018 (TI 33% Deferred). The TI plan hurdles were based upon meeting specified Group Sales Revenue and Underlying Earnings per Share (UEPS) targets during FY17. In addition, a Return on Funds Employed (ROFE) threshold of 13% had to be achieved for each of FY15, FY16 and FY17. The Group failed to meet the 13% ROFE threshold in FY16, consequently the TI has lapsed subsequent to the reporting date and all related performance rights have expired.

For personal use only

20. Share-based payments (continued)

Measurement of fair values

LTI Performance Rights

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

	CEO MFG Retention	CEO MFG Performance	TI (67%)	TI (33% deferred)	ATI FY18 (ROFE)	ATI FY19 (ROFE)	Legacy LTI Tranche 3
Dividend yield	3.0%	3.0%	5.9%	5.7%	5.9%	5.9%	7.6%
Risk free rate	2.1%	2.1%	2.1%	2.1%	2.2%	2.3%	3.1%
Expected volatility	34.5%	33.1%	24.6%	23.9%	23.8%	21.2%	18.7%
Days to vesting	1,097	1,825	1,022	1,263	1,371	1,764	994
Exercise price	-	-	-	-	-	-	-
Share price at grant date	$1.15	$1.15	$2.50	$2.48	$2.36	$2.64	$3.22
Fair value at grant date	$1.07	$1.04	$2.12	$2.04	$1.88	$1.98	$2.30

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

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

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

STI Performance Rights

Metcash issued 173,685 performance rights in relation to the FY15 STI at $1.13 per right (FY14 STI: 47,565 performance rights issued at $2.86 per right). The performance right value was based upon the VWAP of Metcash's shares for the five business days preceeding 15 August 2015.

Reconciliation of outstanding performance rights

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

	2016 Number	2015 Number
Outstanding at the beginning of the year	14,686,780	2,940,325
Granted during the year – LTI	3,186,068	14,165,807
Granted during the year – STI	173,685	47,565
Exercised during the year – STI	(173,685)	(47,565)
Expired/forfeited during the year – LTI	(5,375,343)	(2,419,352)
Outstanding at the end of the year	12,497,505	14,686,780

For personal use only

20. Share-based payments (continued)

The outstanding balance of performance rights as at 30 April 2016 is represented by:

Scheme name	Vesting date	Total outstanding (number)	Exercisable (number)	Remaining contractual life
CEO MFG Retention	1 August 2018	1,062,023	-	2 years 4 months
ATI FY18 (ROFE)	15 August 2018	352,314	-	2 years 4 months
ATI FY18 (RTSR)	15 August 2018	352,314	-	2 years 4 months
ATI FY19 (ROFE)	15 August 2019	533,808	-	3 years 4 months
ATI FY19 (RTSR)	15 August 2019	533,808	-	3 years 4 months
CEO MFG Performance	15 August 2020	2,124,045	-	4 years 3 months
		4,958,312	-	
Plus: expired subsequent to reporting date				
TI (67%)	15 August 2017	4,969,191	-	1 years 4 months
TI (33% deferred)	15 April 2018	2,570,002	-	2 years
Total outstanding at the reporting date		12,497,505	-	

Key terms and conditions

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

The key terms of the Rights Plan include:

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

Expense recognised in profit or loss

For details on the related employee benefits expense, refer note 3.

For personal use only

21. Information relating to Metcash Limited (the Parent)

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

	2016 $m	2015 $m
Statement of financial position		
Current assets – amounts receivable from subsidiaries	1,539.3	2,715.1
Non-current assets – investments in subsidiaries	2,030.7	2,672.0
Total assets	3,570.0	5,387.1
Current liabilities – loans payable to subsidiaries	(4,333.9)	(4,258.0)
Net assets/(deficiency)	(763.9)	1,129.1
Contributed equity	3,057.8	3,057.8
Retained earnings/(accumulated losses)	(3,822.5)	(1,933.8)
Share based payments reserve	0.8	5.1
Total equity/(deficiency)	(763.9)	1,129.1
Statement of comprehensive income		
Dividends received from subsidiaries	-	145.0
Interest expense on loans from subsidiaries	(83.0)	(186.8)
Impairment of investments in subsidiaries	(641.3)	(1,944.1)
Write-off of amounts receivable from subsidiaries	(1,175.2)	-
Other transactions	10.8	(5.2)
Net loss for the year	(1,888.7)	(1,991.1)
Total comprehensive loss for the year, net of tax	(1,888.7)	(1,991.1)

During FY16, Metcash conducted a restructure which was designed to simplify intercompany loans between its wholly-owned offshore subsidiaries, facilitate the payment of intercompany dividends and ultimately enable the liquidation of these offshore subsidiaries. While the restructure had no impact on the Group's income statement or balance sheet, the parent entity's net loss for the year includes an impairment of $641.3 million against Metcash Limited's investment in its subsidiary Metcash Trading Limited (2015: $1,944.1 million) and a $1,175.2 million write off of amounts receivable from Metcash Trading Limited.

On 2 May 2016, being subsequent to the end of the current financial year, Metcash Limited received a dividend from its subsidiary Metoz Holdings Limited of $2,244.7 million, which increased the net asset position of Metcash Limited by $1,155.1 million from negative $763.9 million up to positive $391.2 million.

Metcash Limited has provided guarantees as part of the Closed Group arrangements as disclosed in Appendix B.

For personal use only

22. Auditors remuneration

	2016 $	2015 $
Amounts received or due and receivable by Ernst & Young (Australia) for:		
- an audit or review of the financial statements of the entity and any other entity in the Group	2,153,000	1,847,000
- assurance related services	86,000	115,200
	2,239,000	1,962,200
Other services in relation to the entity and any other entity in the Group		
- tax compliance and advisory services	397,000	443,831
- other advisory services	471,000	-
	868,000	443,831
	3,107,000	2,406,031

23. Earnings per share

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

	2016 $m	2015 $m
Earnings used in calculating basic and diluted EPS from continuing operations		
Net profit/(loss) from continuing operations	178.3	(403.6)
Earnings used in calculating basic and diluted EPS from discontinued operations		
Net profit/(loss) from discontinued operations	38.2	19.4
Earnings used in calculating basic and diluted EPS		
Net profit/(loss) attributable to ordinary equity holders of Metcash Limited	216.5	(384.2)

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

	2016 Number	2015 Number
Weighted average number of ordinary shares used in calculating basic EPS	928,357,876	907,012,053
Effect of dilutive securities	584,895	-
Weighted average number of ordinary shares used in calculating diluted EPS	928,942,771	907,012,053

At the reporting date, 12,497,505 performance rights (2015: 14,686,780) were outstanding, of which 11,435,482 were not included in the calculation of diluted EPS because they are anti-dilutive for the periods presented. Refer note 20 for more details about performance rights.

For personal use only

24. Discontinued operations

On 31 July 2015, the Group sold the entire issued share capital of Metcash Automotive Holdings Pty Ltd to Bursons Group Limited (ASX:BAP) for a total sale consideration of $285.4 million. The transaction generated net cash flows of $242.1 million to the Group after distribution of proceeds to non-controlling interests and before tax. The proceeds were largely applied against the Group's interest-bearing borrowings.

The sale transaction resulted in the disposal of $198.7 million of net assets, including $61.9 million in net working capital, $146.6 million of fixed and intangible assets, and a $24.9 milion reduction in the value of put options written against non-controlling interests. The disposal resulted in a net gain of $34.5 million, including a tax expense of $12.1 million.

During the year, the Automotive business contributed $64.5 million of sales revenue (2015: $256.4 million) and $3.7 million of net profit after tax (2015: $19.4 million) to the Group. The net gain and the results of the Automotive pillar for the current period have been disclosed within discontinued operations. The comparative income statement has been restated to reclassify the Automotive pillar to discontinued operations.

During the year, the Automotive business, contributed operating cash flows of negative $1.2 million. Excluding the sale proceeds, investing and financing cash flows were not material.

25. Contingent assets and liabilities

	2016 $m	2015 $m
Bank guarantees to third parties in respect of property lease obligations	26.6	26.7
Bank guarantees in respect of Work Cover	11.3	21.8
Standby letters of credit	-	0.7
Outstanding debts under the American Express charge card agreement	216.3	202.8

American Express charge card

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

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

Put options

Refer note 16 for details of contingent put options outstanding at the balance sheet date.

26. Subsequent events

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

For personal use only

Appendix A - Summary of significant accounting policies

1. BASIS OF ACCOUNTING

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

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

The financial statements are presented in Australian dollars and all values are rounded to the nearest $100,000 unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the Class Order applies.

The current financial year comprises the 52 week period that commenced on 27 April 2015 and ended on 24 April 2016. The prior year results comprise the 52 week period that commenced on 28 April 2014 and ended on 26 April 2015.

2. STATEMENT OF COMPLIANCE

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

(a) Changes in accounting policy

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

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

(b) Australian Accounting Standards issued but not yet effective

A number of new accounting standards have been issued but were not effective as at 30 April 2016. The Group has elected not to early adopt any of these new standards or amendments in these financial statements. The Group has yet to fully assess the impact the following accounting standards and amendments will have on the financial statements, when applied in future periods:

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

While in early stages of assessment, the adoption of AASB 16 *Leases* in FY20 is expected to have a significant impact on the Group's balance sheet and income statement, given the volume and maturity profile of the Group's property leases (see note 18). The Group's balance sheet is expected to be grossed up for future lease payments (both receivable and payable, at their discounted values) and for the unamortised portion of right-to-use assets. Net rental expense in the income statement is expected to be replaced by a 'front-loaded' interest expense and a straight-line depreciation expense.

The Group is also undertaking a comprehensive review of its revenue arrangements ahead of the FY19 application of AASB 15 *Revenue from Contracts with Customers*. While preliminary assessments indicate that the net impact on the income statement is not significant, the Group expects that some items of revenue may be measured and classified differently under the new standard.

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

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 2016. Refer Appendix B for a list of significant controlled entities.

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

Business combinations

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

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

Consolidation procedures

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

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

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

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.

For personal use only

Appendix A - Summary of significant accounting policies

Separate financial statements

Investments in entities controlled by Metcash Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from controlled entities are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment.

Reverse acquisition

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

(a) Significant accounting judgements

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

Assessment of control and joint control

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

Purchase price allocation

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

Contractual customer relationships

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

(b) Significant accounting estimates and assumptions

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

Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill is allocated. The assumptions used in this estimation of the recoverable amount and the carrying amount of goodwill are discussed in note 10.

Provision for rental subsidy

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.

Provision for onerous arrangements and restructuring

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

Contractual customer relationships

The useful life of contractual customer relationships of between 5 to 25 years includes estimates of future attrition rates based on historical rates experienced. Recoverable amounts are assessed using estimates of retail and warehouse profitability, future attrition rates, discount rates and customer support requirements.

Impairment of equity-accounted investments

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

5. TRADE AND OTHER RECEIVABLES

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable and an allowance for impairment loss is recognised, measured as the difference beween the carrying amount of the receivables and the estimated future cash flows expected to be received from relevant debtors. Bad debts are written off as incurred.

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

6. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

For personal use only

Appendix A - Summary of significant accounting policies

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.

Current versus non-current classification

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

7. EQUITY-ACCOUNTED INVESTMENTS

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

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

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

8. INVENTORIES

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

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

9. PROPERTY, PLANT AND EQUIPMENT

Recognition and measurement

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

Depreciation

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

	2016	2015
Freehold buildings	40-50 years	40-50 years
Plant and equipment	5-15 years	5-15 years

De-recognition

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

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

Retail development assets

Costs incurred in respect of a greenfields development which involves the lease or acquisition of land and subsequent construction of a retail store or shopping centre are capitalised as assets under construction and included in property, plant and equipment. On conclusion of the development the capitalised costs are transferred to non-current assets held for sale provided they meet the criteria detailed in Appendix A.21.

For personal use only

Appendix A - Summary of significant accounting policies

10. INTANGIBLE ASSETS

Recognition and measurement

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

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

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

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

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

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

De-recognition

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

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

Useful lives

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

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

	2016	2015
Customer contracts	5-25 years	5-25 years
Software development costs	5-10 years	5-10 years
Other	10 years	10 years

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

11. IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

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

Impairment losses are recognised in the statement of comprehensive income.

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.

For personal use only

Appendix A - Summary of significant accounting policies

Long service leave

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

13. INTEREST-BEARING BORROWINGS

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

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

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

14. LEASES

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

Operating leases - Group as a lessee

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

Operating leases - Group as a lessor

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

15. PROVISIONS

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

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

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

Provisions for property lease and remediation costs are raised where the economic entity is committed by the requirements of the lease agreement. The future lease costs, net of any income from sub-leasing, are discounted to their net present value in determining the provision.

16. SHARE-BASED PAYMENT TRANSACTIONS

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

The value of the performance rights issued is determined on the date which both the employee and the Group understand and agree to the share-based payment terms and conditions (grant date). The value at grant date is based upon the fair value of a similar arrangement between the Group and an independent third party and is determined using an appropriate valuation model. The fair value does not consider the impact of service or performance conditions, other than conditions linked to the share price of Metcash Limited (market conditions). Details of the valuation models used and fair values for each tranche of performance rights issued are outlined in note 20.

The fair value of performance rights is recognised as an expense, together with a corresponding increase in 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.

17. REVENUE RECOGNITION

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

Sale of goods

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

Rendering of services

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

For personal use only

Appendix A - Summary of significant accounting policies

Rental income

Rental income is accounted for on a straight-line basis over the lease term and is classified within 'other income'. Contingent rental income is recognised as income in the periods in which it is earned.

18. FINANCE COSTS

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

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

19. INCOME TAX

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

Deferred income tax is provided on all temporary differences at the reporting date, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.
Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

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

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

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

20. EARNINGS PER SHARE

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

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

21. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

Net profit after tax from discontinued operations are reported separately from continuing operations, even when the Group retains a non-controlling interest in the subsidiary after the sale. Once classified as held for sale, property, plant and equipment and intangible assets are not depreciated or amortised.

For personal use only

Appendix A - Summary of significant accounting policies

22. FINANCIAL GUARANTEE CONTRACTS

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

23. COMPARATIVE INFORMATION

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

For personal use only

Appendix B – Information on subsidiaries

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

	2016 %	2015 %
ACN 008 698 093 (WA) Pty Ltd	99.4	99.4
A.C.N. 131 933 376 Pty Ltd	100	100
Action Holdings Pty Ltd (i)	100	100
Action Projects Proprietary Limited	100	100
Action Supermarkets Pty Ltd (i)	100	100
Amalgamated Confectionery Wholesalers Pty. Ltd. (i)	100	100
Anzam (Aust.) Pty Ltd (i)	100	100
Arrow Pty Limited	100	100
Australian Asia Pacific Wholesalers Pty Ltd	100	100
Australian Hardware Support Services Pty Ltd (i)	100	100
Australian Liquor Marketers (QLD) Pty Ltd (i)	100	100
Australian Liquor Marketers (WA) Pty Ltd (i)	100	100
Australian Liquor Marketers Pty Limited (i)	100	100
Capeview Hardware Pty Ltd.	80	80
Casuarina Village Shopping Centre Pty. Ltd.	100	100
Chelsea Heights Operations Pty Limited (i)	100	100
City Ice and Cold Storage Company Proprietary Limited	100	100
Clancy's Food Stores Pty Limited	100	100
Community Co Australia Pty Ltd (previously GP New Co Pty Ltd)	100	100
Composite Buyers Finance Pty. Ltd.	100	100
Composite Buyers Pty Limited	100	100
Composite Pty. Ltd.	100	100
Cornerstone Retail Pty Ltd	100	100
Davids Food Services Pty Ltd	100	100
Davids Group Staff Superannuation Fund Pty. Ltd.	100	100
Denham Bros. Pty Limited	100	100
DIY Superannuation Pty Ltd (i)	100	100
Drumstar V2 Pty Ltd	100	100
Echuca Hardware Pty Ltd (i)	100	100
Faggs Geelong Pty Ltd	80	75
FAL Properties Pty. Ltd.	100	100
FAL Superannuation Fund Pty Ltd	100	100
Five Star Wholesalers Pty. Ltd.	100	100
Foodchain Holdings Pty Ltd	100	100
Foodland Properties Pty Ltd	100	100
Foodland Property Holdings Pty. Ltd.	100	100
Foodland Property Unit Trust	100	100
Franklins Pty Ltd (i)	100	100
Franklins Supermarkets Pty Ltd (i)	100	100
Franklins Franchising Pty Ltd (i)	100	100
Franklins Bankstown Square Pty Ltd (i)	100	100
Franklins Bass Hill Pty Ltd (i)	100	100
Franklins Blacktown Pty Ltd (i)	100	100
Franklins Bonnyrigg Pty Ltd (i)	100	100
Franklins Casula Pty Ltd (i)	100	100
Franklins Cronulla Pty Ltd (i)	100	100
Franklins Drummoyne Pty Ltd (i)	100	100
Franklins Liverpool Pty Ltd (i)	100	100
Franklins Macquarie Pty Ltd (i)	100	100
Franklins Maroubra Pty Ltd (i)	100	100
Franklins Merrylands Pty Limited (i)	100	100
Franklins Moorebank Pty Limited (i)	100	100
Franklins North Rocks Pty Ltd (i)	100	100
Franklins Pennant Hills Pty Ltd (i)	100	100
Franklins Penrith Nepean Pty Ltd (i)	100	100
Franklins Penrith Plaza Pty Ltd (i)	100	100
Franklins Rockdale Plaza Pty Ltd (i)	100	100
Franklins Singleton Pty Ltd (i)	100	100
Franklins Spit Junction Pty Ltd (i)	100	100
Franklins Ulladulla Pty Ltd (i)	100	100
Franklins Wentworthville Pty Ltd (i)	100	100
Franklins Westleigh Pty Ltd (i)	100	100
Franklins Wetherill Park Pty Ltd (i)	100	100
Fresco Supermarket Holdings Pty Ltd (i)	100	100
FW Viva 3 Pty Ltd (i)	100	100
Garden Fresh Produce Pty Ltd	100	100
Gawler Supermarkets Pty. Ltd.	100	100
Global Liquor Wholesalers Pty Limited (i)	100	100
Green Triangle Meatworks Pty Limited	100	100
Gympie Property Investment Pty Ltd	84.7	84.7
Handyman Stores Pty Ltd (i)	100	100
Hardware Property Trust	100	100
Himaco Pty Ltd (i)	100	100
IGA Community Chest Limited (ii)	100	100
IGA Distribution (SA) Pty Limited (i)	100	100
IGA Distribution (Vic) Pty Limited (i)	100	100
IGA Distribution (WA) Pty Limited (i)	100	100
IGA Fresh (Northern Queensland) Pty Limited (i)	100	100
IGA Fresh (NSW) Pty Limited (i)	100	100
IGA Pacific Pty Limited	100	100
IGA Retail Network Limited	100	100
IGA Retail Services Pty Limited (i)	100	100
Independent Brands Australia Pty Ltd (i)	100	100
Independent Solutions Pty Ltd	100	100
Interfrank Group Holdings Pty Ltd(i)	100	100

For personal use only

Appendix B – Information on subsidiaries

	2016 %	2015 %
Jewel Food Stores Pty. Ltd.	100	100
Jorgensens Confectionery Pty. Limited	100	100
JV Pub Group Pty Ltd	100	100
Keithara Pty. Ltd.	100	100
Knoxfield Transport Service Pty. Ltd.	100	100
Lilydale Operations Pty Limited (i)	100	100
Liquor Traders Pty Ltd	100	100
M-C International Australia Pty Limited	100	100
Mega Property Management Pty Ltd (i)	100	100
Melton New Co Pty Ltd	100	100
Mermaid Tavern (Freehold) Pty Ltd	100	100
Mermaid Tavern (Trading) Pty Ltd (note 8)	100	-
Metcash Asia Limited (incorporated in China)	100	100
Metcash Automotive Holdings Pty Ltd and its subsidiaries	-	83.2
Metcash Export Services Pty Ltd	100	100
Metcash Food & Grocery Pty Ltd (i)	100	100
Metcash Food & Grocery Convenience Division Pty Limited (i)	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 (i)	100	100
Metoz Holding Limited (incorporated in South Africa)	100	100
Metro Cash & Carry Pty Limited	100	100
Mirren (Australia) Pty. Ltd.	100	100
Mitre 10 Pty Ltd (i)	100	100
Mitre 10 Australia Pty Ltd (i)	100	100
Mitre 10 Mega Pty Ltd (i)	100	100
Mittenmet Pty. Ltd. (i)	100	100
Moorebank Transport Pty Ltd	100	100
Moucharo Pty. Ltd.	100	100
Narellan Hardware Pty Ltd (i)	100	100
National Retail Support Services Pty Ltd (i)	100	100
Newton Cellars Pty Ltd	100	100
NFRF Developments Pty Ltd	51	51
Northern Hardware Group Pty Ltd	84.7	-
Nu Fruit Pty. Ltd.	51	51
Payless Superbarn (N.S.W.) Pty Ltd	100	100
Payless Superbarn (VIC.) Pty. Ltd.	100	100
Pinnacle Holdings Corporation Pty Limited	100	100
Plympton Properties Pty. Ltd.	100	100
Produce Traders Trust (previously Garden Fresh Produce Trust)	100	100
Property Reference Pty. Limited	100	100
QIW Pty Limited	100	100

	2016 %	2015 %
Queensland Independent Wholesalers Pty Limited	100	100
Quickstop Pty Ltd (i)	100	100
Rainbow Supermarkets Pty Ltd	100	100
Rainbow Unit Trust	100	100
Rainfresh Vic Pty. Ltd.	51	51
Regeno Pty Limited	100	100
Regzem (No 3) Pty. Ltd.	100	100
Regzem (No 4) Pty. Ltd.	100	100
Rennet Pty. Ltd.	100	100
Retail Merchandise Services Pty. Limited	100	100
Retail Stores Development Finance Pty. Ltd	100	100
Rockblock Pty. Ltd.	100	100
Roma Hardware Pty Ltd (i)	100	100
R.S.D.F. Nominees Pty. Ltd.	100	100
Soetensteeg 2 61 Exploitatiemaatschappij BV (incorporated in Netherlands)	100	100
SSA Holdings Pty Ltd	100	100
Scanning Systems (Fuel) Pty Ltd	100	100
Smart IP Co Pty Ltd	100	100
South Coast Operations Pty Ltd (i)	100	100
South West Operations Pty Ltd (i)	100	100
SR Brands Pty Ltd	100	100
Stonemans (Management) Proprietary Limited	100	100
Stonemans Self Service Pty. Ltd.	100	100
Sunshine Hardware Pty Ltd	84.7	84.7
Tasher No 8 Pty. Ltd.	100	100
Tasman Liquor Company Limited (incorporated in New Zealand)	100	100
Tasmania Hardware Pty Ltd	80	80
Timber and Hardware Exchange Pty Ltd	68.4	52
Timberten Pty Ltd (note 8)	100	-
Vawn No 3 Pty. Ltd.	100	100
WA Hardware Services Pty Ltd (i)	100	100
Wickson Corporation Pty Limited(i)	100	100
Wimbledon Unit Trust	100	100

For personal use only

Appendix B – Information on subsidiaries

Entities subject to class order relief

Pursuant to an order from ASIC under section 340(1) of the *Corporations Act 2001* dated 23 April 2012 which is based on Class Order 98/1418 (Order), relief has been granted to certain controlled entities of Metcash Limited, being those marked (i), from the *Corporations Act 2001* requirements for preparation, audit and lodgement of their financial reports. As a condition of the Order, Metcash Limited and the controlled entities, being those marked as (i) (the Closed Group) entered into a Deed of Cross Guarantee on 18 April 2012. The entities marked (ii) are also party to the Deed of Cross Guarantee, but are not eligible for inclusion in the financial reporting relief. The effect of the deed is that Metcash Limited has guaranteed to pay any deficiency in the event of winding up of these controlled entities. These controlled entities have also given similar guarantees in the event that Metcash Limited is wound up.

The Statement of Comprehensive Income of the entities that are members of the 'Closed Group' is as follows:

	2016 $m	2015 $m
Profit/(loss) before income tax	282.4	(405.8)
Income tax expense	(78.0)	(2.6)
Net profit/(loss) for the year	204.4	(408.4)
Retained profits/(accumulated losses) at the beginning of the financial year	(1,181.8)	(634.7)
Dividends provided for or paid	-	(138.7)
Retained profits/(accumulated losses) at the end of the financial year	(977.4)	(1,181.8)

For personal use only

Appendix B – Information on subsidiaries

The Statement of Financial Position of the entities that are members of the 'Closed Group' is as follows:

	2016 $m	2015 $m
Assets		
Cash and cash equivalents	10.4	58.5
Trade receivables and loans	933.3	987.2
Inventories	622.8	602.6
Assets held for sale	21.7	26.1
Derivative financial instruments	-	0.2
Prepayments and other assets	10.2	11.2
Total current assets	1,598.4	1,685.8
Derivative financial instruments	12.1	104.2
Trade receivables and loans	15.9	28.0
Investments	2,583.4	2,686.7
Property, plant and equipment	218.3	243.1
Net deferred tax assets	110.1	124.8
Intangible assets and goodwill	817.3	835.4
Total non-current assets	3,757.1	4,022.2
Total assets	5,355.5	5,708.0
Liabilities		
Trade and other payables	1,284.1	1,295.0
Derivative financial instruments	1.8	0.8
Interest-bearing borrowings	15.7	56.9
Income tax payable	15.2	6.5
Provisions	133.8	114.7
Other financial liabilities	13.6	22.3
Total current liabilities	1,464.2	1,496.2
Interest-bearing borrowings	3,114.1	3,597.3
Derivative financial instruments	3.9	6.3
Provisions	122.4	142.6
Other financial liabilities	7.7	22.7
Total non-current liabilities	3,248.1	3,768.9
Total liabilities	4,712.3	5,265.1
Net assets	**643.2**	**442.9**
Equity		
Contributed and other equity	1,626.0	1,626.0
Other reserves	(5.4)	(1.3)
Retained profits/(accumulated losses)	(977.4)	(1,181.8)
Total equity	**643.2**	**442.9**

Directors' Declaration

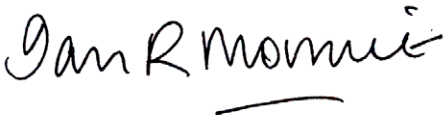
For the year ended 30 April 2016

For personal use only

In accordance with a resolution of the directors of Metcash Limited, I state that:

1. In the opinion of the directors:
   a. The financial statements, notes and the additional disclosures included in the directors' report designated as audited, of Metcash Limited are in accordance with the *Corporations Act 2001*, including:
      i. Giving a true and fair view of its financial position as at 30 April 2016 and of its performance for the year ended on that date; and
      ii. Complying with Accounting Standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001*;
   b. The financial statements and notes also comply with *International Financial Reporting Standards* as disclosed in Appendix A.2; and
   c. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 April 2016.
3. In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Appendix B will be able to meet any obligation or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board



Ian Morrice
Director
Sydney, 20 June 2016

Ernst & Young
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

For personal use only

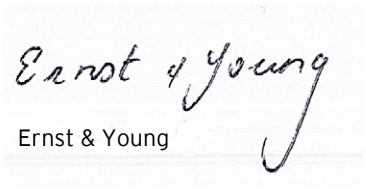
Auditor's Independence Declaration to the Directors of Metcash Limited

As lead auditor for the audit of Metcash Limited for the financial year ended 30 April 2016, I declare to the best of my knowledge and belief, there have been:

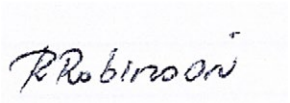
a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

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



Ernst & Young



Renay Robinson
Partner
20 June 2016

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

Ernst & Young
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

For personal use only

Independent auditor's report to the members of Metcash Limited

Report on the financial report

We have audited the accompanying financial report of Metcash Limited ('the company'), which comprises the consolidated statement of financial position as at 30 April 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Appendix A, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included by reference in the directors' report.

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

For personal use only

Building a better working world

Opinion

In our opinion:

a. the financial report of Metcash Limited is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the consolidated entity's financial position as at 30 April 2016 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Appendix A.

Report on the remuneration report

We have audited the Remuneration Report included in pages 34 to 45 of the directors' report for the year ended 30 April 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Metcash Limited for the year ended 30 April 2016, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Renay Robinson
Partner
Sydney
20 June 2016

ASX Additional Information

For the year ended 30 April 2016

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows:
The information is current as at 24 June 2016:

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	7,441
1,001-5,000	14,553
5,001-10,000	5,268

SIZE OF HOLDING	NUMBER OF SHAREHOLDERS
10,001-100,000	4,224
100,001-9,999,999,999	180
Total	31,666

There were 3,252 shareholders holding less than a marketable parcel of Metcash ordinary shares

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

Name	Number of Shares	Percentage of Shares
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	246,833,198	26.588%
J P MORGAN NOMINEES AUSTRALIA LIMITED	153,295,507	16.513%
NATIONAL NOMINEES LIMITED	119,290,797	12.850%
CITICORP NOMINEES PTY LIMITED	75,192,446	8.100%
BNP PARIBAS NOMS PTY LTD <DRP>	19,590,740	2.110%
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	13,875,251	1.495%
UBS NOMINEES PTY LTD	9,970,597	1.074%
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	9,500,711	1.023%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	9,423,860	1.015%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	7,336,731	0.790%
BOND STREET CUSTODIANS LIMITED <MACQ HIGH CONV FUND A/C>	6,197,895	0.668%
RBC INVESTOR SERVICES AUSTRALIA PTY LIMITED	6,040,477	0.651%
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	5,395,348	0.581%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	4,561,169	0.491%
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	3,977,205	0.428%
WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C>	3,166,094	0.341%
UBS NOMINEES PTY LTD	3,040,000	0.327%
WARBONT NOMINEES PTY LTD <ACCUMULATION ENTREPOT A/C>	2,494,389	0.269%
NETWEALTH INVESTMENTS LIMITED <SUPER SERVICES A/C>	1,598,505	0.172%
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	1,595,714	0.172%
Total	702,376,634	75.658%

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

	NUMBER OF SHARES
Allan Gray Australia Pty Ltd	119,964,214
Westpac Banking Corporation	90,946,001
BT Investment Management Ltd	87,697,300

	NUMBER OF SHARES
National Australia Bank Limited	60,529,748
Lazard Asset Management Pacific Co	51,024,539

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

For personal use only

Corporate Information

For personal use only

ABN
32 112 073 480

Directors
Robert Murray (Chair)
Ian Morrice (Group CEO)
Patrick Allaway
Fiona Balfour
Michael Butler
Tonianne Dwyer
Neil Hamilton
Murray Jordan
Helen Nash

Company Secretary
Brad Soller

Share Register
Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001

Tel: 1300 737 760
Tel: 61 2 9290 9600
Fax: 61 2 9279 0664

Auditor
Ernst & Young
680 George Street
Sydney NSW 2000 Australia

Tel: 61 2 9248 5555

National Office
1 Thomas Holt Drive
Macquarie Park NSW 2113

Postal: PO Box 557
Macquarie Park NSW 1670

Tel: 61 2 9741 3000
Fax: 61 2 9741 3399
www.metcash.com

Metcash Food & Grocery (Head Office)
1 Thomas Holt Drive
Macquarie Park NSW 2113

Tel: 61 2 9741 3000

Postal: PO Box 557
Macquarie Park NSW 1670

Australian Liquor Marketers (Head Office)

1 Thomas Holt Drive
Macquarie Park NSW 2113

Tel: 61 2 9741 3000

Postal: PO Box 557
Macquarie Park NSW 1670

Mitre 10 (Head Office)
12 Dansu Court
Hallam VIC 3803

Tel: 61 3 9703 4200
Fax: 61 3 9703 4222

Postal: Locked Bag 10
Doveton VIC 3177

Corporate Governance

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

For personal use only